SOUTHERN FIRST BANCSHARES INC
Form 10-Q
July 31, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended June 30, 2018
OR
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Transition Period from to
Commission file number 000-27719

Southern First Bancshares, Inc.
(Exact name of registrant as specified in its charter)

South Carolina	**58-2459561**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

100 Verdae Boulevard, Suite 100	
Greenville, S.C.	**29606**
(Address of principal executive offices)	(Zip Code)

864-679-9000
(Registrant's telephone number, including area code)
Not Applicable
(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 Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See 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	(Do not check if a smaller reporting company)	Smaller Reporting Company
		Emerging growth company

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: 7,425,672 shares of common stock, par value $0.01 per share, were issued and outstanding as of July 26, 2018.

SOUTHERN FIRST BANCSHARES, INC. AND SUBSIDIARY
June 30, 2018 Form 10-Q

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PART I. CONSOLIDATED FINANCIAL INFORMATION
Item 1. CONSOLIDATED FINANCIAL STATEMENTS

SOUTHERN FIRST BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

(dollars in thousands, except share data)		June 30, 2018 (Unaudited)	December 31, 2017 (Audited)
ASSETS			
Cash and cash equivalents:			
Cash and due from banks	$	17,198	17,171
Federal funds sold		62,854	49,148
Interest-bearing deposits with banks		29,301	25,846
Total cash and cash equivalents		109,353	92,165
Investment securities:			
Investment securities available for sale		70,067	67,603
Other investments		3,059	4,462
Total investment securities		73,126	72,065
Mortgage loans held for sale		8,075	11,790
Loans		1,533,447	1,387,070
Less allowance for loan losses		(16,100)	(15,523)
Loans, net		1,517,347	1,371,547
Bank owned life insurance		33,573	33,132
Property and equipment, net		32,720	32,234
Deferred income taxes		6,069	3,782
Other assets		7,521	7,910
Total assets	$	1,787,784	1,624,625
LIABILITIES			
Deposits	$	1,567,982	1,381,123
Federal Home Loan Bank advances and other borrowings		28,600	67,200
Junior subordinated debentures		13,403	13,403
Other liabilities		16,943	13,213
Total liabilities		1,626,928	1,474,939
SHAREHOLDERS' EQUITY			
Preferred stock, par value $.01 per share, 10,000,000 shares authorized, no shares issued and outstanding		-	-
Common stock, par value $.01 per share, 10,000,000 shares authorized, 7,425,672 and 7,347,851 shares issued and outstanding at June 30, 2018 and December 31, 2017, respectively		74	73
Nonvested restricted stock		(853)	(502)
Additional paid-in capital		101,691	99,986
Accumulated other comprehensive loss		(1,365)	(456)
Retained earnings		61,309	50,585
Total shareholders' equity		160,856	149,686
Total liabilities and shareholders' equity	$	1,787,784	1,624,625

See notes to consolidated financial statements that are an integral part of these consolidated statements.

SOUTHERN FIRST BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	For the three months ended June 30,		For the six months ended June 30,	
(dollars in thousands, except share data)	**2018**	**2017**	**2018**	**2017**
Interest income				
Loans	$ 17,591	14,280	34,154	27,806
Investment securities	430	390	798	766
Federal funds sold	514	261	761	318
Total interest income	18,535	14,931	35,713	28,890
Interest expense				
Deposits	3,524	1,739	6,263	2,989
Borrowings	399	840	797	1,942
Total interest expense	3,923	2,579	7,060	4,931
Net interest income	14,612	12,352	28,653	23,959
Provision for loan losses	400	500	900	1,000
Net interest income after provision for loan losses	14,212	11,852	27,753	22,959
Noninterest income				
Mortgage banking income	1,629	1,603	2,957	2,660
Service fees on deposit accounts	256	284	512	561
ATM and debit card income	371	290	705	552
Income from bank owned life insurance	220	183	441	366
Other income	295	202	577	475
Total noninterest income	2,771	2,562	5,192	4,614
Noninterest expenses				
Compensation and benefits	6,365	5,524	12,208	10,798
Occupancy	1,276	1,033	2,413	1,999
Outside service and data processing costs	824	823	1,560	1,568
Insurance	297	297	610	587
Professional fees	457	382	933	695
Marketing	229	196	438	407
Other	531	507	1,022	1,069
Total noninterest expenses	9,979	8,762	19,184	17,123
Income before income tax expense	7,004	5,652	13,761	10,450
Income tax expense	1,494	2,048	3,037	3,734
Net income available to common shareholders	$ 5,510	3,604	10,724	6,716
Earnings per common share				
Basic	$ 0.75	0.52	1.46	1.00
Diluted	$ 0.71	0.49	1.39	0.95
Weighted average common shares outstanding				
Basic	7,370,709	6,986,948	7,353,867	6,713,608
Diluted	7,751,146	7,366,208	7,739,082	7,099,381

See notes to consolidated financial statements that are an integral part of these consolidated statements.

SOUTHERN FIRST BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

		For the three months ended June 30,		For the six months ended June 30,	
(dollars in thousands)		**2018**	**2017**	**2018**	**2017**
Net income	$	5,510	3,604	10,724	6,716
Other comprehensive income (loss):					
Unrealized gain (loss) on securities available for sale:					
Unrealized holding gain (loss) arising during the period, pretax		(234)	258	(1,150)	496
Tax (expense) benefit		51	(89)	240	(170)
Unrealized holding gain (loss) arising during the period, pretax		-	(2)	1	(2)
Tax expense		-	-	-	-
Other comprehensive income (loss)		(183)	167	(909)	324
Comprehensive income	$	5,327	3,771	9,815	7,040

See notes to consolidated financial statements that are an integral part of these consolidated statements.

SOUTHERN FIRST BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2018 AND 2017
(Unaudited)

(dollars in thousands, except share data)	**Common stock Shares**	**Common stock Amount**	**Preferred stock Shares**	**Preferred stock Amount**	**Nonvested restricted stock**	**Additional paid-in capital**	**Accumulated other comprehensive income (loss)**	**Retained earnings**	**Total**
December 31, 2016	**6,463,789**	**65**	**-**	**-**	**(600)**	**73,371**	**(504)**	**37,540**	**109,872**
Net income	-	-	-	-	-	-	-	6,716	6,716
Net issuance of common stock	805,000	-	-	-	-	24,750	-	-	24,758
Proceeds from exercise of stock options	42,267	8	-	-	-	416	-	-	416
Issuance of restricted stock	3,125	-	-	-	(146)	146	-	-	-
Amortization of deferred compensation on restricted stock	-	-	-	-	159	-	-	-	159
Compensation expense related to stock options, net of tax	-	-	-	-	-	491	-	-	491
Other comprehensive income	-	-	-	-	-	-	324	-	324
June 30, 2017	**7,314,181**	**$ 73**	**-**	**$ -**	**$ (587)**	**$ 99,174**	**$ (180)**	**$ 44,256**	**$ 142,736**
December 31, 2017	**7,347,851**	**73**	**-**	**-**	**(502)**	**99,986**	**(456)**	**50,585**	**149,686**
Net income	-	-	-	-	-	-	-	10,724	10,724
Proceeds from exercise of stock options	66,321	1	-	-	-	637	-	-	638
Issuance of restricted stock	11,500	-	-	-	(501)	501	-	-	-
Amortization of deferred compensation on restricted stock	-	-	-	-	150	-	-	-	150
Compensation expense related to stock options, net of tax	-	-	-	-	-	567	-	-	567
Other comprehensive income	-	-	-	-	-	-	(909)	-	(909)
June 30, 2018	**7,425,672**	**$ 74**	**-**	**$ -**	**$ (853)**	**$ 101,691**	**$ (1,365)**	**$ 61,309**	**$ 160,856**

See notes to consolidated financial statements that are an integral part of these consolidated statements.

SOUTHERN FIRST BANCSHARES, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	For the six months ended June 30,	
(dollars in thousands)	**2018**	**2017**
Operating activities		
Net income	$ 10,724	$ 6,716
Adjustments to reconcile net income to cash provided by (used for) operating activities:		
Provision for loan losses	900	1,000
Depreciation and other amortization	850	669
Accretion and amortization of securities discounts and premium, net	220	267
(Gain) loss on sale of investment securities available for sale	1	(2)
Gain on sale of real estate owned	(7)	(12)
(Gain) loss on disposal of fixed assets	(8)	50
Write-down of real estate owned	-	7
Compensation expense related to stock options and grants	717	650
Gain on sale of loans held for sale	(2,620)	(2,854)
Loans originated and held for sale	(109,193)	(94,159)
Proceeds from sale of loans held for sale	115,528	93,334
Increase in cash surrender value of bank owned life insurance	(441)	(366)
Increase in deferred tax asset	(2,045)	(392)
Decrease in other assets, net	264	109
Increase in other liabilities	3,730	694
Net cash provided by operating activities	18,620	5,711
Investing activities		
Increase (decrease) in cash realized from:		
Origination of loans, net	(146,700)	(136,760)
Purchase of property and equipment	(1,328)	(4,043)
Purchase of investment securities:		
Available for sale	(13,904)	(20,675)
Other	(2,596)	(1,811)
Payments and maturities, calls and repayments of investment securities:		
Available for sale	4,227	4,002
Other	3,999	3,522
Proceeds from sale of investment securities available for sale	5,841	-
Proceeds from sale of real estate owned	132	380
Net cash used for investing activities	(150,329)	(155,385)
Financing activities		
Increase (decrease) in cash realized from:		
Increase in deposits, net	186,859	206,760
Decrease in Federal Home Loan Bank advances and other borrowings	(38,600)	(42,000)
Proceeds from issuance of common stock	-	24,758
Proceeds from the exercise of stock options and warrants	638	416
Net cash provided by financing activities	148,897	189,934
Net increase in cash and cash equivalents	17,188	40,260
Cash and cash equivalents at beginning of the period	92,165	46,552
Cash and cash equivalents at end of the period	$ 109,353	$ 86,812
Supplemental information		
Cash paid for		
Interest	$ 6,764	$ 4,891
Income taxes	1,960	3,410
Schedule of non-cash transactions		
Real estate acquired in settlement of loans	-	164
Unrealized gain (loss) on securities, net of income taxes	(909)	324

See notes to consolidated financial statements that are an integral part of these consolidated statements.

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SOUTHERN FIRST BANCSHARES, INC. AND SUBSIDIARY
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – Nature of Business and Basis of Presentation

Business Activity
Southern First Bancshares, Inc. (the "Company") is a South Carolina corporation that owns all of the capital stock of Southern First Bank (the "Bank") and all of the stock of Greenville First Statutory Trust I and II (collectively, the "Trusts"). The Trusts are special purpose non-consolidated entities organized for the sole purpose of issuing trust preferred securities. The Bank's primary federal regulator is the Federal Deposit Insurance Corporation (the "FDIC"). The Bank is also regulated and examined by the South Carolina Board of Financial Institutions. The Bank is primarily engaged in the business of accepting demand deposits and savings deposits insured by the FDIC, and providing commercial, consumer and mortgage loans to the general public.

Basis of Presentation
The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six month periods ended June 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017 as filed with the Securities and Exchange Commission on February 28, 2018. The consolidated financial statements include the accounts of the Company and the Bank. In accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 810, “Consolidation,” the financial statements related to the Trusts have not been consolidated.

Business Segments
In determining proper segment definition, the Company considers the materiality of a potential segment and components of the business about which financial information is available and regularly evaluated, relative to a resource allocation and performance assessment. The Company accounts for intersegment revenues and expenses as if the revenue/expense transactions were generated to third parties, that is, at current market prices. Please refer to “Note 9 – Reportable Segments” for further information on the reporting for the Company’s three business segments.

Use of Estimates
The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the consolidated financial statements and the reported amount of income and expenses during the reporting periods. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, real estate acquired in the settlement of loans, fair value of financial instruments, evaluating other-than-temporary-impairment of investment securities and valuation of deferred tax assets.

Reclassifications
Certain amounts, previously reported, have been reclassified to state all periods on a comparable basis and had no effect on shareholders’ equity or net income.

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. Non-recognized 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 performed an evaluation to determine whether there have been any subsequent events since the balance sheet date and determined that no subsequent events occurred requiring accrual or disclosure.

Revenue from Contracts with Customers

The Company records revenue from contracts with customers in accordance with Accounting Standards Codification Topic 606, "Revenue from Contracts with Customers" ("Topic 606"). Under Topic 606, the Company must identify the contract with a customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract, and recognize revenue when (or as) the Company satisfies a performance obligation. Significant revenue has not been recognized in the current reporting period that results from performance obligations satisfied in previous periods.

The Company's primary sources of revenue are derived from interest and dividends earned on loans, investment securities, and other financial instruments that are not within the scope of Topic 606. The Company has evaluated the nature of its contracts with customers and determined that further disaggregation of revenue from contracts with customers into more granular categories beyond what is presented in the Consolidated Statements of Income was not necessary. The Company generally fully satisfies its performance obligations on its contracts with customers as services are rendered and the transaction prices are typically fixed; charged either on a periodic basis or based on activity. Our accounting policies will not change materially since the principles of revenue recognition from the Accounting Standards Update are largely consistent with existing guidance and current practices applied by our business. The following is a discussion of revenues within the scope of the new guidance:

Service fees on deposit accounts - The Company earns fees from its deposit clients for various transaction-based, account maintenance, and overdraft or non-sufficient funds ("NSF") services. Transaction-based fees, which include services such as stop payment charges, statement rendering, and ACH fees, are recognized at the time the transaction is executed as that is the point in time the Company fulfills the client's request. Account maintenance fees, which relate primarily to monthly maintenance and account management, are earned over the course of a month, representing the period over which the Company satisfies the performance obligation. Overdraft and NSF fees are recognized at the point in time that the overdraft occurs or the NSF item is presented. Service charges on deposits are withdrawn from the client's account balance.

ATM and debit card income - The Company earns interchange fees from debit cardholder transactions conducted through the payment networks. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder.

Income Taxes

On December 22, 2017, the United States enacted tax reform legislation commonly known as the Tax Cuts and Jobs Act (the "Tax Act"), resulting in significant modifications to existing law. Authoritative guidance and interpretation by regulatory bodies is ongoing, and as such, the accounting for the effects of the Tax Act is not final and the full impact of the new regulation is still being evaluated. The accounting is expected to be complete when the 2017 U.S. corporate income tax return is filed later in 2018.

Adoption of New Accounting Standards

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers" ("ASU 2014-09"), which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU replaces most existing revenue recognition guidance in GAAP. The new standard was effective for the Company on January 1, 2018. Adoption of ASU 2014-09 did not have a material impact on the Company's consolidated financial statements and related disclosures as the Company's primary sources of revenues are derived from interest and dividends earned on loans, investment securities, and other financial instruments that are not within the scope of ASU 2014-09. The Company's revenue recognition pattern for revenue streams within the scope of ASU 2014-09, including but not limited to service charges on deposit accounts and gains/losses on the sale of other real estate owned, did not change significantly from current practice. The standard permits the use of either the full retrospective or modified retrospective transition method. The Company elected to use the modified retrospective transition method which requires application of ASU 2014-09 to uncompleted contracts at the date of adoption however, periods prior to the date of adoption will not be retrospectively revised as the impact of the ASU on uncompleted contracts at the date of adoption was not material.

In January 2016, the FASB issued ASU No. 2016-01, “Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities” (“ASU 2016-01”). The guidance affects the accounting for equity investments, financial liabilities under the fair value option and the presentation and disclosure requirements of financial instruments. ASU 2016-01 was effective for the Company on January 1, 2018 and resulted in the use of an exit price rather than an entrance price to determine the fair value of loans not measured at fair value on a non-recurring basis in the consolidated balance sheets. See Note 7 – Fair Value Accounting for further information regarding the valuation of these loans.

In February 2018, the FASB Issued (ASU 2018-02), Income Statement (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income, which requires companies to reclassify the stranded effects in other comprehensive income to retained earnings as a result of the change in the tax rates under the Tax Cuts and Jobs Act. The Company has opted to early adopt this pronouncement by retrospective application to each period (or periods) in which the effect of the change in the tax rate under the Tax Act is recognized. The impact of the reclassification from other comprehensive income to retained earnings did not have a material effect on the Company’s financial statements.

Newly Issued, But Not Yet Effective Accounting Standards

In February 2016, the FASB issued ASU 2016-02, “Leases (Topic 842)” (“ASU 2016-02”). The FASB issued this ASU to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet by lessees for those leases classified as operating leases under current U.S. GAAP and disclosing key information about leasing arrangements. The amendments in this ASU are effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2018. Early application of this ASU is permitted for all entities. Adoption of ASU 2016-02 is not expected to have a material impact on the Company’s consolidated financial statements. The Company leases certain properties under operating leases that will result in the recognition of lease assets and lease liabilities on the Company’s balance sheet under the ASU. At June 30, 2018, the Company had contractual future minimum lease commitments of approximately $14.6 million, before considering renewal options that are generally present.

In June 2016, the FASB issued ASU 2016-13, “Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments” (“ASU 2016-13”). Among other things, ASU 2016-13 requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to form their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. In addition, ASU 2016-13 amends the accounting for credit losses on debt securities and purchased financial assets with credit deterioration. The amendments in ASU 2016-13 are effective for fiscal years beginning after December 31, 2019, and interim periods within those years for public business entities that are SEC filers. Early adoption is permitted for fiscal years, and interim periods within those years, beginning after December 15, 2018, however, the Company does not currently plan to early adopt the ASU. We are evaluating the impact of the ASU on our consolidated financial statements. In addition to our allowance for loan losses, we will also record an allowance for credit losses on debt securities instead of applying the impairment model currently utilized. The amount of the adjustments will be impacted by each portfolio’s composition and credit quality at the adoption date as well as economic conditions and forecasts at that time.

In March 2017, the FASB amended the requirement in the Receivables-Nonrefundable Fees and Other Costs Topic of the Accounting Standards Codification related to the amortization period for certain purchased callable debt securities held at a premium. The amendments shorten the amortization period for the premium to the earliest call date. The amendments will be effective for the Company for interim and annual periods beginning after December 15, 2018. The Company does not expect these amendments to have a material effect on its financial statements.

In February 2018, the FASB amended the Financial Instruments Topic of the Accounting Standards Codification. The amendments clarify certain aspects of the guidance issued in ASU 2016-01. The amendments will be effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years beginning after June 15, 2018. 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 that do not require adoption until a future date are not expected to have a material impact on the consolidated financial statements upon adoption.

NOTE 2 – Investment Securities

The amortized costs and fair value of investment securities are as follows:

				June 30, 2018
	Amortized	Gross Unrealized		Fair
(dollars in thousands)	Cost	Gains	Losses	Value
Available for sale				
US government agencies	$ 8,987	1	274	8,714
SBA securities	3,904	-	135	3,769
State and political subdivisions	8,530	49	107	8,472
Asset-backed securities	6,703	3	15	6,691
Mortgage-backed securities				
FHLMC	8,401	-	327	8,074
FNMA	32,089	2	780	31,311
GNMA	3,181	1	146	3,036
Total mortgage-backed securities	43,671	3	1,253	42,421
Total investment securities available for sale	$ 71,795	56	1,784	70,067

				December 31, 2017
	Amortized	Gross Unrealized		Fair
	Cost	Gains	Losses	Value
Available for sale				
US government agencies	$ 8,749	1	97	8,653
SBA securities	4,087	-	24	4,063
State and political subdivisions	11,242	179	25	11,396
Mortgage-backed securities				
FHLMC	9,102	-	149	8,953
FNMA	29,383	3	386	29,000
GNMA	5,618	2	82	5,538
Total mortgage-backed securities	44,103	5	617	43,491
Total investment securities available for sale	$ 68,181	185	763	67,603

During the first six months of 2018, there were $5.8 million of investment securities sold, resulting in a loss on sale of $1,000. During the first six months of 2017, there were $415,000 of investment securities either sold or called, subsequently resulting in a gain on sale of $2,000.

Contractual maturities and yields on the Company's investment securities at June 30, 2018 and December 31, 2017 are shown in the following table. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	June 30, 2018									
	Less than one year		One to five years		Five to ten years		Over ten years			Total
(dollars in thousands)	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Available for sale										
US government agencies	$ -	-	2,641	2.12%	6,073	2.74%	-	-	8,714	2.55%
SBA securities	-	-	-	-	-	-	3,769	2.60%	3,769	2.60%
State and political subdivisions	-	-	514	2.14%	4,514	3.11%	3,444	2.83%	8,472	2.94%
Asset-backed securities	-	-	-	-	-	-	6,691	2.89%	6,691	2.89%
Mortgage-backed securities	115	0.31%	790	1.94%	12,101	1.86%	29,415	2.53%	42,421	2.40%
Total	$ 115	0.31%	3,945	2.09%	22,688	2.34%	43,319	2.61%	70,067	2.49%

	December 31, 2017									
	Less than one year		One to five years		Five to ten years		Over ten years			Total
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
Available for sale										
US government agencies	$ 995	1.15%	1,503	2.04%	6,155	2.40%	-	-	8,653	2.20%
SBA securities	-	-	-	-	-	-	4,063	2.45%	4,063	2.45%
State and political subdivisions	-	-	1,163	1.96%	7,162	2.84%	3,071	2.76%	11,396	2.73%
Mortgage-backed securities	432	0.99%	-	-	11,328	1.84%	31,731	2.06%	43,491	1.99%
Total	$ 1,427	1.10%	2,666	1.59%	24,645	2.27%	38,865	2.15%	67,603	2.17%

The tables below summarize gross unrealized losses on investment securities and the fair market value of the related securities at June 30, 2018 and December 31, 2017, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position.

	June 30, 2018								
		Less than 12 months			12 months or longer			Total	
		Fair	Unrealized		Fair	Unrealized		Fair	Unrealized
(dollars in thousands)	#	value	losses	#	value	losses	#	value	losses
Available for sale									
US government agencies	6	$ 5,336	$ 118	3	$ 2,878	$ 156	9	$ 8,214	$ 274
SBA securities	1	2,759	106	1	1,010	29	2	3,769	135
State and political subdivisions	7	4,747	71	2	769	36	9	5,516	107
Asset-backed securities	3	4,851	15	-	-	-	3	4,851	15
Mortgage-backed securities									
FHLMC	3	2,610	90	7	5,464	237	10	8,074	327
FNMA	12	14,882	297	16	16,386	483	28	31,268	780
GNMA	1	1,223	59	2	1,792	87	3	3,015	146
Total	33	$ 36,408	$ 756	31	$ 28,299	$ 1,028	64	$ 64,707	$ 1,784

								December 31, 2017	
		Less than 12 months			12 months or longer			Total	
	#	Fair value	Unrealized losses	#	Fair value	Unrealized losses	#	Fair value	Unrealized losses
Available for sale									
US government agencies	5	$ 4,184	$ 22	4	$ 3,968	$ 75	9	$ 8,152	$ 97
SBA securities	1	2,936	13	1	1,127	11	2	4,063	24
State and political subdivisions	3	1,214	9	2	792	16	5	2,006	25
Mortgage-backed securities									
FHLMC	3	2,897	26	7	6,056	123	10	8,953	149
FNMA	11	14,345	135	13	14,597	251	24	28,942	386
GNMA	2	2,270	40	1	971	42	3	3,241	82

Total	25	$	27,846	$	245	28	$	27,511	$	518	53	$	55,357	$	763

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At June 30, 2018, the Company had 33 individual investments with a fair market value of $36.4 million that were in an unrealized loss position for less than 12 months and 31 individual investments with a fair market value of $28.3 million that were in an unrealized loss position for 12 months or longer. The unrealized losses were primarily attributable to changes in interest rates, rather than deterioration in credit quality. The individual securities are each investment grade securities. The Company considers the length of time and extent to which the fair value of available-for-sale debt securities have been less than cost to conclude that such securities are not other-than-temporarily impaired. The Company also considers other factors such as the financial condition of the issuer, including credit ratings and specific events affecting the operations of the issuer, volatility of the security, underlying assets that collateralize the debt security, and other industry and macroeconomic conditions.

As the Company has no intent to sell securities with unrealized losses and it is not more-likely-than-not that the Company will be required to sell these securities before recovery of amortized cost, the Company has concluded that these securities are not impaired on an other-than-temporary basis.

Other investments are comprised of the following and are recorded at cost which approximates fair value.

(dollars in thousands)	June 30, 2018	December 31, 2017
Federal Home Loan Bank stock	$ 2,524	3,754
Investment in Trust Preferred securities	403	403
Other investments	132	305
Total other investments	$ 3,059	4,462

The Company has evaluated the Federal Home Loan Bank (“FHLB”) stock for impairment and determined that the investment in the FHLB stock is not other than temporarily impaired as of June 30, 2018 and ultimate recoverability of the par value of this investment is probable. All of the FHLB stock is used to collateralize advances with the FHLB.

At June 30, 2018, $4.2 million of securities were pledged as collateral for repurchase agreements from brokers and no securities were pledged to secure client deposits. At December 31, 2017, $7.7 million of securities were pledged as collateral for repurchase agreements from brokers.

NOTE 3 – Mortgage Loans Held for Sale

Mortgage loans originated and intended for sale in the secondary market are reported as loans held for sale and carried at fair value under the fair value option with changes in fair value recognized in current period earnings. At the date of funding of the mortgage loan held for sale, the funded amount of the loan, the related derivative asset or liability of the associated interest rate lock commitment, less direct loan costs becomes the initial recorded investment in the loan held for sale. Such amount approximates the fair value of the loan. At June 30, 2018, mortgage loans held for sale totaled $8.1 million compared to $11.8 million at December 31, 2017.

Mortgage loans held for sale are considered de-recognized, or sold, when the Company surrenders control over the financial assets. Control is considered to have been surrendered when the transferred assets have been isolated from the Company, beyond the reach of the Company and its creditors; the purchaser obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets; and the Company does not maintain effective control over the transferred assets through an agreement that both entitles and obligates the Company to repurchase or redeem the transferred assets before their maturity or the ability to unilaterally cause the holder to return specific assets.

Gains and losses from the sale of mortgage loans are recognized based upon the difference between the sales proceeds and carrying value of the related loans upon sale and are recorded in mortgage banking income in the statement of income. Mortgage banking income also includes the gains and losses associated with the loans held for sale and the gains and losses from derivatives.

Mortgage loans sold by the Company to investors and which were believed to have met investor and agency underwriting guidelines at the time of sale may be subject to repurchase or indemnification in the event of specific default by the borrower or subsequent discovery that underwriting standards were not met. The Company may, upon mutual agreement, agree to repurchase the loans or indemnify the investor against future losses on such loans. In such cases, the Company bears any subsequent credit loss on the loans.

The Company establishes mortgage repurchase reserves related to various representations and warranties that reflect management's estimate of losses based on a combination of factors. The Company establishes a reserve at the time loans are sold and quarterly updates the reserve estimate during the estimated loan life.

NOTE 4 – Loans and Allowance for Loan Losses

The following table summarizes the composition of our loan portfolio. Total gross loans are recorded net of deferred loan fees and costs, which totaled $2.7 million as of June 30, 2018 and $2.3 million as of December 31, 2017.

	June 30, 2018		**December 31, 2017**	
(dollars in thousands)	**Amount**	**% of Total**	**Amount**	**% of Total**
Commercial				
Owner occupied RE	$ 358,169	23.4%	$ 316,818	22.8%
Non-owner occupied RE	355,309	23.2%	312,798	22.6%
Construction	73,655	4.8%	51,179	3.7%
Business	238,402	15.5%	226,158	16.3%
Total commercial loans	1,025,535	66.9%	906,953	65.4%
Consumer				
Real estate	290,433	18.9%	273,050	19.7%
Home equity	156,630	10.2%	156,141	11.3%
Construction	38,400	2.5%	28,351	2.0%
Other	22,449	1.5%	22,575	1.6%
Total consumer loans	507,912	33.1%	480,117	34.6%
Total gross loans, net of deferred fees	1,533,447	100.0%	1,387,070	100.0%
Less—allowance for loan losses	(16,100)		(15,523)	
Total loans, net	$ 1,517,347		$ 1,371,547	

Maturities and Sensitivity of Loans to Changes in Interest Rates

The information in the following tables summarizes the loan maturity distribution by type and related interest rate characteristics based on the contractual maturities of individual loans, including loans which may be subject to renewal at their contractual maturity. Renewal of such loans is subject to review and credit approval, as well as modification of terms upon maturity. Actual repayments of loans may differ from the maturities reflected below, because borrowers have the right to prepay obligations with or without prepayment penalties.

	June 30, 2018		
	One year	**After one but within**	**After five**