C & F FINANCIAL CORP
Form 10-Q
August 08, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended June 30, 2016

or

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 000-23423

C&F FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

Virginia	54-1680165
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
802 Main Street West Point, VA	23181
(Address of principal executive offices)	(Zip Code)

(804) 843-2360

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

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

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

At August 4, 2016, the latest practicable date for determination, 3,457,302 shares of common stock, $1.00 par value, of the registrant were outstanding.

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Part I – FINANCIAL INFORMATION

ITEM 1.FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS

(In thousands, except for share and per share amounts)

	June 30, 2016 (unaudited)	December 31, 2015 *
Assets		
Cash and due from banks	$ 10,944	$ 9,679
Interest-bearing deposits in other banks	81,565	143,264
Total cash and cash equivalents	92,509	152,943
Securities—available for sale at fair value, amortized cost of $204,321 and $214,105, respectively	212,086	219,476
Loans held for sale, at fair value	61,573	44,000
Loans, net of allowance for loan losses of $36,734 and $35,569, respectively	924,450	865,892
Restricted stocks, at cost	3,403	3,345
Corporate premises and equipment, net	36,283	36,533
Other real estate owned, net of valuation allowance of $97 and $56, respectively	579	942
Accrued interest receivable	7,000	6,829
Goodwill	14,425	14,425
Core deposit intangible, net	1,219	1,618
Bank-owned life insurance	14,814	14,988
Other assets	45,887	44,085
Total assets	$ 1,414,228	$ 1,405,076
Liabilities		
Deposits		
Noninterest-bearing demand deposits	$ 218,271	$ 197,909
Savings and interest-bearing demand deposits	525,614	535,992
Time deposits	334,574	339,732
Total deposits	1,078,459	1,073,633
Short-term borrowings	12,868	12,093
Long-term borrowings	133,029	140,029
Trust preferred capital notes	25,157	25,139
Accrued interest payable	711	698
Other liabilities	26,285	22,425

Total liabilities	1,276,509	1,274,017
Commitments and contingent liabilities		
Shareholders' Equity		
Common stock ($1.00 par value, 8,000,000 shares authorized, 3,452,342 and 3,437,787 shares issued and outstanding, respectively, includes 143,015 and 137,200 of unvested shares, respectively)	3,309	3,301
Additional paid-in capital	10,959	10,420
Retained earnings	121,125	116,167
Accumulated other comprehensive income, net	2,326	1,171
Total shareholders' equity	137,719	131,059
Total liabilities and shareholders' equity	$ 1,414,228	$ 1,405,076

* Derived from audited consolidated financial statements.

The accompanying notes are an integral part of the consolidated financial statements.

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CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(In thousands, except for share and per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Interest income				
Interest and fees on loans	$ 20,636	$ 19,603	$ 40,842	$ 38,621
Interest on interest-bearing deposits and federal funds sold	143	86	320	186
Interest and dividends on securities				
U.S. government agencies and corporations	85	118	186	246
Mortgage-backed securities	312	299	646	599
Tax-exempt obligations of states and political subdivisions	954	1,047	1,935	2,126
Taxable obligations of states and political subdivisions	45	50	91	92
Corporate bonds and other	128	147	248	283
Total interest income	22,303	21,350	44,268	42,153
Interest expense				
Savings and interest-bearing deposits	267	274	559	549
Time deposits	802	790	1,611	1,471
Borrowings	861	817	1,739	1,603
Trust preferred capital notes	288	295	571	584
Total interest expense	2,218	2,176	4,480	4,207
Net interest income	20,085	19,174	39,788	37,946
Provision for loan losses	3,600	2,155	8,200	5,670
Net interest income after provision for loan losses	16,485	17,019	31,588	32,276
Noninterest income				
Gains on sales of loans	2,552	2,002	4,282	3,647
Service charges on deposit accounts	1,041	1,076	2,004	2,091
Other service charges and fees	2,363	1,759	4,047	3,200
Net gains on calls and sales of available for sale securities	44	2	45	3
Investment services income	315	328	591	705
Other	1,408	348	1,917	970
Total noninterest income	7,723	5,515	12,886	10,616
Noninterest expenses				
Salaries and employee benefits	10,522	9,938	20,693	20,102
Occupancy	2,365	2,220	4,699	4,380

Other	4,760	4,496	9,345	8,922
Total noninterest expenses	17,647	16,654	34,737	33,404
Income before income taxes	6,561	5,880	9,737	9,488
Income tax expense	1,818	1,779	2,570	2,742
Net income	$ 4,743	$ 4,101	$ 7,167	$ 6,746
Net income per share - basic	$ 1.37	$ 1.21	$ 2.08	$ 1.98
Net income per share - assuming dilution	$ 1.37	$ 1.21	$ 2.08	$ 1.98
Weighted average number of shares outstanding - basic	3,451,746	3,394,236	3,450,188	3,404,204
Weighted average number of shares outstanding - assuming dilution	3,453,136	3,394,291	3,451,438	3,404,415

The accompanying notes are an integral part of the consolidated financial statements.

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(In thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net income	$ 4,743	$ 4,101	$ 7,167	$ 6,746
Other comprehensive income (loss):				
Changes in defined benefit plan assets and benefit obligations				
Changes in net gain (loss) arising during the period[1]	38	(29)	76	(58)
Tax effect	(13)	11	(26)	22
Amortization of prior service cost arising during the period[1]	(15)	14	(30)	28
Tax effect	5	(5)	10	(10)
Net of tax amount	15	(9)	30	(18)
Unrealized (losses) gains on cash flow hedging instruments				
Unrealized holding (losses) gains arising during the period	(134)	166	(672)	18
Tax effect	53	(59)	241	(7)
Net of tax amount	(81)	107	(431)	11
Unrealized holding gains (losses) on securities				
Unrealized holding gains (losses) arising during the period	755	(2,794)	2,439	(2,271)
Tax effect	(264)	978	(853)	795
Reclassification adjustment for gains included in net income[2]	(44)	(2)	(45)	(3)
Tax effect	15	1	15	1
Net of tax amount	462	(1,817)	1,556	(1,478)
Other comprehensive income (loss)	396	(1,719)	1,155	(1,485)
Comprehensive income	$ 5,139	$ 2,382	$ 8,322	$ 5,261

[1] These items are included in the computation of net periodic benefit cost. See Note 6, Employee Benefit Plans, for additional information.

[2] Gains are included in “Net gains on calls and sales of available for sale securities" on the consolidated statements of income.

The accompanying notes are an integral part of the consolidated financial statements.

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CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(Unaudited)

(In thousands, except per share amounts)

	Common Stock	Additional Paid - In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance December 31, 2015	$ 3,301	$ 10,420	$ 116,167	$ 1,171	$ 131,059
Comprehensive income:					
Net income	—	—	7,167	—	7,167
Other comprehensive income	—	—	—	1,155	1,155
Share-based compensation	—	615	—	—	615
Restricted stock vested	10	(10)	—	—	—
Common stock issued	2	72	—	—	74
Common stock purchased	(4)	(138)	—	—	(142)
Cash dividends declared – common stock ($0.64 per share)	—	—	(2,209)	—	(2,209)
Balance June 30, 2016	$ 3,309	$ 10,959	$ 121,125	$ 2,326	$ 137,719

	Common Stock	Additional Paid - In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance December 31, 2014	$ 3,283	$ 9,456	$ 107,785	$ 3,086	$ 123,610
Comprehensive income:					
Net income	—	—	6,746	—	6,746
Other comprehensive loss	—	—	—	(1,485)	(1,485)
Share-based compensation	—	576	—	—	576
Restricted stock vested	13	(13)	—	—	—
Common stock issued	2	65	—	—	67
Common stock purchased	(42)	(1,437)	—	—	(1,479)
Cash dividends declared – common stock ($0.60 per share)	—	—	(2,037)	—	(2,037)
Balance June 30, 2015	$ 3,256	$ 8,647	$ 112,494	$ 1,601	$ 125,998

The accompanying notes are an integral part of the consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	Six Months Ended June 30, 2016	2015
Operating activities:		
Net income	$ 7,167	$ 6,746
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	1,275	1,337
Provision for loan losses	8,200	5,670
Provision for indemnifications	140	139
Provision for other real estate owned losses	70	90
Share-based compensation	615	576
Net accretion of certain acquisition-related fair value adjustments	(748)	(1,300)
Accretion of discounts and amortization of premiums on securities, net	856	747
Realized gains on sales and calls of securities	(45)	(3)
Net realized gains on sales of other real estate owned	(98)	(226)
Net realized gains on sale of corporate premises and equipment	(183)	(7)
Income from bank-owned life insurance	(664)	(175)
Origination of loans held for sale	(280,047)	(277,393)
Proceeds from sales of loans held for sale	266,756	243,851
Gains on sales of loans held for sale	(4,282)	(3,647)
Change in other assets and liabilities:		
Accrued interest receivable	(171)	(233)
Other assets	(1,676)	(1,185)
Accrued interest payable	13	(33)
Other liabilities	3,048	1,030
Net cash provided by (used in) operating activities	226	(24,016)
Investing activities:		
Proceeds from maturities, calls and sales of securities available for sale	31,530	16,891
Purchases of securities available for sale	(22,381)	(16,130)
Net (redemptions) issuance of restricted stocks	(58)	97
Purchase of loan portfolio	—	(16,258)
Net increase in loans	(65,975)	(16,872)
Other real estate owned improvements	(20)	—
Proceeds from sales of other real estate owned	805	332
Purchases of corporate premises and equipment, net	(885)	(560)
Net cash used in investing activities	(56,984)	(32,500)
Financing activities:		
Net increase in demand, interest-bearing demand and savings deposits	9,984	35,455

Net decrease in time deposits	(5,158)	(18,403)
Net (decrease) increase in borrowings	(6,225)	14,612
Issuance of common stock	74	67
Purchase of common stock	(142)	(1,479)
Cash dividends	(2,209)	(2,037)
Net cash (used in) provided by financing activities	(3,676)	28,215
Net decrease in cash and cash equivalents	(60,434)	(28,301)
Cash and cash equivalents at beginning of period	152,943	167,616
Cash and cash equivalents at end of period	$ 92,509	$ 139,315
Supplemental disclosure		
Interest paid	$ 4,449	$ 4,547
Income taxes paid	1,230	339
Supplemental disclosure of noncash investing and financing activities		
Unrealized gains (losses) on securities available for sale	$ 2,394	$ (2,274)
Transfers from loans to other real estate owned	394	2,308
Pension adjustment	46	(30)
Unrealized (losses) gains on cash flow hedging instruments	(672)	18

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1: Summary of Significant Accounting Policies

Principles of Consolidation: The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) for interim financial reporting and with applicable quarterly reporting regulations of the Securities and Exchange Commission (the SEC). They do not include all of the information and notes required by U.S. GAAP for complete financial statements. Therefore, these consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the C&F Financial Corporation Annual Report on Form 10-K for the year ended December 31, 2015.

The unaudited consolidated financial statements include the accounts of C&F Financial Corporation (the Corporation) and its wholly-owned subsidiary, Citizens and Farmers Bank (the Bank or C&F Bank). All significant intercompany accounts and transactions have been eliminated in consolidation. In addition, the Corporation owns C&F Financial Statutory Trust I, C&F Financial Statutory Trust II and Central Virginia Bankshares Statutory Trust I, all of which are unconsolidated subsidiaries. The subordinated debt owed to these trusts is reported as a liability of the Corporation.

Nature of Operations: The Corporation is a bank holding company incorporated under the laws of the Commonwealth of Virginia. The Corporation owns all of the stock of its subsidiary, C&F Bank, which is an independent commercial bank chartered under the laws of the Commonwealth of Virginia.

The Bank has five wholly-owned subsidiaries: C&F Mortgage Corporation and Subsidiary (C&F Mortgage), C&F Finance Company (C&F Finance), C&F Wealth Management Corporation (C&F Wealth Management), C&F Insurance Services, Inc. and CVB Title Services, Inc., all incorporated under the laws of the Commonwealth of Virginia. C&F Mortgage, organized in September 1995, was formed to originate and sell residential mortgages and through its subsidiary, Certified Appraisals LLC, provides ancillary mortgage loan production services for residential appraisals. C&F Finance, acquired on September 1, 2002, is a finance company providing automobile loans through indirect lending programs. C&F Wealth Management, organized in April 1995 as C&F Investment Services, Inc. and renamed in May 2015, is a full-service brokerage firm offering a comprehensive range of investment services and insurance products through an alliance with an independent broker/dealer. C&F Insurance Services, Inc., organized in July 1999, owns an equity interest in an insurance agency that sells insurance products to customers of C&F Bank, C&F Mortgage and other financial institutions that have an equity interest in the agency. CVB Title Services, Inc. was organized for the primary purpose of owning membership interests in two insurance-related limited liability companies. Business segment data is presented in Note 8.

Basis of Presentation: The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the allowance for indemnifications, impairment of loans, impairment of securities, the valuation of other real estate owned, the projected benefit obligation under the defined benefit pension plan, the valuation of deferred taxes, fair value measurements and goodwill impairment. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, which are necessary for a fair presentation of the results of operations in these financial statements, have been made.

Reclassification: Certain reclassifications have been made to prior period amounts to conform to the current period presentation. None of these reclassifications are considered material.

Derivative Financial Instruments: The Corporation recognizes derivative financial instruments at fair value as either an other asset or other liability in the consolidated balance sheet. The Corporation’s derivative financial instruments may include (1) the fair value of interest rate lock commitments (IRLCs) on mortgage loans that will be sold in the secondary market on a best efforts basis and the related forward commitments to sell mortgage loans, (2) the fair value of interest

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rate swaps with certain qualifying commercial loan customers and dealer counterparties and (3) interest rate swaps that qualify as cash flow hedges on the Corporation's trust preferred capital notes. Because the IRLCs, forward sales commitments and interest rate swaps with loan customers and dealer counterparties are not designated as hedging instruments, adjustments to reflect unrealized gains and losses resulting from changes in fair value of these instruments are reported as noninterest income. The effective portion of the gain or loss on the Corporation's cash flow hedges is reported as a component of other comprehensive income, net of deferred income taxes, and reclassified into earnings in the same period or period(s) during which the hedged transactions affect earnings.

Share-Based Compensation: Shared-based compensation expense for the second quarter of 2016 and the first six months of 2016 included expense, net of forfeitures, of $310,000 ($192,000 after tax) and $615,000 ($381,000 after tax) for restricted stock granted during 2011 through 2016. As of June 30, 2016, there was $2.83 million of total unrecognized compensation expense related to unvested restricted stock that will be recognized over the remaining requisite service periods.

A summary of activity for restricted stock awards during the first six months of 2016 and 2015 is presented below:

	2016	
	Shares	Weighted-Average Grant Date Fair Value
Unvested, December 31, 2015	137,200	$ 36.50
Granted	17,265	38.39
Vested	(10,500)	31.04
Forfeited	(950)	38.88
Unvested, June 30, 2016	143,015	$ 37.11

	2015	
	Shares	Weighted-Average Grant Date Fair Value
Unvested, December 31, 2014	135,600	$ 34.34
Granted	16,650	37.72
Vested	(12,600)	25.78
Forfeited	(1,275)	37.58

Unvested, June 30, 2015	138,375	$ 35.50

Stock option activity during the six months ended June 30, 2016 and 2015 and stock options outstanding at June 30, 2016 and 2015 are summarized below:

	Shares	Exercise Price*	Remaining Contractual Life (in years)*	Intrinsic Value of Unexercised In-The Money Options (in 000's)
Options outstanding and exercisable at December 31, 2015	24,000	$ 38.39	0.8	$ 22
Expired	(12,000)	$ 39.60		
Options outstanding and exercisable at June 30, 2016	12,000	$ 37.17	0.8	$ 91

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	Shares	Exercise Price*	Remaining Contractual Life (in years)*	Intrinsic Value of Unexercised In-The Money Options (in 000's)
Options outstanding and exercisable at December 31, 2014	100,762	$ 37.75	0.9	$ —
Expired	(12,000)	$ 35.20		
Options outstanding and exercisable at June 30, 2015	88,762	$ 38.10	0.7	$ —

* Weighted average

Recent Significant Accounting Pronouncements:

In January 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-01, "Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities." The amendments in ASU 2016-01 require, among other things, equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income; public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; and separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e., securities or loans and receivables). It also eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost. The amendments in this ASU are effective for public companies for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Corporation is currently assessing the effect that ASU 2016-01 may have on its financial statements.

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)." Among other things, in the amendments in ASU 2016-02, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date: (1) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) 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. Certain targeted improvements were made to align, where necessary, lessor accounting with the lessee accounting model and Topic 606, Revenue from Contracts with Customers. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted 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 modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach. The Corporation is currently assessing the effect that ASU 2016-02 may have on its financial statements.

In March 2016, the FASB issued ASU No. 2016-05, “Derivatives and Hedging (Topic 815): Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships.” The amendments in this ASU clarify that a change in the counterparty to a derivative instrument that has been designated as the hedging instrument does not, in and of itself, require dedesignation of that hedging relationship provided that all other hedge accounting criteria remain intact. The amendments are effective for public business entities for financial statements issued for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. The Corporation does not expect the adoption of ASU 2016-05 to have a material effect on its financial statements.

In March 2016, the FASB issued ASU No. 2016-09, “Compensation—Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting”, in an effort to improve the accounting for employee share-based payments. ASU 2016-09 simplifies several aspects of the accounting for share-based payment award transactions, such as accounting

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for income taxes, classification of excess tax benefits on the Statement of Cash Flows, accounting for forfeitures, minimum statutory tax withholding requirements and classification of employee taxes paid on the Statement of Cash Flows. For public business entities, the amendments in this ASU are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted for any organization in any interim or annual period. The Corporation is currently assessing the effect that ASU 2016-09 may have on its financial statements.

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments", as part of its project on financial instruments. ASU 2016-13 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 debt securities and provides for a simplified accounting model for purchased financial assets with credit deterioration since their origination. For public business entities that are SEC filers, the new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption will be permitted for all organizations for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Corporation is currently assessing the effect that ASU 2016-13 may have on its financial statements.

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

NOTE 2: Securities

Debt and equity securities, all of which are classified as available for sale are summarized as follows:

	June 30, 2016		
		Gross	Gross

(Dollars in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
U.S. government agencies and corporations	$ 14,599	$ 17	$ (2)	$ 14,614
Mortgage-backed securities	73,779	1,624	(2)	75,401
Obligations of states and political subdivisions	115,943	6,143	(15)	122,071
	$ 204,321	$ 7,784	$ (19)	$ 212,086

	December 31, 2015			
(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government agencies and corporations	$ 18,759	$ —	$ (258)	$ 18,501
Mortgage-backed securities	76,957	513	(443)	77,027
Obligations of states and political subdivisions	118,389	5,640	(81)	123,948
	$ 214,105	$ 6,153	$ (782)	$ 219,476

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The amortized cost and estimated fair value of securities at June 30, 2016, by the earlier of contractual maturity or expected maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to prepay obligations with or without call or prepayment penalties.

	June 30, 2016	
(Dollars in thousands)	Amortized Cost	Fair Value
Due in one year or less	$ 25,329	$ 25,618
Due after one year through five years	138,324	143,662
Due after five years through ten years	30,478	31,660
Due after ten years	10,190	11,146
	$ 204,321	$ 212,086

Proceeds from the maturities, calls and sales of securities available for sale for the three and six months ended June 30, 2016 were $19.31 million and $31.53 million, respectively, resulting in gross realized gains of $70,000 and $71,000, respectively, and gross realized losses of $26,000 for both the three and six months ended June 30, 2016. Proceeds from the maturities, calls and sales of securities available for sale for the three and six months ended June 30, 2015 were $8.34 million and $16.89 million, respectively, resulting in gross realized gains of $2,000 and $3,000, respectively.

The Corporation pledges securities to primarily secure public deposits and repurchase agreements. Securities with an aggregate amortized cost of $86.61 million and an aggregate fair value of $90.45 million were pledged at June 30, 2016. Securities with an aggregate amortized cost of $91.93 million and an aggregate fair value of $95.13 million were pledged at December 31, 2015.

Securities in an unrealized loss position at June 30, 2016, by duration of the period of the unrealized loss, are shown below.

	Less Than 12 Months		12 Months or More		Total	
(Dollars in thousands)	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. government agencies and corporations	$ 2,504	$ 2	$ —	$ —	$ 2,504	$ 2
Mortgage-backed securities	302	—	743	2	1,045	2

Obligations of states and political subdivisions	1,505	3	1,940	12	3,445	15
Total temporarily impaired securities	$ 4,311	$ 5	$ 2,683	$ 14	$ 6,994	$ 19

There were 15 debt securities totaling $6.99 million considered temporarily impaired at June 30, 2016. The primary cause of the temporary impairments in the Corporation's investments in debt securities was fluctuations in interest rates. Interest rates decreased during the second quarter of 2016, primarily in the middle and long-end of the United States Treasury yield curve, thereby decreasing unrealized losses on certain of the Corporation's debt securities as compared to December 31, 2015. Prices for debt securities were higher as interest rates declined, as demand for United States Treasury bonds continued to increase primarily due to lower international yields on debt securities, global economic weakness, low inflation and a highly accommodative interest rate policy. Interest rates in the municipal bond sector, which includes the Corporation's obligations of states and political subdivisions, were also lower during the second quarter of 2016, driven by increased demand due to the same factors noted above, offset to a slight degree by an increase in the overall supply of municipal debt due to an increase in new issuance and refunding volume. At June 30, 2016, approximately 98 percent of the Corporation's obligations of states and political subdivisions, as measured by market value, were rated “A” or better by Standard & Poor's or Moody's Investors Service. Of those in a net unrealized loss position, each debt security was rated “A” or better, as measured by market value, at June 30, 2016. The Corporation considers all of its debt securities to meet regulatory credit quality standards, such that the securities have low risk of default by the obligor, and the full and timely repayment of principal and interest is expected over the expected life of the investment. Because the Corporation intends to hold these investments in debt securities to maturity and it is more likely than not that the Corporation will not be required to sell these investments before a recovery of unrealized losses, the Corporation does not consider these investments to be other-than-temporarily impaired at June 30, 2016 and no other-than-temporary impairment has been recognized.

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Securities in an unrealized loss position at December 31, 2015, by duration of the period of the unrealized loss, are shown below.

	Less Than 12 Months		12 Months or More		Total	
(Dollars in thousands)	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. government agencies and corporations	$ 9,530	$ 69	$ 8,971	$ 189	$ 18,501	$ 258
Mortgage-backed securities	27,085	397	2,252	46	29,337	443
Obligations of states and political subdivisions	5,157	32	4,666	49	9,823	81
Total temporarily impaired securities	$ 41,772	$ 498	$ 15,889	$ 284	$ 57,661	$ 782

The Corporation's investment in restricted stocks totaled $3.40 million at June 30, 2016 and consisted of $3.26 million of Federal Home Loan Bank (FHLB) stock and $145,000 of Community Bankers Bank (CBB) stock. Restricted stocks are generally viewed as long-term investments and as restricted investment securities, which are carried at cost, because there is no market for the stock, other than the FHLBs or member institutions. Therefore, when evaluating restricted stock for impairment, their respective values are based on the ultimate recoverability of the par value rather than by recognizing temporary declines in value. The Corporation does not consider its investment in restricted stocks to be other-than-temporarily impaired at June 30, 2016 and no impairment has been recognized. Total restricted stocks is shown as a separate line item on the balance sheet and is not a part of the available-for-sale securities portfolio.

NOTE 3: Loans

Major classifications of loans are summarized as follows:

(Dollars in thousands)	June 30, 2016	December 31, 2015
Real estate – residential mortgage	$ 186,888	$ 186,763
Real estate – construction 1	36,680	7,759
Commercial, financial and agricultural 2	378,928	356,062
Equity lines	50,034	50,111
Consumer	9,024	9,011
Consumer finance	299,630	291,755

	961,184	901,461
Less allowance for loan losses	(36,734)	(35,569)
Loans, net	$ 924,450	$ 865,892

[1] Includes the Corporation's real estate construction lending and consumer real estate lot lending.
[2] Includes the Corporation’s commercial real estate lending, land acquisition and development lending, builder line lending and commercial business lending.

Consumer loans included $332,000 and $266,000 of demand deposit overdrafts at June 30, 2016 and December 31, 2015, respectively.

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The outstanding principal balance and the carrying amount of loans acquired pursuant to the Corporation's acquisition of Central Virginia Bank (CVB) on October 1, 2013 (acquired loans) that were recorded at fair value at the acquisition date and are included in the consolidated balance sheet at June 30, 2016 and December 31, 2015 were as follows:

	June 30, 2016			December 31, 2015		
(Dollars in thousands)	Acquired Loans - Purchased Credit Impaired	Acquired Loans - Purchased Performing	Acquired Loans - Total	Acquired Loans - Purchased Credit Impaired	Acquired Loans - Purchased Performing	Acquired Loans - Total
Outstanding principal balance	$ 23,716	$ 62,988	$ 86,704	$ 25,701	$ 70,993	$ 96,694
Carrying amount						
Real estate – residential mortgage	$ 1,233	$ 14,345	$ 15,578	$ 1,305	$ 15,478	$ 16,783
Commercial, financial and agricultural[1]	10,933	32,225	43,158	12,317	37,287	49,604
Equity lines	271	12,880	13,151	286	13,969	14,255
Consumer	—	170	170	—	288	288
Total acquired loans	$ 12,437	$ 59,620	$ 72,057	$ 13,908	$ 67,022	$ 80,930

[1] Includes acquired loans classified by the Corporation as commercial real estate lending, land acquisition and development lending, builder line lending and commercial business lending.

Loans on nonaccrual status were as follows:

(Dollars in thousands)	June 30, 2016	December 31, 2015
Real estate – residential mortgage	$ 1,975	$ 2,297
Real estate – construction:		
Construction lending	—	—
Consumer lot lending	—	—
Commercial, financial and agricultural:		
Commercial real estate lending	2,402	2,515
Land acquisition and development lending	—	—
Builder line lending	—	359
Commercial business lending	150	86
Equity lines	779	881
Consumer	295	19
Consumer finance	257	830
Total loans on nonaccrual status	$ 5,858	$ 6,987

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The past due status of loans as of June 30, 2016 was as follows:

(Dollars in thousands)	30 - 59 Days Past Due	60 - 89 Days Past Due	90+ Days Past Due	Total Past Due	PCI	Current[1]	Total Loans	90+ Days Past Due and Accruing [2]
Real estate – residential mortgage	$ 763	$ 430	$ 361	$ 1,554	$ 1,233	$ 184,101	$ 186,888	$ 196
Real estate – construction:								
Construction lending	—	—	—	—	—	30,371	30,371	—
Consumer lot lending	—	—	—	—	—	6,309	6,309	—
Commercial, financial and agricultural:								
Commercial real estate lending	316	454	652	1,422	9,102	218,054	228,578	—
Land acquisition and development lending	—	—	—	—	—	53,139	53,139	—
Builder line lending	—	—	—	—	—	23,800	23,800	—
Commercial business lending	173	5	82	260	1,831	71,320	73,411	—
Equity lines	634	161	—	795	271	48,968	50,034	—
Consumer	12	110	4	126	—	8,898	9,024	13
Consumer finance	11,814	1,445	257	13,516	—	286,114	299,630	—
Total	$ 13,712	$ 2,605	$ 1,356	$ 17,673	$ 12,437	$ 931,074	$ 961,184	$ 209

[1] For the purposes of the table above, “Current” includes loans that are 1-29 days past due.
[2] Includes purchased credit impaired (PCI) loans of $196,000.

The table above includes the following:

- nonaccrual loans that are current of $3.11 million, 30-59 days past due of $906,000, 60-89 days past due of $492,000 and 90+ days past due of $1.35 million.
- performing loans purchased in the acquisition of CVB that are current of $59.08 million, 30-59 days past due of $345,000, 60-89 days past due of $172,000 and 90+ days past due of $23,000.

The past due status of loans as of December 31, 2015 was as follows:

(Dollars in thousands)	30 - 59 Days Past Due	60 - 89 Days Past Due	90+ Days Past Due	Total Past Due	PCI	Current1	Total Loans	90+ Days Past Due and Accruing2
Real estate – residential mortgage	$ 737	$ 146	$ 574	$ 1,457	$ 1,305	$ 184,001	$ 186,763	$ 268
Real estate – construction:								
Construction lending	—	—	—	—	—	5,996	5,996	—
Consumer lot lending	—	—	—	—	—	1,763	1,763	—
Commercial, financial and agricultural:								
Commercial real estate lending	1,475	1,280	423	3,178	10,359	204,079	217,616	172
Land acquisition and development lending	—	—	—	—	—	46,311	46,311	—
Builder line lending	—	—	359	359	—	20,612	20,971	—
Commercial business lending	20	86	321	427	1,958	68,779	71,164	321
Equity lines	378	—	612	990	286	48,835	50,111	—
Consumer	84	2	19	105	—	8,906	9,011	—
Consumer finance	15,046	2,264	830	18,140	—	273,615	291,755	—
Total	$ 17,740	$ 3,778	$ 3,138	$ 24,656	$ 13,908	$ 862,897	$ 901,461	$ 761

[1] For the purposes of the table above, "Current" includes loans that are 1-29 days past due.
[2] Includes PCI loans of $172,000.

The table above includes the following:

· nonaccrual loans that are current of $3.17 million, 30-59 days past due of $377,000, 60 89 days past due of $887,000 and 90+ days past due of $2.55 million.
· performing loans purchased in the acquisition of CVB that are current of $66.37 million, 30-59 days past due of $270,000, 60-89 days past due of $0 and 90+ days past due of $378,000.

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Loan modifications that were classified as TDRs during the three and six months ended June 30, 2016 and 2015 were as follows:

	Three Months Ended June 30, 2016			2015		
(Dollars in thousands)	Number of Loans	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Number of Loans	Pre-Modification Recorded Investment	Post-Modification Recorded Investment
Real estate – residential mortgage – interest rate concession	2	$ 736	$ 760	—	$ —	$ —
Commercial, financial and agricultural:						
Commercial real estate lending – interest rate concession	2	131	131	—	—	—
Commercial business lending – term concession	1	25	25	—	—	—
Consumer – interest rate concession	—	—	—	1	146	146
Total	5	$ 892	$ 916	1	$ 146	$ 146

	Six Months Ended June 30, 2016			2015		
(Dollars in thousands)	Number of Loans	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Number of Loans	Pre-Modification Recorded Investment	Post-Modification Recorded Investment
Real estate – residential mortgage – interest rate concession	3	$ 793	$ 817	1	$ 239	$ 239
Commercial, financial and agricultural:						
Commercial real estate lending – interest rate concession	2	131	131	1	15	15
Commercial business lending – interest rate concession	1	100	100	1	17	17
Commercial business lending – term concession	1	25	25	—	—	—
Consumer – interest rate concession	1	291	291	1	146	146

Total	8	$ 1,340	$ 1,364	4	$ 417	$ 417

A TDR payment default occurs when, within 12 months of the original TDR modification, either a full or partial charge-off occurs or a TDR becomes 90 days or more past due. There were no TDR defaults during the three and six months ended June 30, 2016 and 2015.

Impaired loans, which consisted solely of TDRs, and the related allowance at June 30, 2016 were as follows:

(Dollars in thousands)	Unpaid Principal Balance	Recorded Investment in Loans without Specific Reserve	Recorded Investment in Loans with Specific Reserve	Related Allowance	Average Balance-Impaired Loans	Interest Income Recognized
Real estate – residential mortgage	$ 3,561	$ 773	$ 2,665	$ 357	$ 3,464	$ 53
Commercial, financial and agricultural:						
Commercial real estate lending	2,354	55	2,050	416	2,130	13
Commercial business lending	199	—	196	37	208	4
Equity lines	32	30	—	—	32	1
Consumer	497	—	497	118	498	5
Total	$ 6,643	$ 858	$ 5,408	$ 928	$ 6,332	$ 76

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Impaired loans, which consisted solely of TDRs, and the related allowance at December 31, 2015 were as follows:

(Dollars in thousands)	Unpaid Principal Balance	Recorded Investment in Loans without Specific Reserve	Recorded Investment in Loans with Specific Reserve	Related Allowance	Average Balance-Impaired Loans	Interest Income Recognized
Real estate – residential mortgage	$ 2,828	$ 173	$ 2,516	$ 360	$ 2,718	$ 97
Commercial, financial and agricultural:						
Commercial real estate lending	2,522	61	2,258	438	2,361	35
Commercial business lending	99	—	99	28	108	1
Equity lines	32	30	—	—	30	1
Consumer	207	—	207	23	208	7
Total	$ 5,688	$ 264	$ 5,080	$ 849	$ 5,425	$ 141

PCI loans had an unpaid principal balance of $23.7 million and a carrying value of $12.4 million at June 30, 2016. Determining the fair value of purchased credit impaired loans required the Corporation to estimate cash flows expected to result from those loans and to discount those cash flows at appropriate rates of interest. For such loans, the excess of the cash flows expected at acquisition over the estimated fair value is recognized as interest income over the remaining lives of the loans and is called the accretable yield. The difference between contractually required payments at acquisition and the cash flows expected to be collected at acquisition reflects the effect of estimated credit losses and is called the nonaccretable difference, and is not recorded. In accordance with U.S. GAAP, there was no carry-over of previously established allowance for loan losses for acquired loans.

The following table presents a summary of the change in the accretable yield of the PCI loan portfolio for the six months ended June 30, 2016 and 2015:

(Dollars in thousands)	June 30, 2016	2015
Accretable yield, balance at beginning of period	$ 10,419	$ 13,488
Accretion	(1,029)	(1,534)
Reclassification of nonaccretable difference due to improvement in expected cash flows	656	—
Other changes, net	(302)	(383)
Accretable yield, balance at end of period	$ 9,744	$ 11,571

NOTE 4: Allowance for Loan Losses

The following table presents the changes in the allowance for loan losses by major classification during the six months ended June 30, 2016.

(Dollars in thousands)	Real Estate Residential Mortgage	Real Estate Construction	Commercial, Financial & Agricultural	Equity Lines	Consumer	Consumer Finance	Total
Allowance for loan losses:							
Balance at December 31, 2015	$ 2,471	$ 94	$ 7,755	$ 1,052	$ 243	$ 23,954	$ 35,569
Provision charged (credited) to operations							