C & F FINANCIAL CORP
Form 10-Q
November 06, 2015
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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 September 30, 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	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 November 3, 2015, the latest practicable date for determination, 3,391,468 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)

	September 30, 2015 (unaudited)	December 31, 2014 *
Assets		
Cash and due from banks	$ 9,696	$ 10,749
Interest-bearing deposits in other banks	135,719	156,867
Total cash and cash equivalents	145,415	167,616
Securities—available for sale at fair value, amortized cost of $214,193 and $214,437, respectively	220,807	221,897
Loans held for sale, at fair value	43,882	28,279
Loans, net of allowance for loan losses of $35,726 and $35,606, respectively	840,740	800,198
Restricted stocks, at cost	3,345	3,442
Corporate premises and equipment, net	36,367	37,295
Other real estate owned, net of valuation allowance of $57 and $29, respectively	763	786
Accrued interest receivable	6,654	6,421
Goodwill	14,425	14,425
Core deposit intangible, net	1,838	2,583
Bank-owned life insurance	14,780	14,484
Other assets	44,355	40,761
Total assets	$ 1,373,371	$ 1,338,187
Liabilities		
Deposits		
Noninterest-bearing demand deposits	$ 198,354	$ 161,839
Savings and interest-bearing demand deposits	505,227	497,755
Time deposits	338,216	366,507
Total deposits	1,041,797	1,026,101
Short-term borrowings	11,792	14,436
Long-term borrowings	142,029	127,488
Trust preferred capital notes	25,130	25,103
Accrued interest payable	687	740
Other liabilities	22,615	20,709

Total liabilities	1,244,050	1,214,577
Shareholders’ Equity		
Common stock ($1.00 par value, 8,000,000 shares authorized, 3,391,079 and 3,418,750 shares issued and outstanding, respectively, includes, 134,625 and 135,600 of unvested shares, respectively)	3,257	3,283
Additional paid-in capital	8,883	9,456
Retained earnings	114,954	107,785
Accumulated other comprehensive income, net	2,227	3,086
Total shareholders’ equity	129,321	123,610
Total liabilities and shareholders’ equity	$ 1,373,371	$ 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 September 30, 2015	2014	Nine Months Ended September 30, 2015	2014
Interest income				
Interest and fees on loans	$ 21,067	$ 20,050	$ 59,688	$ 59,366
Interest on interest-bearing deposits and federal funds sold	84	92	270	288
Interest and dividends on securities				
U.S. government agencies and corporations	117	172	363	556
Tax-exempt obligations of states and political subdivisions	1,030	1,094	3,156	3,326
Taxable obligations of states and political subdivisions	46	92	138	138
Corporate bonds and other	434	338	1,316	1,170
Total interest income	22,778	21,838	64,931	64,844
Interest expense				
Savings and interest-bearing deposits	270	241	819	761
Time deposits	816	745	2,287	2,366
Borrowings	879	889	2,482	2,637
Trust preferred capital notes	294	241	878	713
Total interest expense	2,259	2,116	6,466	6,477
Net interest income	20,519	19,722	58,465	58,367
Provision for loan losses	4,142	4,140	9,812	10,915
Net interest income after provision for loan losses	16,377	15,582	48,653	47,452
Noninterest income				
Gains on sales of loans	1,156	1,188	4,803	4,003
Service charges on deposit accounts	1,119	1,179	3,210	3,357
Other service charges and fees	1,883	1,672	5,083	4,668
Net gains on calls and sales of available for sale securities	22	23	25	26
Investment services income	372	348	1,077	954
Other	253	302	1,223	1,700
Total noninterest income	4,805	4,712	15,421	14,708
Noninterest expenses				
Salaries and employee benefits	9,107	8,900	29,209	27,208

Occupancy	2,226	2,188	6,606	6,503
Other	4,928	4,483	13,850	14,182
Total noninterest expenses	16,261	15,571	49,665	47,893
Income before income taxes	4,921	4,723	14,409	14,267
Income tax expense	1,444	1,430	4,186	4,340
Net income	$ 3,477	$ 3,293	$ 10,223	$ 9,927
Net income per share - basic	$ 1.02	$ 0.97	$ 3.01	$ 2.92
Net income per share - assuming dilution	$ 1.02	$ 0.97	$ 3.01	$ 2.88
Weighted average number of shares outstanding - basic	3,392,480	3,405,162	3,400,296	3,403,749
Weighted average number of shares outstanding - assuming dilution	3,392,480	3,405,308	3,400,437	3,446,472

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 September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income	$ 3,477	$ 3,293	$ 10,223	$ 9,927
Other comprehensive income (loss):				
Changes in defined benefit plan assets and benefit obligations				
Changes in net loss arising during the period1	(29)	40	(87)	24
Tax effect	11	(14)	33	(8)
Amortization of prior service cost arising during the period1	14	(85)	42	(51)
Tax effect	(5)	30	(15)	18
Net of tax amount	(9)	(29)	(27)	(17)
Unrealized gain (loss) on cash flow hedging instruments				
Unrealized holding gain (loss) arising during the period	(449)	53	(431)	139
Tax effect	158	(19)	151	(53)
Net of tax amount	(291)	34	(280)	86
Unrealized holding gains (losses) on securities				
Unrealized holding gains (losses) arising during the period	1,446	602	(825)	5,715
Tax effect	(506)	(212)	289	(1,993)
Reclassification adjustment for gains included in net income2	(22)	(23)	(25)	(26)
Tax effect	8	8	9	9
Net of tax amount	926	375	(552)	3,705
Other comprehensive income (loss):	626	380	(859)	3,774
Comprehensive income	$ 4,103	$ 3,673	$ 9,364	$ 13,701

[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, 2014	$ 3,283	$ 9,456	$ 107,785	$ 3,086	$ 123,610
Comprehensive income:					
Net income	—	—	10,223	—	10,223
Other comprehensive loss	—	—	—	(859)	(859)
Share-based compensation	—	779	—	—	779
Restricted stock vested	13	(13)	—	—	—
Common stock issued	3	98	—	—	101
Common stock purchased	(42)	(1,437)	—	—	(1,479)
Cash dividends declared – common stock ($0.90 per share)	—	—	(3,054)	—	(3,054)
Balance September 30, 2015	$ 3,257	$ 8,883	$ 114,954	$ 2,227	$ 129,321

	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	—	—	9,927	—	9,927
Other comprehensive income	—	—	—	3,774	3,774
Common stock warrant repurchased	—	(2,303)	—	—	(2,303)
Share-based compensation	—	721	—	—	721
Restricted stock vested	8	(16)	—	—	(8)
Common stock issued	2	97	—	—	99
Common stock purchased	(3)	(90)	—	—	(93)
	—	—	(3,029)	—	(3,029)

Cash dividends declared – common stock ($0.89 per share)					
Balance September 30, 2014	$ 3,276	$ 9,095	$ 106,390	$ 3,508	$ 122,269

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

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CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	Nine Months Ended September 30, 2015	2014
Operating activities:		
Net income	$ 10,223	$ 9,927
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,901	2,072
Provision for loan losses	9,812	10,915
Provision for indemnifications	212	182
Provision for other real estate owned losses	90	—
Share-based compensation	779	713
Net accretion of certain acquisition-related fair value adjustments	(1,562)	(2,166)
Accretion of discounts and amortization of premiums on securities, net	1,162	1,075
Realized gains on sales and calls of securities	(25)	(26)
Net realized gains on sales of other real estate owned	(242)	(206)
Net realized gains on sale of corporate premises and equipment	(37)	(59)
Increase in bank-owned life insurance cash surrender value	(263)	(256)
Origination of loans held for sale	(423,999)	(363,684)
Proceeds from sales of loans held for sale	413,199	367,656
Gains on sales of loans held for sale	(4,803)	(4,003)
Change in other assets and liabilities:		
Accrued interest receivable	(233)	117
Other assets	(76)	(3,537)
Accrued interest payable	(53)	(52)
Other liabilities	1,417	631
Net cash provided by operating activities	7,502	19,299
Investing activities:		
Proceeds from maturities, calls and sales of securities available for sale	24,402	31,864
Purchases of securities available for sale	(24,960)	(28,795)
Net redemptions of restricted stocks	97	646
Purchase of loan portfolio	(16,258)	—
Net increase in loans	(36,175)	(18,302)
Proceeds from sales of other real estate owned	705	4,767
Purchases of corporate premises and equipment, net	(1,000)	(1,603)
Net cash used in investing activities	(53,189)	(11,423)
Financing activities:		
Net increase in demand, interest-bearing demand and savings deposits	43,987	25,881
Net decrease in time deposits	(27,966)	(31,892)

Net increase in borrowings	11,897	651
Repurchase of common stock warrant	—	(2,303)
Issuance of common stock	101	99
Repurchase of common stock	(1,479)	(93)
Cash dividends	(3,054)	(3,029)
Net cash provided by (used in) financing activities	23,486	(10,686)
Net decrease in cash and cash equivalents	(22,201)	(2,810)
Cash and cash equivalents at beginning of year	167,616	148,139
Cash and cash equivalents at end of period	$ 145,415	$ 145,329
Supplemental disclosure		
Interest paid	$ 6,817	$ 7,351
Income taxes paid	450	2,399
Supplemental disclosure of noncash investing and financing activities		
Unrealized (losses) gains on securities available for sale	$ (850)	$ 5,689
Transfers between loans, other real estate owned and repossessed assets	3,814	2,735
Pension adjustment	(45)	(27)
Unrealized (losses) gain on cash flow hedging instruments	(431)	139

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 Subsidiaries (C&F Mortgage), C&F Finance Company (C&F Finance), C&F Wealth Management Corporation (formerly 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, and through its subsidiary, Lender Solutions LLC, provides loan origination processing services to third parties. C&F Finance, acquired on September 1, 2002, is a finance company providing automobile loans through indirect lending programs. C&F Wealth Management Corporation, organized in

April 1995 and renamed in May 2015, 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.

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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.

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 September 30, 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 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: Compensation expense for the third quarter and first nine months of 2015 included expense, net of forfeitures, of $204,000 ($126,000 after tax) and $779,000 ($483,000 after tax), respectively, for restricted stock granted during 2010 through 2015. As of September 30, 2015, there was $2.41 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 nine months of 2015 and 2014 is presented below:

	Shares	Weighted-Average Grant Date Fair Value
Unvested, January 1, 2015	135,600	$ 34.34
Granted	16,700	37.72
Vested	(12,600)	25.78
Forfeitures	(5,075)	44.44
Unvested, September 30, 2015	134,625	$ 35.18

	Shares	Weighted-Average Grant Date Fair Value
Unvested, January 1, 2014	120,183	$ 31.18
Granted	15,750	41.38
Vested	(8,100)	18.77
Forfeitures	(1,500)	41.25
Unvested, September 30, 2014	126,333	$ 33.13

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Stock option activity during the nine months ended September 30, 2015 and 2014 and stock options outstanding at September 30, 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 January 1, 2015	100,762	$ 37.75	0.9	$ —
Expired	(12,000)	$ 35.20		
Options outstanding and exercisable at September 30, 2015	88,762	$ 38.10	0.5	$ —

* Weighted average

	Shares	Exercise Price*	Remaining Contractual Life (in years)*	Intrinsic Value of Unexercised In-The Money Options (in 000's)
Options outstanding and exercisable at January 1, 2014	164,150	$ 38.21	1.7	$ 1,224
Expired	(12,000)	$ 37.50		
Options outstanding and exercisable at September 30, 2014	152,150	$ 38.27	1.0	$ —

* 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 May 2015, the FASB issued ASU No. 2015-08, "Business Combinations (Topic 805): Pushdown Accounting – Amendments to SEC Paragraphs Pursuant to Staff Accounting Bulletin No. 115." The amendments in ASU 2015-08 amend various paragraphs in the ASC regarding positions of the staff of the SEC pursuant to the issuance of Staff Accounting Bulletin No. 115, Topic 5: Miscellaneous Accounting, regarding various pushdown accounting issues, and did not have a material effect on our financial statements.

In July 2015, the FASB issued 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 3 parts. Among other things, Part I amendments designate contract value as the only

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required measure for fully benefit-responsive investment contracts; Part II amendments eliminate the requirement that plans disclose: (a) individual investments that represent 5 percent or more of net assets available for benefits; and (b) the net appreciation or depreciation for investments by general type requirements 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 Corporation is currently assessing the effect that ASU 2015-12 will have 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. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017. 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 Corporation does not expect the adoption of ASU 2015-16 to have a material effect 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 impact on the Corporation's financial position, results of operations or cash flows.

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 September 30, 2015, the carrying value of the Corporation's aggregate investment in qualified affordable housing projects was $2.59 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 and nine months ended September 30, 2015 and 2014 was $101,000 and $304,000, respectively, compared to $104,000 and $311,000 for the three and nine months ended September 30, 2014, respectively.

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NOTE 3: Securities

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

	September 30, 2015			
(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government agencies and corporations	$ 19,710	$ 6	$ (113)	$ 19,603
Mortgage-backed securities	73,687	1,055	(148)	74,594
Obligations of states and political subdivisions	120,796	5,962	(148)	126,610
	$ 214,193	$ 7,023	$ (409)	$ 220,807

	December 31, 2014			
(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized 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 September 30, 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.

	September 30, 2015	
(Dollars in thousands)	Amortized Cost	Fair Value
Due in one year or less	$ 29,171	$ 29,361

Due after one year through five years	136,630	140,922
Due after five years through ten years	32,084	33,094
Due after ten years	16,308	17,430
	$ 214,193	$ 220,807

Proceeds from the maturities, calls and sales of securities available for sale for the three and nine months ended September 30, 2015 were $7.52 million and $24.40 million, respectively, resulting in gross realized gains of $22,000 and $25,000, respectively. Proceeds from the maturities, calls and sales of securities available for sale for the three and nine months ended September 30, 2014 were $10.31 million and $31.86 million, respectively, resulting in gross realized gains of $42,000 and $45,000, respectively and gross realized losses of $19,000 and $19,000, respectively.

The Corporation pledges securities primarily as collateral for public deposits and repurchase agreements. Securities with an aggregate amortized cost of $82.97 million and an aggregate fair value of $86.37 million were pledged at

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September 30, 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 September 30, 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	$ 2,549	$ 1	$ 9,048	$ 112	$ 11,597	$ 113
Mortgage-backed securities	9,514	120	2,317	28	11,831	148
Obligations of states and political subdivisions	7,542	75	4,406	73	11,948	148
Total temporarily impaired securities	$ 19,605	$ 196	$ 15,771	$ 213	$ 35,376	$ 409

There were 60 debt securities totaling $35.38 million considered temporarily impaired at September 30, 2015. 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 third quarter of 2015, 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 June 30, 2015. Prices for debt securities were higher as interest rates declined, primarily due to the Federal Open Market Committee’s decision to delay an anticipated increase in the Federal Funds rate amidst concerns that slowing global growth could hamper the United States economy and a continued decline in commodity prices that lowered the outlook for inflation. Interest rates in the municipal bond sector, which includes the Corporation's obligations of states and political subdivisions, were also lower during the third quarter of 2015, driven by the same economic and financial factors noted above that impacted the overall interest rate environment, lower new issuance volume, and lowered municipal credit risk premiums. At September 30, 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 September 30, 2015. For the approximately five percent not rated "A" or better, as measured by market value at September 30, 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 September 30, 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 September 30, 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 September 30, 2015 and no impairment has been recognized. Total restricted stocks is

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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 million of FHLB stock and $145,000 of CBB stock.

NOTE 4: Loans

Major classifications of loans are summarized as follows:

(Dollars in thousands)	September 30, 2015	December 31, 2014
Real estate – residential mortgage	$ 186,082	$ 179,817
Real estate – construction 1	7,086	7,325
Commercial, financial and agricultural 2	335,096	306,845
Equity lines	50,533	50,321
Consumer	9,888	8,163
Consumer finance	287,781	283,333
	876,466	835,804
Less allowance for loan losses	(35,726)	(35,606)
Loans, net	$ 840,740	$ 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.

Consumer loans included $310,000 and $355,000 of demand deposit overdrafts at September 30, 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 September 30, 2015 and December 31, 2014 were as follows:

(Dollars in thousands)	September 30, 2015 Acquired Loans - Purchased Credit Impaired	Acquired Loans - Purchased Performing	Acquired Loans - Total	December 31, 2014 Acquired Loans - Purchased Credit Impaired	Acquired Loans - Purchased Performing	Acquired Loans - Total
Outstanding principal balance	$ 26,918	$ 74,285	$ 101,203	$ 36,541	$ 85,015	$ 121,556
Carrying amount						
Real estate – residential mortgage	$ 1,336	$ 16,231	$ 17,567	$ 1,723	$ 18,688	$ 20,411
Commercial, financial and agricultural[1]	13,202	38,895	52,097	19,367	45,015	64,382
Equity lines	284	14,603	14,887	318	15,464	15,782
Consumer	—	347	347	16	979	995
Total acquired loans	$ 14,822	$ 70,076	$ 84,898	$ 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.

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Loans on nonaccrual status were as follows:

(Dollars in thousands)	September 30, 2015	December 31, 2014
Real estate – residential mortgage	$ 2,044	$ 2,472
Real estate – construction:		
Construction lending	—	—
Consumer lot lending	—	—
Commercial, financial and agricultural:		
Commercial real estate lending	1,811	2,033
Land acquisition and development lending	—	—
Builder line lending	306	—
Commercial business lending	—	—
Equity lines	397	356
Consumer	6	43
Consumer finance	807	1,040
Total loans on nonaccrual status	$ 5,371	$ 5,944

The past due status of loans as of September 30, 2015 was as follows:

(Dollars in thousands)	30 - 59 Days Past Due3	60 - 89 Days Past Due	90+ Days Past Due	Total Past Due	PCI	Current1	Total Loans	90+ Days Past Due and Accruing 2
Real estate – residential mortgage	$ 908	$ 41	$ 818	$ 1,767	$ 1,336	$ 182,979	$ 186,082	$ 276
Real estate – construction:								
Construction lending	—	—	—	—	—	4,963	4,963	—
Consumer lot lending	—	—	—	—	—	2,123	2,123	—
Commercial, financial and agricultural:								
Commercial real estate lending	5,513	775	119	6,407	11,264	183,733	201,404	148
Land acquisition and development lending	—	—	—	—	—	44,063	44,063	—

Builder line lending	—	306	—	306	—	22,413	22,719	—
Commercial business lending	44	330	—	374	1,938	64,598	66,910	—
Equity lines	63	48	668	779	284	49,470	50,533	500
Consumer	35	3	6	44	—	9,844	9,888	—
Consumer finance	13,448	2,005	807	16,260	—	271,521	287,781	—
Total	$ 20,011	$ 3,508	$ 2,418	$ 25,937	$ 14,822	$ 835,707	$ 876,466	$ 924

[1] For the purposes of the table above, “Current” includes loans that are 1-29 days past due.
[2] Includes purchased credit impaired loans of $171,000.
[3] Commercial real estate loans past due 30-59 days at September 30, 2015 consist of loans to one borrower which were 30 days past due. The scheduled loan payments have since been received.

The table above includes the following:

· nonaccrual loans that are current of $2.93 million, 30-59 days past due of $73,000, 60-89 days past due of $696,000 and 90+ days past due of $1.67 million.
· performing loans purchased in the acquisition of CVB that are current of $69.25 million, 30-59 days past due of $337,000, and 90+ days past due of $485,000.

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The past due status of loans as of December 31, 2014 was as follows:

(Dollars in thousands)	30 - 59 Days Past Due	60 - 89 Days Past Due	90+ Days Past Due	Total Past Due	PCI	Current1	Total Loans	90+ Days Past Due and Accruing
Real estate – residential mortgage	$ 1,481	$ 256	$ 679	$ 2,416	$ 1,723	$ 175,678	$ 179,817	$ —
Real estate – construction:								
Construction lending	—	—	—	—		3,839	3,839	—
Consumer lot lending	—	—	—	—		3,486	3,486	—
Commercial, financial and agricultural:								
Commercial real estate lending	88	—	115	203	13,011	171,566	184,780	—
Land acquisition and development lending	—	—	—	—	3,379	44,094	47,473	—
Builder line lending	—	—	—	—	48	20,207	20,255	—
Commercial business lending	21	53	—	74	2,929	51,334	54,337	—
Equity lines	319	205	122	646	318	49,357	50,321	14
Consumer	15	37	6	58	16	8,089	8,163	—
Consumer finance	12,421	2,599	1,040	16,060	—	267,273	283,333	—
Total	$ 14,345	$ 3,150	$ 1,962	$ 19,457	$ 21,424	$ 794,923	$ 835,804	$ 14

1 For the purposes of the table above, "Current" includes loans that are 1-29 days past due.

The table above includes the following:

- nonaccrual loans that are current of $3.06 million, 30-59 days past due of $697,000, 60 89 days past due of $417,000 and 90+ days past due of $1.77 million.
- performing loans purchased in the acquisition of CVB that are current of $79.01 million, 30-59 days past due of $634,000, 60-89 days past due of $88,000 and 90+ days past due of $413,000.

Loan modifications that were classified as TDRs during the three and nine months ended September 30, 2015 and 2014 were as follows:

	Three Months Ended September 30,					
	2015			2014		
(Dollars in thousands)	Number of Loans	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Number of Loans	Pre-Modification Recorded Investment	Post-Modification Recorded Investment
Real estate – residential mortgage – interest reduction	1	$ 202	$ 202	—	$ —	$ —
Commercial, financial and agricultural:						
Commercial real estate lending – interest reduction	—	—	—	1	103	103
Consumer – interest rate concession	1	115	115	—	—	—
Total	2	$ 317	$ 317	1	$ 103	$ 103

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	Nine Months Ended September 30,					
	2015			2014		
(Dollars in thousands)	Number of Loans	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Number of Loans	Pre-Modification Recorded Investment	Post-Modification Recorded Investment
Real estate – residential mortgage – interest reduction	1	$ 202	$ 202	—	$ —	$ —
Real estate – residential mortgage – interest rate concession	1	239	239	1	328	328
Commercial, financial and agricultural:						
Commercial real estate lending – interest reduction	—	—	—	1	103	103
Commercial real estate lending – interest rate concession	1	15	15	—	—	—
Commercial business lending – interest rate concession	1	17	17	—	—	—
Consumer – interest rate concession	2	261	261	—	—	—
Total	6	$ 734	$ 734	2	$ 431	$ 431

A TDR payment default occurs when, within 12 months of the original TDR modification, either a full or partial charge-off occurs or a TDR becomes 90 days or more past due. There were no TDR defaults during the three and nine months ended September 30, 2015 and 2014.

At September 30, 2015 and December 31, 2014, all impaired loans had an allowance for loan loss established. Impaired loans, which consisted solely of TDRs, and the related allowance at September 30, 2015 were as follows:

(Dollars in thousands)	Recorded Investment in Loans	Unpaid Principal Balance	Related Allowance	Average Balance-Impaired Loans	Interest Income Recognized

Real estate – residential mortgage	$ 2,762	$ 2,932	$ 408	$ 2,847	$ 72
Commercial, financial and agricultural:					
Commercial real estate lending	2,364	2,542	381	2,397	75
Commercial business lending	102	102	15	111	5
Equity lines	30	32	1	32	1
Consumer	353	353	45	355	10
Total	$ 5,611	$ 5,961	$ 850	$ 5,742	$ 163

Impaired loans, which included TDR loans of $5.83 million, and the related allowance at December 31, 2014 were as follows:

(Dollars in thousands)	Recorded Investment in Loans	Unpaid Principal Balance	Related Allowance	Average Balance-Impaired Loans	Interest Income Recognized
Real estate – residential mortgage	$ 3,000	$ 3,094	$ 417	$ 2,931	$ 139
Commercial, financial and agricultural:					
Commercial real estate lending	2,786	2,908	440	2,735	150
Commercial business lending	103	103	15	115	7
Equity lines	30	32	1	25	2
Consumer	95	95	6	95	4
Total	$ 6,014	$ 6,232	$ 879	$ 5,901	$ 302

PCI loans had an unpaid principal balance of $26.91 million and a carrying value of $14.82 million at September 30, 2015. 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

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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 nine months ended September 30, 2015 and 2014:

	September 30,	
(Dollars in thousands)	2015	2014
Accretable yield, balance at beginning of period	$ 13,488	$ 7,776
Accretion	(2,047)	(2,446)
Reclassification of nonaccretable difference due to improvement in expected cash flows	287	10,605
Other changes, net	(307)	(1,886)
Accretable yield, balance at end of period	$ 11,421	$ 14,049

NOTE 5: Allowance for Loan Losses

The following table presents the changes in the allowance for loan losses by major classification during the nine months ended September 30, 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	43	(340)	78	197	67	9,767	9,812
Loans charged off	(93)	—	(22)	—	(213)	(13,051)	(13,379)
Recoveries of loans previously charged off	243	—	24	—	231	3,189	3,687
Balance at September 30, 2015	$ 2,506	$ 94	$ 7,824	$ 1,009	$ 296	$ 23,997	$ 35,726

The following table presents the changes in the allowance for loan losses by major classification during the nine months ended September 30, 2014.

(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, 2013	$ 2,355	$ 434	$ 7,805	$ 892	$ 273	$ 23,093	$ 34,852
Provision charged to operations	45	—	—	—	—	10,870	10,915
Loans charged off	(147)	—	(224)	(47)	(242)	(12,717)	(13,377)
Recoveries of loans previously charged off	37	—	111	—	210	2,825	3,183
Balance at September 30, 2014	$ 2,290	$ 434	$ 7,692	$ 845	$ 241	$ 24,071	$ 35,573

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The following table presents, as of September 30, 2015, 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 September 30, 2015	$ 2,506	$ 94	$ 7,824	$ 1,009	$ 296	$ 23,997	$ 35,726
Ending balance: individually evaluated for impairment	$ 408	$ —	$ 396	$ 1	$ 45	$ —	$ 850
Ending balance: collectively evaluated for impairment	$ 2,098	$ 94	$ 7,393	$ 1,008	$ 251	$ 23,997	$ 34,841
Ending balance: acquired loans - purchase credit impaired	$ —	$ —	$ 35	$ —	$ —	$ —	$ 35
Loans:							
Balance at September 30, 2015	$ 186,082	$ 7,086	$ 335,096	$ 50,533	$ 9,888	$ 287,781	$ 876,466
Ending balance: individually evaluated for impairment	$ 2,762	$ —	$ 2,466	$ 30	$ 353	$ —	$ 5,611
Ending balance: collectively evaluated for impairment	$ 181,984	$ 7,086	$ 319,428	$ 50,219	$ 9,535	$ 287,781	$ 856,033
Ending balance: acquired loans - purchase credit impaired	$ 1,336	$ —	$ 13,202	$ 284	$ —	$ —	$ 14,822

The following table presents, as of December 31, 2014, 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	$ 2,313	$ 434	$ 7,744	$ 812	$ 211	$ 24,092	$ 35,606
Ending balance: individually evaluated for impairment	$ 417	$ —	$ 455	$ 1	$ 6	$ —	$ 879
Ending balance: collectively evaluated for impairment	$ 1,896	$ 434	$ 7,289	$ 811	$ 205	$ 24,092	$ 34,727
Ending balance: acquired loans - purchase credit impaired	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Loans:							
Ending balance	$ 179,817	$ 7,325	$ 306,845	$ 50,321	$ 8,163	$ 283,333	$ 835,804
Ending balance: individually evaluated for impairment	$ 3,000	$ —	$ 2,889	$ 30	$ 95	$ —	$ 6,014
Ending balance: collectively evaluated for impairment	$ 175,094	$ 7,325	$ 284,589	$ 49,973	$ 8,052	$ 283,333	$ 808,366
Ending balance: acquired loans - purchase credit impaired	$ 1,723	$ —	$ 19,367	$ 318	$ 16	$ —	$ 21,424

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Loans by credit quality indicators as of September 30, 2015 were as follows:

(Dollars in thousands)	Pass	Special Mention	Substandard	Substandard Nonaccrual	Total1
Real estate – residential mortgage	$ 180,329	$ 1,386	$ 2,323	$ 2,044	$ 186,082
Real estate – construction:					
Construction lending	4,915	48	—	—	4,963
Consumer lot lending	2,123	—	—	—	2,123
Commercial, financial and agricultural:					
Commercial real estate lending	179,047	6,008	14,538	1,811	201,404
Land acquisition and development lending	42,815	855	393	—	44,063
Builder line lending	20,876	908	629	306	22,719
Commercial business lending	54,412	1,454	11,044	—	66,910
Equity lines	48,727	642	767	397	50,533
Consumer	9,487	132	263	6	9,888
	$ 542,731	$ 11,433	$ 29,957	$ 4,564	$ 588,685

[1] At September 30, 2015, 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 $74.34 million pass rated, $4.49 million special mention, $5.42 million substandard and $652,000 substandard nonaccrual.

(Dollars in thousands)	Performing	Non-Performing	Total
Consumer finance	$ 286,974	$ 807	$ 287,781

Loans by credit quality indicators as of December 31, 2014 were as follows:

(Dollars in thousands)	Pass	Special Mention	Substandard	Substandard Nonaccrual	Total1

Real estate – residential mortgage	$ 171,414	$ 2,978	$ 2,953	$ 2,472	$ 179,817
Real estate – construction:					
Construction lending	1,191	—	2,648	—	3,839
Consumer lot lending	3,486	—	—	—	3,486
Commercial, financial and agricultural:					
Commercial real estate lending	165,804	4,136	12,807	2,033	184,780
Land acquisition and development lending	43,693	1,136	2,644	—	47,473
Builder line lending	18,321	1,389	545	—	20,255
Commercial business lending	41,813	930	11,594	—	54,337
Equity lines	48,443	772	750	356	50,321
Consumer	7,984	103	33	43	8,163
	$ 502,149	$ 11,444	$ 33,974	$ 4,904	$ 552,471

[1] At December 31, 2014, 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 $87.27 million pass rated, $2.99 million special mention, $10.71 million substandard and $603,000 substandard nonaccrual.

(Dollars in thousands)	Performing	Non-Performing	Total
Consumer finance	$ 282,293	$ 1,040	$ 283,333

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NOTE 6: Shareholders' Equity and Earnings Per Common Share

Accumulated Other Comprehensive Income

The following table presents the cumulative balances of the components of accumulated other comprehensive income, net of deferred taxes of $1.19 million and $1.66 million as of September 30, 2015 and December 31, 2014, respectively.

(Dollars in thousands)	September 30, 2015	December 31, 2014
Net unrealized gains on securities	$ 4,298	$ 4,850
Net unrecognized loss on cash flow hedges	(343)	(64)
Net unrecognized losses on defined benefit plan	(1,728)	(1,700)
Total accumulated other comprehensive income	$ 2,227	$ 3,086

Common Shares

During the first nine months of 2015 and 2014, 38,759 shares and 2,800 shares, respectively, were purchased under a share repurchase program authorized by the Corporation's Board of Directors. The Corporation purchased 3,281 and 225 shares of its common stock from employees to satisfy tax withholding obligations arising upon the vesting of restricted shares during the first nine months of 2015 and 2014, respectively.

Earnings Per Common Share

The components of the Corporation's earnings per common share calculations are as follows:

(Dollars in thousands)	Three Months Ended September 30, 2015	2014
Net income	$ 3,477	$ 3,293
Weighted average number of common shares used in earnings per common share—basic	3,392,480	3,405,162
Effect of dilutive securities:		
Stock option awards and warrant	—	146
Weighted average number of common shares used in earnings per common share—assuming dilution	3,392,480	3,405,308

(Dollars in thousands)	Nine Months Ended September 30, 2015	2014
Net income	$ 10,223	$ 9,927
Weighted average number of common shares used in earnings per common share—basic	3,400,296	3,403,749
Effect of dilutive securities:		
Stock option awards and warrant	141	42,723
Weighted average number of common shares used in earnings per common share—assuming dilution	3,400,437	3,446,472

Potential common shares that may be issued by the Corporation for its stock option awards, and when it was outstanding in 2014, the warrant (the Warrant) to purchase common stock of the Corporation originally issued to the United States Department of the Treasury (Treasury) as part of the Corporation's participation in the Capital Purchase Program, are determined using the treasury stock method. Approximately 88,762 shares issuable upon exercise of options were not included in computing diluted earnings per common share for both the three and nine months ended September 30, 2015 and approximately 164,150 and 145,470 shares issuable upon exercise of options for the three and nine months ended

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September 30, 2014, respectively, were not included in computing diluted earnings per common share because they were anti-dilutive. The Corporation repurchased the Warrant from Treasury during the second quarter of 2014.

The Corporation has applied the two-class method of computing basic and diluted EPS for each period presented because the Corporation's unvested restricted shares outstanding contain rights to nonforfeitable dividends. Accordingly, the weighted average number of common shares used in the calculation of basic and diluted EPS includes both vested and unvested common shares outstanding.

NOTE 7: Employee Benefit Plans

The Bank has a non-contributory cash balance pension plan for which the components of net periodic benefit cost are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2015	2014	2015	2014
Service cost	$ 267	$ 190	$ 801	$ 572
Interest cost	117	113	351	339
Expected return on plan assets	(253)	(208)	(759)	(624)
Amortization of prior service cost	(14)	(85)	(42)	(51)
Amortization of net loss	29	40	87	24
Net periodic benefit cost	$ 146	$ 50	$ 438	$ 260

NOTE 8: Fair Value of Assets and Liabilities

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. U.S. GAAP requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. U.S. GAAP also establishes a fair value hierarchy which prioritizes the valuation inputs into three broad levels. Based on the underlying inputs, each fair value measurement in its entirety is reported in one of the three levels. These levels are:

- Level 1—Valuation is based upon quoted prices for identical instruments traded in active markets. Level 1 assets and liabilities include debt and equity securities traded in an active exchange market, as well as U.S. Treasury securities.

- Level 2—Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

- Level 3—Valuation is determined using model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect the Corporation's estimates of assumptions that market participants would use in pricing the respective asset or liability. Valuation techniques may include the use of pricing models, discounted cash flow models and similar techniques.

U.S. GAAP allows an entity the irrevocable option to elect fair value (the fair value option) for the initial and subsequent measurement for certain financial assets and liabilities on a contract-by-contract basis. The Corporation has elected to use fair value accounting for its entire portfolio of loans held for sale (LHFS).

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following describes the valuation techniques and inputs used by the Corporation in determining the fair value of certain assets recorded at fair value on a recurring basis in the financial statements.

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Securities available for sale. The Corporation primarily values its investment portfolio using Level 2 fair value measurements, but may also use Level 1 or Level 3 measurements if required by the composition of the portfolio. At September 30, 2015 and December 31, 2014, the Corporation's entire investment securities portfolio was comprised of securities available for sale, which were valued using Level 2 fair value measurements. The Corporation has contracted with third party portfolio accounting service vendors for valuation of its securities portfolio. The vendors' sources for security valuation are Standard & Poor's Securities Evaluations Inc. (SPSE), Thomson Reuters Pricing Service (TRPS), and Interactive Data Pricing and Reference Data LLC (IDC). Each source provides opinions, known as evaluated prices, as to the value of individual securities based on model-based pricing techniques that are partially based on available market data, including prices for similar instruments in active markets and prices for identical assets in markets that are not active. SPSE and IDC provide evaluated prices for the Corporation's obligations of states and political subdivisions category of securities. Both sources use proprietary pricing models and pricing systems, mathematical tools and judgment to determine an evaluated price for a security based upon a hierarchy of market information regarding that security or securities with similar characteristics. TRPS and IDC provide evaluated prices for the Corporation's U.S. government agencies and corporations and mortgage-backed categories of securities. Fixed-rate callable securities of the U.S. government agencies and corporations category are individually evaluated on an option adjusted spread basis for callable issues or on a nominal spread basis incorporating the term structure of agency market spreads and the appropriate risk free benchmark curve for non-callable issues. Fixed-rate securities issued by the Small Business Association in the U.S. government agencies and corporations category are individually evaluated based upon a hierarchy of security specific information and market data regarding that security or securities with similar characteristics. Pass-through mortgage-backed securities (or MBS) in the mortgage-backed category are grouped into aggregate categories defined by issuer program, weighted average coupon, and weighted average maturity. Each aggregate is benchmarked to a relative mortgage-backed to-be-announced (TBA) or other benchmark price. TBA prices are obtained from market makers and live trading systems. Collateralized mortgage obligations in the mortgage-backed category are individually evaluated based upon a hierarchy of security specific information and market data regarding that security or securities with similar characteristics. Each evaluation is determined using an option adjusted spread and prepayment model based on volatility-driven, multi-dimensional spread tables.

Loans held for sale. Fair value of the Corporation's LHFS is based on observable market prices for similar instruments traded in the secondary mortgage loan markets in which the Corporation conducts business. The Corporation's portfolio of LHFS is classified as Level 2.

Derivative asset (liability) - IRLCs. The Corporation recognizes IRLCs at fair value. Fair value of IRLCs is based on either (i) the price of the underlying loans obtained from an investor for loans that will be delivered on a best efforts basis or (ii) the observable price for individual loans traded in the secondary market for loans that will be delivered on a mandatory basis. All of the Corporation's IRLCs are classified as Level 2.

Derivative asset (liability) - cash flow hedges. The Corporation's derivative financial instruments have been designated as and qualify as cash flow hedges. The fair value of the Corporation's cash flow hedges is determined using the discounted cash flow method. All of the Corporation's cash flow hedges are classified as Level 2.

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The following table presents the balances of financial assets measured at fair value on a recurring basis.

	September 30, 2015			
	Fair Value Measurements Using			Assets at
(Dollars in thousands)	Level 1	Level 2	Level 3	Fair Value
Assets:				
Securities available for sale				
U.S. government agencies and corporations	$ —	$ 19,603	$ —	$ 19,603
Mortgage-backed securities	—	74,594	—	74,594
Obligations of states and political subdivisions	—	126,610	—	126,610
Total securities available for sale	—	220,807	—	220,807
Loans held for sale	—	43,882	—	43,882
Derivative asset - IRLC	—	823	—	823
Total assets	$ —	$ 265,512	$ —	$ 265,512
Liabilities:				
Derivative liability - cash flow hedges	$ —	$ 534	$ —	$ 534

	December 31, 2014			
	Fair Value Measurements Using			Assets at
(Dollars in thousands)	Level 1	Level 2	Level 3	Fair Value
Assets:				
Securities available for sale				
U.S. government agencies and corporations	$ —	$ 22,934	$ —	$ 22,934
Mortgage-backed securities	—	67,619	—	67,619
Obligations of states and political subdivisions	—	131,344	—	131,344
Total securities available for sale	—	221,897	—	221,897
Loans held for sale	—	28,279	—	28,279
Derivative asset - IRLC	—	448	—	448
Derivative asset - cash flow hedges	—	40	—	40
Total assets	$ —	$ 250,664	$ —	$ 250,664
Liabilities:				
Derivative liability - cash flow hedges	$ —	$ 143	$ —	$ 143

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

The Corporation may be required, from time to time, to measure and recognize certain assets at fair value on a nonrecurring basis in accordance with U.S. GAAP. The following describes the valuation techniques and inputs used by the Corporation in determining the fair value of certain assets recorded at fair value on a nonrecurring basis in the financial statements.

Impaired loans. The Corporation does not record loans held for investment at fair value on a recurring basis. However, there are instances when a loan is considered impaired and an allowance for loan losses is established. A loan is considered impaired when it is probable that the Corporation will be unable to collect all interest and principal payments as scheduled in the loan agreement. All TDRs are considered impaired loans. The Corporation measures impairment on a loan-by-loan basis for commercial, construction and residential loans in excess of $500,000 by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent. Additionally, management reviews current market conditions, borrower history, past experience with similar loans and economic conditions. Based on management's review, additional write-downs to fair value may be incurred. The Corporation maintains a valuation allowance to the extent that the measure of the impaired loan is less than the recorded investment. When the fair value of an impaired loan is based solely on observable cash flows, market price or a current appraisal, the Corporation records the impaired loan as nonrecurring Level 2.

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However, if based on management's review, additional write-downs to fair value are required or if the impaired loan otherwise does not meet the standards for Level 2 classification, the Corporation records the impaired loan as nonrecurring Level 3.

The measurement of impaired loans of less than $500,000 is based on each loan's future cash flows discounted at the loan's effective interest rate rather than the market rate of interest, which is not a fair value measurement and is therefore excluded from fair value disclosure requirements.

Other real estate owned (OREO). Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less costs to sell at the date of foreclosure. Initial fair value is based upon appraisals the Corporation obtains from independent licensed appraisers. Subsequent to foreclosure, management periodically performs valuations of the foreclosed assets based on updated appraisals, general market conditions, recent sales of like properties, length of time the properties have been held, and our ability and intention with regard to continued ownership of the properties. The Corporation may incur additional write-downs of foreclosed assets to fair value less costs to sell if valuations indicate a further other-than-temporary deterioration in market conditions. As such, we record OREO as nonrecurring Level 3.

The following table presents the balances of financial assets measured at fair value on a non-recurring basis.

	September 30, 2015			
	Fair Value Measurements Using			Assets at Fair
(Dollars in thousands)	Level 1	Level 2	Level 3	Value
Impaired loans, net	$ —	$ —	$ 2,073	$ 2,073
Other real estate owned, net	—	—	763	763
Total	$ —	$ —	$ 2,836	$ 2,836

	December 31, 2014			
	Fair Value Measurements Using			Assets at Fair
(Dollars in thousands)	Level 1	Level 2	Level 3	Value
Impaired loans, net	$ —	$ —	$ 1,224	$ 1,224
Other real estate owned, net	—	—	786	786
Total	$ —	$ —	$ 2,010	$ 2,010

The following table presents quantitative information about Level 3 fair value measurements for financial assets measured at fair value on a non-recurring basis as of September 30, 2015:

	Fair Value Measurements at September 30, 2015				
(Dollars in thousands)	Fair Value		Valuation Technique(s)	Unobservable Inputs	Range of Inputs
Impaired loans, net	$	2,073	Appraisals	Discount to reflect current market conditions and estimated selling costs	10% - 60%
Other real estate owned, net		763	Appraisals	Discount to reflect current market conditions and estimated selling costs	0% - 65%
Total	$	2,836			

Fair Value of Financial Instruments

FASB ASC 825, Financial Instruments, requires disclosure about fair value of financial instruments, including those financial assets and financial liabilities that are not required to be measured and reported at fair value on a recurring or nonrecurring basis. ASC 825 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Corporation.

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The following describes the valuation techniques used by the Corporation to measure certain of its financial instruments at fair value as of September 30, 2015 and December 31, 2014.

Cash and short-term investments. The nature of these instruments and their relatively short maturities provide for the reporting of fair value equal to the historical cost.

Loans, net. The fair value of performing loans is estimated using a discounted expected future cash flows analysis based on current rates being offered on similar products in the market. An overall valuation adjustment is made for specific credit risks as well as general portfolio risks. Based on the valuation methodologies used in assessing the fair value of loans and the associated valuation allowance, these loans are considered Level 3.

Loan totals, as listed in the table below, include impaired loans. For valuation techniques used in relation to impaired loans, see the Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis section in this Note 8.

Accrued interest receivable. The carrying amount of accrued interest receivable approximates fair value.

Bank-owned life insurance (BOLI). The fair value of BOLI is estimated using information provided by insurance carriers. These policies are carried at their cash surrender value, which approximates the fair value.

Deposits. The fair value of all demand deposit accounts is the amount payable at the report date. For all other deposits, the fair value is determined using the discounted cash flow method. The discount rate was equal to the rate currently offered on similar products in active markets (Level 2).

Borrowings. The fair value of borrowings is determined using the discounted cash flow method. The discount rate was equal to the rate currently offered on similar products in active markets (Level 2).

Accrued interest payable. The carrying amount of accrued interest payable approximates fair value.

Letters of credit. The estimated fair value of letters of credit is based on estimated fees the Corporation would pay to have another entity assume its obligation under the outstanding arrangements. These fees are not considered material.

Unused portions of lines of credit. The estimated fair value of unused portions of lines of credit is based on estimated fees the Corporation would pay to have another entity assume its obligation under the outstanding arrangements. These fees are not considered material.

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The following tables reflect the carrying amounts and estimated fair values of the Corporation's financial instruments whether or not recognized on the balance sheet at fair value.

	Carrying	Fair Value Measurements at September 30, 2015 Using			Total Fair
(Dollars in thousands)	Value	Level 1	Level 2	Level 3	Value
Financial assets:					
Cash and short-term investments	$ 145,415	$ 145,415	$ —	$ —	$ 145,415
Securities available for sale	220,807	—	220,807	—	220,807
Loans, net	840,740	—	—	852,504	852,504
Loans held for sale	43,882	—	43,882	—	43,882
Derivative asset - IRLC	823	—	823	—	823
Bank-owned life insurance	14,780	—	14,780	—	14,780
Accrued interest receivable	6,654	6,654	—	—	6,654
Financial liabilities:					
Demand deposits	$ 703,581	$ 703,581	$ —	$ —	$ 703,581
Time deposits	338,216	—	340,737	—	340,737
Borrowings	178,951	—	172,086	—	172,086
Derivative liability - cash flow hedges	534	—	534	—	534
Accrued interest payable	687	687	—	—	687

	Carrying	Fair Value Measurements at December 31, 2014 Using			Total Fair
(Dollars in thousands)	Value	Level 1	Level 2	Level 3	Value
Financial assets:					
Cash and short-term investments	$ 167,616	$ 167,616	$ —	$ —	$ 167,616
Securities available for sale	221,897	—	221,897	—	221,897
Loans, net	800,198	—	—	813,010	813,010
Loans held for sale	28,279	—	28,279	—	28,279
Derivative asset - IRLC	448	—	448	—	448
Derivative asset - cash flow hedges	40	—	40	—	40
Bank-owned life insurance	14,484	—	14,484	—	14,484
Accrued interest receivable	6,421	6,421	—	—	6,421
Financial liabilities:					
Demand deposits	$ 659,594	$ 659,594	$ —	$ —	$ 659,594
Time deposits	366,507	—	369,538	—	369,538
Borrowings	167,027	—	160,052	—	160,052
	143	—	143	—	143

Derivative liability - cash flow hedges					
Accrued interest payable	740	740	—	—	740

The Corporation assumes interest rate risk (the risk that general interest rate levels will change) as a result of its normal operations. As a result, the fair values of the Corporation's financial instruments will change when interest rate levels change and that change may be either favorable or unfavorable to the Corporation. Management attempts to match maturities of assets and liabilities to the extent believed necessary to balance minimizing interest rate risk and increasing net interest income in current market conditions. However, borrowers with fixed rate obligations are less likely to prepay in a rising rate environment and more likely to prepay in a falling rate environment. Conversely, depositors who are receiving fixed rates are more likely to withdraw funds before maturity in a rising rate environment and less likely to do so in a falling rate environment. Management monitors interest rates, maturities and repricing dates of assets and liabilities and attempts to manage interest rate risk by adjusting terms of new loans, deposits and borrowings and by investing in securities with terms that mitigate the Corporation's overall interest rate risk.

NOTE 9: Business Segments

The Corporation operates in a decentralized fashion in three principal business segments: Retail Banking, Mortgage Banking and Consumer Finance. Revenues from Retail Banking operations consist primarily of interest earned on loans

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and investment securities and service charges on deposit accounts. Mortgage Banking operating revenues consist principally of gains on sales of loans in the secondary market, loan origination fee income and interest earned on mortgage loans held for sale. Revenues from Consumer Finance consist primarily of interest earned on purchased automobile retail installment sales contracts.

The Corporation's other segment includes a full-service brokerage firm that derives revenues from brokerage services and an insurance company that derives revenues from insurance services. The results of the other segment are not significant to the Corporation as a whole and have been included in "Other." Revenue and expenses of the Corporation are also included in "Other," and consist primarily of interest expense associated with the Corporation's trust preferred capital notes and other general corporate expenses.

	Three Months Ended September 30, 2015					
(Dollars in thousands)	Retail Banking	Mortgage Banking	Consumer Finance	Other	Eliminations	Consolidated
Revenues:						
Interest income	$ 10,715	$ 528	$ 12,702	$ —	$ (1,167)	$ 22,778
Gains on sales of loans	—	1,156	—	—	—	1,156
Other noninterest income	2,312	703	237	397	—	3,649
Total operating income	13,027	2,387	12,939	397	(1,167)	27,583
Expenses:						
Provision for loan losses	—	15	4,127	—	—	4,142
Interest expense	1,453	100	1,579	294	(1,167)	2,259
Salaries and employee benefits	5,663	660	2,503	281	—	9,107
Other noninterest expenses	4,440	1,292	1,324	98	—	7,154
Total operating expenses	11,556	2,067	9,533	673	(1,167)	22,662
Income (loss) before income taxes	1,471	320	3,406	(276)	—	4,921
Income tax expense (benefit)	85	130	1,336	(107)	—	1,444
Net income (loss)	$ 1,386	$ 190	$ 2,070	$ (169)	$ —	$ 3,477
Total assets	$ 1,194,435	$ 58,370	$ 291,214	$ 4,728	$ (175,376)	$ 1,373,371
Goodwill	$ 3,702	$ —	$ 10,723	$ —	$ —	$ 14,425
Capital expenditures	$ 434	$ 28	$ 7	$ 1	$ —	$ 470

	Three Months Ended September 30, 2014		
	Retail	Mortgage	Consumer

(Dollars in thousands)	Banking	Banking	Finance	Other	Eliminations	Consolidated
Revenues:						
Interest income	$ 10,925	$ 366	$ 11,837	$ —	$ (1,290)	$ 21,838
Gains on sales of loans	—	1,188	—	—	—	1,188
Other noninterest income	2,301	597	262	364	—	3,524
Total operating income	13,226	2,151	12,099	364	(1,290)	26,550
Expenses:						
Provision for loan losses	—	15	4,125	—	—	4,140
Interest expense	1,460	57	1,648	241	(1,290)	2,116
Salaries and employee benefits	5,509	813	2,382	196	—	8,900
Other noninterest expenses	4,181	1,172	1,224	94	—	6,671
Total operating expenses	11,150	2,057	9,379	531	(1,290)	21,827
Income (loss) before income taxes	2,076	94	2,720	(167)	—	4,723
Income tax expense (benefit)	396	37	1,061	(64)	—	1,430
Net income (loss)	$ 1,680	$ 57	$ 1,659	$ (103)	$ —	$ 3,293
Total assets	$ 1,153,939	$ 50,439	$ 288,328	$ 3,656	$ (180,367)	$ 1,315,995
Goodwill	$ 3,701	$ —	$ 10,724	$ —	$ —	$ 14,425
Capital expenditures	$ 306	$ 20	$ 3	$ —	$ —	$ 329

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	Nine Months Ended September 30, 2015					
(Dollars in thousands)	Retail Banking	Mortgage Banking	Consumer Finance	Other	Eliminations	Consolidated
Revenues:						
Interest income	$ 32,157	$ 1,301	$ 34,985	$ —	$ (3,512)	$ 64,931
Gains on sales of loans	—	4,803	—	—	—	4,803
Other noninterest income	6,764	1,961	751	1,142	—	