SUSSEX BANCORP
Form 10-Q
November 12, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 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	Smaller reporting company
		(Do not check if a 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 November 6, 2015 there were 4,645,387 shares of common stock, no par value, outstanding.

SUSSEX BANCORP

FORM 10-Q

INDEX

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.

i

PART I – FINANCIAL INFORMATION

Item 1 – Financial Statements

SUSSEX BANCORP
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(Dollars in Thousands)	September 30, 2015	December 31, 2014
ASSETS		
Cash and due from banks	$ 3,104	$ 2,953
Interest-bearing deposits with other banks	5,067	2,906
Cash and cash equivalents	8,171	5,859
Interest bearing time deposits with other banks	100	100
Securities available for sale, at fair value	94,702	77,976
Securities held to maturity, at amortized cost (fair value of $6,034 and $6,190 at September 30, 2015 and December 31, 2014, respectively)	5,857	6,006
Federal Home Loan Bank Stock, at cost	4,015	3,908
Loans receivable, net of unearned income	501,203	471,973
Less: allowance for loan losses	5,641	5,641
Net loans receivable	495,562	466,332
Foreclosed real estate	3,335	4,449
Premises and equipment, net	8,773	8,650
Accrued interest receivable	1,996	1,796
Goodwill	2,820	2,820
Bank-owned life insurance	12,446	12,211
Other assets	6,242	5,808
Total Assets	$ 644,019	$ 595,915
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Non-interest bearing	$ 99,316	$ 70,490
Interest bearing	403,193	387,780
Total deposits	502,509	458,270
Short-term borrowings	15,300	23,500
Long-term borrowings	56,000	46,000
Accrued interest payable and other liabilities	4,177	4,029

Junior subordinated debentures	12,887	12,887
Total Liabilities	590,873	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; 4,704,629 and 4,673,789 shares issued and 4,645,387 and 4,662,606 shares outstanding at September 30, 2015 and December 31, 2014, respectively	35,832	35,553
Treasury stock, at cost; 59,242 and 11,183 shares at September 30, 2015 and December 31, 2014, respectively	(592)	(59)
Retained earnings	17,793	15,566
Accumulated other comprehensive income	113	169
Total Stockholders' Equity	53,146	51,229
Total Liabilities and Stockholders' Equity	$ 644,019	$ 595,915

See Notes to Unaudited Consolidated Financial Statements

1

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands except per share data)	2015	2014	2015	2014
INTEREST INCOME				
Loans receivable, including fees	$ 5,390	$ 4,940	$ 15,837	$ 14,363
Securities:				
Taxable	321	208	890	639
Tax-exempt	231	231	660	740
Interest bearing deposits	1	4	8	11
Total Interest Income	5,943	5,383	17,395	15,753
INTEREST EXPENSE				
Deposits	448	424	1,302	1,229
Borrowings	390	363	1,150	1,072
Junior subordinated debentures	55	54	162	159
Total Interest Expense	893	841	2,614	2,460
Net Interest Income	5,050	4,542	14,781	13,293
PROVISION FOR LOAN LOSSES	1	378	506	1,231
Net Interest Income after Provision for Loan Losses	5,049	4,164	14,275	12,062
OTHER INCOME				
Service fees on deposit accounts	230	255	656	784
ATM and debit card fees	198	182	573	534
Bank-owned life insurance	78	78	235	243
Insurance commissions and fees	955	741	2,846	2,410
Investment brokerage fees	40	11	103	79
Net gain on sales of securities	11	164	267	258
Net gain on sale of premises and equipment	-	-	8	-
Other	143	70	369	242

Total Other Income	1,655	1,501	5,057	4,550
OTHER EXPENSES				
Salaries and employee benefits	2,919	2,631	8,488	7,490
Occupancy, net	410	375	1,330	1,225
Data processing	468	549	1,251	1,361
Furniture and equipment	221	184	645	460
Advertising and promotion	65	89	225	211
Professional fees	161	153	480	517
Director fees	105	137	418	379
FDIC assessment	120	183	368	534
Insurance	69	70	189	218
Stationary and supplies	49	64	154	171
Loan collection costs	19	53	175	299
Net expenses and write-downs related to foreclosed real estate	277	12	476	273
Other	480	359	1,156	926
Total Other Expenses	5,363	4,859	15,355	14,064
Income before Income Taxes	1,341	806	3,977	2,548
EXPENSE FOR INCOME TAXES	390	214	1,190	671
Net Income	951	592	2,787	1,877
OTHER COMPREHENSIVE INCOME:				
Unrealized gains on available for sale securities arising during the period	1,024	511	174	3,864
Reclassification adjustment for net gain on securities transactions included in net income	(11)	(164)	(267)	(258)
Income tax related to items of other comprehensive income	(405)	(138)	37	(1,442)
Other comprehensive income (loss), net of income taxes	608	209	(56)	2,164
Comprehensive income	$ 1,559	$ 801	$ 2,731	$ 4,041
EARNINGS PER SHARE				
Basic	$ 0.21	$ 0.13	$ 0.61	$ 0.41
Diluted	$ 0.21	$ 0.13	$ 0.61	$ 0.41

See Notes to Unaudited Consolidated Financial Statements

2

SUSSEX BANCORP
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Nine Months Ended September 30, 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	-	-	1,877	-	-	1,877
Other comprehensive income	-	-	-	2,164	-	2,164
Restricted stock granted	36,043	-	-	-	-	-
Restricted stock forfeited	(650)	-	-	-	-	-
Compensation expense related to stock option and restricted stock grants	-	230	-	-	-	230
Dividends declared on common stock		-	(280)	-	-	(280)
Balance September 30, 2014	4,664,506	$ 35,479	$ 14,983	$ 13	$ (59)	$ 50,416
Balance December 31, 2014	4,662,606	$ 35,553	$ 15,566	$ 169	$ (59)	$ 51,229
Net income	-	-	2,787	-	-	2,787
Other comprehensive loss	-	-	-	(56)	-	(56)
Treasury shares purchased	(48,059)	-	-	-	(533)	(533)
Restricted stock granted	31,841	-	-	-	-	-
Restricted stock forfeited	(1,001)	-	-	-	-	-
Compensation expense related to stock option and restricted stock grants	-	279	-	-	-	279
Dividends declared on common stock	-	-	(560)	-	-	(560)
Balance September 30, 2015	4,645,387	$ 35,832	$ 17,793	$ 113	$ (592)	$ 53,146

See Notes to Unaudited Consolidated Financial Statements

3

SUSSEX BANCORP
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(Dollars in thousands)	Nine Months Ended September 30, 2015		2014	
Cash Flows from Operating Activities				
Net income	$	2,787	$	1,877
Adjustments to reconcile net income to net cash provided by operating activities:				
Provision for loan losses		506		1,231
Depreciation and amortization		746		508
Net amortization of securities premiums and discounts		1,343		1,313
Net realized gain on sale of securities		(267)		(258)
Net realized gain on sale of premises and equipment		(8)		-
Net realized gain on sale of foreclosed real estate		(37)		(8)
Write-downs of and provisions for foreclosed real estate		314		110
Deferred income tax expense (benefit)		496		(919)
Earnings on bank-owned life insurance		(235)		(243)
Compensation expense for stock options and stock awards		279		230
Increase in assets:				
Accrued interest receivable		(200)		(107)
Other assets		(893)		(402)
Increase in accrued interest payable and other liabilities		148		887
Net Cash Provided by Operating Activities		4,979		4,219
Cash Flows from Investing Activities				
Securities available for sale:				

Purchases		(45,436)		(1,160)
Sales		20,705		13,261
Maturities, calls and principal repayments		6,855		9,484
Securities held to maturity:				
Purchases		(1,209)		(1,450)
Maturities, calls and principal repayments		1,339		2,383
Net increase in loans		(30,948)		(51,987)
Proceeds from the sale of foreclosed real estate		2,049		685
Purchases of bank premises and equipment		(896)		(2,232)
Proceeds from the sale of premises and equipment		35		-
Increase in Federal Home Loan Bank stock		(107)		(42)
Net Cash Used in Investing Activities		(47,613)		(31,058)
Cash Flows from Financing Activities				
Net increase in deposits		44,239		24,244
(Decrease) increase in short-term borrowed funds		(8,200)		5,000
Proceeds of long-term borrowings		15,000		-
Repayment of long-term borrowings		(5,000)		-
Purchase of treasury stock		(533)		-
Dividends paid		(560)		(280)
Net Cash Provided by Financing Activities		44,946		28,964
Net Increase in Cash and Cash Equivalents		2,312		2,125
Cash and Cash Equivalents - Beginning		5,859		13,246
Cash and Cash Equivalents - Ending	$	8,171	$	15,371
Supplementary Cash Flows Information				
Interest paid	$	2,592	$	2,430
Income taxes paid	$	954	$	779
Supplementary Schedule of Noncash Investing and Financing Activities				

Foreclosed real estate acquired in settlement of loans	$ 1,212	$ 715

See Notes to Unaudited Consolidated Financial Statements

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 and nine month periods ended September 30, 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: (1) identify the contract with the customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) 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, 2017. 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 (1) increase transparency about the types of collateral pledged in secured borrowing transactions and (2) 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.

In April 2015, FASB issued ASU 2015-05, Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement, to clarify whether a hosting arrangement (e.g., cloud computing, software as a service, infrastructure as a service, etc.) contains a software license, and thus, whether it is to be accounted for by the customer similarly to other internal-use software. Specifically, the amendments revise the scope of Subtopic 350-40 to include internal-use software accessed through a hosting arrangement only if both of the following criteria are met: (1) the customer has the contractual right to take possession of the software at any time during the hosting period without significant penalty. There is no significant penalty if the customer has the ability to take delivery of the software without incurring significant cost and the ability to use the software separately without significant loss of utility or value and (2) it is feasible for the customer to either run the software on its own hardware or contract with another party unrelated to the vendor to host the software. If both of the above criteria are present in a hosting arrangement, then the arrangement contains a software license and the customer should account for that element in accordance with Subtopic 350-40 (i.e., generally capitalize and subsequently amortize the cost of the license). If both of the above criteria are not present, the customer should account for the arrangement as a service contract (i.e., expense fees as incurred). The amendments are effective for public business entities for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. The amendments are effective for all other entities for fiscal years beginning after December 15, 2015, and interim periods within fiscal years beginning after December 15, 2016. Early adoption is permitted. An entity can elect to adopt the amendments either (1) prospectively to all arrangements entered into or materially modified after the effective date or (2) retrospectively. We do not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

In August 2015, FASB issued ASU 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, which defers the effective date of the new revenue recognition standard by one year. As such, it now takes effect for public entities in fiscal years beginning after December 15, 2017. All other entities have an additional year. However, early adoption is permitted for any entity that chooses to adopt the new standard as of the original effective date. Public business entities will adopt the standard for annual reporting periods beginning after December 15, 2017, including interim periods within that year. Early adoption is permitted only as of annual reporting periods beginning after December 15, 2016, including interim periods within that year. All other entities will adopt the standard for annual reporting periods beginning after December 15, 2018, and interim periods within annual reporting periods beginning after December 15, 2019. Early adoption is permitted as of either: (a) An annual reporting period beginning after December 15, 2016, including interim periods within that year, or (b) An annual reporting period beginning after December 15, 2016 and interim periods within annual reporting periods beginning one year after the annual period in which an entity first applies the new standard. We do not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

6

NOTE 2 – SECURITIES

Available for Sale

The amortized cost and approximate fair value of securities available for sale as of September 30, 2015 and December 31, 2014 are summarized as follows:

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2015				
U.S. government agencies	$ 11,959	$ 51	$ (48)	$ 11,962
State and political subdivisions	37,889	172	(364)	37,697
Mortgage-backed securities -				
U.S. government-sponsored enterprises	44,658	463	(90)	45,031
Equity securities-financial services industry and other	8	4	-	12
	$ 94,514	$ 690	$ (502)	$ 94,702
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 $33.0 million and $32.8 million at September 30, 2015 and December 31, 2014, respectively, were pledged to secure public deposits and for other purposes required or permitted by applicable laws and regulations.

The amortized cost and fair value of securities available for sale at September 30, 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.

Amortized Fair

(Dollars in thousands)	Cost	Value
Due in one year or less	$ -	$ -
Due after one year through five years	501	504
Due after five years through ten years	3,021	3,022
Due after ten years	34,367	34,171
Total bonds and obligations	37,889	37,697
U.S. government agencies	11,959	11,962
Mortgage-backed securities:		
U.S. government-sponsored enterprises	44,658	45,031
Equity securities-financial services industry and other	8	12
Total available for sale securities	$ 94,514	$ 94,702

Gross realized gains on sales of securities available for sale were $64 thousand and $242 thousand and gross realized losses were $53 thousand and $78 thousand for the three months ended September 30, 2015 and 2014, respectively.

Gross realized gains on sales of securities were $368 thousand and $360 thousand and gross losses were $101 thousand and $102 thousand for the nine months ended September 30, 2015 and 2014, respectively.

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 September 30, 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
September 30, 2015						
U.S. government agencies	$ 4,776	$ (18)	$ 2,554	$ (30)	$ 7,330	$ (48)
State and political subdivisions	21,760	(322)	1,841	(42)	23,601	(364)
Mortgage-backed securities -						
U.S. government-sponsored enterprises	11,385	(90)	-	-	11,385	(90)
Total temporarily impaired securities	$ 37,921	$ (430)	$ 4,395	$ (72)	$ 42,316	$ (502)
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 September 30, 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

At September 30, 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 September 30, 2015, there were five securities with a fair value of $7.3 million that had an unrealized loss that amounted to $48 thousand. As of September 30, 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 September 30, 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 September 30, 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 September 30, 2015, there were 36 securities with a fair value of $23.6 million that had an unrealized loss that amounted to $364 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 September 30, 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 September 30, 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 September 30, 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 September 30, 2015, there were 7 securities with a fair value of $11.4 million that had an unrealized loss that amounted to $90 thousand. As of September 30, 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 September 30, 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 an entity in the insurance services industry. At September 30, 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 September 30, 2015 and December 31, 2014 are summarized as follows:

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2015				
State and political subdivisions	$ 5,857	$ 179	$ (2)	$ 6,034

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 September 30, 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	$ 1,969	$ 1,969
Due after one year through five years	-	-
Due after five years through ten years	2,837	2,907
Due after ten years	1,051	1,158
Total held to maturity securities	$ 5,857	$ 6,034

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 September 30, 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
September 30, 2015						
State and political subdivisions	$ 804	$ (2)	$ -	$ -	$ 804	$ (2)
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 September 30, 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 September 30, 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 September 30, 2015, there were two securities with a fair value of $804 thousand that had an unrealized loss that amounted to $2 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 September 30, 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 September 30, 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 September 30, 2015 and December 31, 2014 is as follows:

(Dollars in thousands)	September 30, 2015	December 31, 2014
Commercial and industrial	$ 17,842	$ 20,549
Construction	10,206	12,379
Commercial real estate	347,095	326,370
Residential real estate	125,159	111,498
Consumer and other	1,317	1,665
Total loans receivable	501,619	472,461
Unearned net loan origination fees	(416)	(488)
Allowance for loan losses	(5,641)	(5,641)
Net loans receivable	$ 495,562	$ 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 $460 thousand and $475 thousand at September 30, 2015 and December 31, 2014, respectively. Mortgage servicing rights were immaterial at September 30, 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 and nine months ended September 30, 2015 and 2014:

(Dollars in thousands)	Commercial and Industrial	Construction	Commercial Real Estate	Residential Real Estate	Consumer and Other	Unallocated	Total
Three Months Ended: September 30, 2015							
Beginning balance	$ 86	$ 277	$ 3,613	$ 898	$ 86	$ 792	$ 5,752
Charge-offs	-	-	(119)	-	(6)	-	(125)
Recoveries	5	-	3	4	1	-	13
Provision	(8)	(57)	134	26	5	(99)	1

Ending balance	$ 83	$ 220	$ 3,631	$ 928	$ 86	$ 693	$ 5,641
September 30, 2014							
Beginning balance	$ 257	354	3,750	837	13	643	$ 5,854
Charge-offs	-	-	(495)	(33)	(9)	-	(537)
Recoveries	1	-	10	1	2	-	14
Provision	18	(53)	134	14	20	245	378
Ending balance	$ 276	$ 301	$ 3,399	$ 819	$ 26	$ 888	$ 5,709
Nine Months Ended:							
September 30, 2015							
Beginning balance	$ 231	$ 383	$ 3,491	$ 903	$ 19	$ 614	$ 5,641
Charge-offs	(19)	-	(542)	-	(17)	-	(578)
Recoveries	10	-	39	17	6	-	72
Provision	(139)	(163)	643	8	78	79	506
Ending balance	$ 83	$ 220	$ 3,631	$ 928	$ 86	$ 693	$ 5,641
September 30, 2014							
Beginning balance	$ 222	308	$ 3,399	$ 941	$ 16	$ 535	$ 5,421
Charge-offs	(1)	-	(853)	(118)	(31)	-	(1,003)
Recoveries	16	-	31	5	8	-	60
Provision	39	(7)	822	(9)	33	353	1,231
Ending balance	$ 276	$ 301	$ 3,399	$ 819	$ 26	$ 888	$ 5,709

The following table presents the balance of the allowance of loan losses and loans receivable by class at September 30, 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
September 30, 2015						
Commercial and industrial	$ 83	$ -	$ 83	$ 17,842	$ 20	$ 17,822
Construction	220	-	220	10,206	-	10,206
Commercial real estate	3,631	117	3,514	347,095	5,194	341,901
Residential real estate	928	205	723	125,159	1,893	123,266
Consumer and other loans	86	73	13	1,317	138	1,179
Unallocated	693	-	-	-	-	-
Total	$ 5,641	$ 395	$ 4,553	$ 501,619	$ 7,245	$ 494,374
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 September 30, 2015 and December 31, 2014, is as follows:

	30-59 Days	60-89 days	Greater Than	Total Past	Total Financing	Recorded Investment > 90 Days and

(Dollars in thousands)	Past Due	Past Due	90 Days (a)	Due	Current	Receivables	Accruing
September 30, 2015							
Commercial and industrial	$ 6	$ -	$ 20	$ 26	$ 17,816	$ 17,842	$ -
Construction	-	-	-	-	10,206	10,206	-
Commercial real estate	913	1,079	4,043	6,035	341,060	347,095	-
Residential real estate	433	-	1,481	1,914	123,245	125,159	-
Consumer and other	5	-	138	143	1,174	1,317	-
Total	$ 1,357	$ 1,079	$ 5,682	$ 8,118	$ 493,501	$ 501,619	$ -
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.

12

Loans for which the accrual of interest has been discontinued at September 30, 2015 and December 31, 2014 were:

(Dollars in thousands)	September 30, 2015	December 31, 2014
Commercial and industrial	$ 20	$ 94
Commercial real estate	4,043	3,936
Residential real estate	1,481	1,893
Consumer and other	138	1
Total	$ 5,682	$ 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, and 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 and payment status; 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 September 30, 2015 and December 31, 2014:

(Dollars in thousands)	Pass	Special Mention	Substandard	Doubtful	Total
September 30, 2015					
Commercial and industrial	$ 17,800	$ 22	$ 20	$ -	$ 17,842
Construction	10,206	-	-	-	10,206
Commercial real estate	333,463	7,670	5,962	-	347,095
Residential real estate	122,383	751	2,025	-	125,159
Consumer and other	1,179	-	138	-	1,317
	$ 485,031	$ 8,443	$ 8,145	$ -	$ 501,619
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 September 30, 2015 and December 31, 2014:

	September 30, 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	2,715	2,715	-	3,167	3,736	-
Residential real estate	599	598	-	1,829	1,835	-
With an allowance recorded:						
Commercial and industrial	-	-	-	94	94	51

Commercial real estate	2,479	2,479	117	1,938	1,938	136
Residential real estate	1,294	1,304	205	485	489	101
Consumer and other	138	138	73	-	-	-
Total:						
Commercial and industrial	20	20	-	94	94	51
Commercial real estate	5,194	5,194	117	5,105	5,674	136
Residential real estate	1,893	1,902	205	2,314	2,324	101
Consumer and other	138	138	73	-	-	-
	$ 7,245	$ 7,254	$ 395	$ 7,513	$ 8,092	$ 288

The following table presents the average recorded investment and income recognized for the three and nine months ended September 30, 2015 and 2014:

(Dollars in thousands)	For the Three Months Ended September 30, 2015 Average Recorded Investment	For the Three Months Ended September 30, 2015 Interest Income Recognized	For the Three Months Ended September 30, 2014 Average Recorded Investment	For the Three Months Ended September 30, 2014 Interest Income Recognized
With no related allowance recorded:				
Commercial and industrial	$ 20	$ -	$ -	$ -
Commercial real estate	2,119	10	4,080	4
Residential real estate	904	1	1,818	5
Total impaired loans without a related allowance	3,043	11	5,898	9
With an allowance recorded:				
Commercial real estate	2,762	8	4,309	29
Residential real estate	992	3	485	-
Consumer and other	104	-	1	-
Total impaired loans with an allowance	3,858	11	4,825	30
Total impaired loans	$ 6,901	$ 22	$ 10,723	$ 39

(Dollars in thousands)	For the Nine Months Ended September 30, 2015 Average Recorded Investment	For the Nine Months Ended September 30, 2015 Interest Income Recognized	For the Nine Months Ended September 30, 2014 Average Recorded Investment	For the Nine Months Ended September 30, 2014 Interest Income Recognized
With no related allowance recorded:				
Commercial and industrial	$ 15	$ -	$ -	$ -
Commercial real estate	2,439	24	4,999	22
Residential real estate	1,267	5	1,831	34
Total impaired loans without a related allowance	3,721	29	6,830	56
With an allowance recorded:				
Commercial and industrial	24	-	15	1
Commercial real estate	2,764	25	4,339	30
Residential real estate	753	8	667	7
Consumer and other	104	-	1	-

Total impaired loans with an allowance	3,645	33	5,022	38
Total impaired loans	$ 7,366	$ 62	$ 11,852	$ 94

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
September 30, 2015			
Performing	$ 1,151	$ 412	$ 1,563
Non-performing	1,834	223	2,057
Total	$ 2,985	$ 635	$ 3,620
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 September 30, 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 and nine months ended September 30, 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 and nine months ended September 30, 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 September 30, 2015, we did not hold any foreclosed residential real estate properties as a result of obtaining physical possession. In addition, as of September 30, 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 September 30, 2015			Three Months Ended September 30, 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	$ 951	4,550,923	$ 0.21	$ 592	4,548,293	$ 0.13
Effect of dilutive securities:						
Unvested stock awards	-	35,210		-	40,492	
Diluted earnings per share:						
Net income applicable to common stockholders and assumed conversions	$ 951	4,586,133	$ 0.21	$ 592	4,588,785	$ 0.13

(In thousands, except share and per share data)	Nine Months Ended September 30, 2015 Income (Numerator)	Shares (Denominator)	Per Share Amount	Nine Months Ended September 30, 2014 Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic earnings per share:						
Net earnings applicable to common stockholders	$ 2,787	4,561,638	$ 0.61	$ 1,877	4,538,456	$ 0.41
Effect of dilutive securities:						
Unvested stock awards	-	30,062		-	36,207	
Diluted earnings per share:						
Net income applicable to common stockholders and assumed conversions	$ 2,787	4,591,700	$ 0.61	$ 1,877	4,574,663	$ 0.41

There were 52,023 and no shares of unvested restricted stock awards and options outstanding during the three months ended September 30, 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. There were 66,946 and 9,381 shares of unvested restricted stock awards and options outstanding during the nine months ended September 30, 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 (LOSS) 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 September 30, 2015			Three Months Ended September 30, 2014		
	Before Tax	Tax Effect	Net of Tax	Before Tax	Tax Effect	Net of Tax
(Dollars in thousands)						
Other comprehensive (loss) income:						

Unrealized gains on available for sale securities	$ 1,024	$ 410	$ 614	$ 511	$ 204	$ 307
Reclassification adjustment for net gains on securities transactions included in net income	(11)	(5)	(6)	(164)	(66)	(98)
Total other comprehensive (loss) income	$ 1,013	$ 405	$ 608	$ 347	$ 138	$ 209