

C & F FINANCIAL CORP
Form 10-Q
May 09, 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 March 31, 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 May 6, 2016, the latest practicable date for determination, 3,451,784 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)

	March 31, 2016 (unaudited)	December 31, 2015 *
Assets		
Cash and due from banks	\$ 10,429	\$ 9,679
Interest-bearing deposits in other banks	140,765	143,264
Total cash and cash equivalents	151,194	152,943
Securities—available for sale at fair value, amortized cost of \$209,202 and \$214,105, respectively	216,256	219,476
Loans held for sale, at fair value	25,426	44,000
Loans, net of allowance for loan losses of \$35,838 and \$35,569, respectively	889,172	865,892
Restricted stocks, at cost	3,403	3,345
Corporate premises and equipment, net	36,495	36,533
Other real estate owned, net of valuation allowance of \$56 and \$56, respectively	1,194	942
Accrued interest receivable	6,707	6,829
Goodwill	14,425	14,425
Core deposit intangible, net	1,411	1,618
Bank-owned life insurance	15,085	14,988
Other assets	44,056	44,085
Total assets	\$ 1,404,824	\$ 1,405,076
Liabilities		
Deposits		
Noninterest-bearing demand deposits	\$ 211,654	\$ 197,909
Savings and interest-bearing demand deposits	526,837	535,992
Time deposits	336,597	339,732
Total deposits	1,075,088	1,073,633
Short-term borrowings	12,538	12,093
Long-term borrowings	136,029	140,029
Trust preferred capital notes	25,148	25,139
Accrued interest payable	725	698
Other liabilities	21,952	22,425

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Total liabilities	1,271,480	1,274,017
Commitments and contingent liabilities		
Shareholders' Equity		
Common stock (\$1.00 par value, 8,000,000 shares authorized, 3,451,057 and 3,437,787 shares issued and outstanding, respectively, includes 145,700 and 137,200 of unvested shares, respectively)	3,305	3,301
Additional paid-in capital	10,622	10,420
Retained earnings	117,487	116,167
Accumulated other comprehensive income, net	1,930	1,171
Total shareholders' equity	133,344	131,059
Total liabilities and shareholders' equity	\$ 1,404,824	\$ 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 March 31,	
	2016	2015
Interest income		
Interest and fees on loans	\$ 20,206	\$ 19,018
Interest on interest-bearing deposits and federal funds sold	177	100
Interest and dividends on securities		
U.S. government agencies and corporations	101	128
Mortgage-backed securities	334	299
Tax-exempt obligations of states and political subdivisions	981	1,079
Taxable obligations of states and political subdivisions	46	42
Corporate bonds and other	120	137
Total interest income	21,965	20,803
Interest expense		
Savings and interest-bearing deposits	292	275
Time deposits	809	681
Borrowings	878	786
Trust preferred capital notes	283	289
Total interest expense	2,262	2,031
Net interest income	19,703	18,772
Provision for loan losses	4,600	3,515
Net interest income after provision for loan losses	15,103	15,257
Noninterest income		
Gains on sales of loans	1,730	1,645
Service charges on deposit accounts	963	1,015
Other service charges and fees	1,684	1,441
Net gains on calls and sales of available for sale securities	1	1
Investment services income	276	377
Other	509	622
Total noninterest income	5,163	5,101
Noninterest expenses		
Salaries and employee benefits	10,171	10,164
Occupancy	2,334	2,160
Other	4,585	4,426
Total noninterest expenses	17,090	16,750
Income before income taxes	3,176	3,608
Income tax expense	752	963

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Net income	\$ 2,424	\$ 2,645
Net income per share - basic	\$ 0.70	\$ 0.77
Net income per share - assuming dilution	\$ 0.70	\$ 0.77

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 March 31,	
	2016	2015
Net income	\$ 2,424	\$ 2,645
Other comprehensive income:		
Changes in defined benefit plan assets and benefit obligations		
Changes in net (loss) gain arising during the period ¹	38	(29)
Tax effect	(13)	11
Amortization of prior service cost arising during the period ¹	(15)	14
Tax effect	5	(5)
Net of tax amount	15	(9)
Unrealized loss on cash flow hedging instruments		
Unrealized holding loss arising during the period	(538)	(148)
Tax effect	188	52
Net of tax amount	(350)	(96)
Unrealized holding gains on securities		
Unrealized holding gains arising during the period	1,684	523
Tax effect	(589)	(183)
Reclassification adjustment for gains included in net income ²	(1)	(1)
Tax effect	—	—
Net of tax amount	1,094	339
Other comprehensive income	759	234
Comprehensive income	\$ 3,183	\$ 2,879

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	—	—	2,424	—	2,424
Other comprehensive income	—	—	—	759	759
Share-based compensation	—	305	—	—	305
Restricted stock vested	7	(7)	—	—	—
Common stock issued	1	36	—	—	37
Common stock purchased	(4)	(132)	—	—	(136)
Cash dividends declared – common stock (\$0.32 per share)	—	—	(1,104)	—	(1,104)
Balance March 31, 2016	\$ 3,305	\$ 10,622	\$ 117,487	\$ 1,930	\$ 133,344

	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	—	—	2,645	—	2,645
Other comprehensive income	—	—	—	234	234
Share-based compensation	—	264	—	—	264
Restricted stock vested	7	(7)	—	—	—
Common stock issued	1	32	—	—	33
Common stock purchased	(41)	(1,409)	—	—	(1,450)
Cash dividends declared – common stock (\$0.30 per share)	—	—	(1,018)	—	(1,018)
Balance March 31, 2015	\$ 3,250	\$ 8,336	\$ 109,412	\$ 3,320	\$ 124,318

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

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CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	Three Months Ended March 31,	
	2016	2015
Operating activities:		
Net income	\$ 2,424	\$ 2,645
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	621	653
Provision for loan losses	4,600	3,515
Provision for indemnifications	52	58
Share-based compensation	305	264
Net accretion of certain acquisition-related fair value adjustments	(312)	(738)
Accretion of discounts and amortization of premiums on securities, net	423	372
Realized gains on sales and calls of securities	(1)	(1)
Net realized gains on sales of other real estate owned	(18)	—
Net realized gains on sale of corporate premises and equipment	(46)	(3)
Increase in bank-owned life insurance cash surrender value	(86)	(88)
Origination of loans held for sale	(103,972)	(115,948)
Proceeds from sales of loans held for sale	124,276	104,395
Gains on sales of loans held for sale	(1,730)	(1,645)
Change in other assets and liabilities:		
Accrued interest receivable	122	342
Other assets	(717)	(910)
Accrued interest payable	27	(10)
Other liabilities	(857)	387
Net cash provided by (used in) operating activities	25,111	(6,712)
Investing activities:		
Proceeds from maturities, calls and sales of securities available for sale	12,222	8,554
Purchases of securities available for sale	(7,649)	(7,220)
Net (redemptions) issuance of restricted stocks	(58)	97
Net increase in loans	(27,674)	(10,855)
Proceeds from sales of other real estate owned	160	46
Purchases of corporate premises and equipment, net	(558)	(305)
Net cash used in investing activities	(23,557)	(9,683)
Financing activities:		
Net increase in demand, interest-bearing demand and savings deposits	4,590	32,550
Net decrease in time deposits	(3,135)	(6,537)
Net decrease in borrowings	(3,555)	(1,364)
Issuance of common stock	37	33

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Purchase of common stock	(136)	(1,450)
Cash dividends	(1,104)	(1,018)
Net cash (used in) provided by financing activities	(3,303)	22,214
Net (decrease) increase in cash and cash equivalents	(1,749)	5,819
Cash and cash equivalents at beginning of period	152,943	167,616
Cash and cash equivalents at end of period	\$ 151,194	\$ 173,435
Supplemental disclosure		
Interest paid	\$ 2,226	\$ 2,279
Income taxes paid	13	92
Supplemental disclosure of noncash investing and financing activities		
Unrealized gains on securities available for sale	\$ 1,684	\$ 523
Transfers between loans and other real estate owned	394	50
Pension adjustment	23	(15)
Unrealized losses on cash flow hedging instruments	(538)	(148)

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

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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 Subsidiaries (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 as of March 31, 2016 and December 31, 2015 consisted of (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

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sell mortgage loans and (2) interest rate swaps that qualified as cash flow hedges on the Corporation's trust preferred capital notes. Because the IRLCs and forward sales commitments are not designated as hedging instruments, adjustments to reflect unrealized gains and losses resulting from changes in fair value of the Corporation's IRLCs and forward sales commitments and realized gains and losses upon ultimate sale of the loans 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 first quarter of 2016 included expense, net of forfeitures, of \$305,000 (\$189,000 after tax) for restricted stock granted during 2011 through 2016. As of March 31, 2016, there was \$3.11 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 three 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	16,150	38.16
Vested	(7,350)	23.20
Forfeitures	(300)	41.78
Unvested, March 31, 2016	145,700	\$ 37.34

	2015	
	Shares	Weighted-Average Grant Date Fair Value
Unvested, December 31, 2014	135,600	\$ 34.34
Granted	16,650	37.72
Vested	(6,750)	20.21
Forfeitures	(1,100)	36.98
Unvested, March 31, 2015	144,400	\$ 35.37

There was no stock option activity during the three months ended March 31, 2016 and 2015. Stock options outstanding at March 31, 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 March 31, 2016	24,000	\$ 38.39	0.6	\$ 12
Options outstanding and exercisable at March 31, 2015	100,762	\$ 37.75	0.9	\$ —

* Weighted average

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Recent Significant Accounting Pronouncements:

In July 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-12, “Plan Accounting: Defined Benefit Pension Plans (Topic 960), Defined Contribution Pension Plans (Topic 962), and Health and Welfare Benefit Plans (Topic 965) – 1. Fully Benefit-Responsive Investment Contracts, 2. Plan Investment Disclosures, and 3. Measurement Date Practical Expedient.” The amendments within this ASU are in three parts. Among other things, Part I amendments designate contract value as the only required measure for fully benefit-responsive investment contracts; Part II amendments eliminate the requirement that plans disclose: (a) individual investments that represent five percent or more of net assets available for benefits; and (b) the net appreciation or depreciation for investments for both participant-directed investments and nonparticipant-directed investments; and Part III amendments provide a practical expedient to permit plans to measure investments and investment-related accounts (e.g., a liability for a pending trade with a broker) as of a month-end date that is closest to the plan’s fiscal year-end, when the fiscal period does not coincide with month-end. The amendments in Parts I and II of this ASU are effective on a retrospective basis and Part III is effective on a prospective basis, for fiscal years beginning after December 15, 2015. Early adoption is permitted. The adoption of ASU 2015-12 did not have a material effect on its financial statements.

In September 2015, the FASB issued ASU 2015-16, “Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments.” The amendments in ASU 2015-16 require that an acquirer recognize adjustments to estimated amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The amendments require that the acquirer record, in the same period’s financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the estimated amounts, calculated as if the accounting had been completed at the acquisition date. The amendments also require an entity to present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the estimated amounts had been recognized as of the acquisition date. The amendments in this ASU are effective for public business entities for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. The amendments should be applied prospectively to adjustments to provisional amounts that occur after the effective date with earlier application permitted for financial statements that have not been issued. The adoption of ASU 2015-16 did not have a material effect on its financial statements.

In January 2016, the FASB issued ASU 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

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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.

On March 30, 2016, the FASB issued ASU 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 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. Additionally, ASU 2016-09 also simplifies two areas specific to entities other than public business entities, such as the practical expedient for expected term and the option to use intrinsic value for measuring awards. 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.

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:

(Dollars in thousands)	March 31, 2016			Fair Value
	Amortized	Gross Unrealized	Gross Unrealized	
	Cost	Gains	Losses	
U.S. government agencies and corporations	\$ 16,159	\$ 22	\$ (5)	\$ 16,176
Mortgage-backed securities	75,044	1,245	(11)	76,278
Obligations of states and political subdivisions	117,999	5,898	(95)	123,802
	\$ 209,202	\$ 7,165	\$ (111)	\$ 216,256

(Dollars in thousands)	December 31, 2015			Fair Value
	Amortized	Gross Unrealized	Gross Unrealized	
	Cost	Gains	Losses	
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 March 31, 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.

(Dollars in thousands)	March 31, 2016	
	Amortized	
	Cost	Fair Value
Due in one year or less	\$ 26,642	\$ 26,943
Due after one year through five years	133,804	138,273
Due after five years through ten years	35,801	37,102
Due after ten years	12,955	13,938
	\$ 209,202	\$ 216,256

Proceeds from the maturities, calls and sales of securities available for sale for the three months ended March 31, 2016 and 2015 were \$12.22 million and \$8.55 million, respectively, resulting in gross realized gains of \$1,000 for both the three months ended March 31, 2016 and 2015.

The Corporation pledges securities to primarily secure public deposits and repurchase agreements. Securities with an aggregate amortized cost of \$90.16 million and an aggregate fair value of \$93.88 million were pledged at March 31, 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 March 31, 2016, by duration of the period of the unrealized loss, are shown below.

(Dollars in thousands)	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. government agencies and corporations	\$ —	\$ —	\$ 994	\$ 5	\$ 994	\$ 5
Mortgage-backed securities	1,969	3	2,223	8	4,192	11
Obligations of states and political subdivisions	2,882	17	3,816	78	6,698	95
Total temporarily impaired securities	\$ 4,851	\$ 20	\$ 7,033	\$ 91	\$ 11,884	\$ 111

There were 25 debt securities totaling \$11.88 million considered temporarily impaired at March 31, 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 first 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, primarily due to the Federal Open Market Committee's (FOMC) decision to reduce the number of anticipated increases in the Federal Funds rate in 2016, citing the weakness of the global economy as a reason for greater caution about the prospects for domestic growth. Interest rates in the municipal bond sector, which includes the Corporation's obligations of states and political subdivisions, were also lower during the first quarter of 2016, driven by the same factors noted above that affected the overall interest rate environment, offset to some degree by an increase in the overall supply of municipal debt due to an increase in new issuance volume. At March 31, 2016, approximately 97 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, approximately 83 percent were rated "A" or better, as measured by market value, at March 31, 2016. For the approximately 17 percent not rated "A" or better, as measured by market value at March 31, 2016, the Corporation considers these 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 March 31, 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.

(Dollars in thousands)	Less Than 12 Months		12 Months or More		Total	
	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 March 31, 2016 and consisted of \$3.26 million of Federal Home Loan Bank (FHLB) stock and \$145,000 of Community Bankers Bank (CBB) stock. Restricted stock is generally viewed as a long-term investment 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 March 31, 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)	March 31, 2016	December 31, 2015
Real estate – residential mortgage	\$ 184,860	\$ 186,763
Real estate – construction 1	27,214	7,759
Commercial, financial and agricultural 2	364,708	356,062
Equity lines	49,901	50,111
Consumer	9,139	9,011

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Consumer finance	289,188	291,755
	925,010	901,461
Less allowance for loan losses	(35,838)	(35,569)
Loans, net	\$ 889,172	\$ 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 \$243,000 and \$266,000 of demand deposit overdrafts at March 31, 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 (or acquired loans) that were recorded at fair value at the acquisition date and are included in the consolidated balance sheet at March 31, 2016 and December 31, 2015 were as follows:

(Dollars in thousands)	March 31, 2016			December 31, 2015		
	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	\$ 24,420	\$ 67,033	\$ 91,453	\$ 25,701	\$ 70,993	\$ 96,694
Carrying amount						
Real estate – residential mortgage	\$ 1,188	\$ 15,055	\$ 16,243	\$ 1,305	\$ 15,478	\$ 16,783
Commercial, financial and agricultural	11,304	34,315	45,619	12,317	37,287	49,604
Equity lines	278	13,765	14,043	286	13,969	14,255
Consumer	—	227	227	—	288	288
Total acquired loans	\$ 12,770	\$ 63,362	\$ 76,132	\$ 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.

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Loans on nonaccrual status were as follows:

(Dollars in thousands)	March 31, 2016	December 31, 2015
Real estate – residential mortgage	\$ 2,293	\$ 2,297
Real estate – construction:		
Construction lending	—	—
Consumer lot lending	—	—
Commercial, financial and agricultural:		
Commercial real estate lending	2,446	2,515
Land acquisition and development lending	—	—
Builder line lending	—	359
Commercial business lending	155	86
Equity lines	750	881
Consumer	4	19
Consumer finance	184	830
Total loans on nonaccrual status	\$ 5,832	\$ 6,987

The past due status of loans as of March 31, 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	\$ 988	\$ 411	\$ 380	\$ 1,779	\$ 1,188	\$ 181,893	\$ 184,860	\$ 203
Real estate – construction:								
Construction lending	—	—	—	—	—	22,915	22,915	—
Consumer lot lending	—	—	—	—	—	4,299	4,299	—
Commercial, financial and agricultural:								
Commercial real estate lending ³	94	4,841	661	5,596	9,421	195,872	210,889	32
Land acquisition and development lending	—	—	—	—	—	49,918	49,918	—
Builder line lending	—	—	—	—	—	25,900	25,900	—
	14	82	—	96	1,883	76,021	78,001	—

Commercial business
lending

Equity lines	133	—	—	133	278	49,490	49,901	—
Consumer	26	5	4	35	—	9,104	9,139	2
Consumer finance	7,293	699	184	8,176	—	281,012	289,188	—
Total	\$ 8,548	\$ 6,038	\$ 1,229	\$ 15,815	\$ 12,770	\$ 896,424	\$ 925,010	\$ 237

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 \$235,000.

³ Commercial real estate loans past due 60-89 days at March 31, 2016 consist of loans to one borrower which were 60 days past due.

The table above includes the following:

- nonaccrual loans that are current of \$3.82 million, 30-59 days past due of \$288,000, 60-89 days past due of \$493,000 and 90+ days past due of \$1.23 million.
- performing loans purchased in the acquisition of CVB that are current of \$62.95 million, 30-59 days past due of \$165,000, 60-89 past dues of \$155,000 and 90+ days past due of \$89,000.

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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	Current ¹	Total Loans	90+ Days Past Due and Accruing ²
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.

Loan modifications that were classified as TDRs during the three months ended March 31, 2016 and 2015 were as follows:

	Three Months Ended March 31,					
	2016	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	2015	Pre-Modification Recorded Investment	Post-Modification Recorded Investment
(Dollars in thousands)	Number of Loans			Number of Loans		
Real estate – residential mortgage – interest rate concession	1	\$ 57	\$ 57	1	\$ 239	\$ 239
Commercial, financial and agricultural:						
Commercial real estate lending – interest rate concession	—	—	—	1	15	15
Commercial business lending – interest rate concession	1	100	100	1	17	17
Consumer – interest rate concession	1	291	291	—	—	—
Total	3	\$ 448	\$ 448	3	\$ 271	\$ 271

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 months ended March 31, 2016 or 2015.

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Impaired loans, which consisted solely of TDRs, and the related allowance at March 31, 2016 were as follows:

	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
(Dollars in thousands)						
Real estate – residential mortgage	\$ 2,811	\$ 172	\$ 2,528	\$ 344	\$ 2,708	\$ 26
Commercial, financial and agricultural:						
Commercial real estate lending	2,475	58	2,190	435	2,265	8
Commercial business lending	189	—	186	39	191	2
Equity lines	32	30	—	—	30	—
Consumer	498	—	498	74	498	4
Total	\$ 6,005	\$ 260	\$ 5,402	\$ 892	\$ 5,692	\$ 40

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

	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
(Dollars in thousands)						
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 \$24.4 million and a carrying value of \$12.8 million at March 31, 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 three months ended March 31, 2016 and 2015:

(Dollars in thousands)	March 31,	
	2016	2015
Accretable yield, balance at beginning of period	\$ 10,419	\$ 13,488
Accretion	(462)	(753)
Reclassification of nonaccretable difference due to improvement in expected cash flows	441	3
Other changes, net	(263)	(362)
Accretable yield, balance at end of period	\$ 10,135	\$ 12,376

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NOTE 4: Allowance for Loan Losses

The following table presents the changes in the allowance for loan losses by major classification during the three months ended March 31, 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 to operations	(10)	192	(226)	91	(47)	4,600	4,600
Loans charged off	—	—	(35)	(55)	(71)	(5,601)	(5,762)
Recoveries of loans previously charged off	26	—	160	—	127	1,118	1,431
Balance at March 31, 2016	\$ 2,487	\$ 286	\$ 7,654	\$ 1,088	\$ 252	\$ 24,071	\$ 35,838

The following table presents the changes in the allowance for loan losses by major classification during the three months ended March 31, 2015.

(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, 2014	\$ 2,313	\$ 434	\$ 7,744	\$ 812	\$ 211	\$ 24,092	\$ 35,606
Provision charged to operations	15	—	—	—	—	3,500	3,515
Loans charged off	(20)	—	(13)	—	(59)	(4,690)	(4,782)
Recoveries of loans previously charged off	162	—	8	—	41	1,147	1,358
Balance at March 31, 2015	\$ 2,470	\$ 434	\$ 7,739	\$ 812	\$ 193	\$ 24,049	\$ 35,697

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The following table presents, as of March 31, 2016, the total allowance for loan losses, the allowance by impairment methodology (individually evaluated for impairment, collectively evaluated for impairment or PCI loans), the total loans and loans by impairment methodology (individually evaluated for impairment, collectively evaluated for impairment or PCI loans).

(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 March 31, 2016	\$ 2,487	\$ 286	\$ 7,654	\$ 1,088	\$ 252	\$ 24,071	\$ 35,838
Ending balance: individually evaluated for impairment	\$ 344	\$ —	\$ 474	\$ —	\$ 74	\$ —	\$ 892
Ending balance: collectively evaluated for impairment	\$ 2,143	\$ 286	\$ 7,145	\$ 1,088	\$ 178	\$ 24,071	\$ 34,911
Ending balance: acquired loans - PCI	\$ —	\$ —	\$ 35	\$ —	\$ —	\$ —	\$ 35
Loans:							
Balance at March 31, 2016	\$ 184,860	\$ 27,214	\$ 364,708	\$ 49,901	\$ 9,139	\$ 289,188	\$ 925,010
Ending balance: individually evaluated for impairment	\$ 2,700	\$ —	\$ 2,434	\$ 30	\$ 498	\$ —	\$ 5,662
Ending balance: collectively evaluated for impairment	\$ 180,972	\$ 27,214	\$ 350,970	\$ 49,593	\$ 8,641	\$ 289,188	\$ 906,578
Ending balance: acquired loans - PCI	\$ 1,188	\$ —	\$ 11,304	\$ 278	\$ —	\$ —	\$ 12,770

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The following table presents, as of December 31, 2015, the total allowance for loan losses, the allowance by impairment methodology (individually evaluated for impairment or collectively evaluated for impairment), the total loans and loans by impairment methodology (individually evaluated for impairment or collectively evaluated for impairment).

(Dollars in thousands)	Real Estate Residential Mortgage	Real Estate Construction	Commercial, Financial & Agricultural	Equity Lines	Consumer	Consumer Finance	Total
Allowance for loan losses:							
Ending balance	\$ 2,471	\$ 94	\$ 7,755	\$ 1,052	\$ 243	\$ 23,954	\$ 35,569
Ending balance: individually evaluated for impairment	\$ 360	\$ —	\$ 466	\$ —	\$ 23	\$ —	\$ 849
Ending balance: collectively evaluated for impairment	\$ 2,111	\$ 94	\$ 7,254	\$ 1,052	\$ 220	\$ 23,954	\$ 34,685
Ending balance: acquired loans - PCI	\$ —	\$ —	\$ 35	\$ —	\$ —	\$ —	\$ 35
Loans:							
Ending balance	\$ 186,763	\$ 7,759	\$ 356,062	\$ 50,111	\$ 9,011	\$ 291,755	\$ 901,461
Ending balance: individually evaluated for impairment	\$ 2,689	\$ —	\$ 2,418	\$ 30	\$ 207	\$ —	\$ 5,344
Ending balance: collectively evaluated for impairment	\$ 182,769	\$ 7,759	\$ 341,327	\$ 49,795	\$ 8,804	\$ 291,755	\$ 882,209
Ending balance: acquired loans - PCI	\$ 1,305	\$ —	\$ 12,317	\$ 286	\$ —	\$ —	\$ 13,908

Loans by credit quality indicators as of March 31, 2016 were as follows:

(Dollars in thousands)	Pass	Special Mention	Substandard	Substandard Nonaccrual	Total
Real estate – residential mortgage	\$ 179,137	\$ 1,275	\$ 2,155	\$ 2,293	\$ 184,860
Real estate – construction: Construction lending	22,827	—	88	—	22,915

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Consumer lot lending	4,299	—	—	—	4,299
Commercial, financial and agricultural:					
Commercial real estate lending	190,200	4,866	13,377	2,446	210,889
Land acquisition and development lending	48,456	710	752	—	49,918
Builder line lending	24,819	718	363	—	25,900
Commercial business lending	67,009	164	10,673	155	78,001
Equity lines	48,351	588	212	750	49,901
Consumer	8,614	31	490	4	9,139
	\$ 593,712	\$ 8,352	\$ 28,110	\$ 5,648	\$ 635,822

¹ At March 31, 2016, the Corporation did not have any loans classified as Doubtful or Loss.

Included in the table above are loans purchased in connection with the acquisition of CVB of \$68.11 million pass rated, \$2.96 million special mention, \$4.82 million substandard and \$248,000 substandard nonaccrual.

(Dollars in thousands)	Performing	Non-Performing	Total
Consumer finance	\$ 289,004	\$ 184	\$ 289,188

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Loans by credit quality indicators as of December 31, 2015 were as follows:

(Dollars in thousands)	Pass	Special Mention	Substandard	Substandard Nonaccrual	Total
Real estate – residential mortgage	\$ 181,107	\$ 1,276	\$ 2,083	\$ 2,297	\$ 186,763
Real estate – construction:					
Construction lending	5,924	72	—	—	5,996
Consumer lot lending	1,763	—	—	—	1,763
Commercial, financial and agricultural:					
Commercial real estate lending	195,479	6,089	13,533	2,515	217,616
Land acquisition and development lending	45,061	856	394	—	46,311
Builder line lending	19,252	829	531	359	20,971
Commercial business lending	57,928	1,306	11,844	86	71,164
Equity lines	48,392	617	221	881	50,111
Consumer	8,760	116			