FIRST RELIANCE BANCSHARES INC
Form 10-Q
November 14, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C.

(Mark One)

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2011

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 (State or other jurisdiction of incorporation or organization)	80-0030931 (I.R.S. Employer Identification No.)

2170 West Palmetto Street
Florence, South Carolina 29501
(Address of principal executive offices, including zip code)

(843) 656-5000
(Issuer's telephone number, including area code)

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

4,094,459 shares of common stock, par value $0.01 per share, as of October 31, 2011

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.
x 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 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 ¨ (Do not check if a smaller reporting company)	Smaller reporting company x

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

INDEX

		Page No.
PART I. FINANCIAL INFORMATION		
Item 1.	Financial Statements (Unaudited)	
	Condensed Consolidated Balance Sheets - September 30, 2011 and December 31, 2010	3
	Condensed Consolidated Statements of Operations – Three and nine months ended September 30, 2011 and 2010	4
	Condensed Consolidated Statements of Shareholders' Equity and Comprehensive Income - Nine months ended September 30, 2011 and 2010	5
	Condensed Consolidated Statements of Cash Flows - Nine months ended September 30, 2011 and 2010	6
	Notes to Condensed Consolidated Financial Statements	7
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	22
Item 3.	Quantitative and Qualitative Disclosure About Market Risk	41
Item 4.	Controls and Procedures	41
PART II. OTHER INFORMATION		
Item 1.	Legal Proceedings	42
Item 1A.	Risk Factors	42
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	42
Item 6.	Exhibits	42

FIRST RELIANCE BANCSHARES, INC
Condensed Consolidated Balance Sheets

	September 30, 2011 (Unaudited)	December 31, 2010 (Audited)
Assets		
Cash and cash equivalents:		
Cash and due from banks	$ 1,154,303	$ 1,806,512
Interest-bearing deposits with other banks	36,643,947	23,863,781
Total cash and cash equivalents	37,798,250	25,670,293
Time deposits in other banks	100,373	100,000
Securities available-for-sale	88,281,446	84,472,553
Nonmarketable equity securities	3,024,600	4,357,300
Total investment securities	91,306,046	88,829,853
Loans held for sale	1,090,023	1,185,576
Loans receivable	324,372,550	354,327,969
Less allowance for loan losses	(6,422,526)	(6,271,045)
Loans, net	317,950,024	348,056,924
Premises, furniture and equipment, net	25,369,735	25,922,343
Accrued interest receivable	1,938,378	2,417,134
Other real estate owned	19,438,939	14,669,051
Cash surrender value life insurance	12,129,902	11,827,957
Other assets	3,416,914	11,415,794
Total assets	$ 510,538,584	$ 530,094,925
Liabilities and Shareholders' Equity		
Liabilities		
Deposits		
Noninterest-bearing transaction accounts	$ 54,253,310	$ 41,166,965
Interest-bearing transaction accounts	39,504,752	41,761,498
Savings	125,216,009	108,890,398
Time deposits $100,000 and over	123,983,931	157,480,480
Time deposits	91,406,831	105,951,124
Total deposits	434,364,833	455,250,465
Securities sold under agreement to repurchase	-	476,522
Advances from Federal Home Loan Bank	20,000,000	13,000,000
Junior subordinated debentures	10,310,000	10,310,000
Accrued interest payable	241,115	547,222
Other liabilities	3,082,261	1,918,872
Total liabilities	467,998,209	481,503,081
Shareholders' Equity		
Preferred stock, no par value, authorized 10,000,000 shares:		

Series A cumulative perpetual preferred stock - 15,349 shares issued and outstanding	$ 14,876,229	$ 14,730,721
Series B cumulative perpetual preferred stock - 767 shares issued and outstanding	807,110	819,455
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, 4,094,459 and 4,115,903 shares issued and outstanding at September 30, 2011 and December 31, 2010, respectively	40,944	41,159
Capital surplus	28,022,921	28,140,094
Treasury stock, at cost, 13,498 and 12,632 shares at September 30, 2011 and December 31, 2010, respectively	(173,424)	(168,864)
Nonvested restricted stock	(406,104)	(679,264)
Retained earnings (deficit)	(5,108,549)	4,002,469
Accumulated other comprehensive income (loss)	2,188,248	(586,926)
Total shareholders’ equity	42,540,375	48,591,844
Total liabilities and shareholders’ equity	$ 510,538,584	$ 530,094,925

See notes to condensed consolidated financial statements

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

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Interest income:				
Loans, including fees	$5,037,612	$5,653,540	$15,127,300	$17,719,753
Investment securities:				
Taxable	531,989	548,823	1,204,229	1,742,007
Nontaxable	276,460	596,994	1,294,037	1,903,865
Other interest income	20,086	32,786	74,694	88,258
Total	5,866,147	6,832,143	17,700,260	21,453,883
Interest expense:				
Time deposits	1,204,764	2,119,653	4,034,291	6,977,829
Other deposits	261,227	353,721	828,675	1,121,763
Other interest expense	125,780	394,111	188,544	1,175,163
Total	1,591,771	2,867,485	5,051,510	9,274,755
Net interest income	4,274,376	3,964,658	12,648,750	12,179,128
Provision for loan losses	3,036,820	1,475,751	3,559,944	3,541,650
Net interest income after provision for loan losses	1,237,556	2,488,907	9,088,806	8,637,478
Noninterest income:				
Service charges on deposit accounts	480,078	466,792	1,372,868	1,378,482
Gain on sales of mortgage loans	362,972	217,190	664,620	597,653
Income from bank owned life insurance	101,307	105,308	301,945	313,655
Other charges, commissions and fees	207,348	174,786	606,591	498,781
Gain (loss) on sale of securities	(64,274)	801,796	516,582	803,398
Other non-interest income	20,875	62,764	242,257	237,764
Total	1,108,306	1,828,636	3,704,863	3,829,733
Noninterest expenses:				
Salaries and employee benefits	2,318,510	2,454,159	6,878,369	7,117,834
Occupancy expense	383,421	375,324	1,119,734	1,153,239
Furniture and equipment expense	203,634	269,680	831,256	868,036
Other operating expenses	2,652,500	2,063,939	7,059,717	4,847,315
Total	5,558,065	5,163,102	15,889,076	13,986,424
Loss before income taxes	(3,212,203)	(845,559)	(3,095,407)	(1,519,213)
Income tax expense (benefit)	5,554,099	(534,977)	5,134,705	(1,259,612)
Net loss	(8,766,302)	(310,582)	(8,230,112)	(259,601)
Preferred stock dividends	249,248	249,247	747,743	704,048
Deemed dividends on preferred stock resulting from net accretion of discount and amortization of premium	44,875	44,875	133,163	133,163
Net loss available to common shareholders	$(9,060,425)	$(604,704)	$(9,111,018)	$(1,096,812)
Average common shares outstanding, basic	4,094,459	4,110,007	4,103,189	3,878,476
Average common shares outstanding, diluted	4,094,459	4,110,007	4,103,189	3,878,476

Basic loss per share	$(2.21)	$(0.15)	$(2.22)	$(0.28)
Diluted loss per share	$(2.21)	$(0.15)	$(2.22)	$(0.28)

See notes to condensed consolidated financial statements

FIRST RELIANCE BANCSHARES, INC
Condensed Consolidated Statements of Shareholders' Equity and Comprehensive Income (Loss)
For the Nine Months Ended September 30, 2011 and 2010
(Unaudited)

	Preferred Stock	Common Stock	Capital Surplus	Treasury Stock	Nonvested Restricted Stock	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2009	$15,372,136	$35,827	$26,181,576	$(163,936)	$(206,004)	$5,269,463	$(1,265,235)	$45,223,827
Issuance of Series C	2,293,000							2,293,000
Issuance of common stock net of issuance cost of $329,390		3,404	1,198,860					1,202,264
Net loss						(259,601)		(259,601)
Other comprehensive gain, net of tax expense of $1,617,391							3,157,110	3,157,110
Comprehensive income								2,897,509
Preferred Stock Dividend						(690,670)		(690,670)
Accretion of Series A Preferred stock discount	145,508					(145,508)		-
Amortization of Series B Preferred stock premium	(12,345)					12,345		-
Net Change in Restricted		1,904	752,879		(565,989)			188,794

Stock								
Purchase of treasury stock				(4,472)				(4,472)
Balance, September 30, 2010	$17,798,299	$41,135	$28,133,315	$(168,408)	$(771,993)	$4,186,029	$1,891,875	$51,110,252
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
Comprehensive loss								(5,454,938)
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
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

See notes to condensed consolidated financial statements

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

	Nine Months Ended September 30, 2011	2010
Cash flows from operating activities:		
Net loss	$(8,230,112)	$(259,601)
Adjustments to reconcile net loss to net cash		
Provided by operating activities:		
Provision for loan losses	3,559,944	3,541,650
Depreciation and amortization expense	734,396	818,696
Gain on sale of available-for-sale securities	(516,582)	(803,398)
Impairment loss on available-for-sale securities	-	18,750
Loss (gain) on sale of other real estate owned	100,755	(525,872)
Write down of other real estate owned	937,255	202,597
Discount accretion and premium amortization	141,184	218,600
Disbursements for loans held-for-sale	(23,242,719)	(26,938,340)
Proceeds from loans held-for-sale	23,354,531	28,825,044
Net increase (decrease) in valuation allowance for loans held-for-sale	(16,259)	721
Decrease in interest receivable	478,756	313,036
Increase in cash surrender value of life insurance	(301,945)	(313,655)
Decrease in interest payable	(306,107)	(146,331)
Increase in valuation allowance for deferred tax assets	6,554,221	-
Net increase in net deferred tax assets	(1,435,902)	(406,889)
Amortization of deferred compensation on restricted stock	154,770	188,794
Increase in other liabilities	1,163,389	6,540
Decrease in other assets	1,413,604	2,259,346
Net cash provided by operating activities	4,543,179	6,999,688
Cash flows from investing activities:		
(Increase) decrease in time deposits	(373)	402,089
Net decrease in loans receivable	15,893,073	26,493,504
Purchases of securities available-for-sale	(44,587,976)	(8,283,383)
Proceeds on sales of securities available-for-sale	40,807,255	40,631,817
Maturities of securities available-for-sale	4,501,679	4,537,212
Net decrease of nonmarketable equity securities	1,332,700	286,800
Proceeds from sales of other real estate owned	4,852,971	5,896,143
Improvements to other real estate owned	(6,987)	(149,116)
Purchases of premises and equipment	(94,109)	(243,572)
Net cash provided by investing activities	22,698,233	69,571,494
Cash flows from financing activities:		
Net increase (decrease) in demand deposits, interest-bearing and savings accounts	27,155,210	(1,987,989)
Net decrease in certificates of deposit and other time deposits	(48,040,842)	(62,559,215)
Net increase (decrease) in securities sold under agreements to repurchase	(476,522)	321,824
Increase (decrease) in advances from the Federal Home Loan Bank	7,000,000	(8,000,000)
Net proceeds from issuance of preferred stock	-	2,293,000
Net proceeds from issuance of common stock	-	1,201,262
Issuance of common stock to employees	1,002	1,002

Preferred stock dividends paid	(747,743)	(690,670)
Purchase of treasury stock	(4,560)	(4,472)
Net cash used by financing activities	(15,113,455)	(69,425,258)
Net increase in cash and cash equivalents	12,127,957	7,145,924
Cash and cash equivalents, beginning of period	25,670,293	53,298,486
Cash and cash equivalents, end of period	$37,798,250	$60,444,410
Cash paid during the period for:		
Interest	$5,357,617	$9,236,031
Income taxes	-	-
Supplemental noncash investing and financing activities:		
Foreclosures on loans	$10,653,883	$9,211,624
Net change in valuation allowance – available-for-sale	$2,775,174	$3,157,110

See notes to condensed consolidated financial statements

Note to Condensed Consolidated Financial Statements

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, 2011 and for the interim periods ended September 30, 2011 and 2010 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, 2010 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, 2010.

Note 2 - Recently Issued Accounting Pronouncements

The following is a summary of recent authoritative pronouncements that could impact the accounting, reporting, and / or disclosure of financial information by the Company.

In July 2010, the Receivables topic of the Accounting Standards Codification ("ASC") was amended by Accounting Standards Update ("ASU") 2010-20 to require expanded disclosures related to a company's allowance for credit losses and the credit quality of its financing receivables. The amendments require the allowance disclosures to be provided on a disaggregated basis. The Company is required to include these disclosures in its interim and annual financial statements. See Note 6.

Disclosures about Troubled Debt Restructurings ("TDRs") required by ASU 2010-20 were deferred by the Financial Accounting Standards Board ("FASB") in ASU 2011-01 issued in January 2011. In April 2011 the FASB issued ASU 2011-02 to assist creditors with their determination of when a restructuring is a TDR. The determination is based on whether the restructuring constitutes a concession and whether the debtor is experiencing financial difficulties as both events must be present. Disclosures related to TDRs under ASU 2010-20 are presented in Note 6.

In April 2011, the criteria used to determine effective control of transferred assets in the Transfers and Servicing topic of the ASC was amended by 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 are effective for the Company beginning January 1, 2012, but are not expected to have a material 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 will be effective for the Company beginning January 1, 2012, but are not expected to have a material 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. The amendment requires consecutive presentation of the statement of net income and other comprehensive income and requires an entity to present reclassification adjustments from other comprehensive income to net income on the face of the financial statements. The amendments will be applicable to the Company on January 1, 2012 and will be applied retrospectively.

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, 2010 were reclassified to conform to the September 30, 2011 presentation.

Note 4 - Comprehensive Income

Accounting principles generally require that recognized income, 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 and related tax effects are as follows:

	Pre-tax Amount	Tax (Expense) Benefit	Net-of-tax Amount
For the Three Months Ended September 30, 2011:			
Unrealized net gains on securities available-for-sale	$2,042,431	$(661,192)	$1,381,239
Reclassification adjustment for net losses in net income	(64,274)	21,853	(42,421)
	$2,106,705	$(683,045)	$1,423,660
For the Three Months Ended September 30, 2010:			
Unrealized net gains on securities available-for-sale	$2,753,576	$(936,360)	$1,817,216
Reclassification adjustment for net gains in net income	801,797	(272,611)	529,186
	$1,951,779	$(663,749)	$1,288,030

	Pre-tax Amount	Tax (Expense) Benefit	Net-of-tax Amount
For the Nine Months Ended September 30, 2011:			
Unrealized net gains on securities available-for-sale	$4,671,035	$(1,554,917)	$3,116,118
Reclassification adjustment for net gains in net income	516,582	(175,638)	340,944
	$4,154,453	$(1,379,279)	$2,775,174
For the Nine Months Ended September 30, 2010:			
Unrealized net gains on securities available-for-sale	$5,577,899	$(1,890,546)	$3,687,353
Reclassification adjustment for net gains in net income	803,398	(273,155)	530,243
	$4,774,501	$(1,617,391)	$3,157,110

Note 5 - Investment Securities

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
September 30, 2011				
U.S. Government agencies	$2,867,841	$199,685	$-	$3,067,526
Mortgage-backed securities	62,966,584	2,398,176	-	65,364,760
Municipals	19,091,069	747,091	-	19,838,160
Other	100,000	-	89,000	11,000
Total	$85,025,494	$3,344,952	$89,000	$88,281,446
December 31, 2010				

U.S. Government agencies	$5,031	$147	$-	$5,178
Mortgage-backed securities	35,361,686	408,027	-	35,769,713
Municipals	49,804,336	186,999	1,334,173	48,657,162
Other	200,000	-	159,500	40,500
Total	$85,371,053	$595,173	$1,493,673	$84,472,553

The following is a summary of maturities of securities available-for-sale as of September 30, 2011. 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
Due within one year	$-	$-
Due after one year but within five years	3,953,754	4,022,477
Due after five years but within ten years	10,246,859	10,707,876
Due after ten years	7,758,297	8,175,333
	21,958,910	22,905,686
Mortgage-backed securities	62,966,584	65,364,760
Other	100,000	11,000
Total	$85,025,494	$88,281,446

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, 2011 and December 31, 2010.

	September 30, 2011		December 31, 2010	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Less Than 12 Months				
Municipals	$-	$-	$30,472,741	$1,047,688
12 Months or More				
Municipals	-	-	2,200,477	286,485
Other	11,000	89,000	40,500	159,500
	11,000	89,000	2,240,977	445,985
Total securities available-for-sale	$11,000	$89,000	$32,713,718	$1,493,673

At September 30, 2011, securities classified as available-for-sale were recorded at fair market value. The unrealized loss reported above was the result of one individual 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 attributable to changes in market interest rates and is not in the credit quality of the issuer and therefore, this loss is not considered other-than-temporary.

During the first nine months of 2011 and 2010, proceeds from the sale of available-for-sale securities were $40,807,255 and $40,631,817, respectively. Net gains on available-for-sale securities totaled $516,582 and $803,398 for the first nine months of 2011 and 2010, respectively.

Note 6 – Loans Receivable and Allowance for Loan Losses

Major classifications of loans receivable are summarized as follows:

	September 30, 2011	December 31, 2010
Mortgage loans on real estate:		

Construction	$ 50,308,096	$ 62,635,354
Residential 1-4 family	47,306,208	$ 50,085,085
Multifamily	4,712,625	9,337,285
Second mortgages	8,635,868	4,782,583
Equity lines of credit	25,509,531	27,989,649
Commercial	141,884,822	152,178,318
	278,357,150	307,008,274
Commercial and industrial	36,286,079	40,856,292
Consumer	8,604,083	6,057,089
Other	1,125,238	406,314
Total gross loans	$ 324,372,550	$ 354,327,969

The Company has pledged certain loans as collateral to secure its borrowings from the Federal Home Loan Bank. The total of loans pledged was $40,632,031 and $44,940,440 at September 30, 2011 and December 31, 2010, respectively.

A summary of the allowance for loan losses for the nine months ended September 30, 2011 and year ended December 31, 2010 is as follows:

	September 30, 2011	December 31, 2010
Beginning balance	$ 6,271,045	$ 9,800,746
Provision charged to operations	3,559,944	3,541,650
Recoveries on loans previously charged-off	539,194	3,323,380
Loans charged-off	(3,947,657)	(10,394,731)
Ending balance	$ 6,422,526	$ 6,271,045

The following is an analysis of the allowance for loan losses by class of loans for the nine months ended September 30, 2011 and the year ended December 31, 2010.

September 30, 2011

(Dollars in Thousands)	Total	Real Estate Loans Construction	Residential	Non-Residential	Total Real Estate Loans	Commercial	Consumer and Other
Beginning balance	$ 6,271	$ 2,548	$ 1,730	$ 947	$ 5,225	$ 998	$ 48
Provisions	3,560	1,259	1,794	219	3,272	273	15
Recoveries	539	281	86	70	437	98	4
Charge-offs	(3,947)	(1,318)	(1,545)	(538)	(3,401)	(514)	(32)
Ending balance	$ 6,423	$ 2,770	$ 2,065	$ 698	$ 5,533	$ 855	$ 35

December 31, 2010

(Dollars in Thousands)	Total	Real Estate Loans Construction	Residential	Non-Residential	Total Real Estate Loans	Commercial	Consumer and Other
Beginning balance	$ 9,801	$ 4,192	$ 2,773	$ 1,271	$ 8,236	$ 1,520	$ 45
Provisions	3,542	1,475	1,172	432	3,079	509	(46)
Recoveries	3,323	1,311	286	1,123	2,720	438	165
Charge-offs	(10,395)	(4,430)	(2,501)	(1,879)	(8,810)	(1,469)	(116)
Ending balance	$ 6,271	$ 2,548	$ 1,730	$ 947	$ 5,225	$ 998	$ 48

The following is a summary of loans evaluated for impairment individually and collectively, by class, for the nine months ended September 30, 2011 and the year ended December 31, 2010.

September 30, 2011

(Dollars in Thousands)	Total	Real Estate Loans Construction	Residential	Non-Residential	Total Real Estate Loans	Commercial	Consumer and Other

Allowance							
Evaluated for impairment							
Individually	$1,613	$891	$263	$309	$1,463	$ 150	$-
Collectively	4,810	1,879	1,802	389	4,070	705	35
Allowance for loan losses	$6,423	$2,770	$2,065	$698	$5,533	$ 855	$35

September 30, 2011

(Dollars in Thousands)	Total	Real Estate Loans Construction	Residential	Non-Residential	Total Real Estate Loans	Commercial	Consumer and Other
Total Loans							
Evaluated for impairment							
Individually	$25,184	$11,467	$4,081	$7,794	$23,342	$1,817	$25
Collectively	299,719	38,841	82,083	134,091	255,015	34,469	9,705
Loans receivable	$324,373	$50,308	$86,164	$141,885	$278,357	$36,286	$9,730

December 31, 2010

(Dollars in Thousands)	Total	Real Estate Loans Construction	Residential	Non-Residential	Total Real Estate Loans	Commercial	Consumer and Other
Allowance							
Evaluated for impairment							
Individually	$560	$508	$41	$-	$549	$11	$-
Collectively	5,711	2,040	1,689	947	4,676	987	48
Allowance for loan losses	$6,271	$2,548	$1,730	$947	$5,225	$998	$48
Total Loans							
Evaluated for impairment							
Individually	$ 19,302	$ 15,558	$ 1,903	$ 1,541	$ 19,002	$ 300	$ -
Collectively	335,026	47,077	90,292	150,637	288,006	40,557	6,463
Loans receivable	$ 354,328	$ 62,635	$ 92,195	$ 152,178	$ 307,008	$ 40,857	$ 6,463

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, 2011.

(Dollars in Thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment
With no related allowance recorded:				
Real estate				
Construction	$5,970	$7,030	$-	$7,817
Residential	3,505	3,697	-	3,146

Nonresidential	6,551	6,917	-	6,045
Total real estate loans	16,026	17,644	-	17,008
Commercial	1,527	1,657	-	881
Consumer and other	25	25		