

C & F FINANCIAL CORP  
Form 10-Q  
May 09, 2018  
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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FORM 10-Q

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(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, 2018

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)

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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)

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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, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth 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
		Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 7, 2018, the latest practicable date for determination, 3,503,294 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

(Dollars in thousands, except for per share amounts)

	March 31, 2018 (unaudited)	December 31, 2017 *
<b>Assets</b>		
Cash and due from banks	\$ 12,360	\$ 14,070
Interest-bearing deposits in other banks	135,688	105,353
Total cash and cash equivalents	148,048	119,423
Securities—available for sale at fair value, amortized cost of \$220,143 and \$218,168, respectively	218,408	218,976
Loans held for sale, at fair value	39,654	55,384
Loans, net of allowance for loan losses of \$35,600 and \$35,726, respectively	992,505	992,062
Restricted stocks, at cost	3,498	3,443
Corporate premises and equipment, net	36,867	36,969
Other real estate owned, net of valuation allowance of \$57 and \$57, respectively	168	168
Accrued interest receivable	7,189	7,589
Goodwill	14,425	14,425
Core deposit and other amortizable intangible assets, net	1,459	1,594
Bank-owned life insurance	15,684	15,589
Net deferred tax asset	12,569	12,093
Other assets	34,452	31,341
<b>Total assets</b>	<b>\$ 1,524,926</b>	<b>\$ 1,509,056</b>
<b>Liabilities</b>		
<b>Deposits</b>		
Noninterest-bearing demand deposits	\$ 267,121	\$ 247,669
Savings and interest-bearing demand deposits	564,615	575,807
Time deposits	354,357	347,953
Total deposits	1,186,093	1,171,429
Short-term borrowings	19,741	20,621
Long-term borrowings	122,029	122,029
Trust preferred capital notes	25,219	25,210
Accrued interest payable	845	838

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Other liabilities	28,300	27,227
Total liabilities	1,382,227	1,367,354

Commitments and contingent liabilities

Shareholders' Equity

Common stock (\$1.00 par value, 8,000,000 shares authorized, 3,502,317 and 3,495,845 shares issued and outstanding, respectively, includes 133,350 and 137,880 of unvested shares, respectively)	3,369	3,358
Additional paid-in capital	12,925	12,800
Retained earnings	130,133	127,431
Accumulated other comprehensive loss, net	(3,728)	(1,887)
Total shareholders' equity	142,699	141,702
Total liabilities and shareholders' equity	\$ 1,524,926	\$ 1,509,056

\* Derived from audited consolidated financial statements.

See notes to consolidated financial statements.

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## CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(Dollars in thousands, except for per share amounts)

	Three Months Ended March 31,	
	2018	2017
Interest income		
Interest and fees on loans	\$ 20,817	\$ 20,368
Interest on interest-bearing deposits and federal funds sold	464	209
Interest and dividends on securities		
U.S. government agencies and corporations	87	78
Mortgage-backed securities	484	338
Tax-exempt obligations of states and political subdivisions	715	863
Taxable obligations of states and political subdivisions	71	52
Corporate bonds and other	106	113
Total interest income	22,744	22,021
Interest expense		
Savings and interest-bearing deposits	364	287
Time deposits	956	848
Borrowings	973	852
Trust preferred capital notes	283	283
Total interest expense	2,576	2,270
Net interest income	20,168	19,751
Provision for loan losses	3,300	4,400
Net interest income after provision for loan losses	16,868	15,351
Noninterest income		
Gains on sales of loans	2,239	1,943
Service charges on deposit accounts	1,049	1,069
Other service charges and fees	1,060	1,195
Net gains on calls of available for sale securities	5	1
Wealth management services income, net	425	322
Interchange income	906	851
Other	762	889
Total noninterest income	6,446	6,270
Noninterest expenses		
Salaries and employee benefits	10,733	10,793
Occupancy	2,031	1,971
Other	5,775	5,205
Total noninterest expenses	18,539	17,969
Income before income taxes	4,775	3,652
Income tax expense	883	921
Net income	\$ 3,892	\$ 2,731

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Net income per share - basic	\$ 1.11	\$ 0.78
Net income per share - assuming dilution	\$ 1.11	\$ 0.78
Weighted average number of shares outstanding - basic	3,501,164	3,483,007
Weighted average number of shares outstanding - assuming dilution	3,501,164	3,483,323

See notes to consolidated financial statements.

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## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(Dollars in thousands)

	Three Months Ended March 31,	
	2018	2017
Net income	\$ 3,892	\$ 2,731
Other comprehensive income (loss):		
Changes in defined benefit plan assets and benefit obligations		
Changes in net gain arising during the period <sup>1</sup>	29	38
Tax effect	(6)	(13)
Amortization of prior service cost arising during the period <sup>1</sup>	(15)	(15)
Tax effect	3	5
Net of tax amount	11	15
Unrealized gains on cash flow hedging instruments		
Unrealized holding gains arising during the period	212	65
Tax effect	(55)	(25)
Net of tax amount	157	40
Unrealized holding losses on securities		
Unrealized holding (losses) gains arising during the period	(2,538)	306
Tax effect	533	(107)
Reclassification adjustment for gains included in net income <sup>2</sup>	(5)	(1)
Tax effect	1	—
Net of tax amount	(2,009)	198
Other comprehensive (loss) income	(1,841)	253
Comprehensive income	\$ 2,051	\$ 2,984

<sup>1</sup> These items are included in the computation of net periodic benefit cost and are included in "Noninterest income-Other" on the Consolidated Statements of Income. See "Note 6: Employee Benefit Plans," for additional information.

<sup>2</sup> Gains are included in "Net gains on calls of available for sale securities" on the Consolidated Statements of Income.

See notes to consolidated financial statements.

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## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(Unaudited)

(Dollars in thousands, except for per share amounts)

	Common Stock	Additional Paid - In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balance December 31, 2017	\$ 3,358	\$ 12,800	\$ 127,431	\$ (1,887)	\$ 141,702
Comprehensive income:					
Net income	—	—	3,892	—	3,892
Other comprehensive loss	—	—	—	(1,841)	(1,841)
Share-based compensation	—	319	—	—	319
Restricted stock vested	14	(14)	—	—	—
Common stock issued	1	35	—	—	36
Common stock purchased	(4)	(215)	—	—	(219)
Cash dividends declared – common stock (\$0.34 per share)	—	—	(1,190)	—	(1,190)
Balance March 31, 2018	\$ 3,369	\$ 12,925	\$ 130,133	\$ (3,728)	\$ 142,699

	Common Stock	Additional Paid - In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance December 31, 2016	\$ 3,331	\$ 11,705	\$ 125,162	\$ (984)	\$ 139,214
Comprehensive income:					
Net income	—	—	2,731	—	2,731
Other comprehensive income	—	—	—	253	253
Stock options exercised	2	81	—	—	83
Share-based compensation	—	403	—	—	403
Restricted stock vested	15	(15)	—	—	—
Common stock issued	1	36	—	—	37
Common stock purchased	(4)	(181)	—	—	(185)
	—	—	(1,150)	—	(1,150)

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Cash dividends declared – common stock  
(\$0.33 per share)

Balance March 31, 2017	\$ 3,345	\$ 12,029	\$ 126,743	\$ (731)	\$ 141,386
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See notes to consolidated financial statements.

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## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(Dollars in thousands)

	Three Months Ended March 31,	
	2018	2017
Operating activities:		
Net income	\$ 3,892	\$ 2,731
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	727	654
Provision for loan losses	3,300	4,400
Provision for indemnifications	36	36
Share-based compensation	319	403
Net accretion of certain acquisition-related fair value adjustments	(829)	(325)
Net amortization of discounts and amortization of premiums on securities	497	407
Amortization of other intangibles	40	40
Realized gains on calls of securities	(5)	(1)
Net realized losses on sales of other real estate owned	—	2
Net realized gains on sale of corporate premises and equipment	(27)	—
Income from bank-owned life insurance	(81)	(84)
Origination of loans held for sale	(143,903)	(141,097)
Proceeds from sales of loans held for sale	161,872	153,790
Gains on sales of loans held for sale	(2,239)	(1,943)
Change in other assets and liabilities:		
Accrued interest receivable	400	496
Other assets	(2,898)	492
Accrued interest payable	7	5
Other liabilities	1,037	(3,485)
Net cash provided by operating activities	22,145	16,521
Investing activities:		
Proceeds from maturities, calls and sales of securities available for sale and payments on mortgage-backed securities	12,735	11,368
Purchases of securities available for sale	(15,150)	(14,523)
Net purchases of restricted stocks	(55)	(40)
Net increase in loans	(2,840)	(8,031)
Proceeds from sales of other real estate owned	—	25
Purchases of corporate premises and equipment, net	(621)	(569)
Net cash used in investing activities	(5,931)	(11,770)
Financing activities:		
Net increase in demand, interest-bearing demand and savings deposits	8,260	11,348
Net increase in time deposits	6,404	1,255

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Net (decrease) increase in borrowings	(880)	1,198
Issuance of common stock	36	37
Purchase of common stock, including shares withheld to pay taxes	(219)	(185)
Proceeds from exercise of stock options	—	83
Cash dividends	(1,190)	(1,150)
Net cash provided by financing activities	12,411	12,586
Net increase in cash and cash equivalents	28,625	17,337
Cash and cash equivalents at beginning of period	119,423	103,201
Cash and cash equivalents at end of period	\$ 148,048	\$ 120,538
Supplemental disclosure		
Interest paid	\$ 2,560	\$ 2,256
Income taxes paid	8	14
Supplemental disclosure of noncash investing and financing activities		
Unrealized (losses) gains on securities available for sale	\$ (2,538)	\$ 306
Transfers from loans to other real estate owned	—	208
Pension adjustment	14	23
Unrealized gains on cash flow hedging instruments	212	65

See notes to 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, 2017.

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. The accounting and reporting policies of C&F Financial Corporation and Subsidiary conform to U.S. GAAP and to predominant practices within the banking industry.

**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.

C&F Bank has five wholly-owned subsidiaries: C&F Mortgage Corporation and Subsidiary (C&F Mortgage), C&F Finance Company (C&F Finance), C&F Wealth Management Corporation (C&F Wealth Management), C&F Insurance Services, Inc. and CVB Title Services, Inc., all incorporated under the laws of the Commonwealth of Virginia. C&F Mortgage, organized in September 1995, was formed to originate and sell residential mortgages and through its subsidiary, Certified Appraisals LLC, provides ancillary mortgage loan production services for residential appraisals. C&F Finance, acquired on September 1, 2002, is a finance company purchasing automobile, boat and recreational vehicle (RV) loans through indirect lending programs. C&F Wealth Management, organized in April

1995, is a full-service brokerage firm offering a comprehensive range of wealth management services and insurance products through an alliance with an independent broker/dealer. C&F Insurance Services, Inc., organized in July 1999, owns an equity interest in an insurance agency that sells insurance products to customers of C&F Bank, C&F Mortgage and other financial institutions that have an equity interest in the agency. CVB Title Services, Inc. was organized for the primary purpose of owning membership interests in two insurance-related limited liability companies. Business segment data is presented in Note 8.

**Basis of Presentation:** The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the allowance for indemnifications, impairment of loans, impairment of securities, the valuation of other real estate owned, the projected benefit obligation under the defined benefit pension plan, the valuation of deferred taxes 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 the prior period financial statements to conform to the current period presentation. None of these reclassifications are considered material.

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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 may include (1) interest rate lock commitments (IRLCs) on mortgage loans that will be sold in the secondary market on a best efforts basis and the related forward commitments to sell mortgage loans, (2) interest rate swaps with certain qualifying commercial loan customers and dealer counterparties and (3) interest rate swaps that qualify as cash flow hedges on the Corporation's trust preferred capital notes. Because the IRLCs, forward sales commitments and interest rate swaps with loan customers and dealer counterparties are not designated as hedging instruments, adjustments to reflect unrealized gains and losses resulting from changes in the fair value of these instruments are reported as noninterest income or noninterest expense, as applicable. 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(s) during which the hedged transactions affect earnings. The Corporation's derivative financial instruments are described more fully in Note 10.

Share-Based Compensation: Shared-based compensation expense, net of forfeitures, for the first quarter of 2018 was \$319,000 (\$237,000 after tax) for restricted stock granted during 2013 through 2018. As of March 31, 2018, there was \$3.28 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 2018 and 2017 is presented below:

	2018	Weighted-Average Grant Date Fair Value
	Shares	
Unvested, December 31, 2017	137,880	\$ 43.52
Granted	11,210	58.40
Vested	(14,125)	40.05
Forfeited	(1,615)	42.78
Unvested, March 31, 2018	133,350	\$ 45.14

2017

	Weighted-Average Grant Date Fair Value
Shares	



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Unvested, December 31, 2016	141,755	\$ 39.77
Granted	15,275	45.40
Vested	(14,950)	34.73
Forfeited	(910)	41.58
Unvested, March 31, 2017	141,170	