SUSSEX BANCORP
Form 10-Q
August 12, 2016
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 June 30, 2016

[ ] 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 x No

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

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

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

As of August 5, 2016 there were 4,741,249 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.

PART I – FINANCIAL INFORMATION
Item 1 – Financial Statements
SUSSEX BANCORP
CONSOLIDATED BALANCE SHEETS

(Dollars in Thousands)	June 30, 2016	December 31, 2015
ASSETS		
Cash and due from banks	$4,431	$ 2,914
Interest-bearing deposits with other banks	7,874	3,206
Cash and cash equivalents	12,305	6,120
Interest bearing time deposits with other banks	100	100
Securities available for sale, at fair value	94,797	93,776
Securities held to maturity, at amortized cost (fair value of $5,929 and $7,008 at June 30, 2016 and December 31, 2015, respectively)	5,660	6,834
Federal Home Loan Bank Stock, at cost	6,268	5,165
Loans receivable, net of unearned income	640,187	543,423
Less: allowance for loan losses	5,988	5,590
Net loans receivable	634,199	537,833
Foreclosed real estate	3,002	3,354
Premises and equipment, net	9,092	8,879
Accrued interest receivable	2,366	1,764
Goodwill	2,820	2,820
Bank-owned life insurance	12,675	12,524
Other assets	6,528	5,334
Total Assets	$789,812	$ 684,503
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Non-interest bearing	$120,992	$ 87,209
Interest bearing	473,832	430,647
Total deposits	594,824	517,856
Short-term borrowings	52,875	34,650
Long-term borrowings	66,000	61,000
Accrued interest payable and other liabilities	6,340	4,169
Junior subordinated debentures	12,887	12,887
Total Liabilities	732,926	630,562
Stockholders' Equity:		
Preferred stock, no par value, 1,000,000 shares authorized; none issued	—	—
Common stock, no par value, 10,000,000 shares authorized; 4,741,617 and 4,705,480 shares issued and 4,680,697 and 4,646,238 shares outstanding at June 30, 2016 and December 31, 2015, respectively	36,141	35,927
	(616)	(592)

Treasury stock, at cost; 60,920 and 59,242 shares at June 30, 2016 and December 31, 2015, respectively		
Retained earnings	20,831	18,520
Accumulated other comprehensive income	530	86
Total Stockholders' Equity	56,886	53,941
Total Liabilities and Stockholders' Equity	$789,812	$ 684,503

See Notes to Consolidated Financial Statements

1

SUSSEX BANCORP
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands except per share data)	2016	2015	2016	2015
INTEREST INCOME				
Loans receivable, including fees	$6,459	$5,275	$12,604	$10,447
Securities:				
Taxable	344	302	720	569
Tax-exempt	190	221	391	429
Interest bearing deposits	6	3	10	7
Total Interest Income	6,999	5,801	13,725	11,452
INTEREST EXPENSE				
Deposits	636	438	1,211	854
Borrowings	448	380	885	760
Junior subordinated debentures	98	54	166	107
Total Interest Expense	1,182	872	2,262	1,721
Net Interest Income	5,817	4,929	11,463	9,731
PROVISION FOR LOAN LOSSES	385	200	596	505
Net Interest Income after Provision for Loan Losses	5,432	4,729	10,867	9,226
OTHER INCOME				
Service fees on deposit accounts	256	213	481	426
ATM and debit card fees	200	201	387	375
Bank-owned life insurance	75	79	151	157
Insurance commissions and fees	1,039	736	2,760	1,891
Investment brokerage fees	50	41	77	63
Net gain on sales of securities	105	88	272	256
Net (loss) gain on disposal of premises and equipment	(6)	8	(19)	8
Other	107	135	241	226
Total Other Income	1,826	1,501	4,350	3,402
OTHER EXPENSES				
Salaries and employee benefits	3,076	2,789	6,429	5,569
Occupancy, net	512	443	936	920
Data processing	548	429	1,097	783
Furniture and equipment	283	214	516	424
Advertising and promotion	86	90	191	160
Professional fees	177	173	351	319
Director fees	160	147	219	313
FDIC assessment	121	124	241	248
Insurance	73	68	146	120
Stationary and supplies	50	49	102	105
Loan collection costs	53	59	85	156
Net expenses and write-downs related to foreclosed real estate	144	35	219	199
Other	315	302	676	676
Total Other Expenses	5,598	4,922	11,208	9,992
Income before Income Taxes	1,660	1,308	4,009	2,636
EXPENSE FOR INCOME TAXES	551	424	1,326	800
Net Income	1,109	884	2,683	1,836
OTHER COMPREHENSIVE INCOME (LOSS):				

Unrealized gains (loss) on available for sale securities arising during the period	1,576	(1,166)	2,561	(850)
Fair value adjustments on derivatives	(1,149)	—	(1,549)	—
Reclassification adjustment for net gain on securities transactions included in net income	(105)	(88)	(272)	(256)
Income tax related to items of other comprehensive (loss) income	(129)	502	(296)	442
Other comprehensive income (loss), net of income taxes	193	(752)	444	(664)
Comprehensive income	$1,302	$132	$3,127	$1,172
EARNINGS PER SHARE				
Basic	$0.24	$0.19	$0.59	$0.40
Diluted	$0.24	$0.19	$0.58	$0.40

See Notes to Consolidated Financial Statements

2

SUSSEX BANCORP
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Three Months Ended June 30, 2016 and 2015

(Dollars in Thousands)	Number of Shares Outstanding	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
Balance December 31, 2014	4,662,606	$ 35,553	$ 15,566	$ 169	$ (59)	$ 51,229
Net income	—	—	1,836	—	—	1,836
Other comprehensive loss	—	—	—	(664)	—	(664)
Treasury shares purchased	(48,059)	—	—	—	(533)	(533)
Restricted stock granted	31,841	—	—	—	—	—
Compensation expense related to stock option and restricted stock grants	—	185	—	—	—	185
Dividends declared on common stock ($0.08 per share)	—	—	(374)	—	—	(374)
Balance June 30, 2015	4,646,388	$ 35,738	$ 17,028	$ (495)	$ (592)	$ 51,679
Balance December 31, 2015	4,646,238	$ 35,927	$ 18,520	$ 86	$ (592)	$ 53,941
Net income	—	—	2,683	—	—	2,683
Other comprehensive income	—	—	—	444	—	444
Treasury shares purchased	(2,127)	—	—	—	(26)	(26)
Options exercised	449	—			2	2
Common stock issued	—	2	—	—	—	2
Restricted stock granted	38,022	—	—	—	—	—
Restricted stock forfeited	(1,885)	—	—	—	—	—
Compensation expense related to stock option and restricted stock grants	—	212	—	—	—	212
Dividends declared on common stock ($0.08 per share)	—	—	(372)	—	—	(372)
Balance June 30, 2016	4,680,697	$ 36,141	$ 20,831	$ 530	$ (616)	$ 56,886

See Notes to Consolidated Financial Statements

3

SUSSEX BANCORP
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months Ended June 30,	
(Dollars in thousands)	2016	2015
Cash Flows from Operating Activities		
Net income	$2,683	$1,836
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	596	505
Depreciation and amortization	546	497
Net amortization of securities premiums and discounts	810	876
Net realized gain on sale of securities	(272)	(256)
Net realized loss (gain) on disposal of premises and equipment	19	(8)
Net realized gain on sale of foreclosed real estate	(12)	(36)
Write-downs of and provisions for foreclosed real estate	123	97
Deferred income tax benefit	(324)	(92)
Earnings on bank-owned life insurance	(151)	(157)
Compensation expense for stock options and stock awards	212	185
Increase in assets:		
Accrued interest receivable	(602)	(116)
Other assets	(1,167)	(51)
Increase in accrued interest payable and other liabilities	622	484
Net Cash Provided by Operating Activities	3,083	3,764
Cash Flows from Investing Activities		
Securities available for sale:		
Purchases	(22,184)	(38,387)
Sales	18,745	16,462
Maturities, calls and principal repayments	4,175	4,309
Securities held to maturity:		
Purchases	(555)	(716)
Sales	1,008	—
Maturities, calls and principal repayments	716	727
Net increase in loans	(97,613)	(8,660)
Proceeds from the sale of foreclosed real estate	892	1,615
Purchases of bank premises and equipment	(783)	(760)
Proceeds from the sale of premises and equipment	5	35
(Increase) decrease in Federal Home Loan Bank stock	(1,103)	284
Net Cash Used in Investing Activities	(96,697)	(25,091)
Cash Flows from Financing Activities		
Net increase in deposits	76,968	29,448
Increase (decrease) in short-term borrowed funds	18,225	(16,300)
Proceeds from long-term borrowings	5,000	15,000
Repayment of long-term borrowings	—	(5,000)
Purchase of treasury stock	(26)	(533)
Proceeds from exercise of stock options	2	—
Net proceeds from issuance of common stock	2	—
Dividends paid	(372)	(374)
Net Cash Provided by Financing Activities	99,799	22,241
Net Increase in Cash and Cash Equivalents	6,185	914

Cash and Cash Equivalents - Beginning	6,120	5,859
Cash and Cash Equivalents - Ending	$12,305	$6,773
Supplementary Cash Flows Information		
Interest paid	$2,168	$1,700
Income taxes paid	$2,060	$712
Supplementary Schedule of Noncash Investing and Financing Activities		
Foreclosed real estate acquired in settlement of loans	$651	$1,170

See Notes to Consolidated Financial Statements

4

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 Bergen County, New Jersey, one located in Warren County, New Jersey, and one in Queens 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 six month periods ended June 30, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016. 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, 2015.

New Accounting Standards

In May 2014, Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“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. In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date. The amendments in ASU 2015-14 defer the effective date of ASU 2014-09 for all entities by one year. Accordingly, the amendments are effective for annual and interim periods beginning after December 15, 2017. Early adoption is permitted for annual and interim reporting periods beginning after December 15, 2016. In March, 2016, the FASB issued ASU No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net), that clarifies how to apply revenue recognition guidance related to whether an entity is a principal or an agent. The update clarifies that an entity is a principal when it controls the specified good or service before that good or service is transferred to the customer, and is an agent when it does not control the specified good or service before it is transferred to the customer. In May, 2016, the FASB issued ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606), Narrow-Scope Improvements and Practical Expedients, that amended its new revenue recognition guidance on transition, collectibility, noncash consideration and the presentation of sales and other similar taxes. The amendments clarify that, for a contract to be considered completed at transition, all (or substantially all) of the revenue must have been recognized under legacy GAAP. The FASB also added a practical expedient to ease transition for contracts that were modified prior to adoption of the revenue standard under both the full and modified retrospective transition approaches. 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 2014-12, 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. The adoption of this guidance did not 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. 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. The adoption of this guidance did not have a material impact on our consolidated financial statements.

In January 2016, FASB issued ASU 2016-01, Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. ASU 2016-01, among other things; (i) requires equity investments, with certain exceptions, to be measured at fair value with changes in fair value recognized in net income, (ii) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; (iii) eliminates the requirement for public business entities to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; (iv) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; (v) requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments; (vi) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements; and (vii) clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale. For public entities, the guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. The Company is currently evaluating the impact of the pending adoption of the new standard on its consolidated financial statements.

In February 2016, FASB issued ASU 2016-02, Leases (Topic 842). Under the new guidance, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date: (i) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (ii) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. Public business entities should apply the amendments in ASU 2016-02 for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted for all public business entities upon issuance. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The Company is currently evaluating the impact of the pending adoption of the new standard on its consolidated financial statements.

In March 2016, FASB issued ASU 2016-09, Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. FASB is issuing ASU 2016-09 as part of its initiative to reduce complexity in accounting standards. The areas for simplification in this ASU 2016-09 involve several aspects of the accounting for employee share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. Some of the areas for simplification apply only to nonpublic entities. For public business entities, the amendments in this update are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted for any entity in any interim or annual period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity that elects early adoption must adopt all of the amendments in the same period. The Company is currently evaluating the impact of the pending adoption of the new standard on its consolidated financial statements.

In June, 2016, the FASB issued Accounting Standards Update 2016-13, Financial Instruments – Credit Losses (Topic 326) (the “ASU”), which introduces new guidance for the accounting for credit losses on instruments within its scope. The new guidance introduces an approach based on expected losses to estimate credit losses on certain types of financial instruments. It also modifies the impairment model for available-for-sale (AFS) debt securities and provides for a simplified accounting model for purchased financial assets with credit deterioration since their origination. The ASU will be effective for Public business entities that are SEC filers in fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. All other entities will have one additional year. Early application of the guidance will be permitted for all entities for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is currently evaluating the impact of the pending adoption of the new standard on its consolidated financial statements.

NOTE 2 – SECURITIES

Available for Sale

The amortized cost and approximate fair value of securities available for sale as of June 30, 2016 and December 31, 2015 are summarized as follows:

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2016				
U.S. government agencies	$ 14,044	$ 38	$ (49)	$ 14,033
State and political subdivisions	34,978	1,780	—	36,758
Mortgage-backed securities -				
U.S. government-sponsored enterprises	43,343	753	(90)	44,006
	$ 92,365	$ 2,571	$ (139)	$ 94,797
December 31, 2015				
U.S. government agencies	$ 12,792	$ 51	$ (55)	$ 12,788
State and political subdivisions	37,771	507	(129)	38,149
Mortgage-backed securities -				
U.S. government-sponsored enterprises	43,069	206	(436)	42,839
	$ 93,632	$ 764	$ (620)	$ 93,776

Securities with a carrying value of approximately $32.9 million and $33.4 million at June 30, 2016 and December 31, 2015, respectively, were pledged to secure public deposits and for borrowings at the Federal Reserve Bank as required or permitted by applicable laws and regulations.

The amortized cost and fair value of securities available for sale at June 30, 2016 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. Investments which pay principal on a periodic basis are not included in the maturity categories.

(Dollars in thousands)	Amortized Cost	Fair Value
Due in one year or less	$ —	$—
Due after one year through five years	699	712
Due after five years through ten years	3,653	3,826
Due after ten years	30,626	32,220
Total bonds and obligations	34,978	36,758
U.S. government agencies	14,044	14,033
Mortgage-backed securities:		

U.S. government-sponsored enterprises	43,343	44,006
Total available for sale securities	$ 92,365	$94,797

Gross gains on sales of securities available for sale were $97 thousand and $88 thousand for the three months ended June 30, 2016 and 2015, respectively. There were no gross realized losses on sales of securities available for sale for the three months ended June 30, 2016 and 2015.

Gross realized gains on sales of securities available for sale were $264 thousand and $304 thousand and gross losses were less than $1 thousand and $48 thousand for the six months ended June 30, 2016 and 2015, 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 June 30, 2016 and December 31, 2015.

	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
June 30, 2016						
U.S. government agencies	$4,482	$ (47)	$1,810	$ (2)	$6,292	$ (49)
Mortgage-backed securities -						
U.S. government-sponsored enterprises	11,405	(90)	—	—	11,405	(90)
Total temporarily impaired securities	$15,887	$ (137)	$1,810	$ (2)	$17,697	$ (139)
December 31, 2015						
U.S. government agencies	$5,888	$(23)	$2,473	$(32)	$8,361	$(55)
State and political subdivisions	5,780	(107)	2,998	(22)	8,778	(129)
Mortgage-backed securities -						
U.S. government-sponsored enterprises	31,885	(436)	—	—	31,885	(436)
Total temporarily impaired securities	$43,553	$(566)	$5,471	$(54)	$49,024	$(620)

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 June 30, 2016, 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 June 30, 2016 and December 31, 2015, 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 June 30, 2016, there were five securities with a fair value of $6.3 million that had an unrealized loss that amounted to $49 thousand. As of June 30, 2016, 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 June 30, 2016 were deemed to be other-than-temporarily impaired (“OTTI”).

At December 31, 2015, there were six securities with a fair value of $8.4 million that had an unrealized loss that amounted to $55 thousand.

State and Political Subdivisions
At December 31, 2015, 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 June 30,

2016, the Company did not have any State and Political Subdivisions securities in an unrealized loss position. These securities typically have maturity dates greater than 10 years and the fair values are more sensitive to changes in market interest rates.

At December 31, 2015, there were 15 securities with a fair value of $8.8 million that had an unrealized loss that amounted to $129 thousand.

Mortgage-Backed Securities
At June 30, 2016 and December 31, 2015, 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 June 30, 2016, there were six securities with a fair value of $11.4 million that had an unrealized loss that amounted to $90 thousand. As of June 30, 2016, 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 June 30, 2016 were deemed to be OTTI.

At December 31, 2015, there were 18 securities with a fair value of $31.9 million that had an unrealized loss that amounted to $436 thousand.

Held to Maturity Securities

The amortized cost and approximate fair value of securities held to maturity as of June 30, 2016 and December 31, 2015 are summarized as follows:

(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
June 30, 2016				
State and political subdivisions	$ 5,660	$ 269	$ —	$5,929
December 31, 2015				
State and political subdivisions	$ 6,834	$ 174	$ —	$7,008

During the three months and the six months ended June 30, 2016, the Company sold a security out of its held to maturity portfolio due to continued credit deterioration. The gross realized gain on the sale of the security was $8 thousand for the three months and six months ended June 30, 2016.

The amortized cost and carrying value of securities held to maturity at June 30, 2016 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	$ 2,792	$2,792
Due after one year through five years	—	—
Due after five years through ten years	1,823	1,951
Due after ten years	1,045	1,186
Total held to maturity securities	$ 5,660	$5,929

Temporarily Impaired Securities
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 June 30, 2016, we did not have any held to maturity investments with unrealized losses. 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 securities is 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. 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.

At December 31, 2015, we did not have any held to maturity securities in an unrealized loss position.

NOTE 3 – LOANS

The composition of net loans receivable at June 30, 2016 and December 31, 2015 is as follows:

(Dollars in thousands)	June 30, 2016	December 31, 2015
Commercial and industrial	$31,800	$ 20,023
Construction	16,474	13,348
Commercial real estate	453,679	382,262
Residential real estate	137,903	127,204
Consumer and other	1,178	1,253
Total loans receivable	641,034	544,090
Unearned net loan origination fees	(847)	(667)
Allowance for loan losses	(5,988)	(5,590)
Net loans receivable	$634,199	$ 537,833

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 $443 thousand and $454 thousand at June 30, 2016 and December 31, 2015, respectively. Mortgage servicing rights were immaterial at June 30, 2016 and December 31, 2015.

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 June 30, 2016 and 2015:

(Dollars in thousands)	Commercial and Industrial	Construction	Commercial Real Estate	Residential Real Estate	Consumer and Other	Unallocated	Total
Three Months Ended:							
June 30, 2016							
Beginning balance	$ 98	$ 267	$ 3,847	$ 908	$ 121	$ 571	$5,812
Charge-offs	(138)	—	(65)	(25)	—	—	(228)
Recoveries	9	—	3	6	1	—	19
Provision	230	(59)	235	25	(105)	59	385
Ending balance	$ 199	$ 208	$ 4,020	$ 914	$ 17	$ 630	$5,988
June 30, 2015							
Beginning balance							