C & F FINANCIAL CORP
Form 10-Q
August 07, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2012

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File Number: 000-23423

C&F Financial Corporation
(Exact name of registrant as specified in its charter)

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

(804) 843-2360
(Registrant’s telephone number, including area code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x 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). x 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 x

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

At August 3, 2012, the latest practicable date for determination, 3,216,140 shares of common stock, $1.00 par value, of the registrant were outstanding.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS
(In thousands, except for share and per share amounts)

	June 30, 2012 (Unaudited)	December 31, 2011
ASSETS		
Cash and due from banks	$5,994	$5,787
Interest-bearing deposits in other banks	4,938	4,723
Federal funds sold	--	997
Total cash and cash equivalents	10,932	11,507
Securities-available for sale at fair value, amortized cost of $132,825 and $137,575, respectively	141,289	144,646
Loans held for sale, net	79,171	70,062
Loans, net of allowance for loan losses of $35,457 and $33,677, respectively	634,621	616,984
Federal Home Loan Bank stock, at cost	3,749	3,767
Corporate premises and equipment, net	28,003	28,462
Other real estate owned, net of valuation allowance of $4,122 and $3,927, respectively	5,236	6,059
Accrued interest receivable	5,360	5,242
Goodwill	10,724	10,724
Other assets	30,629	30,671
Total assets	$949,714	$928,124
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Noninterest-bearing demand deposits	$109,418	$95,556
Savings and interest-bearing demand deposits	255,772	242,917
Time deposits	292,257	307,943
Total deposits	657,447	646,416
Short-term borrowings	22,383	7,544
Long-term borrowings	132,987	132,987
Trust preferred capital notes	20,620	20,620
Accrued interest payable	974	1,111
Other liabilities	21,398	23,356
Total liabilities	855,809	832,034
Commitments and contingent liabilities	—	
Shareholders' equity		
Preferred stock ($1.00 par value, 3,000,000 shares authorized, 0 and 10,000 shares issued and outstanding, respectively)	—	10
	3,120	3,091

Common stock ($1.00 par value, 8,000,000 shares authorized, 3,214,376 and 3,178,510 shares issued and outstanding, respectively)		
Additional paid-in capital	4,415	13,438
Retained earnings	82,085	76,167
Accumulated other comprehensive income, net	4,285	3,384
Total shareholders' equity	93,905	96,090
Total liabilities and shareholders' equity	$949,714	$928,124

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

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CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)
(In thousands, except for share and per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Interest income				
Interest and fees on loans	$17,824	$17,043	$35,300	$33,389
Interest on money market investments	5	16	13	31
Interest and dividends on securities				
U.S. government agencies and corporations	52	55	109	106
Tax-exempt obligations of states and political subdivisions	1,186	1,225	2,373	2,419
Corporate bonds and other	31	30	59	56
Total interest income	19,098	18,369	37,854	36,001
Interest expense				
Savings and interest-bearing deposits	197	274	450	606
Certificates of deposit, $100 or more	547	663	1,187	1,336
Other time deposits	637	819	1,361	1,669
Borrowings	967	966	1,940	1,932
Trust preferred capital notes	248	246	497	489
Total interest expense	2,596	2,968	5,435	6,032
Net interest income	16,502	15,401	32,419	29,969
Provision for loan losses	2,860	3,390	5,585	6,210
Net interest income after provision for loan losses	13,642	12,011	26,834	23,759
Noninterest income				
Gains on sales of loans	4,718	3,696	8,821	7,496
Service charges on deposit accounts	825	846	1,626	1,694
Other service charges and fees	1,608	1,314	2,976	2,406
Net gains on calls and sales of available for sale securities	8	--	8	--
Other income	570	502	1,681	1,219
Total noninterest income	7,729	6,358	15,112	12,815
Noninterest expenses				
Salaries and employee benefits	9,596	8,430	19,338	16,922
Occupancy expenses	1,677	1,611	3,398	3,137
Other expenses	3,954	3,928	7,548	7,859
Total noninterest expenses	15,227	13,969	30,284	27,918
Income before income taxes	6,144	4,400	11,662	8,656
Income tax expense	1,963	1,317	3,701	2,604
Net income	4,181	3,083	7,961	6,052
Effective dividends on preferred stock	165	290	311	579
Net income available to common shareholders	$4,016	$2,793	$7,650	$5,473

Per common share data				
Net income – basic	$1.25	$0.89	$2.39	$1.75
Net income – assuming dilution	$1.22	$0.88	$2.33	$1.73
Cash dividends declared	$0.26	$0.25	$0.52	$0.50
Weighted average number of shares – basic	3,208,792	3,131,203	3,199,655	3,127,536
Weighted average number of shares – assuming dilution	3,296,145	3,159,260	3,280,560	3,163,210

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

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)
(In thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
Net income	$4,181	$3,083	$7,961	$6,052
Other comprehensive income, net:	5	3	12	7
Changes in defined benefit plan assets and benefit obligations, net				
Unrealized loss on cash flow hedging instruments, net	(19)	(138)	(16)	(84)
Unrealized holding gains on securities, net of reclassification adjustment	780	1,591	905	2,146
Comprehensive income, net	$4,947	$4,539	$8,862	$8,121

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)

	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income, Net	Total Shareholders' Equity
Balance December 31, 2011	$10	$3,091	$13,438	$76,167	$ 3,384	$ 96,090
Comprehensive income:						
Net income	—	—	—	7,961	—	7,961
Other comprehensive income, net	—	—	—	—	901	901
Comprehensive income	—	—	—	—	—	8,862
Stock options exercised	—	23	478	—	—	501
Share-based compensation	—	—	242	—	—	242
Restricted stock vested	—	3	(3)	—	—	—
Preferred stock redemption	(10)	—	(9,990)	—	—	(10,000)
Accretion of preferred stock discount	—	—	172	(172)	—	—
Common stock issued	—	3	78	—	—	81
Cash dividends paid – common stock ($0.52 per share)	—	—	—	(1,668)	—	(1,668)
Cash dividends paid – preferred stock (5% per annum)	—	—	—	(203)	—	(203)
Balance June 30, 2012	$—	$3,120	$4,415	$82,085	$ 4,285	$ 93,905

	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income, Net	Total Shareholders' Equity
Balance December 31, 2010	$20	$3,032	$22,112	$67,542	$ 71	$ 92,777
Comprehensive income:						
Net income	—	—	—	6,052	—	6,052
Other comprehensive income, net	—	—	—	—	2,069	2,069
Comprehensive income	—	—	—	—	—	8,121
Stock options exercised	—	8	134	—	—	142
Share-based compensation	—	—	132	—	—	132
Restricted stock vested	—	5	(5)	—	—	—
Accretion of preferred stock discount	—	—	79	(79)	—	—
Cash dividends paid – common stock ($0.50 per share)	—	—	—	(1,564)	—	(1,564)
Cash dividends paid – preferred stock (5% per annum)	—	—	—	(500)	—	(500)
Balance June 30, 2011	$20	$3,045	$22,452	$71,451	$ 2,140	$ 99,108

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

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CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Operating activities:		
Net income	$7,961	$6,052
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	1,119	1,025
Provision for loan losses	5,585	6,210
Provision for indemnifications	455	406
Provision for other real estate owned losses	350	411
Share-based compensation	242	132
Accretion of discounts and amortization of premiums on securities, net	366	388
Net realized gain on securities	(8)	--
Realized losses on sales of other real estate owned	13	21
Proceeds from sales of loans held for sale	370,848	297,725
Origination of loans held for sale	(379,957)	(273,062)
Change in other assets and liabilities:		
Accrued interest receivable	(118)	(47)
Other assets	(440)	(1,240)
Accrued interest payable	(137)	(15)
Other liabilities	(2,423)	(2,477)
Net cash provided by operating activities	3,856	35,529
Investing activities:		
Proceeds from maturities, calls and sales of securities available for sale	21,074	15,311
Purchases of securities available for sale	(16,682)	(22,219)
Redemption of Federal Home Loan Bank stock	18	--
Net increase in customer loans	(23,660)	(24,034)
Other real estate owned improvements	(205)	--
Proceeds from sales of other real estate owned	1,103	5,894
Purchases of corporate premises and equipment, net	(660)	(1,181)
Net cash used in investing activities	(19,012)	(26,229)
Financing activities:		
Net increase in demand, interest-bearing demand and savings deposits	26,717	7,196
Net decrease in time deposits	(15,686)	(6,485)
Net increase (decrease) in borrowings	14,839	(2,649)
Issuance of common stock	582	142
Redemption of preferred stock	(10,000)	--
Cash dividends	(1,871)	(2,064)
Net cash provided by (used in) financing activities	14,581	(3,860)
Net (decrease) increase in cash and cash equivalents	(575)	5,440
Cash and cash equivalents at beginning of period	11,507	9,680
Cash and cash equivalents at end of period	$10,932	$15,120

Supplemental disclosure		
Interest paid	$5,572	$6,047
Income taxes paid	4,918	4,261
Supplemental disclosure of noncash investing and financing activities		
Unrealized gains on securities available for sale	$1,393	$3,300
Loans transferred to other real estate owned	(438)	(3,621)
Pension adjustment	18	11
Unrealized loss on cash flow hedging instrument	(28)	(138)

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, 2011.

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, C&F Financial Corporation owns C&F Financial Statutory Trust I and C&F Financial Statutory Trust II, which are unconsolidated subsidiaries. The subordinated debt owed to these trusts is reported as a liability of the Corporation.

Nature of Operations: The Corporation is a bank holding company incorporated under the laws of the Commonwealth of Virginia. The Corporation owns all of the stock of its subsidiary, C&F Bank, which is an independent commercial bank chartered under the laws of the Commonwealth of Virginia. The Bank and its subsidiaries offer a wide range of banking and related financial services to both individuals and businesses.

The Bank has five wholly-owned subsidiaries: C&F Mortgage Corporation and Subsidiaries (C&F Mortgage), C&F Finance Company (C&F Finance), C&F Title Agency, Inc., C&F Investment Services, Inc. and C&F Insurance 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 subsidiaries, Hometown Settlement Services LLC and Certified Appraisals LLC, provides ancillary mortgage loan production services, such as loan settlements, title searches and residential appraisals. C&F Finance, acquired on September 1, 2002, is a regional finance company providing automobile loans. C&F Title Agency, Inc., organized in October 1992, primarily sells title insurance to the mortgage loan customers of the Bank and C&F Mortgage. C&F Investment Services, Inc., organized in April 1995, is a full-service brokerage firm offering a comprehensive range of investment services. C&F Insurance Services, Inc., organized in July 1999, owns an equity interest in an insurance agency that sells insurance products to customers of the Bank, C&F Mortgage and other financial institutions that have an equity interest in the agency. 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, the valuation of derivative financial instruments 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. Certain reclassifications have been made to prior period amounts to conform to the current period presentation.

Derivative Financial Instruments: The Corporation recognizes derivative financial instruments at fair value as either an other asset or other liability in the consolidated balance sheets. The derivative financial instruments have been designated as and qualify as cash flow hedges. The effective portion of the gain or loss on 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 periods during which the hedged transaction affects earnings.

Share-Based Compensation: Compensation expense for the second quarter and first six months of 2012 included net expense of $122,000 ($76,000 after tax) and $242,000 ($150,000 after tax), respectively, for restricted stock granted since 2007. As of June 30, 2012, there was $1.35 million of total unrecognized compensation expense related to unvested restricted stock that will be recognized over the remaining requisite service periods.

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Stock option activity during the six months ended June 30, 2012 and stock options outstanding as of June 30, 2012 are summarized below:

	Shares	Exercise Price*	Remaining Contractual Life (in years)*	Intrinsic Value of Unexercised In-The Money Options (in 000's)
Options outstanding at January 1, 2012	325,067	$36.68	3.0	
Exercised	(22,167)	22.60		
Options outstanding and exercisable at June 30, 2012	302,900	$37.71	2.6	$460

* Weighted average

A summary of activity for restricted stock awards during the first six months of 2012 is presented below:

	Shares	Weighted-Average Grant Date Fair Value
Unvested, January 1, 2012	87,125	$ 22.59
Granted	11,775	$ 29.81
Vested	(3,650)	$ 19.82
Cancelled	(950)	$ 22.26
Unvested, June 30, 2012	94,300	$ 23.60

Recent Significant Accounting Pronouncements:

In April 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-03, Transfers and Servicing – Reconsideration of Effective Control for Repurchase Agreements. The amendments in this ASU remove from the assessment of effective control (1) the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee and (2) the collateral maintenance implementation guidance related to that criterion. The amendments in this ASU are effective for the first interim or annual period beginning on or after December 15, 2011. The guidance should be applied prospectively to transactions or modifications of existing transactions that occur on or after the effective date. Early adoption was not permitted. The adoption of the new guidance did not have a material effect on the Corporation's financial statements.

In May 2011, the FASB issued ASU 2011-04, Fair Value Measurement – Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. This ASU is the result of joint efforts by the FASB and the International Accounting Standards Board to develop a single, converged fair value framework on how (not when) to measure fair value and what disclosures to provide about fair value measurements. The ASU is largely consistent with existing fair value measurement principles in U.S. GAAP (Topic 820), with many of the amendments made to eliminate unnecessary wording differences between U.S. GAAP and International Financial Reporting Standards. The amendments are effective for interim and annual periods beginning after December 15, 2011 with prospective application. Early application was not permitted. The Corporation has included the required disclosures in its consolidated financial statements.

In June 2011, the FASB issued ASU 2011-05, Comprehensive Income – Presentation of Comprehensive Income. The objective of this ASU is to improve the comparability, consistency and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income by eliminating the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity. The amendments require that all non-owner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The amendments do not change the items that must be reported in other comprehensive income, the option for an entity to present components of other comprehensive income either net of related tax effects or before related tax effects, or the calculation or reporting of earnings per share. The amendments in this ASU should be applied retrospectively. The amendments are effective for fiscal years and interim periods within those years beginning after December 15, 2011. The amendments do not require transition disclosures. The Corporation has included the required disclosures in its consolidated financial statements.

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In September 2011, the FASB issued ASU 2011-08, Intangible – Goodwill and Other – Testing Goodwill for Impairment. The amendments in this ASU permit an entity to first assess qualitative factors related to goodwill to determine whether it is more likely than not that the fair value of the reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill test described in Topic 350. The more-likely-than-not threshold is defined as having a likelihood of more than 50 percent. Under the amendments in this ASU, an entity is not required to calculate the fair value of a reporting unit unless the entity determines that it is more likely than not that its fair value is less than its carrying amount. The amendments in this ASU are effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted, including for annual and interim goodwill impairment tests performed as of a date before September 15, 2011, if an entity's financial statements for the most recent annual or interim period have not yet been issued. The adoption of the new guidance did not have a material effect on the Corporation's consolidated financial statements.

In December 2011, the FASB issued ASU 2011-12, Comprehensive Income - Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in ASU 2011-05. The amendments are being made to allow the FASB time to redeliberate whether to present on the face of the financial statements the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income for all periods presented. While the FASB is considering the operational concerns about the presentation requirements for reclassification adjustments and the needs of financial statement users for additional information about reclassification adjustments, entities should continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect before ASU 2011-05. All other requirements in ASU 2011-05 are not affected by ASU 2011-12, including the requirement to report comprehensive income either in a single continuous financial statement or in two separate but consecutive financial statements. Public entities should apply these requirements for fiscal years, and interim periods within those years, beginning after December 15, 2011. The Corporation has included the required disclosures in its consolidated financial statements.

NOTE 2: Securities

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

	June 30, 2012			
(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. government agencies and corporations	$13,530	$15	$(13)	$13,532
Mortgage-backed securities	2,635	73	(1)	2,707
Obligations of states and political subdivisions	116,633	8,392	(70)	124,955
Preferred stock	27	68	—	95
	$132,825	$8,548	$(84)	$141,289

	December 31, 2011			
(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. government agencies and corporations	$15,248	$39	$(4)	$15,283
Mortgage-backed securities	2,135	81	—	2,216
Obligations of states and political subdivisions	120,165	6,998	(84)	127,079
Preferred stock	27	41	—	68

	$137,575	$7,159	$(88)	$144,646

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The amortized cost and estimated fair value of securities, all of which were classified as available for sale, at June 30, 2012, by the earlier of contractual maturity or expected maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to prepay obligations with or without call or prepayment penalties.

	June 30, 2012	
(Dollars in thousands)	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 22,574	$ 22,712
Due after one year through five years	37,385	39,103
Due after five years through ten years	47,837	51,840
Due after ten years	25,002	27,539
Preferred stock	27	95
	$ 132,825	$ 141,289

Proceeds from the maturities, calls and sales of securities available for sale for the six months ended June 30, 2012 were $21.07 million.

The Corporation pledges securities primarily as collateral for public deposits and repurchase agreements. Securities with an aggregate amortized cost of $92.57 million and an aggregate fair value of $99.39 million were pledged at June 30, 2012. Securities with an aggregate amortized cost of $106.97 million and an aggregate fair value of $112.66 million were pledged at December 31, 2011.

Securities in an unrealized loss position at June 30, 2012, 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	$5,677	$13	$—	$—	$5,677	$13
Mortgage-backed securities	910	1	—	—	910	1
Obligations of states and political subdivisions	4,309	37	675	33	4,984	70
Total temporarily impaired securities	$10,896	$51	$675	$33	$11,571	$84

There are 35 debt securities with fair values totaling $11.57 million considered temporarily impaired at June 30, 2012. The primary cause of the temporary impairments in the Corporation's investments in debt securities was fluctuations in interest rates. During the second quarter of 2012, the municipal bond sector, which is included in the Corporation's obligations of states and political subdivisions category of securities, experienced rising securities prices due to declining interest rates over the quarter, gradual fundamental municipal credit improvement, and strong demand trends for municipal securities. The vast majority of the Corporation's municipal bond portfolio is made up of securities where the issuing municipalities have unlimited taxing authority to support their debt service obligations. At June 30, 2012, approximately 96 percent of the Corporation's obligations of states and political subdivisions, as measured by market value, were rated "A" or better by Standard & Poor's or Moody's Investors Service. Of those in a net unrealized loss position, approximately 83 percent were rated, as measured by market value, "A" or better at June 30, 2012. Because the Corporation intends to hold these investments in debt securities to maturity and it is more likely than not that the Corporation will not be required to sell these investments before a recovery of unrealized losses, the

Corporation does not consider these investments to be other-than-temporarily impaired at June 30, 2012 and no other-then-temporary impairment has been recognized.

Securities in an unrealized loss position at December 31, 2011, 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	$2,064	$4	$—	$—	$2,064	$4
Obligations of states and political subdivisions	3,305	35	1,328	49	4,633	84
Total temporarily impaired securities	$5,369	$39	$1,328	$49	$6,697	$88

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The Corporation's investment in Federal Home Loan Bank (FHLB) stock totaled $3.75 million at June 30, 2012 and $3.77 million at December 31, 2011. FHLB stock is generally viewed as a long-term investment and as a restricted investment security, which is carried at cost, because there is no market for the stock, other than the FHLBs or member institutions. Therefore, when evaluating FHLB stock for impairment, its value is based on the ultimate recoverability of the par value rather than by recognizing temporary declines in value. The Corporation does not consider this investment to be other-than-temporarily impaired at June 30, 2012 and no impairment has been recognized. FHLB stock is shown as a separate line item on the balance sheet and is not a part of the available for sale securities portfolio.

NOTE 3: Loans

Major classifications of loans are summarized as follows:

(Dollars in thousands)	June 30, 2012	December 31, 2011
Real estate – residential mortgage	$ 146,256	$ 147,135
Real estate – construction 1	4,983	5,737
Commercial, financial and agricultural 2	215,419	212,235
Equity lines	33,490	33,192
Consumer	6,148	6,057
Consumer finance	263,782	246,305
	670,078	650,661
Less allowance for loan losses	(35,457)	(33,677)
Loans, net	$ 634,621	$ 616,984

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 $504,000 and $299,000 of demand deposit overdrafts at June 30, 2012 and December 31, 2011, respectively.

Loans on nonaccrual status were as follows:

(Dollars in thousands)	June 30, 2012	December 31, 2011
Real estate – residential mortgage	$ 1,412	$ 2,440
Real estate – construction:		
Construction lending	—	—
Consumer lot lending	—	—
Commercial, financial and agricultural:		
Commercial real estate lending	4,435	5,093
Land acquisition and development lending	2,756	—
Builder line lending	1,936	2,303
Commercial business lending	768	673
Equity lines	9	123
Consumer	—	—
Consumer finance	259	381

Total loans on nonaccrual status	$ 11,575	$ 11,013

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The past due status of loans as of June 30, 2012 was as follows:

(Dollars in thousands)	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total Loans	90+ Days Past Due and Accruing
Real estate – residential mortgage	$1,189	$198	$366	$1,753	$144,503	$146,256	$13
Real estate – construction:							
Construction lending	—	—	—	—	3,079	3,079	—
Consumer lot lending	—	—	—	—	1,904	1,904	—
Commercial, financial and agricultural:							
Commercial real estate lending	272	—	129	401	125,106	125,507	—
Land acquisition and development lending	—	—	2,756	2,756	30,806	33,562	—
Builder line lending	—	—	—	—	17,718	17,718	—
Commercial business lending	23	—	551	574	38,058	38,632	281
Equity lines	130	40	—	170	33,320	33,490	—
Consumer	—	—	2	2	6,146	6,148	2
Consumer finance	5,431	1,260	259	6,950	256,832	263,782	—
Total	$7,045	$1,498	$4,063	$12,606	$657,472	$670,078	$296

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

The past due status of loans as of December 31, 2011 was as follows:

(Dollars in thousands)	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Total Past Due	Current	Total Loans	90+ Days Past Due and Accruing
Real estate – residential mortgage	$1,270	$1,445	$533	$3,248	$143,887	$147,135	$65
Real estate – construction:							
Construction lending	—	—	—	—	5,084	5,084	—
Consumer lot lending	—	—	—	—	653	653	—

Commercial, financial and agricultural:							
Commercial real estate lending	986	1,311	—	2,297	114,475	116,772	—
Land acquisition and development lending	—	—	—	—	32,645	32,645	—
Builder line lending	—	—	—	—	17,637	17,637	—
Commercial business lending	480	—	—	480	44,701	45,181	—
Equity lines	69	90	33	192	33,000	33,192	—
Consumer	13	—	—	13	6,044	6,057	3
Consumer finance	5,327	1,041	381	6,749	239,556	246,305	—
Total	$8,145	$1,445	$947	$12,979	$637,682	$650,661	$68

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

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Impaired loans, which included troubled debt restructurings (TDRs) of $15.77 million, and the related allowance at June 30, 2012, 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	$2,272	$2,309	$426	$ 2,298	$66
Real estate – construction:					
Construction lending	—	—	—	—	—
Consumer lot lending	—	—	—	—	—
Commercial, financial and agricultural:					
Commercial real estate lending	5,084	5,329	1,447	5,409	74
Land acquisition and development lending	8,185	8,185	2,031	8,290	176
Builder line lending	1,919	1,919	455	1,920	—
Commercial business lending	636	639	145	642	6
Equity lines	—	—	—	—	—
Consumer	432	432	65	432	8
Total	$18,528	$18,813	$4,569	$ 18,991	$330

The Corporation has no obligation to fund additional advances on its impaired loans.

Impaired loans, which included TDRs of $17.09 million, and the related allowance at December 31, 2011 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	$3,482	$3,698	$657	$ 3,723	$137
Real estate – construction:					
Construction lending	—	—	—	—	—
Consumer lot lending	—	—	—	—	—
Commercial, financial and agricultural:					
Commercial real estate lending	5,861	5,957	1,464	6,195	102
Land acquisition and development lending	5,490	5,814	1,331	6,116	372
Builder line lending	2,285	2,285	318	2,397	—
Commercial business lending	652	654	161	663	6
Equity lines	—	—	—	—	—
Consumer	324	324	49	324	14
Total	$18,094	$18,732	$3,980	$ 19,418	$631

Loan modifications that were classified as TDRs during the three and six months ended June 30, 2012 and 2011 were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2012	2011	2012	2011
	$ 122	$ 230	$ 122	$ 352

Real estate-residential mortgage-interest reduction								
Real estate-residential mortgage-interest rate concession		--		96		--		96
Commercial, financial and agricultural:								
Builder line lending-interest rate concession		--		2,285		--		2,285
Commercial business lending-interest reduction		--		186		--		186
Commercial business lending-interest rate concession		373		277		373		363
Consumer-interest reduction		--		--		108		--
Total	$	495	$	3,074	$	603	$	3,282

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TDR payment defaults during three and six months ended June 30, 2012 and 2011 were as follows:

(Dollars in thousands)	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Real estate-residential mortgage	$ --	$ 70	$ --	$ 154
Commercial, financial and agricultural:				
Builder line lending	88	--	88	--
Commercial business lending	363	--	363	--
Consumer	--	--	--	4
Total	$ 451	$ 70	$ 451	$ 158

For purposes of this disclosure, 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.

NOTE 4: Allowance for Loan Losses

The following table presents the changes in the allowance for loan losses by major classification during the six months ended June 30, 2012.

(Dollars in thousands)	Real Estate Residential Mortgage	Real Estate Construction	Commercial, Financial and Agricultural	Equity Lines	Consumer	Consumer Finance	Total
Allowance for loan losses:							
Balance at December 31, 2011	$2,379	$ 480	$ 10,040	$912	$319	$19,547	$33,677
Provision charged to operations	576	(94)	917	130	76	3,980	5,585
Loans charged off	(638)	—	(402)	(121)	(171)	(4,102)	(5,434)
Recoveries of loans previously charged off	23	—	36	—	99	1,471	1,629
Balance at June 30, 2012	$2,340	$ 386	$ 10,591	$921	$323	$20,896	$35,457

The following table presents the changes in the allowance for loan losses by major classification during the six months ended June 30, 2011.

(Dollars in thousands)	Real Estate Residential Mortgage	Real Estate Construction	Commercial, Financial and Agricultural	Equity Lines	Consumer	Consumer Finance	Total
Allowance for loan losses:							
	$1,442	$ 581	$ 8,688	$380	$307	$17,442	$28,840

Balance December 31, 2010							
Provision charged to operations	811	147	1,376	177	74	3,625	6,210
Loans charged off	(283)	—	(2,530)	(9)	(167)	(3,115)	(6,104)
Recoveries of loans previously charged off	14	—	21	—	41	1,189	1,265
Balance June 30, 2011	$1,984	$ 728	$ 7,555	$548	$255	$19,141	$30,211

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The following table presents, as of June 30, 2012, the total allowance for loan losses the allowance by impairment methodology (individually evaluated for impairment or collectively evaluated for impairment), 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 and Agricultural	Equity Lines	Consumer	Consumer Finance	Total
Allowance for loan losses:							
Balance at June 30, 2012	$2,340	$ 386	$ 10,591	$921	$323	$20,896	$35,457
Ending balance: individually evaluated for impairment	$426	$ —	$ 4,078	$—	$65	$—	$4,569
Ending balance: collectively evaluated for impairment	$1,914	$ 386	$ 6,513	$921	$258	$20,896	$30,888
Loans:							
Balance June 30, 2012	$146,256	$ 4,983	$ 215,419	$33,490	$6,148	$263,782	$670,078
Ending balance: individually evaluated for impairment	$2,272	$ —	$ 15,824	$—	$432	$—	$18,528
Ending balance: collectively evaluated for impairment	$143,984	$ 4,983	$ 199,595	$33,490	$5,716	$263,782	$651,550

The following table presents, as of December 31, 2011, the total allowance for loan losses, the allowance by impairment methodology (individually evaluated for impairment or collectively evaluated for impairment), 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 and Agricultural	Equity Lines	Consumer	Consumer Finance	Total
Allowance for loan losses:							
Balance at December 31, 2011	$2,379	$ 480	$ 10,040	$912	$319	$19,547	$33,677
Ending balance: individually evaluated for	$657	$ —	$ 3,274	$—	$49	$—	$3,980

impairment							
Ending balance: collectively evaluated for impairment	$1,722	$ 480	$ 6,766	$912	$270	$19,547	$29,697
Loans:							
Balance at December 31, 2011	$147,135	$ 5,737	$ 212,235	$33,192	$6,057	$246,305	$650,661
Ending balance: individually evaluated for impairment	$3,482	$ —	$ 14,288	$—	$324	$—	$18,094