SUSSEX BANCORP
Form 10-Q
May 13, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

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FORM 10-Q

(Mark One)

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

For the quarterly period ended 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 Number 0-29030

SUSSEX BANCORP

(Exact name of registrant as specified in its charter)

New Jersey	22-3475473
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

100 Enterprise Drive, Suite 700, Rockaway, NJ	07866
(Address of principal executive offices)	(Zip Code)

(844) 256-7328

(Registrant's telephone number, including area code)

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 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 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 (Do not check if a smaller reporting company)	Smaller reporting company

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

As of May 7, 2015 there were 4,674,997 shares of common stock, no par value, outstanding.

SUSSEX BANCORP

FORM 10-Q

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FORWARD-LOOKING STATEMENTS

We may, from time to time, make written or oral “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, including statements contained in our filings with the Securities and Exchange Commission (the “SEC”), our reports to shareholders and in other communications by us. This Report on Form 10-Q contains “forward-looking statements” which may be identified by the use of such words as “believe,” “expect,” “anticipate,” “should,” “planned,” “estimated” and “potential.” Examples of forward-looking statements include, but are not limited to, estimates with respect to our financial condition, results of operation and business that are subject to various factors which could cause actual results to differ materially from these estimates. These factors include, but are not limited to:

- changes in the interest rate environment that reduce margins;
- changes in the regulatory environment;
- the highly competitive industry and market area in which we operate;
- general economic conditions, either nationally or regionally, resulting in, among other things, a deterioration in credit quality;
- changes in business conditions and inflation;
- changes in credit market conditions;
- changes in the securities markets which affect investment management revenues;
- increases in Federal Deposit Insurance Corporation (“FDIC”) deposit insurance premiums and assessments could adversely affect our financial condition;
- changes in technology used in the banking business;
- the soundness of other financial services institutions which may adversely affect our credit risk;
- our controls and procedures may fail or be circumvented;
- new lines of business or new products and services which may subject us to additional risks;
- changes in key management personnel which may adversely impact our operations;
- the effect on our operations of recent legislative and regulatory initiatives that were or may be enacted in response to the ongoing financial crisis;
- severe weather, natural disasters, acts of war or terrorism and other external events which could significantly impact our business; and
- other factors detailed from time to time in our filings with the SEC.

Although we believe that the expectations reflected in such forward-looking statements are reasonable, actual results may differ materially from the results discussed in these forward-looking statements. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. We do not undertake any obligation to republish revised forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

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PART I – FINANCIAL INFORMATION

Item 1 – Financial Statements

SUSSEX BANCORP
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(Dollars in Thousands)	March 31, 2015	December 31, 2014
ASSETS		
Cash and due from banks	$ 2,606	$ 2,953
Interest-bearing deposits with other banks	4,360	2,906
Cash and cash equivalents	6,966	5,859
Interest bearing time deposits with other banks	100	100
Securities available for sale, at fair value	84,573	77,976
Securities held to maturity, at amortized cost (fair value of $6,704 and $6,190 at March 31, 2015 and December 31, 2014, respectively)	6,491	6,006
Federal Home Loan Bank Stock, at cost	3,539	3,908
Loans receivable, net of unearned income	473,303	471,973
Less: allowance for loan losses	5,763	5,641
Net loans receivable	467,540	466,332
Foreclosed real estate	2,852	4,449
Premises and equipment, net	8,750	8,650
Accrued interest receivable	1,908	1,796
Goodwill	2,820	2,820
Bank-owned life insurance	12,289	12,211
Other assets	6,423	5,808
Total Assets	$ 604,251	$ 595,915
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Non-interest bearing	$ 76,765	$ 70,490
Interest bearing	396,747	387,780
Total deposits	473,512	458,270
Short-term borrowings	5,200	23,500
Long-term borrowings	56,000	46,000
Accrued interest payable and other liabilities	4,683	4,029
Junior subordinated debentures	12,887	12,887

Total Liabilities	552,282	544,686
Stockholders' Equity:		
Preferred stock, no par value, 1,000,000 shares authorized; none issued	-	-
Common stock, no par value, 10,000,000 shares authorized; 4,700,230 and 4,673,789 shares issued and 4,669,597 and 4,662,606 shares outstanding at March 31, 2015 and December 31, 2014, respectively	35,644	35,553
Treasury stock, at cost; 30,633 and 11,183 shares at March 31, 2015 and December 31, 2014, respectively	(263)	(59)
Retained earnings	16,331	15,566
Accumulated other comprehensive income	257	169
Total Stockholders' Equity	51,969	51,229
Total Liabilities and Stockholders' Equity	$ 604,251	$ 595,915

See Notes to Unaudited Consolidated Financial Statements

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SUSSEX BANCORP
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(Unaudited)

(Dollars in thousands except per share data)	Three Months Ended March 31, 2015	2014
INTEREST INCOME		
Loans receivable, including fees	$ 5,172	$ 4,623
Securities:		
Taxable	267	217
Tax-exempt	208	254
Interest bearing deposits	4	3
Total Interest Income	5,651	5,097
INTEREST EXPENSE		
Deposits	416	390
Borrowings	380	348
Junior subordinated debentures	53	53
Total Interest Expense	849	791
Net Interest Income	4,802	4,306
PROVISION FOR LOAN LOSSES	305	453
Net Interest Income after Provision for Loan Losses	4,497	3,853
OTHER INCOME		
Service fees on deposit accounts	213	264
ATM and debit card fees	174	167
Bank-owned life insurance	78	83
Insurance commissions and fees	1,155	973
Investment brokerage fees	22	31
Net gain on sales of securities	168	-
Other	91	73
Total Other Income	1,901	1,591
OTHER EXPENSES		

Salaries and employee benefits	2,780	2,418
Occupancy, net	477	453
Data processing	354	380
Furniture and equipment	210	164
Advertising and promotion	70	44
Professional fees	146	153
Director fees	166	137
FDIC assessment	124	176
Insurance	52	76
Stationary and supplies	56	55
Loan collection costs	97	77
Net expenses and write-downs related to foreclosed real estate	164	100
Other	374	235
Total Other Expenses	5,070	4,468
Income before Income Taxes	1,328	976
EXPENSE FOR INCOME TAXES	376	298
Net Income	952	678
OTHER COMPREHENSIVE INCOME:		
Unrealized gains on available for sale securities arising during the period	316	1,717
Reclassification adjustment for net gain on securities transactions included in net income	(168)	-
Income tax related to items of other comprehensive income	(60)	(687)
Other comprehensive income, net of income taxes	88	1,030
Comprehensive income	$ 1,040	$ 1,708
EARNINGS PER SHARE		
Basic	$ 0.21	$ 0.15
Diluted	$ 0.21	$ 0.15

See Notes to Unaudited Consolidated Financial Statements

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SUSSEX BANCORP
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Three Months Ended March 31, 2015 and 2014
(Unaudited)

(Dollars in Thousands)	Number of Shares Outstanding	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
Balance December 31, 2013	4,629,113	$ 35,249	$ 13,386	$ (2,151)	$ (59)	$ 46,425
Net income	-	-	678	-	-	678
Other comprehensive loss	-	-	-	1,030	-	1,030
Restricted stock granted	29,043	-	-	-	-	-
Restricted stock forfeited	(300)	-	-	-	-	-
Compensation expense related to stock option and restricted stock grants	-	80	-	-	-	80
Balance March 31, 2014	4,657,856	$ 35,329	$ 14,064	$ (1,121)	$ (59)	$ 48,213
Balance December 31, 2014	4,662,606	$ 35,553	$ 15,566	$ 169	$ (59)	$ 51,229
Net income	-	-	952	-	-	952
Other comprehensive income	-	-	-	88	-	88
Treasury shares purchased	(19,450)	-	-	-	(204)	(204)
Restricted stock granted	26,441	-	-	-	-	-
Compensation expense related to stock option and restricted stock grants	-	91	-	-	-	91
Dividends declared on common stock	-	-	(187)	-	-	(187)
Balance March 31, 2015	4,669,597	$ 35,644	$ 16,331	$ 257	$ (263)	$ 51,969

See Notes to Unaudited Consolidated Financial Statements

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SUSSEX BANCORP
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(Dollars in thousands)	Three Months Ended March 31, 2015		2014	
Cash Flows from Operating Activities				
Net income	$	952	$	678
Adjustments to reconcile net income to net cash provided by operating activities:				
Provision for loan losses		305		453
Depreciation and amortization		243		163
Net amortization of securities premiums and discounts		428		489
Net realized gain on sale of securities		(168)		-
Net realized gain on sale of foreclosed real estate		(27)		(13)
Write-downs of and provisions for foreclosed real estate		97		-
Deferred income tax (benefit) expense		(111)		251
Earnings on bank-owned life insurance		(78)		(83)
Compensation expense for stock options and stock awards		91		80
(Increase) decrease in assets:				
Accrued interest receivable		(112)		(130)
Other assets		(563)		55
Increase in accrued interest payable and other liabilities		654		733
Net Cash Provided by Operating Activities		1,711		2,676
Cash Flows from Investing Activities				
Securities available for sale:				
Purchases		(21,632)		(4)
Sales		12,767		-

Maturities, calls and principal repayments		2,161		3,646
Securities held to maturity:				
Purchases		(491)		-
Maturities, calls and principal repayments		-		262
Net increase in loans		(1,552)		(21,202)
Proceeds from the sale of foreclosed real estate		1,566		242
Purchases of bank premises and equipment		(343)		(874)
Decrease (increase) in Federal Home Loan Bank stock		369		(720)
Net Cash Used in Investing Activities		(7,155)		(18,650)
Cash Flows from Financing Activities				
Net increase (decrease) in deposits		15,242		(4,460)
(Decrease) increase in short-term borrowed funds		(18,300)		15,000
Proceeds of long-term borrowings		15,000		-
Repayment of long-term borrowings		(5,000)		-
Purchase of treasury stock		(204)		-
Dividends paid		(187)		-
Net Cash Provided by Financing Activities		6,551		10,540
Net Increase (Decrease) in Cash and Cash Equivalents		1,107		(5,434)
Cash and Cash Equivalents - Beginning		5,859		13,246
Cash and Cash Equivalents - Ending	$	6,966	$	7,812
Supplementary Cash Flows Information				
Interest paid	$	827	$	772
Income taxes paid	$	250	$	-
Supplementary Schedule of Noncash Investing and Financing Activities				
Foreclosed real estate acquired in settlement of	$	39	$	443

loans

See Notes to Unaudited Consolidated Financial Statements

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NOTE 1 – SUMMARY OF SIGNIFICANT ACOUNTING POLICIES

Basis of Presentation

The accompanying unaudited consolidated financial statements include the accounts of Sussex Bancorp (“we,” “us,” “our” or the “company”) and our wholly owned subsidiary Sussex Bank (the “Bank”). The Bank’s wholly owned subsidiaries are SCB Investment Company, Inc., SCBNY Company, Inc., ClassicLake Enterprises, LLC, Wheatsworth Properties Corp., PPD Holding Company, LLC, and Tri-State Insurance Agency, Inc. (“Tri-State”), a full service insurance agency located in Sussex County, New Jersey with a satellite office located in Bergen County, New Jersey. Tri-State’s operations are considered a separate segment for financial disclosure purposes. All inter-company transactions and balances have been eliminated in consolidation. The Bank operates eleven banking offices, eight located in Sussex County, New Jersey, one located in Warren County, New Jersey, one in Queens County, New York and one in Orange County, New York.

We are subject to the supervision and regulation of the Board of Governors of the Federal Reserve System (the “FRB”). The Bank’s deposits are insured by the Deposit Insurance Fund (“DIF”) of the FDIC up to applicable limits. The operations of the company and the Bank are subject to the supervision and regulation of the FRB, the FDIC and the New Jersey Department of Banking and Insurance (the “Department”) and the operations of Tri-State are subject to supervision and regulation by the Department.

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by the accounting principles generally accepted in the United States of America (“U.S. GAAP”) for full year financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included and are of a normal, recurring nature. Operating results for the three month period ended March 31, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015. These unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto that are included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

New Accounting Standards

In January 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-04, Receivables - Troubled Debt Restructurings by Creditors. This ASU clarifies that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendments require interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. For public entities, the guidance is effective for annual periods and interim periods within those annual periods, beginning after December 15, 2014. The adoption of this guidance did not have a material impact on our consolidated financial statements.

In May 2014, FASB issued ASU 2014-09, Revenue from Contracts with Customers. The ASU's core principle is built on the contract between a vendor and a customer for the provision of goods and services. It attempts to depict the exchange of rights and obligations between the parties in the pattern of revenue recognition based on the consideration to which the vendor is entitled. To accomplish this objective, the standard requires five basic steps: i) identify the contract with the customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract, and (v) recognize revenue when (or as) the entity satisfies a performance obligation. For public entities, the guidance is effective for annual periods and interim periods within those annual periods beginning after December 15, 2016. However, on April 1, 2015, FASB proposed to defer the effective date by one year. We do not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

In June 2014, FASB issued ASU 2014-11, Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures, to change the accounting for repurchase-to-maturity transactions and certain linked repurchase financings. This will result in accounting for both types of arrangements as secured borrowings on the balance sheet, rather than sales. Additionally, the ASU introduces new disclosures to (i) increase transparency about the types of collateral pledged in secured borrowing transactions and (ii) enable users to better understand transactions in which the transferor retains substantially all of the exposure to the economic return on the transferred financial asset throughout the term of the transaction. For public entities, the disclosure for repurchase agreements, securities lending transactions, and repurchase-to-maturity transactions accounted for as secured borrowings is required to be presented for annual periods beginning after December 15, 2014, and for interim periods beginning after March 15, 2015. All other accounting and disclosure amendments in the ASU are effective for public business entities for the first interim or annual period beginning after December 15, 2014. The adoption of this guidance did not have a material impact on our consolidated financial statements.

In June 2014, FASB issued ASU 2014-12, Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period (a consensus of the FASB Emerging Issues Task Force), to clarify that a performance target in a share-based compensation award that could be achieved after an employee completes the requisite service period should be treated as a performance condition that affects the vesting of the award. As such, the performance target should not be reflected in estimating the grant-date fair value of the award. For all entities, the amendments are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Earlier adoption is permitted. We do not expect the adoption of this guidance to have a material impact on our consolidated financial statements

NOTE 2 – SECURITIES

Available for Sale

The amortized cost and approximate fair value of securities available for sale as of March 31, 2015 and December 31, 2014 are summarized as follows:

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2015				
U.S. government agencies	$ 11,428	$ 25	$ (47)	$ 11,406
State and political subdivisions	32,145	276	(220)	32,201
Mortgage-backed securities -				
U.S. government-sponsored enterprises	40,563	435	(43)	40,955
Equity securities-financial services industry and other	8	3	-	11
	$ 84,144	$ 739	$ (310)	$ 84,573
December 31, 2014				
U.S. government agencies	$ 7,873	$ 17	$ (32)	$ 7,858
State and political subdivisions	26,432	158	(206)	26,384
Mortgage-backed securities -				
U.S. government-sponsored enterprises	43,382	500	(158)	43,724

Equity securities-financial services industry and other	8	2	-	10
	$ 77,695	$ 677	$ (396)	$ 77,976

Securities with a carrying value of approximately $32.1 million and $32.8 million at March 31, 2015 and December 31, 2014, respectively, were pledged to secure public deposits and for other purposes required or permitted by applicable laws and regulations.

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The amortized cost and fair value of securities available for sale at March 31, 2015 are shown below by contractual maturity. Actual maturities may differ from contractual maturities as issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

(Dollars in thousands)	Amortized Cost	Fair Value
Due in one year or less	$ -	$ -
Due after one year through five years	-	-
Due after five years through ten years	2,301	2,333
Due after ten years	29,844	29,868
Total bonds and obligations	32,145	32,201
U.S. government agencies	11,428	11,406
Mortgage-backed securities:		
U.S. government-sponsored enterprises	40,563	40,955
Equity securities-financial services industry and other	8	11
Total available for sale securities	$ 84,144	$ 84,573

Gross realized gains on sales of securities available for sale were $216 thousand and gross realized losses were $48 thousand for the three months ended March 31, 2015. There were no sales of securities available for sale for the three months ended March 31, 2014.

Temporarily Impaired Securities

The following table shows gross unrealized losses and fair value of securities with unrealized losses that are not deemed to be other than temporarily impaired, aggregated by category and length of time that individual available for sale securities have been in a continuous unrealized loss position at March 31, 2015 and December 31, 2014.

	Less Than 12 Months		12 Months or More		Total	
(Dollars in thousands)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
March 31, 2015						
U.S. government agencies	$ 5,677	$ (16)	$ 2,784	$ (31)	$ 8,461	$ (47)
State and political subdivisions	15,522	(179)	1,859	(41)	17,381	(220)
Mortgage-backed securities -						
U.S. government-sponsored enterprises	9,624	(30)	2,024	(13)	11,648	(43)

Total temporarily impaired securities	$ 30,823	$ (225)	$ 6,667	$ (85)	$ 37,490	$ (310)
December 31, 2014						
U.S. government agencies	$ -	$ -	$ 2,905	$ (32)	$ 2,905	$ (32)
State and political subdivisions	7,603	(112)	5,713	(94)	13,316	(206)
Mortgage-backed securities -						
U.S. government-sponsored enterprises	15,679	(94)	3,432	(64)	19,111	(158)
Total temporarily impaired securities	$ 23,282	$ (206)	$ 12,050	$ (190)	$ 35,332	$ (396)

For each security whose fair value is less than their amortized cost basis, a review is conducted to determine if an other-than-temporary impairment has occurred. As of March 31, 2015, we reviewed our available for sale securities portfolio for indications of impairment. This review includes analyzing the length of time and the extent to which the fair value has been lower than the cost, the financial condition and near-term prospects of the issuer, including any specific events which may influence the operations of the issuer and the intent and likelihood of selling the security. The intent and likelihood of sale of debt and equity securities are evaluated based upon our investment strategy for the particular type of security and our cash flow needs, liquidity position, capital adequacy and interest rate risk position.

U.S. Government Agencies

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At March 31, 2015 and December 31, 2014, the decline in fair value and the unrealized losses for our U.S. government agencies securities were primarily due to changes in spreads and market conditions and not credit quality. At March 31, 2015, there were five securities with a fair value of $8.5 million that had an unrealized loss that amounted to $47 thousand. As of March 31, 2015, we did not intend to sell and it was not more-likely-than-not that we would be required to sell any of these securities before recovery of their amortized cost basis. Therefore, none of the U.S. government agency securities at March 31, 2015, were deemed to be other-than-temporarily impaired ("OTTI").

At December 31, 2014, there were two securities with a fair value of $2.9 million that had an unrealized loss that amounted to $32 thousand.

State and Political Subdivisions

At March 31, 2015 and December 31, 2014, the decline in fair value and the unrealized losses for our state and political subdivisions securities were caused by changes in interest rates and spreads and were not the result of credit quality. At March 31, 2015, there were 28 securities with a fair value of $17.4 million that had an unrealized loss that amounted to $220 thousand. These securities typically have maturity dates greater than 10 years and the fair values are more sensitive to changes in market interest rates. As of March 31, 2015, we did not intend to sell and it was not more-likely-than-not that we would be required to sell any of these securities before recovery of their amortized cost basis. Therefore, none of our state and political subdivision securities at March 31, 2015, were deemed to be OTTI.

At December 31, 2014, there were 22 securities with a fair value of $13.3 million that had an unrealized loss that amounted to $206 thousand.

Mortgage-Backed Securities

At March 31, 2015 and December 31, 2014, the decline in fair value and the unrealized losses for our mortgage-backed securities guaranteed by U.S. government-sponsored enterprises were primarily due to changes in spreads and market conditions and not credit quality. At March 31, 2015, there were seven securities with a fair value of $11.6 million that had an unrealized loss that amounted to $43 thousand. As of March 31, 2015, we did not intend to sell and it was not more-likely-than-not that we would be required to sell any of these securities before recovery of their amortized cost basis. Therefore, none of our mortgage-backed securities at March 31, 2015, were deemed to be OTTI.

At December 31, 2014, there were 13 securities with a fair value of $19.1 million that had an unrealized loss that amounted to $158 thousand.

Equity Securities

Our marketable equity securities portfolio consists primarily of common stock of entities in the financial services industry. At March 31, 2015, we did not have any securities in an unrealized loss position.

At December 31, 2014, we did not have any securities in an unrealized loss position.

We continue to closely monitor the performance of the securities we own as well as the impact from any further deterioration in the economy or in the banking industry that may adversely affect these securities. We will continue to evaluate them for other-than-temporary impairment, which could result in a future non-cash charge to earnings.

Held to Maturity Securities

The amortized cost and approximate fair value of securities held to maturity as of March 31, 2015 and December 31, 2014, are summarized as follows:

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2015				
State and political subdivisions	$ 6,491	$ 214	$ (1)	$ 6,704
December 31, 2014				
State and political subdivisions	$ 6,006	$ 189	$ (5)	$ 6,190

The amortized cost and carrying value of securities held to maturity at March 31, 2015 are shown below by contractual maturity. Actual maturities may differ from contractual maturities as issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

(Dollars in thousands)	Amortized Cost	Fair Value
Due in one year or less	$ 2,590	$ 2,590
Due after one year through five years	-	-
Due after five years through ten years	2,846	2,937
Due after ten years	1,055	1,177
Total held to maturity securities	$ 6,491	$ 6,704

Temporarily Impaired Securities

The following table shows gross unrealized losses and fair value of held to maturity securities with unrealized losses that are not deemed to be other than temporarily impaired, aggregated by category and length of time that individual held to maturity securities have been in a continuous unrealized loss position at March 31, 2015 and December 31, 2014:

	Less Than 12 Months		12 Months or More		Total	
(Dollars in thousands)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
March 31, 2015						
State and political subdivisions	$ 261	$ (1)	$ -	$ -	$ 261	$ (1)
December 31, 2014						
State and political subdivisions	$ -	$ -	$ 811	$ (5)	$ 811	$ (5)

For each security whose fair value is less than their amortized cost basis, a review is conducted to determine if an other-than-temporary impairment has occurred. As of March 31, 2015, we reviewed our held to maturity securities portfolio for indications of impairment. This review includes analyzing the length of time and the extent to which the fair value has been lower than the cost, the financial condition and near-term prospects of the issuer, including any specific events which may influence the operations of the issuer and the intent and likelihood of selling the security. The intent and likelihood of sale of debt and equity securities are evaluated based upon our investment strategy for the particular type of security and our cash flow needs, liquidity position, capital adequacy and interest rate risk position.

At March 31, 2015 and December 31, 2014, the decline in fair value and the unrealized losses for our state and political subdivisions securities were caused by changes in interest rates and spreads and were not the result of credit quality. At March 31, 2015, there was one security with a fair value of $261 thousand that had an unrealized loss that amounted to $1 thousand. These securities typically have maturity dates greater than 10 years and the fair values are more sensitive to changes in market interest rates. As of March 31, 2015, we did not intend to sell and it was not more-likely-than-not that we would be required to sell any of these securities before recovery of their amortized cost basis. Therefore, none of our state and political subdivision securities at March 31, 2015 were deemed to be OTTI.

At December 31, 2014, there were two securities with a fair value of $811 thousand that had an unrealized loss that amounted to $5 thousand.

NOTE 3 – LOANS

The composition of net loans receivable at March 31, 2015 and December 31, 2014 is as follows:

(Dollars in thousands)	March 31, 2015	December 31, 2014
Commercial and industrial	$ 18,822	$ 20,549
Construction	13,239	12,379
Commercial real estate	325,742	326,370
Residential real estate	114,663	111,498
Consumer and other	1,324	1,665
Total loans receivable	473,790	472,461
Unearned net loan origination fees	(487)	(488)
Allowance for loan losses	(5,763)	(5,641)
Net loans receivable	$ 467,540	$ 466,332

Mortgage loans serviced for others are not included in the accompanying balance sheets. The total amount of loans serviced for the benefit of others was approximately $470 thousand and $475 thousand at March 31, 2015 and December 31, 2014, respectively. Mortgage servicing rights were immaterial at March 31, 2015 and December 31, 2014.

NOTE 4 – ALLOWANCE FOR LOAN LOSSES AND CREDIT QUALITY OF FINANCING RECEIVABLES

The following table presents changes in the allowance for loan losses disaggregated by the class of loans receivable for the three months ended March 31, 2015 and 2014:

(Dollars in thousands)	Commercial and Industrial	Construction	Commercial Real Estate	Residential Real Estate	Consumer and Other	Unallocated	Total
Three Months Ended: March 31, 2015							
Beginning balance	$ 231	$ 383	$ 3,491	$ 903	$ 19	$ 614	$ 5,641
Charge-offs	(19)	-	(188)	-	(7)	-	(214)
Recoveries	4	-	12	12	3	-	31
Provision	(78)	5	472	(74)	73	(93)	305

Ending balance	$	138	$	388	$	3,787	$	841	$	88	$	521	$ 5,763
March 31, 2014													
Beginning balance	$	222		308	$	3,399	$	941	$	16	$	535	$ 5,421
Charge-offs		-		-		(358)		(86)		(13)		-	(457)
Recoveries		12		-		4		1		3		-	20
Provision		55		7		642		6		13		(270)	453
Ending balance	$	289	$	315	$	3,687	$	862	$	19	$	265	$ 5,437

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The following table presents the balance of the allowance of loan losses and loans receivable by class at March 31, 2015 and December 31, 2014 disaggregated on the basis of our impairment methodology.

	Allowance for Loan Losses			Loans Receivable		
(Dollars in thousands)	Balance	Balance Related to Loans Individually Evaluated for Impairment	Balance Related to Loans Collectively Evaluated for Impairment	Balance	Individually Evaluated for Impairment	Collectively Evaluated for Impairment
March 31, 2015						
Commercial and industrial	$ 138	$ 1	$ 137	$ 18,822	$ 21	$ 18,801
Construction	388	-	388	13,239	-	13,239
Commercial real estate	3,787	334	3,453	325,742	5,944	319,798
Residential real estate	841	108	733	114,663	1,974	112,689
Consumer and other loans	88	73	15	1,324	138	1,186
Unallocated	521	-	-	-	-	-
Total	$ 5,763	$ 516	$ 4,726	$ 473,790	$ 8,077	$ 465,713
December 31, 2014						
Commercial and industrial	$ 231	$ 51	$ 180	$ 20,549	$ 94	$ 20,455
Construction	383	-	383	12,379	-	12,379
Commercial real estate	3,491	136	3,355	326,370	5,105	321,265
Residential real estate	903	101	802	111,498	2,314	109,184
Consumer and other loans	19	-	19	1,665	-	1,665
Unallocated	614	-	-	-	-	-
Total	$ 5,641	$ 288	$ 4,739	$ 472,461	$ 7,513	$ 464,948

An age analysis of loans receivable, which were past due as of March 31, 2015 and December 31, 2014, is as follows:

(Dollars in thousands)	30-59 Days	60-89 days	Greater Than	Total Past Due	Current	Total Financing Receivables	Recorded Investment > 90 Days and Accruing

	Past Due	Past Due	90 Days (a)				
March 31, 2015							
Commercial and industrial	$ 10	$ 15	$ 20	$ 45	$ 18,777	$ 18,822	$ -
Construction	-	-	-	-	13,239	13,239	-
Commercial real estate	2,165	1,107	4,917	8,189	317,553	325,742	-
Residential real estate	879	-	1,557	2,436	112,227	114,663	-
Consumer and other	2	-	139	141	1,183	1,324	1
Total	$ 3,056	$ 1,122	$ 6,633	$ 10,811	$ 462,979	$ 473,790	$ 1
December 31, 2014							
Commercial and industrial	$ 9	$ -	$ 94	$ 103	$ 20,446	$ 20,549	$ -
Construction	1,354	-	-	1,354	11,025	12,379	-
Commercial real estate	2,395	1,209	3,936	7,540	318,830	326,370	-
Residential real estate	555	108	1,978	2,641	108,857	111,498	85
Consumer and other	5	-	1	6	1,659	1,665	-
Total	$ 4,318	$ 1,317	$ 6,009	$ 11,644	$ 460,817	$ 472,461	$ 85

(a) includes loans greater than 90 days past due and still accruing and non-accrual loans.

Loans for which the accrual of interest has been discontinued at March 31, 2015 and December 31, 2014 were:

(Dollars in thousands)	March 31, 2015	December 31, 2014
Commercial and industrial	$ 20	$ 94
Commercial real estate	4,917	3,936
Residential real estate	1,557	1,893
Consumer and other	138	1
Total	$ 6,632	$ 5,924

In determining the adequacy of the allowance for loan losses, we estimate losses based on the identification of specific problem loans through our credit review process and also estimate losses inherent in other loans on an aggregate basis by loan type. The credit review process includes the independent evaluation of the loan officer assigned risk ratings by the Chief Credit Officer and a third party loan review company. Such risk ratings are assigned loss component factors that reflect our loss estimate for each group of loans. It is management's and the Board of Directors' responsibility to oversee the lending process to ensure that all credit risks are properly identified, monitored, and controlled, and that loan pricing, terms and other safeguards against non-performance and default are commensurate with the level of risk undertaken and is rated as such based on a risk-rating system. Factors considered in assigning risk ratings and loss component factors include: borrower specific information related to expected future cash flows and operating results, collateral values, financial condition, payment status and other information; levels of and trends in portfolio charge-offs and recoveries; levels in portfolio delinquencies; effects of changes in loan concentrations and observed trends in the economy and other qualitative measurements.

Our risk-rating system is consistent with the classification system used by regulatory agencies and with industry practices. Loan classifications of Substandard, Doubtful or Loss are consistent with the regulatory definitions of classified assets. The classification system is as follows:

- Pass: This category represents loans performing to contractual terms and conditions and the primary source of repayment is adequate to meet the obligation. We have five categories within the Pass classification depending on strength of repayment sources, collateral values and financial condition of the borrower.

- Special Mention: This category represents loans performing to contractual terms and conditions; however the primary source of repayment or the borrower is exhibiting some deterioration or weaknesses in financial condition that could potentially threaten the borrowers' future ability to repay our loan principal and interest or fees due.

- Substandard: This category represents loans that the primary source of repayment has significantly deteriorated or weakened which has or could threaten the borrowers' ability to make scheduled payments. The weaknesses require close supervision by management and there is a distinct possibility that we could sustain some loss if the deficiencies are not corrected. Such weaknesses could jeopardize the timely and ultimate collection of our loan principal and interest or fees due. Loss may not be expected or evident, however, loan repayment is inadequately supported by current financial information or pledged collateral.

- Doubtful: Loans so classified have all the inherent weaknesses of a substandard loan with the added provision that collection or liquidation in full is highly questionable and not reasonably assured. The probability of at least partial loss is high, but extraneous factors might strengthen the asset to prevent loss. The validity of the extraneous factors must be continuously monitored. Once these factors are questionable the loan should be considered for full or partial charge-off.

- Loss: Loans so classified are considered uncollectible, and of such little value that their continuance as active assets is not warranted. Such loans are fully charged off.

The following tables illustrate our corporate credit risk profile by creditworthiness category as of March 31, 2015 and December 31, 2014:

(Dollars in thousands)	Pass	Special Mention	Substandard	Doubtful	Total
March 31, 2015					
Commercial and industrial	$ 18,794	$ 8	$ 20	$ -	$ 18,822
Construction	13,239	-	-	-	13,239
Commercial real estate	311,692	7,519	6,531	-	325,742
Residential real estate	112,100	451	2,112	-	114,663
Consumer and other	1,186	-	138	-	1,324
	$ 457,011	$ 7,978	$ 8,801	$ -	$ 473,790
December 31, 2014					
Commercial and industrial	$ 20,446	$ 9	$ 94	$ -	$ 20,549
Construction	12,379	-	-	-	12,379
Commercial real estate	312,172	8,257	5,941	-	326,370
Residential real estate	108,587	457	2,454	-	111,498
Consumer and other	1,527	138	-	-	1,665
	$ 455,111	$ 8,861	$ 8,489	$ -	$ 472,461

The following table reflects information about our impaired loans by class as of March 31, 2015 and December 31, 2014:

	March 31, 2015			December 31, 2014		
(Dollars in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:						
Commercial and industrial	$ 20	$ 20	$ -	$ -	$ -	$ -
Commercial real estate	2,351	2,351	-	3,167	3,736	-
Residential real estate	1,433	1,432	-	1,829	1,835	-
With an allowance recorded:						
Commercial and industrial	1	1	1	94	94	51

Commercial real estate	3,593	4,162	334	1,938	1,938	136
Residential real estate	541	552	108	485	489	101
Consumer and other	138	138	73	-	-	-
Total:						
Commercial and industrial	21	21	1	94	94	51
Commercial real estate	5,944	6,513	334	5,105	5,674	136
Residential real estate	1,974	1,984	108	2,314	2,324	101
Consumer and other	138	138	73	-	-	-
	$ 8,077	$ 8,656	$ 516	$ 7,513	$ 8,092	$ 288

The following table presents the average recorded investment and income recognized for the three months ended March 31, 2015 and 2014:

	For the Three Months Ended March 31, 2015		For the Three Months Ended March 31, 2014	
(Dollars in thousands)	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:				
Commercial and industrial	$ 10	$ -	$ -	$ -
Commercial real estate	2,759	5	4,968	8
Residential real estate	1,631	1	1,845	20
Total impaired loans without a related allowance	4,400	6	6,813	28
With an allowance recorded:				
Commercial and industrial	47	-	-	-
Commercial real estate	2,766	8	5,319	1
Residential real estate	513	3	849	4
Consumer and other	69	-	1	-
Total impaired loans with an allowance	3,395	11	6,169	5
Total impaired loans	$ 7,795	$ 17	$ 12,982	$ 33

We recognize interest income on performing impaired loans as payments are received. On non-performing impaired loans we do not recognize interest income as all payments are recorded as a reduction of principal on such loans.

Impaired loans include loans modified in troubled debt restructurings where concessions have been granted to borrowers experiencing financial difficulties. These concessions could include a reduction in the interest rate on the loan, payment extensions, postponement or forgiveness of principal, forbearance or other actions intended to maximize collection. The concessions rarely result in the forgiveness of principal or accrued interest. In addition, we attempt to obtain additional collateral or guarantor support when modifying such loans. Non-accruing restructured loans may be returned to accrual status when there has been a sustained period of repayment performance (generally six consecutive months of payments) and both principal and interest are deemed collectible.

The following table presents the recorded investment in troubled debt restructured loans, based on payment performance status:

(Dollars in thousands)	Commercial Real Estate	Residential Real Estate	Total
March 31, 2015			
Performing	$ 1,162	$ 418	$ 1,580
Non-performing	2,725	223	2,948
Total	$ 3,887	$ 641	$ 4,528
December 31, 2014			
Performing	$ 1,169	$ 421	$ 1,590
Non-performing	2,730	224	2,954
Total	$ 3,899	$ 645	$ 4,544

Troubled debt restructured loans are considered impaired and are included in the previous impaired loans disclosures in this footnote. As of March 31, 2015, we have not committed to lend additional amounts to customers with outstanding loans that are classified as troubled debt restructurings.

There were no troubled debt restructurings that occurred during the three months ended March 31, 2015 and 2014.

There were no troubled debt restructurings for which there was a payment default within twelve months following the date of the restructuring for the three months ended March 31, 2015 and 2014.

We may obtain physical possession of residential real estate collateralizing a consumer mortgage loan via foreclosure on an in-substance repossession. As of March 31, 2015, we held foreclosed residential real estate properties with a carrying value of $281 thousand as a result of obtaining physical possession. In addition, as of March 31, 2015, we had consumer loans with a carrying value of $1.3 million collateralized by residential real estate property for which formal foreclosure proceedings were in process.

NOTE 5 – EARNINGS PER SHARE

Basic earnings per share are calculated by dividing net income by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share reflect additional common shares that would have been outstanding if dilutive potential common shares (unvested restricted stock grants and stock options) had been issued, as well as any adjustment to income that would result from the assumed issuance of potential common shares that may be issued by us. Potential common shares related to stock options are determined using the treasury stock method.

	Three Months Ended March 31, 2015			Three Months Ended March 31, 2014		
(In thousands, except share and per share data)	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic earnings per share:						
Net earnings applicable to common stockholders	$ 952	4,571,142	$ 0.21	$ 678	4,526,506	$ 0.15
Effect of dilutive securities:						
Unvested stock awards	-	31,768		-	38,094	
Diluted earnings per share:						
Net income applicable to common stockholders and assumed conversions	$ 952	4,602,910	$ 0.21	$ 678	4,564,600	$ 0.15

There were 21,224 and 7,734 shares of unvested restricted stock awards and options outstanding during the quarter ended March 31, 2015 and 2014, respectively, which were not included in the computation of diluted earnings per share because to do so would have been anti-dilutive.

NOTE 6 – OTHER COMPREHENSIVE INCOME

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities, are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income.

The components of other comprehensive income, both before tax and net of tax, are as follows:

	Three Months Ended March 31, 2015			Three Months Ended March 31, 2014		
	Before Tax	Tax Effect	Net of Tax	Before Tax	Tax Effect	Net of Tax
(Dollars in thousands)						
Other comprehensive income:						
Unrealized gains on available for sale securities	$ 316	$ 127	$ 189	$ 1,717	$ 687	$ 1,030
Reclassification adjustment for net gains on securities transactions included in net income	(168)	(67)	(101)	-	-	-
Total other comprehensive income	$ 148	$ 60	$ 88	$ 1,717	$ 687	$ 1,030

Reclassification adjustments for gains on securities transactions of $168 thousand for the three months ended March 31, 2015 are presented in the income statement on the line item for net gain on securities transactions. There were no reclassification adjustments for gains on securities transactions for the three months ended March 31, 2014.

NOTE 7 – SEGMENT INFORMATION

Our insurance agency operations are managed separately from the traditional banking and related financial services that we also offer. The insurance agency operation provides commercial, individual, and group benefit plans and personal coverage.

	Three Months Ended March 31, 2015			Three Months Ended March 31, 2014		
	Banking and Financial Services	Insurance Services	Total	Banking and Financial Services	Insurance Services	Total
(Dollars in thousands)						
Net interest income from external sources	$ 4,802	$ -	$ 4,802	$ 4,305	$ 1	$ 4,306
Other income from external sources	743	1,158	1,901	606	985	1,591
Depreciation and amortization	239	4	243	158	5	163
Income before income taxes	928	400	1,328	622	354	976

Income tax expense (1)	216	160	376	156	142	298
Total assets	598,265	5,986	604,251	543,151	3,821	546,972

(1) Insurance Services calculated at statutory tax rate of 40%

NOTE 8 – STOCK-BASED COMPENSATION

We currently have stock-based compensation plans in place for our directors, officers, employees, consultants and advisors. Under the terms of these plans we may grant restricted shares and stock options for the purchase of our common stock. The stock-based compensation is granted under terms determined by our Compensation Committee. Our standard stock option grants have a maximum term of 10 years, generally vest over periods ranging between one and four years, and are granted with an exercise price equal to the fair market value of the common stock on the date of grant. Restricted stock is valued at the market value of the common stock on the date of grant and generally vests over periods of two to seven years. All dividends paid on restricted stock, whether vested or unvested, are paid to the shareholder.

Information regarding our stock option plans for the three months ended March 31, 2015 is as follows:

	Number of Shares	Weighted Average Exercise Price per Share	Weighted Average Contractual Term	Aggregate Intrinsic Value
Options outstanding, beginning of year	46,525	$ 10.63		
Options granted	15,985	10.25		
Options expired	(3,817)	13.39		
Options outstanding, end of quarter	58,693	$ 10.35	8.6	$ 62,065
Options exercisable, end of quarter	6,708	$ 12.63	0.6	$ -
Option price range at end of quarter	$9.97 to $12.63			
Option price of exercisable shares	$ 12.63			

The following table summarizes information about stock option assumptions:

	March 31, 2015
Expected dividend yield	1.56%
Expected volatility	34.32%
Risk-free interest rate	1.37%
Expected option life	10.0 Years

During the three months ended March 31, 2015, we expensed $9 thousand in stock-based compensation under stock option awards. There was no stock-based compensation expensed under stock option awards during the three months ended March 31, 2014.

The weighted average grant date fair value of options granted during the quarter ended March 31, 2015 was $3.56 per share. Expected future expense relating to the unvested options outstanding as of March 31, 2015 is $179 thousand over a weighted average period of 4.7 years. Upon exercise of vested options, management expects to draw on treasury stock as the source of the shares.

The summary of changes in unvested restricted stock awards for the three months ended March 31, 2015, is as follows:

	Number of Shares	Weighted Average Grant Date Fair Value
Unvested restricted stock, beginning of year	112,545	$ 6.06
Granted	26,441	10.34
Vested	(36,991)	5.80
Unvested restricted stock, end of period	101,995	$ 7.27

During the three months ended March 31, 2015 and 2014, we expensed $82 thousand and $80 thousand, respectively, in stock-based compensation under restricted stock awards.

At March 31, 2015, unrecognized compensation expense for unvested restricted stock was $630 thousand, which is expected to be recognized over an average period of 2.0 years.

NOTE 9 – GUARANTEES

We do not issue any guarantees that would require liability recognition or disclosure, other than standby letters of credit. Standby letters of credit are conditional commitments issued by us to guarantee the performance of a customer to a third party. Generally, all letters of credit, when issued, have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Generally, we hold collateral and/or personal guarantees supporting these commitments. As of March 31, 2015, we had $910 thousand of outstanding letters of credit. Management believes that the proceeds obtained through a liquidation of collateral and the enforcement of guarantees would be sufficient to cover the potential amount of future payments required under the corresponding guarantees. The amount of the liability as of March 31, 2015, for guarantees under standby letters of credit issued is not material.

NOTE 10 – FAIR VALUE OF FINANCIAL INSTRUMENTS

Management uses its best judgment in estimating the fair value of our financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates herein are not necessarily indicative of the amounts we could have realized in a sale transaction on the dates indicated. The fair value amounts have been measured as of their respective period ends, and have not been re-evaluated or updated for purposes of these financial statements subsequent to those respective dates. As such, the fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported at each period end.

In accordance with U.S. GAAP, we use a hierarchical disclosure framework associated with the level of pricing observability utilized in measuring assets and liabilities at fair value. The three broad levels defined by the hierarchy are as follows:

- Level I - Quoted prices are available in active markets for identical assets or liabilities as of the reported date.

- Level II - Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reported date. The nature of these asset and liabilities include items for which quoted prices are available but traded less frequently, and items that are fair valued using other financial instruments, the parameters of which can be directly observed.

- Level III - Assets and liabilities that have little to no pricing observability as of reported date. These items do not have two-way markets and are measured using management's best estimate of fair value, where the inputs into the determination of fair value require significant management judgment or estimation.

The following table summarizes the fair value of our financial assets measured on a recurring basis by the above pricing observability levels as of March 31, 2015 and December 31, 2014:

	Quoted Prices in	Significant

(Dollars in thousands)	Fair Value Measurements	Active Markets for Identical Assets (Level I)	Other Observable Inputs (Level II)	Significant Unobservable Inputs (Level III)
March 31, 2015				
U.S. government agencies	$ 11,406	$ -	$ 11,406	$ -
State and political subdivisions	32,201	-	32,201	-
Mortgage-backed securities -				
U.S. government-sponsored enterprises	40,955	-	40,955	-
Equity securities-financial services industry and other	11	11	-	-
December 31, 2014				
U.S. government agencies	$ 7,858	$ -	$ 7,858	$ -
State and political subdivisions	26,384	-	26,384	-
Mortgage-backed securities -				
U.S. government-sponsored enterprises	43,724	-	43,724	-
Equity securities-financial services industry and other	10	10	-	-

Our available for sale and held to maturity securities portfolios contain investments, which were all rated within our investment policy guidelines at time of purchase and upon review of the entire portfolio all securities are marketable and have observable pricing inputs.

For financial assets measured at fair value on a nonrecurring basis the fair value measurements by level within the fair value hierarchy used at March 31, 2015 and December 31, 2014 are as follows:

(Dollars in thousands)	Fair Value Measurements	Quoted Prices in Active Markets for Identical Assets (Level I)	Significant Other Observable Inputs (Level II)	Significant Unobservable Inputs (Level III)
March 31, 2015				
Impaired loans	$ 1,784	$ -	$ -	$ 1,784
December 31, 2014				
Impaired loans	$ 1,087	$ -	$ -	$ 1,087
Foreclosed real estate	761	-	-	761

The following table presents additional qualitative information about assets measured at fair value on a nonrecurring basis and for which Level 3 inputs were used to determine fair value:

	Qualitative Information about Level III Fair Value Measurements			
(Dollars in thousands)	Fair Value Estimate	Valuation Techniques	Unobservable Input	Range (Weighted Average)
March 31, 2015				
Impaired loans	$ 1,784	Appraisal of collateral	Appraisal adjustments (1)	0% to -74.8% (-7.5%)
December 31, 2014				
Impaired loans	$ 1,087	Appraisal of collateral	Appraisal adjustments (1)	0% to -67.9% (-7.8%)
Foreclosed real estate	761	Appraisal of collateral	Selling expenses (1)	-7.0% (-7.0%)

(1) Appraisals may be adjusted by management for qualitative factors such as economic conditions and estimated selling expenses. The range and weighted average of selling expenses and other appraisal adjustments are presented as a percentage of the appraisal.

The following information should not be interpreted as an estimate of the fair value of the entire company since a fair value calculation is only provided for a limited portion of our assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between our disclosures and those of other companies may not be meaningful. The following methods and assumptions were used to estimate the fair value of our financial instruments at March 31, 2015 and December 31, 2014:

Cash and Cash Equivalents (Carried at Cost): The carrying amounts reported in the balance sheet for cash and cash equivalents approximate those assets' fair value.

Deposits (Carried at Cost): Fair value for fixed-rate time certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered in the market on certificates to a schedule of aggregated expected monthly maturities on time deposits. We generally purchase amounts below the insured limit, limiting the amount of credit risk on these time deposits.

Securities: The fair value of securities, available for sale (carried at fair value) and securities held to maturity (carried at amortized cost) are determined by obtaining quoted market prices on nationally recognized securities exchanges (Level I), or matrix pricing (Level II), which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted market prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted prices. For certain securities which are not traded in active markets or are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or non-transferability, and such adjustments are generally based on available market evidence (Level III). In the absence of such evidence, management's best estimate is used. Management's best estimate consists of both internal and external support on certain Level III measurements. Internal cash flow models using a present value formula that includes assumptions market participants would use along with indicative exit pricing obtained from broker/dealers (where available) were used to support fair values of certain Level III investments.

Federal Home Loan Bank Stock (Carried at Cost): The carrying amount of restricted investment in bank stock approximates fair value and considers the limited marketability of such securities.

Loans Receivable (Carried at Cost): The fair values of non-impaired loans are estimated using discounted cash flow analyses, using the market rates at the balance sheet date that reflect the credit and interest rate-risk inherent in the loans. Projected future cash flows are calculated based upon contractual maturity or call dates, projected repayments and prepayments of principal. Generally, for variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values.

Impaired Loans (Carried at Lower of Cost or Fair Value): Fair value of impaired loans is generally determined based upon independent third-party appraisals of the properties, or discounted cash flows based upon the expected proceeds. These assets are included in Level III fair values, based upon the lowest level of input that is significant to the fair value measurements. The fair value of impaired loans totaled $1.8 million and $1.1 million at March 31, 2015 and December 31, 2014, respectively. These balances consist of loans that were written down or required additional reserves during the periods ended March 31, 2015 and December 31, 2014, respectively.

Deposit Liabilities (Carried at Cost): The fair values disclosed for demand, savings and money market accounts are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered in the market on certificates to a schedule of aggregated expected monthly maturities on time deposits.

Borrowings (Carried at Cost): Fair values of Federal Home Loan Bank ("FHLB") advances are estimated using discounted cash flow analysis, based on quoted prices for new FHLB advances with similar credit risk characteristics, terms and remaining maturity. These prices obtained from this active market represent a market value that is deemed to represent the transfer price if the liability were assumed by a third party.

Junior Subordinated Debentures (Carried at Cost): Fair values of junior subordinated debt are estimated using discounted cash flow analysis, based on market rates currently offered on such debt with similar credit risk characteristics, terms and remaining maturity.

Accrued Interest Receivable and Accrued Interest Payable (Carried at Cost): The carrying amounts of accrued interest receivable and payable approximate its fair value.

Off-Balance Sheet Instruments (Disclosed at Cost): Fair values for our off-balance sheet financial instruments (lending commitments and letters of credit) are based on fees currently charged in the market to enter into similar agreements, taking into account, the remaining terms of the agreements and the counterparties' credit standing.

The fair values of our financial instruments at March 31, 2015 and December 31, 2014, were as follows:

(Dollars in thousands)	March 31, 2015 Carrying Amount	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level I)	Significant Other Observable Inputs (Level II)	Significant Unobservable Inputs (Level III)
Financial assets:					
Cash and cash equivalents	$ 6,966	$ 6,966	$ 6,966	$ -	$ -
Time deposits with other banks	100	100	-	100	-
Securities available for sale	84,573	84,573	11	84,562	-
Securities held to maturity	6,491	6,704	-	6,704	-
Federal Home Loan Bank stock	3,539	3,539	-	3,539	-
Loans receivable, net of allowance	467,540	467,313	-	-	467,313
Accrued interest receivable	1,908	1,908	-	1,908	-
Financial liabilities:					
Non-maturity deposits	357,007	357,007	-	357,007	-
Time deposits	116,505	107,011	-	116,918	-
Short-term borrowings	5,200	5,200	5,200		