

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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended September 30, 2018

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

Commission File No. 000-28344

FIRST COMMUNITY CORPORATION

(Exact name of registrant as specified in its charter)

South Carolina

(State or other jurisdiction of incorporation

or organization)

57-1010751

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

5455 Sunset Boulevard, Lexington, South Carolina 29072

(Address of principal executive offices) (Zip Code)

(803) 951-2265

(Registrant's telephone number, including area code)

Edgar Filing: FIRST COMMUNITY CORP /SC/ - Form 10-Q

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

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

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

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

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input checked="" type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>
	Emerging growth company <input type="checkbox"/>

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: On November 8, 2018, 7,629,638 shares of the issuer's common stock, par value \$1.00 per share, were issued and outstanding.

TABLE OF CONTENTS

PART I - FINANCIAL INFORMATION

<u>Item 1. Financial Statements</u>	3
<u>Consolidated Balance Sheets</u>	3
<u>Consolidated Statements of Income</u>	4
<u>Consolidated Statements of Comprehensive Income</u>	6
<u>Consolidated Statements of Changes in Shareholders' Equity</u>	7
<u>Consolidated Statements of Cash Flows</u>	8
<u>Notes to Consolidated Financial Statements</u>	9
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	34
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	52
<u>Item 4. Controls and Procedures</u>	52

PART II – OTHER INFORMATION

<u>Item 1. Legal Proceedings</u>	53
<u>Item 1A. Risk Factors</u>	53
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	53
<u>Item 3. Defaults Upon Senior Securities</u>	53
<u>Item 4. Mine Safety Disclosures</u>	53
<u>Item 5. Other Information</u>	53
<u>Item 6. Exhibits</u>	53

<u>SIGNATURES</u>	54
--------------------------	----

INDEX TO EXHIBITS

EX-31.1 RULE 13A-14(A) CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
EX-31.2 RULE 13A-14(A) CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
EX-32 SECTION 1350 CERTIFICATIONS

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

	September 30, 2018 (Unaudited)	December 31, 2017
(Dollars in thousands, except par value)		
ASSETS		
Cash and due from banks	\$ 14,231	\$ 14,803
Interest-bearing bank balances	22,104	15,186
Federal funds sold and securities purchased under agreements to resell	605	602
Investment securities - held-to-maturity	16,218	17,012
Investment securities - available-for-sale	251,620	264,824
Other investments, at cost	2,125	2,559
Loans held for sale	5,528	5,093
Loans	696,515	646,805
Less, allowance for loan losses	6,212	5,797
Net loans	690,303	641,008
Property, furniture and equipment - net	34,405	36,103
Bank owned life insurance	25,579	25,413
Other real estate owned	1,921	1,934
Intangible assets	2,142	2,569
Goodwill	14,637	14,589
Other assets	9,724	9,036
Total assets	\$ 1,091,142	\$ 1,050,731
LIABILITIES		
Deposits:		
Non-interest bearing	\$ 254,270	\$ 226,546
Interest bearing	667,452	661,777
Total deposits	921,722	888,323
Securities sold under agreements to repurchase	33,226	19,270
Federal Home Loan Bank advances	4,236	14,250
Junior subordinated debt	14,964	14,964
Other liabilities	8,808	8,261
Total liabilities	982,956	945,068
SHAREHOLDERS' EQUITY		
Preferred stock, par value \$1.00 per share, 10,000,000 shares authorized; none issued and outstanding	—	—
Common stock, par value \$1.00 per share; 10,000,000 shares authorized; issued and outstanding 7,629,638 at September 30, 2018 and 7,587,938 at December 31, 2017	7,630	7,588
Common stock warrants issued	34	46
Nonvested restricted stock	(205) (109

Edgar Filing: FIRST COMMUNITY CORP /SC/ - Form 10-Q

Additional paid in capital	94,967	94,516
Retained earnings	10,336	4,066
Accumulated other comprehensive loss	(4,576)	(444)
Total shareholders' equity	108,186	105,663
Total liabilities and shareholders' equity	\$ 1,091,142	\$ 1,050,731

See Notes to Consolidated Financial Statements

FIRST COMMUNITY CORPORATION
CONSOLIDATED STATEMENTS OF INCOME

	Nine Months Ended September 30, 2018 (Unaudited)	Nine Months Ended September 30, 2017 (Unaudited)	
(Dollars in thousands, except per share amounts)			
Interest income:			
Loans, including fees	\$ 23,974	\$ 19,003	
Taxable securities	3,623	2,924	
Non taxable securities	1,232	1,395	
Federal funds sold and securities purchased under resale agreements	290	94	
Other	16	—	
Total interest income	29,135	23,416	
Interest expense:			
Deposits	2,001	1,341	
Federal funds sold and securities sold under agreement to repurchase	197	45	
Other borrowed money	581	694	
Total interest expense	2,779	2,080	
Net interest income	26,356	21,336	
Provision for loan losses	252	360	
Net interest income after provision for loan losses	26,104	20,976	
Non-interest income:			
Deposit service charges	1,320	1,047	
Mortgage banking income	3,126	2,950	
Investment advisory fees and non-deposit commissions	1,207	908	
Gain (loss) on sale of securities	(10) 350	
Gain on sale of other assets	8	128	
Loss on early extinguishment of debt	—	(446)
Other	2,733	2,108	
Total non-interest income	8,384	7,045	
Non-interest expense:			
Salaries and employee benefits	14,537	12,469	
Occupancy	1,808	1,598	
Equipment	1,167	1,348	
Marketing and public relations	460	615	
FDIC assessments	258	234	
Other real estate expense	86	75	
Amortization of intangibles	427	223	
Merger expenses	—	326	
Other	5,210	4,096	
Total non-interest expense	23,953	20,984	
Net income before tax	10,535	7,037	
Income taxes	1,992	1,724	
Net income	\$ 8,543	\$ 5,313	
Basic earnings per common share	\$ 1.13	\$ 0.80	
Diluted earnings per common share	\$ 1.11	\$ 0.78	

See Notes to Consolidated Financial Statements

FIRST COMMUNITY CORPORATION
CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended September 30, 2018 (Unaudited)	Three Months Ended September 30, 2017 (Unaudited)	
(Dollars in thousands, except per share amounts)			
Interest income:			
Loans, including fees	\$ 8,277	\$ 6,438	
Taxable securities	1,250	989	
Non-taxable securities	333	453	
Federal funds sold and securities purchased under resale agreements	120	41	
Other	5	—	
Total interest income	9,985	7,921	
Interest expense:			
Deposits	816	459	
Federal funds sold and securities sold under agreement to repurchase	96	24	
Other borrowed money	190	211	
Total interest expense	1,102	694	
Net interest income	8,883	7,227	
Provision for loan losses	21	166	
Net interest income after provision for loan losses	8,862	7,061	
Non-interest income:			
Deposit service charges	434	379	
Mortgage banking income	1,159	1,032	
Investment advisory fees and non-deposit commissions	423	336	
Gain on sale of securities	—	124	
Gain (loss) on sale of other assets	(29) 40	
Loss on early extinguishment of debt	—	(165)
Other	855	676	
Total non-interest income	2,842	2,422	
Non-interest expense:			
Salaries and employee benefits	5,079	4,122	
Occupancy	611	532	
Equipment	388	396	
Marketing and public relations	177	96	
FDIC assessment	94	78	
Other real estate expense	37	19	
Amortization of intangibles	142	74	
Merger expenses	—	228	
Other	1,606	1,349	
Total non-interest expense	8,134	6,894	
Net income before tax	3,570	2,589	
Income taxes	737	696	
Net income	\$ 2,833	\$ 1,893	
Basic earnings per common share	\$ 0.37	\$ 0.28	
Diluted earnings per common share	\$ 0.37	\$ 0.28	

See Notes to Consolidated Financial Statements

FIRST COMMUNITY CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

(Dollars in thousands)	Nine months ended September 30,	
	2018	2017
Net income	\$ 8,543	\$ 5,313
Other comprehensive income:		
Unrealized gain (loss) during the period on available-for-sale securities, net of tax benefit of \$1,101 and tax expense of \$732, respectively	(4,140)	1,421
Less: Reclassification adjustment for loss (gain) included in net income, net of tax benefit of \$2 and tax expense of \$119, respectively	8	(231)
Other comprehensive income (loss)	(4,132)	1,190
Comprehensive income	\$ 4,411	\$ 6,503
(Dollars in thousands)	Three months ended September 30,	
	2018	2017
Net income	\$ 2,833	\$ 1,893
Other comprehensive income:		
Unrealized gain (loss) during the period on available-for-sale securities, net of tax benefit of \$280 and tax expense of \$94, respectively	(1,054)	181
Less: Reclassification adjustment for gain included in net income, net of taxes of \$0 and \$42, respectively	—	(82)
Other comprehensive income (loss)	(1,054)	99
Comprehensive income	\$ 1,779	\$ 1,992

See Notes to Consolidated Financial Statements

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

(Dollars and shares in thousands)

	Shares Issued	Common Stock	Common Stock Warrant	Additional Paid-in Capital	Nonvested Restricted Stock	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total
Balance December 31, 2016	6,708	\$ 6,708	\$ 46	\$ 75,991	\$ (220)	\$ 573	\$ (1,237)	\$ 81,861
Net income						5,313		5,313
Other comprehensive income net of tax of \$852							1,190	1,190
Issuance of restricted stock	5	5		100	(105)			—
Shares forfeited	(2)	(2)		(27)	9			(20)
Shares retired	(19)	(19)		(369)				(388)
Amortization compensation restricted stock					158			158
Dividends: Common (\$0.27 per share)						(1,798)		(1,798)
Dividend reinvestment plan	14	14		265				279
Balance, September 30, 2017	6,706	\$ 6,706	\$ 46	\$ 75,960	\$ (158)	\$ 4,088	\$ (47)	\$ 86,595
Balance December 31, 2017	7,588	\$ 7,588	\$ 46	\$ 94,516	\$ (109)	\$ 4,066	\$ (444)	\$ 105,663
Net income						8,543		8,543
Other comprehensive loss net of tax of \$1,103							(4,132)	(4,132)
Issuance of restricted stock	11	11		233	(244)			—
Exercise of stock warrants	20	20	(12)	(8)				—
Shares retired	(2)	(2)		(55)				(57)
Exercise of deferred compensation	1	1		18				19
Amortization compensation restricted stock					148			148
Dividends: Common (\$0.30 per share)						(2,273)		(2,273)
Dividend reinvestment plan	12	12		263				275
Balance, September 30, 2018	7,630	\$ 7,630	\$ 34	\$ 94,967	\$ (205)	\$ 10,336	\$ (4,576)	\$ 108,186

See Notes to Consolidated Financial Statements

FIRST COMMUNITY CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine months ended September 30,	
	2018	2017
(Dollars in thousands)		
Cash flows from operating activities:		
Net income	\$8,543	\$5,313
Adjustments to reconcile net income to net cash provided from operating activities:		
Depreciation	1,130	1,075
Premium amortization	1,873	2,449
Provision for loan losses	252	360
Write-down of other real estate owned	—	17
Gain on sale of other real estate owned	(8)	(128)
Origination of loans held-for-sale	(89,125)	(80,340)
Sale of loans held-for-sale	88,690	80,029
Amortization of intangibles	427	223
Accretion on acquired loans	(288)	(138)
Writedown of land held for sale	42	90
Loss (gain) on sale of securities	10	(350)
Loss on extinguishment of debt	—	446
Gain on sale of fixed assets	(123)	—
Decrease in other assets	518	4,042
Increase (decrease) in other liabilities	547	78
Net cash provided from operating activities	12,488	13,166
Cash flows from investing activities:		
Purchase of investment securities available-for-sale	(47,668)	(15,350)
Maturity/call of investment securities available-for-sale	33,703	25,761
Proceeds from sale of securities available-for-sale	19,946	12,867
Proceeds from sale of securities held-to-maturity	655	—
Proceeds from sale of other securities	434	357
Increase in loans	(49,603)	(21,787)
Proceeds from sale of other real estate owned	367	530
Proceeds from sale of fixed assets	1,143	—
Purchase of property and equipment	(494)	(2,675)
Net cash used in investing activities	(41,517)	(297)
Cash flows from financing activities:		
Increase in deposit accounts	33,472	3,473
Increase (decrease) in securities sold under agreements to repurchase	13,956	(2,058)
Advances from the Federal Home Loan Bank	4,000	26,000
Repayment of advances from Federal Home Loan Bank	(14,014)	(33,268)
Deferred compensation shares	19	—
Shares forfeited	—	(20)
Shares retired	(57)	(388)
Dividends paid: common stock	(2,273)	(1,798)
Dividend reinvestment plan	275	279
Net cash provided from (used in) financing activities	35,378	(7,780)
Net increase in cash and cash equivalents	6,349	5,089

Edgar Filing: FIRST COMMUNITY CORP /SC/ - Form 10-Q

Cash and cash equivalents at beginning of period	30,591	21,999
Cash and cash equivalents at end of period	\$36,940	\$27,088
Supplemental disclosure:		
Cash paid during the period for:		
Interest	\$2,627	\$2,162
Income taxes	\$1,875	\$1,095
Non-cash investing and financing activities:		
Unrealized gain (loss) on securities	\$(4,132)	\$1,190
Transfer of loans to foreclosed property	\$346	\$26

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 September 30, 2018 and December 31, 2017, and the Company's results of operations and cash flows for the three and nine months ended September 30, 2018 and 2017. The results of operations for the three and nine months ended September 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018.

In the opinion of management, all adjustments necessary to fairly present the consolidated financial position and consolidated results of operations have been made. All such adjustments are of a normal, recurring nature. All significant intercompany accounts and transactions have been eliminated in consolidation. The consolidated financial statements and notes thereto are presented in accordance with the instructions for Form 10-Q. The information included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017 should be referred to in connection with these unaudited interim financial statements.

Note 2 – Earnings Per Common Share

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

(In thousands except average market price)

	Nine months Ended September 30, 2018		Three months Ended September 30, 2018	
	2018	2017	2018	2017
Numerator (Net income)	\$ 8,543	\$ 5,313	\$ 2,833	\$ 1,893
Denominator				
Weighted average common shares outstanding for:				
Basic earnings per share	7,581	6,666	7,592	6,666
Dilutive securities:				
Deferred compensation	65	54	61	54

Edgar Filing: FIRST COMMUNITY CORP /SC/ - Form 10-Q

Warrants/Restricted stock – Treasury stock method	73	88	71	88
Diluted earnings per share	7,719	6,808	7,724	6,808
The average market price used in calculating assumed number of shares	\$ 25.33	\$ 20.59	\$ 23.49	\$ 20.66

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

In the fourth quarter of 2011, we issued \$2.5 million in 8.75% subordinated notes maturing December 16, 2019. On November 15, 2012, the subordinated notes were redeemed in full at par. Warrants for 107,500 shares of common stock at \$5.90 per share were issued in connection with the issuance of the subordinated debt. There were 71,810 warrants outstanding at September 30, 2018. These warrants expire December 16, 2019 and are included in dilutive securities in the table above.

The Company has issued a total of 26,626 unvested restricted shares under the terms of its compensation plans and employment agreements. The employee shares cliff vest over a three year period; the non-employee director shares vest one year after issuance. The unrecognized compensation cost at September 30, 2018 for non-vested shares amounts to \$205 thousand. In February 2017 and 2018, the Company issued 353 and 3,201 stock units, respectively, to employees that cliff vest over three years. Each unit is convertible into one share of common stock at the time the unit vests. The related compensation cost is accrued over the vesting period.

Note 2 – Earnings Per Common Share - continued

In 2006, the Company established a Non-Employee Director Deferred Compensation Plan, whereby a director may elect to defer all or any part of annual retainer and monthly meeting fees payable with respect to service on the board of directors or a committee of the board. Units of common stock are credited to the director's account at the time compensation is earned and are included in dilutive securities in the table above. At September 30, 2018 and December 31, 2017, there were 113,984 and 110,320 units in the plan, respectively. The accrued liability at September 30, 2018 and December 31, 2017 amounted to \$1.2 million and \$1.1 million, respectively, and is included in "Other liabilities" on the balance sheet.

Note 3—Investment Securities

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

AVAILABLE-FOR-SALE:

	Amortized	Gross Unrealized	Gross Unrealized	
(Dollars in thousands)	Cost	Gains	Losses	Fair Value
September 30, 2018				
US Treasury securities	\$ 11,823	\$ —	\$ 68	\$11,755
Government Sponsored Enterprises	1,094	—	5	1,089
Mortgage-backed securities	140,335	44	4,073	136,306
Small Business Administration pools	52,670	147	891	51,926
State and local government	51,473	293	1,241	50,525
Other securities	19	—	—	19
	\$ 257,414	\$ 484	\$ 6,278	\$251,620

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

HELD-TO-MATURITY:

Gross Gross

Edgar Filing: FIRST COMMUNITY CORP /SC/ - Form 10-Q

(Dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
September 30, 2018				
State and local government	\$ 16,218	\$ 13	\$ 178	\$16,053
	\$ 16,218	\$ 13	\$ 178	\$16,053

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

During the nine months ended September 30, 2018 and 2017, the Company received proceeds of \$19.9 million and \$12.9 million, respectively, from the sale of investment securities available-for-sale. For the nine months ended September 30, 2018, gross realized gains from the sale of investment securities available-for-sale amounted to \$240.7 thousand and gross realized losses amounted to \$246.5 thousand. For the nine months ended September 30, 2017, gross realized gains from the sale of investment securities available-for-sale amounted to \$371 thousand and gross realized losses amounted to \$21 thousand. During the nine months ended September 30, 2018, the Company received proceeds of \$655 thousand for the sale of an investment security held-to-maturity. For the nine months ended September 30, 2018, the realized loss on the sale of the investment security held-to-maturity amounted to \$4.0 thousand. During the nine months ended September 30, 2017 there were no sales of investment securities held-to-maturity. During the three months ended September 30, 2018, there were no sales of investment securities. During the three months ended September 30, 2017, the Company received proceeds of \$2.3 million from the sale of investment securities available-for-sale. For the three months ended September 30, 2017, gross realized gains totaled \$124 thousand and there were no gross realized losses. During the three months ended September 30, 2017, there were no sales of investment securities held-to maturity.

Note 3—Investment Securities – continued

At September 30, 2018, other securities available-for-sale included the following at fair value: a mutual fund at \$9.4 thousand and foreign debt of \$9.9 thousand. As required by Accounting Standards Update (ASU) 2016-01-Financial Instruments-Overall (Subtopic 825-10), the Company has measured its equity investments at fair value with changes in the fair value recognized through net income. For the three months and nine months ended September 30, 2018, a \$1.0 thousand gain and a \$2.0 thousand gain were recognized on a mutual fund, respectively. At December 31, 2017, corporate and other securities available-for-sale included the following at fair value: mutual funds at \$790.0 thousand and foreign debt of \$60.0 thousand. Other investments, at cost include Federal Home Loan Bank (“FHLB”) stock in the amount of \$1.1 million and \$1.6 million and corporate stock in the amount of \$1.0 and \$1.0 million at September 30, 2018 and December 31, 2017, respectively.

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 September 30, 2018 and December 31, 2017.

(Dollars in thousands)	Less than 12 months		12 months or more		Total	
September 30, 2018	Unrealized		Unrealized			Unrealized
Available-for-sale securities:	Fair Value	Loss	Fair Value	Loss	Fair Value	Loss
US Treasury securities	\$ 10,279	\$ 22	\$ 1,475	\$ 46	\$ 11,754	\$ 68
Government Sponsored Enterprise	1,088	5	—	—	1,088	5
Government Sponsored Enterprise mortgage-backed securities	68,482	1,536	53,336	2,537	121,818	4,073
Small Business Administration pools	22,118	386	15,594	505	37,712	891
State and local government	21,821	398	12,765	843	34,586	1,241
	\$ 123,788	\$ 2,347	\$ 83,170	\$ 3,931	\$ 206,958	\$ 6,278

(Dollars in thousands)	Less than 12 months		12 months or more		Total	
September 30, 2018	Unrealized		Unrealized			Unrealized
Held-to-maturity securities:	Fair Value	Loss	Fair Value	Loss	Fair Value	Loss
State and local government	\$ 13,622	\$ 178	\$ —	\$ —	\$ 13,622	\$ 178

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

Edgar Filing: FIRST COMMUNITY CORP /SC/ - Form 10-Q

	\$ 71,623	\$ 599	\$ 77,667	\$ 1,955	\$ 149,290	\$ 2,554
(Dollars in thousands)	Less than 12 months		12 months or more		Total	
December 31, 2017	Unrealized		Unrealized		Unrealized	
Held-to-maturity securities:	Fair Value	Loss	Fair Value	Loss	Fair Value	Loss
State and local government	\$ 2,899	\$ 15	\$ —	\$ —	\$ 2,899	\$ 15

Note 3—Investment Securities – continued

Government Sponsored Enterprise, Mortgage-Backed Securities: The Company owned mortgage-backed securities (“MBSs”), including collateralized mortgage obligations (“CMOs”), issued by government sponsored enterprises (“GSEs”) with an amortized cost of \$140.2 million and \$145.0 million and approximate fair value of \$136.1 million and \$143.6 million at September 30, 2018 and December 31, 2017, respectively. As of September 30, 2018 and December 31, 2017, all of the MBSs issued by GSEs were classified as “Available for Sale.” Unrealized losses on these investments are not considered to be “other than temporary,” and we have the intent and ability to hold these until they mature or recover the current book value. The contractual cash flows of the investments are guaranteed by the GSE. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost of the Company’s investment. Because the Company 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 September 30, 2018.

Non-agency Mortgage Backed Securities: The Company held private label mortgage-backed securities (“PLMBSs”), including CMOs, at September 30, 2018 with an amortized cost of \$157.1 thousand and approximate fair value of \$160.3 thousand. The Company held PLMBSs, including CMOs, at December 31, 2017 with an amortized cost of \$199.9 thousand and approximate fair value of \$204.1 thousand. Management monitors each of these securities on a quarterly basis to identify any deterioration in the credit quality, collateral values and credit support underlying the investments.

State and Local Governments and Other: Management monitors these securities on a quarterly basis to identify any deterioration in the credit quality. Included in the monitoring is a review of the credit rating, a financial analysis and certain demographic data on the underlying issuer. The Company does not consider these securities to be other-than-temporarily impaired at September 30, 2018.

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

September 30, 2018	Available-for-sale		Held-to-maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
(Dollars in thousands)				
Due in one year or less	\$17,686	\$17,670	\$—	\$—
Due after one year through five years	150,575	147,607	9,187	9,129
Due after five years through ten years	80,047	77,462	7,031	6,924
Due after ten years	9,106	8,881	—	—
	\$257,414	\$251,620	\$16,218	\$16,053

Note 4—Loans

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

Edgar Filing: FIRST COMMUNITY CORP /SC/ - Form 10-Q

(Dollars in thousands)	September 30, 2018	December 31, 2017	September 30, 2017
Commercial, financial and agricultural	\$ 50,940	\$ 51,040	\$ 44,917
Real estate:			
Construction	56,568	45,401	42,693
Mortgage-residential	50,914	46,901	44,567
Mortgage-commercial	498,650	460,276	398,777
Consumer:			
Home equity	29,933	32,451	29,984
Other	9,510	10,736	7,550
Total	\$ 696,515	\$ 646,805	\$ 568,488

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 nine months ended September 30, 2018 and September 30, 2017 and for the year ended December 31, 2017 is as follows:

(Dollars in thousands)

		Real estate	Real estate					
		Real estate	Mortgage	Mortgage	Consumer	Consumer		
		Real estate	Mortgage	Mortgage	Home equity	Other	Unallocated	Total
September 30, 2018	Commercial	Construction	Residential	Commercial	Home equity	Other	Unallocated	Total
Allowance for loan losses:								
Beginning balance	\$ 221	\$ 101	\$ 461	\$ 3,077	\$ 308	\$ 35	\$ 1,594	\$ 5,797
December 31, 2017								
Charge-offs	—	—	(1)	—	—	(109)	—	(110)
Recoveries	14	—	3	219	6	31	—	273
Provisions	(46)	4	481	(388)	732	108	(639)	252
Ending balance September 30, 2018	\$ 189	\$ 105	\$ 944	\$ 2,908	\$ 1,046	\$ 65	\$ 955	\$ 6,212
Ending balances:								
Individually evaluated for impairment	\$ —	\$ —	\$ 1	\$ 3	\$ —	\$ —	\$ —	\$ 4
Collectively evaluated for impairment	189	105	943	2,905	1,046	65	955	6,208
September 30, 2018 Loans receivable:								
Ending balance-total	\$ 50,940	\$ 56,568	\$ 50,914	\$ 498,650	\$ 29,933	\$ 9,510	\$ —	\$ 696,515
Ending balances:								
Individually evaluated for impairment	—	—	237	4,466	31	—	—	4,734
Collectively evaluated for impairment	\$ 50,940	\$ 56,568	\$ 50,677	\$ 494,184	\$ 29,902	\$ 9,510	\$ —	\$ 691,781

(Dollars in thousands)

		Real estate	Real estate					
		Real estate	Mortgage	Mortgage	Consumer	Consumer		
		Real estate	Mortgage	Mortgage	Home Equity	Other	Unallocated	Total
September 30, 2017	Commercial	Construction	Residential	Commercial	Equity	Other	Unallocated	Total
Allowance for loan losses:								

Edgar Filing: FIRST COMMUNITY CORP /SC/ - Form 10-Q

Beginning balance December 31, 2016	\$ 145	\$ 104	\$ 438	\$ 2,793	\$ 153	\$ 127	\$ 1,454	\$ 5,214
Charge-offs	(5)	—	—	(30)	—	(85)	—	(120)
Recoveries	3	—	4	158	24	13	—	202
Provisions	41	(10)	(115)	(5)	81	(38)	406	360
Ending balance September 30, 2017	\$ 184	\$ 94	\$ 327	\$ 2,916	\$ 258	\$ 17	\$ 1,860	\$ 5,656

Ending balances:

Individually evaluated for impairment	\$ —	\$ —	\$ 2	\$ 29	\$ —	\$ —	\$ —	\$ 31
Collectively evaluated for impairment	184	94	325	2,887	258	17	1,860	5,625

September 30, 2017 Loans
receivable:

Ending balance-total	\$ 44,917	\$ 42,693	\$ 44,567	\$ 398,777	\$ 29,984	\$ 7,550	\$ —	\$ 568,488
----------------------	-----------	-----------	-----------	------------	-----------	----------	------	------------

Ending balances:

Individually evaluated for impairment	—	—	422	4,173	34	—	—	4,629
--	---	---	-----	-------	----	---	---	-------

Collectively evaluated for impairment	\$ 44,917	\$ 42,693	\$ 44,145	\$ 394,604	\$ 29,950	\$ 7,550	\$ —	\$ 563,859
--	-----------	-----------	-----------	------------	-----------	----------	------	------------

Note 4—Loans-continued

(Dollars in thousands)

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

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

		Real estate	Real estate	Real estate	Real estate	Consumer	Consumer		
	Commercial	Construction	Residential	Commercial	Home Equity	Other	Unallocated	Total	
Allowance for loan losses:									
Beginning balance June 30, 2018	\$ 272	\$ 112	\$ 672	\$ 2,618	\$ 1,029	\$ 113	\$ 1,271	\$ 6,087	
Charge-offs	—	—	—	—	—	(24)	—	(24)	
Recoveries	11	—	1	105	1	10	—	128	
Provisions	(94)	(7)	271	185	16	(34)	(316)	21	

Edgar Filing: FIRST COMMUNITY CORP /SC/ - Form 10-Q

Ending balance September 30, 2018 \$ 189 \$ 105 \$ 944 \$ 2,908 \$ 1,046 \$ 65 \$ 955 \$6,212

(Dollars in thousands)

		Real estate	Real estate	Consumer				
		Mortgage	Mortgage	Home	Consumer			
	Commercial	Construction	Residential	Commercial	Equity	Other	Unallocated	Total
Allowance for loan losses:								
Beginning balance June 30, 2017	\$ 169	\$ 76	\$ 353	\$ 2,845	\$ 196	\$ 24	\$ 1,827	\$5,490
Charge-offs	(5)	—	—	(6)	—	(41)	—	(52)
Recoveries	—	—	2	45	—	5	—	52
Provisions	20	18	(28)	32	62	29	33	166
Ending balance September 30, 2017	\$ 184	\$ 94	\$ 327	\$ 2,916	\$ 258	\$ 17	\$ 1,860	\$5,656

Note 4—Loans-continued

Related party loans and lines of credit are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated persons and generally do not involve more than the normal risk of collectability. The following table presents related party loan transactions for the nine months ended September 30, 2018 and 2017:

(Dollars in thousands)	2018	2017
Beginning Balance December 31,	\$5,938	\$6,103
New Loans	2,406	339
Less loan repayments	1,999	925
Ending Balance September 30,	\$6,345	\$5,517

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

(Dollars in thousands)	September 30, 2018	December 31, 2017
Total loans considered impaired	\$ 4,734	\$ 5,155
Loans considered impaired for which there is a related allowance for loan loss:		
Outstanding loan balance	\$ 1,143	\$ 1,669
Related allowance	\$ 4	\$ 27
Loans considered impaired and previously written down to fair value	\$ 3,591	\$ 3,485
Average impaired loans	\$ 5,160	\$ 5,513
Amount of interest earned during period of impairment	\$ 297	\$ 132

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

(Dollars in thousands)	September 30, 2018			September 30, 2017		December 31, 2017	
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest income Recognized	Average Recorded Investment	Interest Income Recognized
With no allowance recorded:							
Commercial, financial, agricultural	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Real estate:							
Construction	—	—	—	—	—	—	—
Mortgage-residential	198	266	—	202	16	197	2
Mortgage-commercial	3,363	6,158	—	3,753	219	3,627	75

Edgar Filing: FIRST COMMUNITY CORP /SC/ - Form 10-Q

Consumer:							
Home equity	31	32	—	35	1	31	—
Other	—	—	—	—	—	—	—
With an allowance recorded:							
Commercial, financial, agricultural	—	—	—	—	—	—	—
Real estate:							
Construction	—	—	—	—	—	—	—
Mortgage-residential	39	39	1	41	2	39	1
Mortgage-commercial	1,103	1,103	3	1,129	59	1,103	19
Consumer:							
Home equity	—	—	—	—	—	—	—
Other	—	—	—	—	—	—	—
Total:							
Commercial, financial, agricultural	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Real estate:							
Construction	—	—	—	—	—	—	—
Mortgage-residential	237	305	1	243	18	236	3
Mortgage-commercial	4,466	7,261	3	4,882	278	4,730	94
Consumer:							
Home equity	31	32	—	35	1	31	—
Other	—	—	—	—	—	—	—
	\$ 4,734	\$ 7,598	\$ 4	\$ 5,160	\$ 297	\$ 4,997	\$ 97

Note 4—Loans-continued

(Dollars in thousands)

September 30, 2017

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Nine months ended Average Interest Recorded Income Recognized		Three months ended Average Interest Recorded Income Recognized	
With no allowance recorded:							
Commercial, financial, agricultural	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Real estate:							
Construction	—	—	—	—	—	—	—
Mortgage-residential	379	443	—	384	11	378	11
Mortgage-commercial	2,501	5,051	—	2,536	117	2,488	118
Consumer:							
Home equity	34	34	—	34	—	56	—
Other	—	—	—	—	—	—	—
With an allowance recorded:							
Commercial, financial, agricultural	—	—	—	—	—	—	—
Real estate:							
Construction	—	—	—	—	—	—	—
Mortgage-residential	43	43	2	43	2	43	1
Mortgage-commercial	1,672	2,293	29	1,678	111	1,671	31
Consumer:							
Home equity	—	—	—	—	—	—	—
Other	—	—	—	—	—	—	—
Total:							
Commercial, financial, agricultural	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Real estate:							
Construction	—	—	—	—	—	—	—
Mortgage-residential	422	486	2	427	13	421	12
Mortgage-commercial	4,173	7,344	29	4,214	228	4,159	149
Consumer:							
Home equity	34	34	—	34	—	56	—
Other	—	—	—	—	—	—	—
	\$ 4,629	\$ 7,864	\$ 31	\$4,675	\$ 241	\$4,636	\$ 161

Note 4—Loans-continued

(Dollars in thousands)

December 31, 2017

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no allowance recorded:					
Commercial	\$ —	\$ —	\$ —	\$ —	\$ —
Real estate:					
Construction	—	—	—	—	—
Mortgage-residential	371	437	—	399	—
Mortgage-commercial	3,087	5,966	—	3,420	13
Consumer:					
Home Equity	—	—	—	—	—
Other	—	—	—	—	—
With an allowance recorded:					
Commercial	—	—	—	—	—
Real estate:					
Construction	—	—	—	—	—
Mortgage-residential	42	42	2	43	2
Mortgage-commercial	1,655	2,261	25	1,652	117
Consumer:					
Home Equity	—	—	—	—	—
Other	—	—	—	—	—

&