C & F FINANCIAL CORP
Form 10-Q
May 11, 2015

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, 2015

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 (State or other jurisdiction of incorporation or organization)	54-1680165 (I.R.S. Employer Identification No.)
802 Main Street West Point, VA (Address of principal executive offices)	23181 (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 8, 2015, the latest practicable date for determination, 3,394,224 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, 2015 (unaudited)	December 31, 2014 *
Assets		
Cash and due from banks	$ 9,661	$ 10,749
Interest-bearing deposits in other banks	163,774	156,867
Total cash and cash equivalents	173,435	167,616
Securities—available for sale at fair value, amortized cost of $212,851 and $214,437, respectively	220,834	221,897
Loans held for sale, at fair value	41,477	28,279
Loans, net of allowance for loan losses of $35,697 and $35,606, respectively	808,153	800,198
Restricted stocks, at cost	3,345	3,442
Corporate premises and equipment, net	36,929	37,295
Other real estate owned, net of valuation allowance of $0 and $29, respectively	790	786
Accrued interest receivable	6,079	6,421
Goodwill	14,425	14,425
Core deposit intangible, net	2,321	2,583
Bank-owned life insurance	14,582	14,484
Other assets	41,455	40,761
Total assets	$ 1,363,825	$ 1,338,187
Liabilities		
Deposits		
Noninterest-bearing demand deposits	$ 189,730	$ 161,839
Savings and interest-bearing demand deposits	502,414	497,755
Time deposits	359,723	366,507
Total deposits	1,051,867	1,026,101
Short-term borrowings	13,072	14,436
Long-term borrowings	127,488	127,488
Trust preferred capital notes	25,112	25,103
Accrued interest payable	730	740
Other liabilities	21,238	20,709

Total liabilities	1,239,507	1,214,577
Shareholders' Equity		
Common stock ($1.00 par value, 8,000,000 shares authorized, 3,393,935 and 3,418,750 shares issued and outstanding, respectively, includes, 144,400 and 135,600 of unvested shares, respectively)	3,250	3,283
Additional paid-in capital	8,336	9,456
Retained earnings	109,412	107,785
Accumulated other comprehensive income, net	3,320	3,086
Total shareholders' equity	124,318	123,610
Total liabilities and shareholders' equity	$ 1,363,825	$ 1,338,187

* 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,	
	2015	2014
Interest income		
Interest and fees on loans	$ 19,018	$ 19,467
Interest on interest-bearing deposits and federal funds sold	100	81
Interest and dividends on securities		
U.S. government agencies and corporations	128	194
Tax-exempt obligations of states and political subdivisions	1,079	1,127
Taxable obligations of states and political subdivisions	42	—
Corporate bonds and other	436	425
Total interest income	20,803	21,294
Interest expense		
Savings and interest-bearing deposits	275	272
Time deposits	681	841
Borrowings	786	870
Trust preferred capital notes	289	237
Total interest expense	2,031	2,220
Net interest income	18,772	19,074
Provision for loan losses	3,515	3,510
Net interest income after provision for loan losses	15,257	15,564
Noninterest income		
Gains on sales of loans	1,645	1,169
Service charges on deposit accounts	1,015	1,062
Other service charges and fees	1,441	1,381
Net gains on calls and sales of available for sale securities	1	—
Investment services income	377	283
Other income	622	756
Total noninterest income	5,101	4,651
Noninterest expenses		
Salaries and employee benefits	10,164	9,159
Occupancy	2,160	2,132
Other	4,426	4,800
Total noninterest expenses	16,750	16,091
Income before income taxes	3,608	4,124
Income tax expense	963	1,232
Net income	2,645	2,892

Net income per share - basic	$ 0.77	$ 0.85
Net income per share - assuming dilution	$ 0.77	$ 0.83
Weighted average number of shares outstanding - basic	3,414,172	3,400,839
Weighted average number of shares outstanding - assuming dilution	3,414,539	3,491,640

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,	
	2015	2014
Net income	$ 2,645	$ 2,892
Other comprehensive income, net:		
Changes in defined benefit plan assets and benefit obligations		
Changes in net loss arising during the period1	(29)	(8)
Tax effect	11	3
Amortization of prior service cost arising during the period1	14	17
Tax effect	(5)	(6)
Net of tax amount	(9)	6
Unrealized (loss) gain on cash flow hedging instruments		
Unrealized holding (loss) gain arising during the period	(148)	40
Tax effect	52	(15)
Net of tax amount	(96)	25
Unrealized holding gains on securities		
Unrealized holding gains arising during the period	523	3,170
Tax effect	(183)	(1,101)
Reclassification adjustment for gains included in net income2	(1)	—
Tax effect	—	—
Net of tax amount	339	2,069
Other comprehensive income, net:	234	2,100
Comprehensive income, net	$ 2,879	$ 4,992

[1] These items are included in the computation of net periodic benefit cost. See Note 7, 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 (Loss)	Total Shareholders' Equity
Balance December 31, 2013	$ 3,269	$ 10,686	$ 99,492	$ (266)	$ 113,181
Comprehensive income:					
Net income	—	—	2,892	—	2,892
Other comprehensive income, net	—	—	—	2,100	2,100
Common stock warrant repurchased					
Share-based compensation	—	232	—	—	232
Restricted stock vested	2	(2)	—	—	—
Common stock issued	1	33	—	—	34
Cash dividends declared – common stock ($0.29 per share)	—	—	(988)	—	(988)
Balance March 31, 2014	$ 3,272	$ 10,949	$ 101,396	$ 1,834	$ 117,451

	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, net	—	—	—	234	234
Share-based compensation	—	264	—	—	264
Restricted stock vested	7	(7)	—	—	—
Common stock issued	1	32	—	—	33
Common stock repurchased	(41)	(1,409)	—	—	(1,450)
	—	—	(1,018)	—	(1,018)

Cash dividends declared – common stock ($0.30 per share)					
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,	
	2015	2014
Operating activities:		
Net income	$ 2,645	$ 2,892
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation	653	684
Provision for loan losses	3,515	3,510
Provision for indemnifications	58	46
Share-based compensation	264	232
Net accretion of certain acquisition-related fair value adjustments	(738)	(820)
Accretion of discounts and amortization of premiums on securities, net	372	333
Realized gains on sales and calls of securities	(1)	—
Net realized gains on sales of other real estate owned	—	(121)
Net realized gains on sale of corporate premises and equipment	(3)	(48)
Increase in bank-owned life insurance cash surrender value	(88)	(83)
Origination of loans held for sale	(115,948)	(91,384)
Proceeds from sales of loans held for sale	104,395	99,802
Gains on sales of loans held for sale	(1,645)	(1,169)
Change in other assets and liabilities:		
Accrued interest receivable	342	334
Other assets	(910)	(2,401)
Accrued interest payable	(10)	(13)
Other liabilities	387	323
Net cash (used in) provided by operating activities	(6,712)	12,117
Investing activities:		
Proceeds from maturities, calls and sales of securities available for sale	8,554	16,586
Purchases of securities available for sale	(7,220)	(7,284)
Net redemptions of restricted stocks	97	646
Net increase in customer loans	(10,855)	(1,258)
Proceeds from sales of other real estate owned	46	2,483
Purchases of corporate premises and equipment, net	(305)	(451)
Net cash (used in) provided by investing activities	(9,683)	10,722
Financing activities:		
Net increase in demand, interest-bearing demand and savings deposits	32,550	26,233
Net decrease in time deposits	(6,537)	(7,059)
Net (decrease) increase in borrowings	(1,364)	3,708
Issuance of common stock	33	34

Repurchase of common stock	(1,450)	—
Cash dividends	(1,018)	(988)
Net cash provided by financing activities	22,214	21,928
Net increase in cash and cash equivalents	5,819	44,767
Cash and cash equivalents at beginning of year	167,616	148,139
Cash and cash equivalents at end of period	$ 173,435	$ 192,906
Supplemental disclosure		
Interest paid	$ 2,279	$ 2,233
Income taxes paid	92	28
Supplemental disclosure of noncash investing and financing activities		
Unrealized gains on securities available for sale	$ 523	$ 3,170
Transfers between loans and other real estate owned	50	180
Pension adjustment	(15)	9
Unrealized (loss) gain on cash flow hedging instruments	(148)	40

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, 2014.

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. On October 1, 2013, the Corporation acquired Central Virginia Bankshares, Inc. (CVBK) and its wholly-owned subsidiary, Central Virginia Bank (CVB), which was an independent commercial bank chartered under the laws of the Commonwealth of Virginia. On March 22, 2014, CVBK was merged with and into C&F Financial Corporation and CVB was merged with and into C&F Bank.

The Bank has five wholly-owned active subsidiaries: C&F Mortgage Corporation and Subsidiary (C&F Mortgage), C&F Finance Company (C&F Finance), C&F Investment Services, Inc., 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 Investment Services, Inc., organized in April 1995, is a full-service brokerage firm offering a comprehensive range of investment services. 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 9.

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, projected cash flows of purchased credit impaired 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. See Note 2 for additional information about reclassifications related to the adoption of new accounting standards.

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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, 2015 and December 31, 2014 consisted of (1) the fair value of interest rate lock commitments (IRLCs) on mortgage loans that will be sold in the secondary market and the related forward commitments to 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 classified as noninterest income. The Corporation's IRLCs and forward loan sales commitments are described more fully in Note 8 and Note 10. 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. The cash flow hedges are described more fully in Note 11.

Share-Based Compensation: Compensation expense for the first quarter of 2015 included expense, net of forfeitures, of $264,000 ($164,000 after tax), for restricted stock granted during 2010 through 2015. As of March 31, 2015, there was $3.10 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 2015 and 2014 is presented below:

	Shares	Weighted-Average Grant Date Fair Value
Unvested, January 1, 2015	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

	Shares	Weighted-Average Grant Date Fair Value
Unvested, January 1, 2014	120,183	$ 31.18
Granted	15,050	41.76

Vested	(2,500)		12.87
Forfeitures	(350)		39.46
Unvested, March 31, 2014	132,383	$	32.71

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There was no stock option activity during the three months ended March 31, 2015 and 2014. Stock options outstanding at March 31, 2015 and 2014 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, 2015	100,762	$ 37.75	0.9	$ —
Options outstanding and exercisable at March 31, 2014	164,150	$ 38.21	1.4	$ —

* Weighted average

Recent Significant Accounting Pronouncements:

In January 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-01, Investments-Equity Method and Joint Ventures - Accounting for Investments in Qualified Affordable Housing Projects (a consensus of the FASB Emerging Issues Task Force). The amendments in this ASU permit reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense (benefit). The amendments in this ASU should be applied retrospectively to all periods presented. A reporting entity that uses the effective yield method to account for its investments in qualified affordable housing projects before the date of adoption may continue to apply the effective yield method for those preexisting investments. The amendments in this ASU became effective for public business entities for annual periods and interim reporting periods within those annual periods, beginning after December 15, 2014. The adoption of ASU 2014-01 did not have a material effect on the Corporation's financial statements. The adoption of ASU 2014-01 is described further in Note 2.

In January 2014, the FASB issued ASU 2014-04, Receivables - Troubled Debt Restructurings by Creditors - Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure (a consensus of the FASB Emerging Issues Task Force). The amendments in this ASU clarify that if or when an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendments require interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. The amendments in this ASU became effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. The adoption of ASU 2014-04 did not have a material effect on the Corporation's financial statements.

In June 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers: Topic 606. This ASU applies to any entity using U.S. GAAP that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards. The guidance supersedes the revenue recognition requirements in Revenue Recognition-Topic 605, most industry-specific guidance, and some cost guidance included in Revenue Recognition-Construction-Type and Production-Type Contracts-Subtopic 605-35. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To be in alignment with the core principle, an entity must apply a five step process including: identification of the contract(s) with a customer, identification of performance obligations in the contract(s), determination of the transaction price, allocation of the transaction price to the performance obligations, and recognition of revenue when (or as) the entity satisfies a performance obligation. Additionally, the existing requirements for the recognition of a gain or loss on the transfer of nonfinancial assets that are not in a contract with a customer have also been amended to be consistent with the guidance on recognition and measurement. The amendments in this ASU are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early adoption is not permitted. The Corporation does not expect the adoption of ASU 2014-09 to have a material effect on its financial statements.

In June 2014, the FASB issued ASU No. 2014-11, Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures. This ASU aligns the accounting for repurchase-to-maturity transactions and repurchase agreements executed as a repurchase financing with the accounting for other typical repurchase agreements. The new guidance eliminates sale accounting for repurchase-to-maturity transactions and supersedes the guidance under which a transfer of a financial asset and a contemporaneous repurchase financing could be accounted for on a combined basis as a forward agreement. The amendments in the ASU also require a new disclosure for transactions economically similar to repurchase agreements in which the transferor retains substantially all of the exposure to the economic return on the transferred financial assets throughout the term of the transaction. Additional disclosures will be required for the nature of collateral pledged in repurchase agreements and similar transactions accounted for as secured borrowings. The amendments in this ASU became effective for the first interim or annual period beginning after December 15, 2014; however, the disclosure for transactions accounted for as secured borrowings is required to be presented for annual periods beginning after December 15, 2014, and interim periods beginning after March 15, 2015. Early adoption is not permitted. The Corporation does not expect the adoption of ASU 2014-11 to have a material effect on its financial statements.

In June 2014, the FASB issued ASU No. 2014-12, Compensation - Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period. The new guidance applies to reporting entities that grant employees share-based payments in which the terms of the award allow a performance target to be achieved after the requisite service period. The amendments in the ASU require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. Existing guidance in Compensation - Stock Compensation (Topic 718), should be applied to account for these types of awards. The amendments in this ASU are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Early adoption is permitted and reporting entities may choose to apply the amendments in the ASU either on a prospective or retrospective basis. The Corporation does not expect the adoption of ASU 2014-12 to have a material effect on its financial statements.

In August 2014, the FASB issued ASU No. 2014-14, Receivables - Troubled Debt Restructurings by Creditors (Subtopic 310-40): Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure. The amendments in this ASU apply to creditors that hold government-guaranteed mortgage loans and is intended to eliminate the diversity in practice related to the classification of these guaranteed loans upon foreclosure. The new guidance stipulates that a mortgage loan be derecognized and a separate other receivable be recognized upon foreclosure if (1) the loan has a government guarantee that is not separable from the loan prior to foreclosure, (2) at the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under that claim, and (3) at the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed. Upon foreclosure, the other receivable should be measured on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. The amendments in this ASU became effective for annual periods and interim periods within those annual periods beginning after December 15, 2014. Entities may adopt the amendments on a prospective basis or modified retrospective basis as of the beginning of the annual period of adoption; however, the entity must apply the same method of transition as elected under ASU 2014-04. The adoption of ASU 2014-14 did not have a material effect on the Corporation’s financial statements.

In August 2014, the FASB issued ASU No. 2014-15, Presentation of Financial Statements - Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern. This update is intended to provide guidance about management’s responsibility to evaluate whether there is substantial doubt about an entity’s ability to continue as a going concern and to provide related footnote disclosures. Management is required under the new guidance to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date the financial statements are issued when preparing financial statements for each interim and annual reporting period. If conditions or events are identified, the ASU specifies the process that must be followed by management and also clarifies the timing and content of going concern footnote disclosures in order to reduce diversity in practice. The amendments in this ASU are effective for annual periods and interim periods within those annual periods beginning after December 15, 2016. Early adoption is permitted. The Corporation does not expect the adoption of ASU 2014-15 to have a material effect on its financial statements.

In November 2014, the FASB issued ASU No. 2014-16, Derivatives and Hedging (Topic 815): Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity. The amendments in ASU do not change the current criteria in U.S. GAAP for determining when separation of certain embedded derivative features in a hybrid financial instrument is required. The amendments clarify how current U.S. GAAP should be interpreted in evaluating the economic characteristics and risks of a host contract in a hybrid financial instrument that is issued in the form of a share. Specifically, the amendments clarify that an entity should consider all relevant terms and features, including the embedded derivative feature being evaluated for bifurcation, in evaluating the nature of the host contract. Furthermore, the amendments clarify that no single term or feature would necessarily determine the economic characteristics and risks of the host contract. Rather, the nature of the host contract depends upon the economic characteristics and risks of the entire hybrid financial instrument. The amendments in this ASU also clarify that, in evaluating the nature of a host contract, an entity should assess the substance of the relevant terms and features (i.e., the relative strength of the debt-like or equity-like terms and features given the facts and circumstances) when considering how to weight those terms and features. The amendments in this ASU are effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption, including adoption in an interim period, is permitted. The Corporation does not expect the adoption of ASU 2014-16 to have a material effect on its financial statements.

In January 2015, the FASB issued ASU No. 2015-01, Income Statement—Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items. The amendments in this ASU eliminate from U.S. GAAP the concept of extraordinary items. Subtopic 225-20, Income Statement - Extraordinary and Unusual Items, required that an entity separately classify, present, and disclose extraordinary events and transactions. Presently, an event or transaction is presumed to be an ordinary and usual activity of the reporting entity unless evidence clearly supports its classification as an extraordinary item. If an event or transaction meets the criteria for extraordinary classification, an entity is required to segregate the extraordinary item from the results of ordinary operations and show the item separately in the income statement, net of tax, after income from continuing operations. The entity also is required to disclose applicable income taxes and either present or disclose earnings-per-share data applicable to the extraordinary item. The amendments in this ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. The Corporation does not expect the adoption of ASU 2015-01 to have a material effect on its financial statements

In February 2015, the FASB issued ASU No. 2015-02, "Consolidation (Topic 810): Amendments to the Consolidation Analysis." The amendments in this ASU are intended to improve targeted areas of consolidation guidance for legal entities such as limited partnerships, limited liability corporations, and securitization structures (collateralized debt obligations, collateralized loan obligations, and mortgage-backed security transactions). In addition to reducing the number of consolidation models from four to two, the new standard simplifies the FASB Accounting Standards Codification (ASC) and improves current GAAP by placing more emphasis on risk of loss when determining a controlling financial interest, reducing the frequency of the application of related-party guidance when determining a controlling financial interest in a variable interest entity (VIE), and changing consolidation conclusions for public and private companies in several industries that typically make use of limited partnerships or VIEs. The amendments in this ASU are effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. ASU 2015-02 may be applied retrospectively in previously issued financial statements for one or more years with a cumulative-effect adjustment to retained earnings as of the beginning of the first year restated. The Corporation does not expect the adoption of ASU 2015-02 to have a material effect on its financial statements.

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In April 2015, the FASB issued ASU No. 2015-03, “Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs.” The amendments in this ASU are intended to simplify the presentation of debt issuance costs. These amendments require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. The amendments in this ASU are effective for public business entities for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption is permitted for financial statements that have not been previously issued. The Corporation does not expect the adoption of ASU 2015-03 to have a material effect on its financial statements.

In April 2015, the FASB issued ASU No. 2015-05, “Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement.” The amendments in this ASU provide guidance to customers regarding cloud computing arrangements that include a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The amendments do not change the accounting for a customer’s accounting for service contracts. As a result of the amendments, all software licenses within the scope of Subtopic 350-40 will be accounted for consistent with other licenses of intangible assets. The amendments in this ASU are effective for public business entities for annual periods, including interim periods within those annual periods, beginning after December 15, 2015. Early adoption is permitted. An entity can elect to adopt the amendments either: (1) prospectively to all arrangements entered into or materially modified after the effective date; or (2) retrospectively. The Corporation is currently assessing the effect that ASU 2015-05 will have on its financial statements.

NOTE 2: Adoption of New Accounting Standards

The Corporation adopted ASU 2014-01, Accounting for Investments in Qualified Affordable Housing Projects, as of January 1, 2015. As permitted by the guidance, the Corporation has elected to amortize the initial cost of investments in affordable housing projects over the period in which the Corporation will receive related tax credits, which approximates the proportional amortization method, and the resulting amortization is recognized as a component of income taxes attributable to continuing operations. Historically, the amortization related to these investments were recognized within noninterest expense. The Corporation adopted this guidance in the first quarter of 2015 with retrospective application as required by ASU 2014-01. Prior period results have been restated to conform to this presentation.

As of March 31, 2015, the carrying value of the Corporation’s aggregate investment in qualified affordable housing projects was \$2.75 million and the aggregate commitment to provide additional capital to these investments was \$1.26 million. Amortization recognized as a component of income tax expense for the three months ended March 31, 2015 and 2014 was \$138,000 and \$104,000, respectively.

NOTE 3: Securities

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

	March 31, 2015			
(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. government agencies and corporations	$ 20,710	$ 5	$ (175)	$ 20,540
Mortgage-backed securities	67,173	1,362	(52)	68,483
Obligations of states and political subdivisions	124,968	6,979	(136)	131,811
	$ 212,851	$ 8,346	$ (363)	$ 220,834

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	December 31, 2014			
		Gross	Gross	
	Amortized	Unrealized	Unrealized	Estimated
(Dollars in thousands)	Cost	Gains	Losses	Fair Value
U.S. government agencies and corporations	$ 23,409	$ 1	$ (476)	$ 22,934
Mortgage-backed securities	66,716	935	(32)	67,619
Obligations of states and political subdivisions	124,312	7,158	(126)	131,344
	$ 214,437	$ 8,094	$ (634)	$ 221,897

The amortized cost and estimated fair value of securities at March 31, 2015, 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.

	March 31, 2015	
	Amortized	Estimated
(Dollars in thousands)	Cost	Fair Value
Due in one year or less	$ 30,585	$ 30,716
Due after one year through five years	124,147	128,952
Due after five years through ten years	38,058	39,601
Due after ten years	20,061	21,565
	$ 212,851	$ 220,834

Proceeds from the maturities, calls and sales of securities available for sale for the three months ended March 31, 2015 were $8.55 million, resulting in gross realized gains of $1,000. Proceeds from the maturities, calls and sales of securities available for sale for the three months ended March 31, 2014 were $16.59 million, resulting in gross realized gains of less than $1,000.

The Corporation pledges securities primarily as collateral for public deposits and repurchase agreements. Securities with an aggregate amortized cost of $103.49 million and an aggregate fair value of $107.65 million were pledged at March 31, 2015. Securities with an aggregate amortized cost of $106.31 million and an aggregate fair value of $110.37 million were pledged at December 31, 2014.

Securities in an unrealized loss position at March 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	$ 1,581	$ 19	$ 12,003	$ 156	$ 13,584	$ 175
Mortgage-backed securities	2,894	37	2,429	15	5,323	52
Obligations of states and political subdivisions	8,578	88	3,727	48	12,305	136
Total temporarily impaired securities	$ 13,053	$ 144	$ 18,159	$ 219	$ 31,212	$ 363

There were 57 debt securities totaling $31.21 million considered temporarily impaired at March 31, 2015. The primary cause of the temporary impairments in the Corporation's investments in debt securities was fluctuations in interest rates. Interest rates generally declined during the first quarter of 2015, primarily in the middle and long-end of the United States Treasury yield curve, thereby reducing unrealized losses on the Corporation's debt securities from December 31, 2014. Demand for United States debt securities increased, thereby reducing interest rates, as the Federal Reserve lowered both its economic and interest-rate projections as severe winter weather, a west coast port strike, the impact of a strong dollar and lower capital expenditures by the oil industry hindered economic activity in the United States. Interest rates in the municipal bond sector, which includes the Corporation's obligations of states and political subdivisions, were essentially unchanged to slightly lower during the first quarter of 2015 primarily due to heavy new issue supply, driven by refunding volume, as issuers continued to take advantage of the low interest rate environment. At March 31, 2015, 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 95 percent were rated “A” or better, as measured by market value, at March 31, 2015. For the approximately five percent not rated "A" or better, as measured by market value at March 31, 2015, 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, 2015 and no other-than-temporary impairment has been recognized.

Securities in an unrealized loss position at December 31, 2014, 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	$ 1,966	$ 2	$ 21,234	$ 474	$ 23,200	$ 476
Mortgage-backed securities	—	—	4,518	32	4,518	32
Obligations of states and political subdivisions	6,279	51	6,049	75	12,328	126
Total temporarily impaired securities	$ 8,245	$ 53	$ 31,801	$ 581	$ 40,046	$ 634

The Corporation’s investment in restricted stocks totaled $3.35 million at March 31, 2015, and consisted of $3.20 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, 2015 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. At December 31, 2014, the Corporation’s restricted stocks included $3.30 millon of FHLB stock and $145,000 of CBB stock.

NOTE 4: Loans

Major classifications of loans are summarized as follows:

(Dollars in thousands)	March 31, 2015	December 31, 2014
Real estate – residential mortgage	$ 180,379	$ 179,817
Real estate – construction 1	7,407	7,325
Commercial, financial and agricultural 2	320,593	306,845
Equity lines	49,644	50,321
Consumer	8,483	8,163
Consumer finance	277,344	283,333
	843,850	835,804
Less allowance for loan losses	(35,697)	(35,606)
Loans, net	$ 808,153	$ 800,198

[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.

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Consumer loans included $285,000 and $355,000 of demand deposit overdrafts at March 31, 2015 and December 31, 2014, respectively.

The outstanding principal balance and the carrying amount of loans acquired pursuant to the Corporation's acquisition of CVB (or acquired loans) that were recorded at fair value at the acquisition date and are included in the consolidated balance sheet at March 31, 2015 and December 31, 2014 were as follows:

	March 31, 2015			December 31, 2014		
(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	$ 34,377	$ 81,454	$ 115,831	$ 36,541	$ 85,015	$ 121,556
Carrying amount						
Real estate – residential mortgage	$ 1,656	$ 17,508	$ 19,164	$ 1,723	$ 18,688	$ 20,411
Commercial, financial and agricultural1	17,841	43,306	61,147	19,367	45,015	64,382
Equity lines	311	15,160	15,471	318	15,464	15,782
Consumer	16	825	841	16	979	995
Total acquired loans	$ 19,824	$ 76,799	$ 96,623	$ 21,424	$ 80,146	$ 101,570

[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)	March 31, 2015	December 31, 2014
Real estate – residential mortgage	$ 2,349	$ 2,472
Real estate – construction:		
Construction lending	—	—
Consumer lot lending	—	—

Commercial, financial and agricultural:		
Commercial real estate lending	1,947	2,033
Land acquisition and development lending	—	—
Builder line lending	221	—
Commercial business lending	—	—
Equity lines	351	356
Consumer	41	