

FIRST RELIANCE BANCSHARES INC

Form 10-Q

November 13, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

**WASHINGTON, D.C.**

FORM 10-Q

(Mark One)

☒

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

For the Quarterly Period Ended September 30, 2012

OR

☐

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 000-49757

FIRST RELIANCE BANCSHARES, INC.

(Exact name of small business issuer as specified in its charter)

South Carolina

80-0030931

(State or Other Jurisdiction of (I.R.S. Employer

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Incorporation or Organization) Identification No.)

2170 West Palmetto Street  
Florence, South Carolina 29501  
(Address of Principal Executive Offices)

(843) 656-5000

(Registrant's Telephone Number, Including Area Code)

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State the number of shares outstanding of each of the issuer's classes of common equity as of the latest practicable date:

**4,096,774 shares of common stock, par value \$0.01 per share, as of October 31, 2012**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

☒ Yes ☐ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 Exchange Act). Yes ☐ No ☒

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**FIRST RELIANCE BANCSHARES, INC.****Condensed Consolidated Balance Sheets**

	September 30, 2012 (Unaudited)	December 31, 2011 (Audited)
<b>Assets</b>		
Cash and cash equivalents:		
Cash and due from banks	\$1,166,698	\$2,134,864
Interest-bearing deposits with other banks	39,536,507	41,885,966
Total cash and cash equivalents	40,703,205	44,020,830
Time deposits in other banks	100,953	100,373
Securities available-for-sale	64,504,304	84,534,318
Nonmarketable equity securities	1,387,400	2,431,800
Total investment securities	65,891,704	86,966,118
Mortgage loans held for sale	3,977,700	2,863,297
Loans receivable	275,156,230	303,398,403
Less allowance for loan losses	(4,341,422 )	(7,743,470 )
Loans, net	270,814,808	295,654,933
Premises, furniture and equipment, net	24,825,928	25,205,064
Accrued interest receivable	1,376,945	1,938,807
Other real estate owned	15,358,935	22,135,921
Cash surrender value life insurance	12,510,079	12,228,829
Other assets	3,029,928	3,852,250
<b>Total assets</b>	<b>\$438,590,185</b>	<b>\$494,966,422</b>
<b>Liabilities and Shareholders' Equity</b>		
<b>Liabilities</b>		
<b>Deposits</b>		
Noninterest-bearing transaction accounts	\$56,365,386	\$52,299,017
Interest-bearing transaction accounts	42,331,861	42,092,193
Savings	108,439,833	122,528,570
Time deposits \$100,000 and over	93,891,131	122,474,202
Other time deposits	63,316,139	88,422,515
Total deposits	364,344,350	427,816,497
Securities sold under agreement to repurchase	4,711,362	-
Advances from Federal Home Loan Bank	13,000,000	13,000,000

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Junior subordinated debentures	10,310,000	10,310,000
Accrued interest payable	409,899	317,678
Other liabilities	3,627,383	2,404,257
Total liabilities	396,402,994	453,848,432
Shareholders' Equity		
Preferred stock		
Series A cumulative perpetual preferred stock - 15,349 shares issued and outstanding	15,071,307	14,925,265
Series B cumulative perpetual preferred stock - 767 shares issued and outstanding	790,560	802,951
Series C cumulative mandatory convertible preferred stock - 2,293 shares shares issued and outstanding	2,293,000	2,293,000
Common stock, \$0.01 par value; 20,000,000 shares authorized, 4,096,774 and 4,084,400 shares issued and outstanding at September 30, 2012 and December 31, 2011, respectively	40,968	40,844
Capital surplus	28,001,244	27,992,485
Treasury stock, at cost, 19,289 and 13,245 shares at September 30, 2012 and December 31, 2011, respectively	(182,215 )	(173,650 )
Nonvested restricted stock	(175,977 )	(320,196 )
Retained deficit	(5,303,352 )	(6,304,429 )
Accumulated other comprehensive income	1,651,656	1,861,720
Total shareholders' equity	42,187,191	41,117,990
Total liabilities and shareholders' equity	\$438,590,185	\$494,966,422

See notes to condensed consolidated financial statements

**FIRST RELIANCE BANCSHARES, INC.****Condensed Consolidated Statements of Operations****(Unaudited)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Interest income:				
Loans, including fees	\$4,196,618	\$5,037,612	\$12,699,918	\$15,127,300
Investment securities:				
Taxable	445,994	531,989	1,373,027	1,204,229
Nontaxable	128,216	276,460	506,305	1,294,037
Other interest income	22,844	20,086	80,838	74,694
Total	4,793,672	5,866,147	14,660,088	17,700,260
Interest expense:				
Time deposits	823,399	1,204,764	2,833,290	4,034,291
Other deposits	87,814	261,227	346,952	828,675
Other interest expense	129,890	125,780	386,917	188,544
Total	1,041,103	1,591,771	3,567,159	5,051,510
Net interest income	3,752,569	4,274,376	11,092,929	12,648,750
Provision for loan losses	350,955	3,036,820	950,955	3,559,944
Net interest income after provision for loan losses	3,401,614	1,237,556	10,141,974	9,088,806
Noninterest income:				
Service charges on deposit accounts	451,027	480,078	1,301,545	1,372,868
Gain on sales of mortgage loans	303,228	362,972	855,966	664,620
Income from bank owned life insurance	91,573	101,307	281,250	301,945
Other charges, commissions and fees	250,335	207,348	719,344	606,591
Gain (loss) on sale of securities	1,298,627	(64,274 )	1,806,414	516,582
Other non-interest income	57,544	20,875	493,904	242,257
Total	2,452,334	1,108,306	5,458,423	3,704,863
Noninterest expenses:				
Salaries and employee benefits	1,975,606	2,318,510	5,771,871	6,878,369
Occupancy expense	375,971	383,421	1,108,232	1,119,734
Furniture and equipment expense	330,979	203,634	1,083,915	831,256
Other operating expenses	2,494,982	2,652,500	6,501,651	7,059,717
Total	5,177,538	5,558,065	14,465,669	15,889,076
Net income (loss) before income taxes	676,410	(3,212,203)	1,134,728	(3,095,407 )

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Income tax expense	-	5,554,099	-	5,134,705
Net income (loss)	676,410	(8,766,302)	1,134,728	(8,230,112 )
Preferred stock dividends	249,248	249,248	747,743	747,743
Deemed dividends on preferred stock resulting from net accretion of discount and amortization of premium	44,876	44,875	133,652	133,163
Net income (loss) available to common shareholders	\$382,286	\$(9,060,425)	\$253,333	\$(9,111,018 )
Average common shares outstanding, basic	4,096,774	4,094,459	4,093,148	4,103,189
Average common shares outstanding, diluted	4,281,099	4,094,459	4,290,298	4,103,189
Basic earnings (loss) per share	\$0.09	\$(2.21 )	\$0.06	\$(2.22 )
Diluted earnings (loss) per share	\$0.09	\$(2.21 )	\$0.06	\$(2.22 )

See notes to condensed consolidated financial statements



**FIRST RELIANCE BANCSHARES, INC.**

**Condensed Consolidated Statements of Comprehensive Income**

**(Unaudited)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net income (loss) from operations	\$676,410	\$(8,766,302)	\$1,134,728	\$(8,230,112)
Other Comprehensive income, net of tax:				
Unrealized holding gains on available-for-sale securities arising during period	489,779	1,381,239	982,169	3,116,118
Reclassification adjustment for (gains) loss realized in net income from operations	(857,094)	42,421	(1,192,233)	(340,944 )
Other comprehensive income (loss)	(367,315)	1,423,660	(210,064 )	2,775,174
Comprehensive income (loss)	\$309,095	\$(7,342,642)	\$924,664	\$(5,454,938)

See notes to condensed consolidated financial statements

**FIRST RELIANCE BANCSHARES, INC.****Condensed Consolidated Statements of Shareholders' Equity****For the Nine Months Ended September 30, 2012 and 2011****(Unaudited)**

	Preferred Stock	Common Stock	Capital Surplus	Treasury Stock	Nonvested Restricted Stock	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2010	\$17,843,176	\$41,159	\$28,140,094	\$(168,864)	\$(679,264)	\$4,002,469	\$(586,926 )	\$48,591,844
Net loss						(8,230,112)		(8,230,112 )
Other comprehensive gain, net of tax expense of \$1,379,279							2,775,174	2,775,174
Preferred Stock Dividend						(747,743 )		(747,743 )
Accretion of Series A Preferred stock discount	145,508					(145,508 )		-
Amortization of Series B Preferred stock premium	(12,345 )					12,345		-
Issuance Common Stock		3	999					1,002
Net Change in Restricted Stock		(218 )	(118,172 )		273,160			154,770

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Purchase of treasury stock				(4,560 )				(4,560 )
Balance, September 30, 2011	\$17,976,339	\$40,944	\$28,022,921	\$(173,424)	\$(406,104)	\$(5,108,549)	\$2,188,248	\$42,540,375
Balance, December 31, 2011	\$18,021,216	\$40,844	\$27,992,485	\$(173,650)	\$(320,196)	\$(6,304,429)	\$1,861,720	\$41,117,990
Net income						1,134,728		1,134,728
Other comprehensive loss, net of tax benefit of \$108,215							(210,064 )	(210,064 )
Accretion of Series A Preferred stock discount	146,041					(146,041 )		-
Amortization of Series B Preferred stock premium	(12,390 )					12,390		-
Issuance Common Stock	8	933						1,001
Net Change in Restricted Stock	116	7,766			144,219			152,101
Purchase of treasury stock				(8,565 )				(8,565 )
Balance, September 30, 2012	\$18,154,867	\$40,968	\$28,001,244	\$(182,215)	\$(175,977)	\$(5,303,352)	\$1,651,656	\$42,187,191

See notes to condensed consolidated financial statements

**FIRST RELIANCE BANCSHARES, INC.****Condensed Consolidated Statements of Cash Flows****(Unaudited)**

	Nine Months Ended September 30,	
	2012	2011
Cash flows from operating activities:		
Net Income (loss)	\$1,134,728	\$(8,230,112 )
Adjustments to reconcile net income (loss) to net cash Provided by operating activities:		
Provision for loan losses	950,955	3,559,944
Depreciation and amortization expense	702,635	734,396
Gain on sale of available-for-sale securities	(1,806,414 )	(516,582 )
Loss on sale of other real estate owned	109,516	100,755
Write down of other real estate owned	882,189	937,255
Discount accretion and premium amortization on available-for-sale securities	169,887	141,184
Disbursements for loans held-for-sale	(36,145,420)	(23,242,719)
Proceeds from loans held-for-sale	35,031,017	23,354,531
Net decrease in valuation allowance for loans held-for-sale	-	(16,259 )
Decrease in interest receivable	561,862	478,756
Increase in cash surrender value of life insurance	(281,250 )	(301,945 )
Increase (decrease) in interest payable	92,221	(306,107 )
Increase in valuation allowance for deferred tax assets	-	6,554,221
Net increase in net deferred tax assets	-	(1,435,902 )
Amortization of deferred compensation on restricted stock	152,101	154,770
Increase in other liabilities	1,223,126	1,163,389
Decrease in other assets	840,699	1,413,604
Net cash provided by operating activities	3,617,852	4,543,179
Cash flows from investing activities:		
Increase in time deposits	(580 )	(373 )
Net decrease in loans receivable	23,792,006	15,893,073
Purchases of securities available-for-sale	(13,220,603)	(44,587,976)
Proceeds on sales of securities available-for-sale	25,677,784	40,807,255
Maturities of securities available-for-sale	8,891,082	4,501,679
Net decrease of nonmarketable equity securities	1,044,400	1,332,700
Proceeds from sales of other real estate owned	5,882,445	4,852,971
Improvements to other real estate owned	-	(6,987 )
Purchases of premises and equipment	(233,662 )	(94,109 )
Net cash provided by investing activities	51,832,872	22,698,233
Cash flows from financing activities:		
Net increase (decrease) in demand deposits, interest-bearing and savings accounts	(9,782,700 )	27,155,210
Net decrease in certificates of deposit and other time deposits	(53,689,447)	(48,040,842)

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Net increase (decrease) in securities sold under agreements to repurchase	4,711,362	(476,522 )
Increase in advances from the Federal Home Loan Bank	-	7,000,000
Issuance of common stock to employees	1,001	1,002
Preferred stock dividends paid	-	(747,743 )
Purchase of treasury stock	(8,565 )	(4,560 )
Net cash used by financing activities	(58,768,349)	(15,113,455)
Net increase (decrease) in cash and cash equivalents	(3,317,625 )	12,127,957
Cash and cash equivalents, beginning of period	44,020,830	25,670,293
Cash and cash equivalents, end of period	\$40,703,205	\$37,798,250
Cash paid during the period for:		
Interest	\$3,474,938	\$5,357,617
Income taxes	-	-
Supplemental noncash investing and financing activities:		
Foreclosures on loans	\$5,317,584	\$10,653,883
Other real estate owned sales financed	5,220,420	-
Net change in valuation allowance – available-for-sale	(210,064 )	2,775,174

See notes to condensed consolidated financial statements

**Notes to Condensed Consolidated Financial Statements (Unaudited)**

**Note 1 - Basis of Presentation**

The accompanying condensed consolidated financial statements have been prepared in accordance with the requirements for interim financial statements and, accordingly, they are condensed and omit certain disclosures that would appear in audited annual consolidated financial statements. The consolidated financial statements as of September 30, 2012 and for the interim periods ended September 30, 2012 and 2011 are unaudited and, in the opinion of management, include all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation. The consolidated financial information as of December 31, 2011 has been derived from the audited consolidated financial statements as of that date. For further information, refer to the consolidated financial statements and the notes included in First Reliance Bancshares, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2011.

**Note 2 - Recently Issued Accounting Pronouncements**

The following is a summary of recent authoritative pronouncements:

In April 2011, the criteria used to determine effective control of transferred assets in the Transfers and Servicing topic of the Accounting Standards Codification ("ASC") was amended by Accounting Standards Update ("ASU") 2011-03. The requirement for the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms and the collateral maintenance implementation guidance related to that criterion were removed from the assessment of effective control. The other criteria to assess effective control were not changed. The amendments were effective for the Company on January 1, 2012 and had no effect on the financial statements.

ASU 2011-04 was issued in May 2011 to amend the Fair Value Measurement topic of the ASC by clarifying the application of existing fair value measurement and disclosure requirements and by changing particular principles or requirements for measuring fair value or for disclosing information about fair value measurements. The amendments were effective for the Company beginning January 1, 2012 and had no effect on the financial statements.

The Comprehensive Income topic of the ASC was amended in June 2011. The amendment eliminates the option to present other comprehensive income as a part of the statement of changes in stockholders' equity and requires consecutive presentation of the statement of net income and other comprehensive income. The amendments were applicable to the Company on January 1, 2012 and have been applied retrospectively. In December 2011, the topic

was further amended to defer the effective date of presenting reclassification adjustments from other comprehensive income to net income on the face of the financial statements. Companies should continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect prior to the amendments while the Financial Accounting Standards Board ('FASB') redeliberates future requirements.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies are not expected to have a material impact on the Company's financial position, results of operations or cash flows.

### Note 3 - Reclassifications

Certain captions and amounts in the financial statements in the Company's Form 10-Q for the quarter ended September 30, 2011 were reclassified to conform to the September 30, 2012 presentation.

### Note 4 - Investment Securities

The amortized cost and estimated fair values of securities available-for-sale were:

	Amortized Cost	Gross Unrealized Gains	Losses	Estimated Fair Value
September 30, 2012				
U.S. Government agencies	\$7,650,166	\$404,930	\$-	\$8,055,096
Mortgage-backed securities	54,311,203	2,127,505	-	56,438,708
Other	100,000	-	89,500	10,500
Total	\$62,061,369	\$2,532,435	\$89,500	\$64,504,304

	Amortized Cost	Gross Unrealized Gains	Losses	Estimated Fair Value
December 31, 2011				
U.S. Government agencies	\$2,839,706	\$185,239	\$-	\$3,024,945
Mortgage-backed securities	59,748,500	1,816,651	4,749	61,560,402
Municipals	19,084,899	853,072	-	19,937,971
Other	100,000	-	89,000	11,000
Total	\$81,773,105	\$2,854,962	\$93,749	\$84,534,318

The following is a summary of maturities of securities available-for-sale as of September 30, 2012. The amortized cost and estimated fair values are based on the contractual maturity dates. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without penalty.

	Securities Available-For-Sale	
	Amortized Cost	Estimated Fair Value
U.S. Government agencies - due after five but within ten years	\$7,650,166	\$8,055,096
Mortgage-backed securities	54,311,203	56,438,708
Other	100,000	10,500
Total	\$62,061,369	\$64,504,304

The following table shows gross unrealized losses and fair value, aggregated by investment category, and length of time that individual securities have been in a continuous unrealized loss position, at September 30, 2012 and December 31, 2011.

	September 30, 2012		December 31, 2011	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Less Than 12 Months				
U.S. Government agencies	\$ -	\$ -	\$5,085,963	\$ 4,749
12 Months or More				
Other	10,500	89,500	11,000	89,000
Total securities available-for-sale	\$10,500	\$89,500	\$5,096,963	\$93,749

At September 30, 2012, securities classified as available-for-sale were recorded at fair market value. The entire amount of the unrealized losses is the result of a single security in a continuous loss position for twelve months or more. The Company does not intend to sell this security in the near future and it is more likely than not that the Company will not be required to sell this security before recovery of its amortized cost. The Company believes, based on industry analyst reports and credit ratings, that the deterioration in value is not considered other-than-temporary.



During the first nine months of 2012 and 2011, proceeds from the sale of available-for-sale securities were \$25,677,784 and \$40,807,255, respectively. Net gains on available-for-sale securities totaled \$1,806,414 and \$516,582 for the first nine months of 2012 and 2011, respectively.

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**Note 5 – Loans Receivable and Allowance for Loan Losses**

Major classifications of loans receivable are summarized as follows:

	September 30, 2012	December 31, 2011
Real estate loans:		
Construction	\$ 34,389,985	\$ 43,320,482
Residential:		
Residential 1-4 family	39,256,376	42,837,510
Multifamily	5,648,155	8,630,232
Second mortgages	4,226,594	4,503,752
Equity lines of credit	22,542,667	24,998,277
Total residential	71,673,792	80,969,771
Nonresidential	129,288,612	133,603,482
Total real estate loans	235,352,389	257,893,735
Commercial and industrial	30,209,877	36,465,095
Consumer	9,426,357	8,649,649
Other	167,607	389,924
Total loans	\$ 275,156,230	\$ 303,398,403

The Company has pledged certain loans as collateral to secure its borrowings from the Federal Home Loan Bank. The total of loans pledged was \$39,006,986 and \$35,976,783 at September 30, 2012 and December 31, 2011, respectively.

A summary of the allowance for loan losses for the nine months ended September 30, 2012 and year ended December 31, 2011 is as follows:

	September 30, 2012	December 31, 2011
Beginning balance	\$ 7,743,470	\$ 6,271,045
Provision charged to operations	950,955	5,403,416
Recoveries on loans previously charged-off	781,114	639,211
Loans charged-off	(5,134,117)	(4,570,202)
Ending balance	\$ 4,341,422	\$ 7,743,470

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The following is an analysis of the allowance for loan losses by class of loans for the nine months ended September 30, 2012 and the year ended December 31, 2011.

**September 30, 2012**

<i>(Dollars in Thousands)</i>	Real Estate Loans				Total Real Estate Loans	Commercial	Consumer and Other
	Total	Construction	Residential	Non- Residential			
Beginning balance	\$7,743	\$3,291	\$ 2,757	\$ 1,081	\$7,129	\$ 575	\$ 39
Provisions	951	381	(829 )	411	(37 )	992	(4 )
Recoveries	781	296	127	54	477	296	8
Charge-offs	(5,134)	(2,220)	(897 )	(899 )	(4,016)	(1,107 )	(11 )
Ending balance	\$4,341	\$1,748	\$ 1,158	\$ 647	\$3,553	\$ 756	\$ 32

**December 31, 2011**

<i>(Dollars in Thousands)</i>	Real Estate Loans				Total Real Estate Loans	Consumer and Other	
	Total	Construction	Residential	Non- Residential		Commercial	
Beginning balance	\$6,271	\$2,548	\$ 1,730	\$ 947	\$5,225	\$ 998	\$ 48
Provisions	5,403	2,212	2,580	602	5,394	(9 )	18
Recoveries	639	356	88	70	514	113	12
Charge-offs	(4,570)	(1,825)	(1,641 )	(538 )	(4,004)	(527 )	(39 )
Ending balance	\$7,743	\$3,291	\$ 2,757	\$ 1,081	\$7,129	\$ 575	\$ 39

The following is a summary of loans evaluated for impairment individually and collectively, by class, for the nine months ended September 30, 2012 and the year ended December 31, 2011.

**September 30, 2012**

<i>(Dollars in Thousands)</i>	Real Estate Loans				Total Real Estate Loans	Consumer and Other	
	Total	Construction	Residential	Non- Residential		Commercial	
Allowance							
Evaluated for impairment							
Individually	\$658	\$30	\$ 389	\$ 189	\$608	\$ 45	\$ 5
Collectively	3,683	1,718	769	458	2,945	711	27
Allowance for loan losses	\$4,341	\$1,748	\$ 1,158	\$ 647	\$3,553	\$ 756	\$ 32
Total Loans							
Evaluated for impairment							
Individually	\$30,710	\$6,119	\$ 6,357	\$ 15,813	\$28,289	\$ 2,292	\$ 129
Collectively	244,446	28,271	65,317	113,476	207,064	27,918	9,464
Loans receivable	\$275,156	\$34,390	\$ 71,674	\$ 129,289	\$235,353	\$ 30,210	\$ 9,593

**December 31, 2011**

<i>(Dollars in Thousands)</i>	Real Estate Loans				Total Real Estate Loans	Consumer	
	Total	Construction	Residential	Non- Residential		Commercial	

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	Total	Construction	Residential	Residential	Loans	Commercial	and Other
Allowance							
Evaluated for impairment							
Individually	\$2,665	\$1,782	\$ 344	\$ 471	\$2,597	\$ 55	\$ 13
Collectively	5,078	1,509	2,413	610	4,532	520	26
Allowance for loan losses	\$7,743	\$3,291	\$ 2,757	\$ 1,081	\$7,129	\$ 575	\$ 39
Total Loans							
Evaluated for impairment							
Individually	\$26,503	\$8,618	\$ 4,644	\$ 11,895	\$25,157	\$ 1,299	\$ 47
Collectively	276,895	34,702	76,326	121,708	232,736	35,166	8,993
Loans receivable	\$303,398	\$43,320	\$ 80,970	\$ 133,603	\$257,893	\$ 36,465	\$ 9,040

The Company identifies impaired loans through its normal internal loan review process. Loans on the Company's problem loan watch list are considered potentially impaired loans. These loans are evaluated in determining whether all outstanding principal and interest are expected to be collected. Loans are not considered impaired if a minimal delay occurs and all amounts due including accrued interest at the contractual interest rate for the period of delay are expected to be collected.

The following summarizes the Company's impaired loans as of September 30, 2012.

<i>(Dollars in Thousands)</i>	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
With no related allowance recorded:				
Real estate				
Construction	\$ 2,441	\$ 2,636	\$ -	\$ 3,905
Residential	3,669	3,814	-	4,216
Nonresidential	13,172	13,629	-	9,848
Total real estate loans	19,282	20,079	-	17,969
Commercial	541	609	-	1,179
Consumer and other	102	102	-	32
	19,925	20,790	-	19,180
With an allowance recorded:				
Real estate				
Construction	\$ 3,678	\$ 4,253	\$ 30	\$ 3,125
Residential	2,688	2,885	389	1,389
Nonresidential	2,641	2,950	189	2,941
Total real estate loans	9,007	10,088	608	7,455
Commercial	1,751	1,816	45	749
Consumer and other	27	27	5	24
	10,785	11,931	658	8,228
Total				
Real estate				
Construction	\$ 6,119	\$ 6,889	\$ 30	\$ 7,030
Residential	6,357	6,699	389	5,605
Nonresidential	15,813	16,579	189	12,789
Total real estate loans	28,289	30,167	608	25,424
Commercial	2,292	2,425	45	1,928
Consumer and other	129	129	5	56
Total	\$ 30,710	\$ 32,721	\$ 658	\$ 27,408

The following summarizes the Company's impaired loans as of December 31, 2011.

<i>(Dollars in Thousands)</i>	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
With no related allowance recorded:				
Real estate				
Construction	\$ 3,308	\$ 3,372	\$ -	\$ 6,914

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Residential	3,266	3,266	-	3,170
Nonresidential	10,276	10,642	-	6,892
Total real estate loans	16,580	17,280	-	16,976
Commercial	1,072	1,202	-	919
Consumer and other	24	24	-	23
	17,946	18,506	-	17,918

With an allowance recorded:

Real estate				
Construction	\$ 5,310	\$ 6,370	\$ 1,782	\$ 6,039
Residential	1,378	1,659	344	705
Nonresidential	1,619	1,715	471	744
Total real estate loans	8,307	9,744	2,597	7,488
Commercial	227	227	55	178
Consumer and other	23	23	13	5
	8,557	9,994	2,665	7,671

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<i>(Dollars in Thousands)</i>	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
Total				
Real estate				
Construction	\$ 8,618	\$ 9,742	\$ 1,782	\$ 12,953
Residential	4,644	4,925	344	3,875
Nonresidential	11,895	12,357	471	7,636
Total real estate loans	25,157	27,024	2,597	24,464
Commercial	1,299	1,429	55	1,097
Consumer and other	47	47	13	28
Total	\$ 26,503	\$ 28,500	\$ 2,665	\$ 25,589

Interest income on impaired loans other than nonaccrual loans is recognized on an accrual basis. Interest income on nonaccrual loans is recognized only as collected. For the nine months ended September 30, 2012, interest income recognized on nonaccrual loans was \$605,750. If the nonaccrual loans had been accruing interest at their original contracted rates, related income would have been \$927,891 for the nine months ended September 30, 2012.

A summary of current, past due and nonaccrual loans as of September 30, 2012 was as follows:

<i>(Dollars in Thousands)</i>	Past Due 30-89 Days	Past Due and Accruing	Past Due Over 90 days Non- Accruing	Total Past Due	Current	Total Loans
Real estate						
Construction	\$ -	\$ -	\$ 3,858	\$ 3,858	\$ 30,532	\$ 34,390
Residential	487	-	3,922	4,409	67,265	71,674
Nonresidential	509	-	13,642	14,151	115,138	129,289
Total real estate loans	996	-	21,422	22,418	212,935	235,353
Commercial	201	-	619	820	29,390	30,210
Consumer and other	34	1	34	69	9,524	9,593
Totals	\$ 1,231	\$ 1	\$ 22,075	\$ 23,307	\$ 251,849	\$ 275,156

A summary of current, past due and nonaccrual loans as of December 31, 2011 was as follows:

<i>(Dollars in Thousands)</i>	Past Due 30-89 Days	Past Due and Accruing	Past Due Over 90 days Non- Accruing	Total Past Due	Current	Total Loans
Real estate						
Construction	\$ 420	\$ -	\$ 8,194	\$ 8,614	\$ 34,706	\$ 43,320
Residential	816	-	3,852	4,668	76,302	80,970



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Nonresidential	5,640	328	9,437	15,405	118,198	133,603
Total real estate loans	6,876	328	21,483	28,687	229,206	257,893
Commercial	542	-	1,300	1,842	34,623	36,465
Consumer and other	38	-	2	40	9,000	9,040
Totals	\$ 7,456	\$ 328	\$ 22,785	\$ 30,569	\$ 272,829	\$ 303,398

At September 30, 2012 and December 31, 2011 loans past due 90 days and still accruing interest totaled \$943 and \$327,899, respectively.

Included in the loan portfolio are particular loans that have been modified in order to maximize the collection of loan balances. If, for economic or legal reasons related to the customer's financial difficulties, the Company grants a concession compared to the original terms and conditions on the loan, the modified loan is classified as a troubled debt restructuring ("TDR").

At September 30, 2012 there were 49 loans classified as TDRs totaling \$15,348,576. Of the 49 loans, 18 loans totaling \$8,312,929 were performing while 31 loans totaling \$7,035,647 were not performing. As of December 31, 2011 there were 37 loans classified as TDRs totaling \$7,258,698. Of the 37 loans, 15 loans totaling \$3,163,205 were performing while 22 loans totaling \$4,095,493 were not performing. All restructured loans resulted in either extended maturity or lowered rates and were included in the impaired loan balance.

The following table provides, by class, the number of loans modified in TDRs during the three and nine months ended September 30, 2012.

	Three Months Ended September 30, 2012			Nine Months Ended September 30, 2012		
	Number of Loans	Recorded Investment	Unpaid Principal Balance	Number of Loans	Recorded Investment	Unpaid Principal Balance
Extended maturity						
Real estate –						
Construction	1	\$ 495	\$ 514	4	\$ 3,800	\$ 3,819
Residential	5	1,546	1,731	6	2,560	2,745
Nonresidential	3	1,759	1,816	4	1,777	1,834
Commercial	-	-	-	1	110	110
Consumer and other	2	69	74	4	307	312
Total	11	3,869	4,135	19	8,554	8,820
Reduced Rate						
Real estate –						
Residential	-	-	-	1	30	30
Nonresidential	1	30	30	2	446	566
Commercial	-	-	-	2	1,588	1,588
Total	1	30	30	5	2,064	2,184
Totals	12	\$ 3,899	\$ 4,165	24	\$ 10,618	\$ 11,004

The following table provides the number of loans and leases modified in troubled debt restructurings during the previous 12 months which subsequently defaulted during the three and nine months ended September 30, 2012, as well as the recorded investments and unpaid principal balances as of September 30, 2012. Loans in default are those past due greater than 89 days.

	Three Months Ended September 30, 2012			Nine Months Ended September 30, 2012		
	Number of Loans	Recorded Investment	Unpaid Principal Balance	Number of Loans	Recorded Investment	Unpaid Principal Balance
Extended Maturity						
Real estate –						
Construction	1	\$ 496	\$ 514	4	\$ 1,969	\$ 1,987
Residential	5	841	842	7	1,873	1,874
Nonresidential	-	-	-	1	110	110
Commercial	-	-	-	1	222	222
Consumer and other	-	-	-	1	23	23
Total	6	1,337	1,356	14	4,197	4,216

## Reduced Rate

## Real estate –

Residential	-	-	-	2	471	591
Nonresidential	-	-	-	1	16	16
Commercial	-	-	-	1	237	237
Consumer and other	-	-	-	1	4	4
Total	-	-	-	5	728	848
Totals	6	\$ 1,337	\$ 1,356	19	\$ 4,925	\$ 5,064

All loans modified in TDRs are evaluated for impairment. The nature and extent of impairment of TDRs, including those which have experienced a subsequent default, are considered in determining an appropriate level of allowance for credit losses.

**Credit Indicators**

Loans are categorized into risk categories based on relevant information about the ability of borrowers to service their debt, such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The following definitions are utilized for risk ratings, which are consistent with the definitions used in supervisory guidance:

**Special Mention** - Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

**Substandard** - Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

**Doubtful** - Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans.

As of September 30, 2012, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

<i>(Dollars in Thousands)</i>	Real Estate Loans				Total Real Estate Loans	Commercial	Consumer and Other
	Total	Construction	Residential	Non- Residential			
Pass	\$215,898	\$22,265	\$ 58,370	\$ 99,035	\$179,670	\$ 26,835	\$ 9,393
Special mention	25,940	7,949	5,662	11,829	25,440	418	82
Substandard	33,318	4,176	7,642	18,425	30,243	2,957	118
Doubtful	-	-	-	-	-	-	-
Totals	\$275,156	\$34,390	\$ 71,674	\$ 129,289	\$235,353	\$ 30,210	9,593

As of December 31, 2011, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

<i>(Dollars in Thousands)</i>	Real Estate Loans		Non- Estate	Total Real Estate	Consumer
	Total	Construction		Loans	

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	Total	Construction	Residential	Residential	Loans	Commercial	and Other
Pass	\$237,537	\$26,767	\$ 66,961	\$ 103,120	\$196,848	\$ 31,811	\$ 8,878
Special mention	32,444	6,719	6,623	17,655	30,997	1,356	91
Substandard	33,417	9,834	7,386	12,828	30,048	3,298	71
Doubtful	-	-	-	-	-	-	-
Totals	\$303,398	\$43,320	\$ 80,970	\$ 133,603	\$257,893	\$ 36,465	\$ 9,040

The Company enters into financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments consist of commitments to extend credit and standby letters of credit. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. A commitment involves, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. The Company's exposure to credit loss in the event of nonperformance by the other parties to the instrument is represented by the contractual notional amount of the instrument. Since certain commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company uses the same credit policies in making commitments to extend credit as it does for on-balance-sheet instruments. Letters of credit are conditional commitments issued to guarantee a customer's performance to a third party and have essentially the same credit risk as other lending facilities.

Collateral held for commitments to extend credit and standby letters of credit varies but may include accounts receivable, inventory, property, plant, equipment, and income-producing commercial properties.

The following table summarizes the Company's off-balance sheet financial instruments as of September 30, 2012 and December 31, 2011 whose contract amounts represent credit risk:

	September 30, 2012	December 31, 2011
Commitments to extend credit	\$ 28,850,329	\$ 34,523,727
Standby letters of credit	33,637	1,595,656

**Note 6 – Other Real Estate Owned**

Transactions in other real estate owned for the nine months ended September 30, 2012 and year ended December 31, 2011 are summarized below:

	September 30, 2012	December 31, 2011
Beginning balance	\$ 22,135,921	\$ 14,669,051
Additions	5,317,584	14,049,177
Improvements made to properties	-	6,987
Sales	(11,102,865 )	(5,427,221 )
Net loss on sales	(109,516 )	(57,818 )
Write downs	(882,189 )	(1,104,255 )
Ending balance	\$ 15,358,935	\$ 22,135,921

For the nine months ended September 30, 2012 and 2011, sales of other real estate owned totaled \$11,102,865 and \$5,427,221, respectively, of which the Company received cash proceeds of \$5,882,445 and \$5,427,221 and financed the balance of \$5,220,420 and \$0, respectively. The Company recognized a net loss of \$109,516 and \$100,755 on these sales for the nine months ended September 30, 2012 and 2011, respectively.

Other real estate owned expense for the nine months ended September 30, 2012 and 2011 was \$1,766,182 and \$2,042,122, respectively, which includes gains and losses on sales.

**Note 7 – Shareholders' Equity**

**Common Stock** – The following is a summary of the changes in common shares outstanding for the nine months ended September 30, 2012 and 2011.

	Nine Months Ended September 30,	
	2012	2011
Common shares outstanding at beginning of the period	4,084,400	4,115,903
Issuance of common stock	770	334
Issuance of non-vested restricted shares	13,627	20,000
Forfeiture of restricted shares	(2,023 )	(41,778 )

Common shares outstanding at end of the period                      4,096,774    4,094,459

### **Note 8 – Income Taxes**

The income tax expense related to the Company's pretax income for the first three quarters of 2012 was offset by a reversal of an equal amount of the Company's valuation allowance related to its deferred tax assets. Therefore, no income tax provision was recorded for the nine and three months ended September 30, 2012.

### **Note 9 – Net Income (Loss) Per Share**

Net income (loss) available to common shareholders represents net income (loss) adjusted for preferred dividends including dividends declared, accretions of discounts and amortization of premiums on preferred stock issuances and cumulative dividends related to the current dividend period that have not been declared as of period end.

The following is a summary of the net income (loss) per common share calculations for the three months and nine months ended September 30, 2012 and 2011.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net income (loss) available to common shareholders				
Net income (loss)	\$676,410	\$(8,766,302)	\$1,134,728	\$(8,230,112)
Preferred stock dividends	249,248	249,248	747,743	747,743
Deemed dividends on preferred stock resulting from net accretion of discount and amortization of premium	44,876	44,875	133,652	133,163
Net income (loss) available to common shareholders	\$382,286	\$(9,060,425)	\$253,333	\$(9,111,018)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Basic net income (loss) per common share:				
Net income (loss) available to common shareholders	\$ 382,286	\$ (9,060,425)	\$ 253,333	\$ (9,111,018)
Average common shares outstanding - basic	4,096,774	4,094,459	4,093,148	4,103,189
Basic net income (loss) per share	\$0.09	\$ (2.21 )	\$0.06	\$ (2.22 )
Diluted net income (loss) per common share:				
Net income (loss) available to common shareholders	\$ 382,286	\$ (9,060,425)	\$ 253,333	\$ (9,111,018)
Average common shares outstanding - basic	4,096,774	4,094,459	4,093,148	4,103,189
Dilutive potential common shares	184,325	-	197,150	-
Average common shares outstanding - diluted	4,281,099	4,094,459	4,290,298	4,103,189
Diluted income (loss) per share	\$0.09	\$ (2.21 )	\$0.06	\$ (2.22 )

**Note 10 - Equity Incentive Plan**

On January 19, 2006, the Company adopted the 2006 Equity Incentive Plan, which provides for the granting of dividend equivalent rights options, performance unit awards, phantom shares, stock appreciation rights and stock awards, each of which are subject to such conditions based upon continued employment, passage of time or satisfaction of performance criteria or other criteria as permitted by the plan. The plan, as amended on September 17, 2010, allows the Company to award, subject to approval by the Board of Directors, up to 950,000 shares of stock, to officers, employees, and directors, consultants and service providers of the Company or its affiliates. Awards may be granted for a term of up to ten years from the effective date of grant. Under this Plan, our Board of Directors has sole discretion as to the exercise date of any awards granted. The per-share exercise price of incentive stock awards may not be less than the market value of a share of common stock on the date the award is granted. Any awards that expire unexercised or are canceled become available for re-issuance.

The Company can issue the restricted shares as of the grant date either by the issuance of share certificate(s) evidencing restricted shares or by documenting the issuance in uncertificated or book entry form on the Company's stock records. Except as provided by the Plan, the employee does not have the right to make or permit to exist any transfer or hypothecation of any restricted shares. When restricted shares vest, the employee must either pay the Company within two business days the amount of all tax withholding obligations imposed on the Company or make an election pursuant to Section 83(b) of the Internal Revenue Code to pay taxes at grant date.

Restricted shares may be subject to one or more objective employment, performance or other forfeiture conditions established by the Plan Committee at the time of grant. The restricted shares will not vest unless the Company's retained earnings at the end of the fiscal quarter preceding the third anniversary of the restricted share award date are greater than the award value of the restricted shares. Any shares of restricted stock that are forfeited will again become available for issuance under the Plan. An employee or director has the right to vote the shares of restricted stock after



grant until they are forfeited or vested. Compensation cost for restricted stock is equal to the market value of the shares at the date of the award and is amortized to compensation expense over the vesting period. Dividends, if any, will be paid on awarded but unvested stock.

During the nine months ended September 30, 2012 and 2011 the Company issued 13,627 and 20,000 shares, respectively, of restricted stock pursuant to the 2006 Equity Incentive Plan. The shares issued in 2012 and 2011 cliff vest in three years and are fully vested in 2015 and 2014, respectively, subject to meeting the performance criteria of the Plan. The weighted-average fair value of restricted stock issued during the nine months ended September 30, 2012 and 2011 was \$1.05 and \$2.20 per share, respectively. Compensation cost associated with the issuance for 2012 and 2011 was \$14,308 and \$44,000, respectively, to be amortized over three years. During the first nine months of 2012 and 2011, 2,023 and 41,778 shares were forfeited having a weighted average price of \$3.18 and \$3.39, respectively. Deferred compensation expense of \$152,101 and \$154,770, relating to restricted stock, was amortized to income during the nine months ended September 30, 2012 and 2011, respectively.

The 2006 Equity Incentive Plan allows for the issuance of Stock Appreciation Rights ("SARs"). The SARs entitle the participant to receive the excess of (1) the market value of a specified or determinable number of shares of the stock at the exercise date over the fair value at grant date or (2) a specified or determinable price which may not in any event be less than the fair market value of the stock at the time of the award. Upon exercise, the Company can elect to settle the awards using either Company stock or cash. The shares start vesting after five years and vest at 20% per year until fully vested. Compensation cost for SARs is amortized to compensation expense over the vesting period.

During the first quarter of 2012, the Board of Directors cancelled all 84,334 SARs that were outstanding at December 31, 2011. Holders of these SARs were given a cash settlement totaling \$37,500 in exchange for the cancellation. The cancellation resulted in the removal of all accrued SARs expense and related unrecognized compensation costs. For the nine months ended September 30, 2012, net income of \$337,153 was recognized as a result of the cancellation. The SARs compensation expense for the nine months ended September 30, 2011 was \$38,058.

#### **Note 11 – Fair Value Measurements**

Generally accepted accounting principles (“GAAP”) provide a framework for measuring and disclosing fair value that requires disclosures about the fair value of assets and liabilities recognized in the balance sheet, whether the measurements are made on a recurring basis (for example, available-for-sale investment securities) or on a nonrecurring basis (for example, impaired loans).

Fair value is defined as the exchange in price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. GAAP also establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The Company utilizes fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures. Securities available-for-sale are recorded at fair value on a recurring basis. Additionally, from time to time, the Company may be required to record at fair value other assets on a nonrecurring basis, such as loans held for sale, loans held for investment and certain other assets. These nonrecurring fair value adjustments typically involve application of the lower of cost or market accounting or the writing down of individual assets.

The following methods and assumptions were used to estimate the fair value of significant financial instruments:

#### **Fair Value Hierarchy**

The Company groups assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine the fair value. These levels are:

**Level 1** - Valuation is based upon quoted prices for identical instruments traded in active markets.

**Level 2 -** Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

**Level 3 -** Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include the use of option pricing models, discounted cash flow models and similar techniques.

### **Assets Recorded at Fair Value on a Recurring Basis**

Following is a description of valuation methodologies used for assets and liabilities recorded at fair value.

**Securities Available-for-Sale** - Securities available for sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 1 securities include those traded on an active exchange such as the New York Stock Exchange, Treasury securities that are traded by dealers or brokers in active over-the counter markets and money market funds. Level 2 securities include mortgage backed securities issued by government sponsored entities, municipal bonds and corporate debt securities. Securities classified as Level 3 include asset-backed securities in less liquid markets.

**Loans** - The Company does not record loans at fair value on a recurring basis, however, from time to time, a loan is considered impaired and an allowance for loan loss is established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan are considered impaired. Once a loan is identified as individually impaired, management measures impairment. The fair value of impaired loans is estimated using one of several methods, including the collateral value, market value of similar debt, enterprise value, liquidation value and discounted cash flows. Those impaired loans not requiring a specific allowance represent loans for which the fair value of expected repayments or collateral exceed the recorded investment in such loans. At September 30, 2012 and December 31, 2011, substantially all of the impaired loans were evaluated based upon the fair value of the collateral. Impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the loan as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the loan as nonrecurring Level 3.

**Mortgage Loans Held for Sale** - The fair value of loans held for sale is estimated based upon binding contracts and quotes from third party investors resulting in a Level 2 classification.

**Other Real Estate Owned** - Foreclosed assets are adjusted to fair value upon transfer of the loans to other real estate owned. Real estate acquired in settlement of loans is recorded initially at estimated fair value of the property less estimated selling costs at the date of foreclosure. The initial recorded value may be subsequently reduced by additional allowances, which are charges to earnings if the estimated fair value of the property less estimated selling costs declines below the initial recorded value. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the foreclosed asset as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the foreclosed asset as nonrecurring Level 3.

The tables below present the balances of assets and liabilities measured at fair value on a recurring basis by level within the hierarchy at September 30, 2012 and December 31, 2011.

	Total	Level 1	Level 2	Level 3
September 30, 2012				
Available-for-sale securities:				
U.S. Government agencies	\$8,055,096	\$ -	\$8,055,096	\$ -
Mortgage-backed securities	56,438,708	-	56,438,708	-
Other	10,500	-	10,500	-
	64,504,304	-	64,504,304	-
Mortgage loans held for sale (1)	3,977,700	-	3,977,700	-
	\$68,482,004	\$ -	\$68,482,004	\$ -

(1) Carried at the lower of cost or market.

December 31, 2011				
Available-for-sale securities:				
U.S. Government agencies	\$3,024,945	\$ -	\$3,024,945	\$ -
Mortgage-backed securities	61,560,402	-	61,560,402	-
Municipals	19,937,971	-	19,937,971	-
Other	11,000	-	11,000	-
	84,534,318	-	84,534,318	-
Mortgage loans held for sale (1)	2,863,297	-	2,863,297	-
	\$87,397,615	\$ -	\$87,397,615	\$ -

(1) Carried at the lower of cost or market.

There were no liabilities measured at fair value on a recurring basis at September 30, 2012 and December 31, 2011.

**Assets Recorded at Fair Value on a Nonrecurring Basis**

Certain assets and liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment). The following table presents the assets and liabilities measured at fair value on a nonrecurring basis at September 30, 2012 and December 31, 2011, aggregated by level in the fair value hierarchy within which those measurements fall.

	Total	Level 1	Level 2	Level 3
September 30, 2012				
Impaired loans receivable	\$30,052,229	\$ -	\$ -	\$30,052,229
Other real estate owned	15,358,935			