

C & F FINANCIAL CORP  
Form 10-Q  
August 03, 2007  
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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 June 30, 2007

**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

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**C&F Financial Corporation**

(Exact name of registrant as specified in its charter)

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Virginia  
(State or other jurisdiction of  
incorporation or organization)

54-1680165  
(I.R.S. Employer  
Identification No.)

802 Main Street

West Point, VA

23181

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(Address of principal executive offices)

(804) 843-2360

(Zip Code)

(Registrant's telephone number, including area code)

(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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

At July 31, 2007, the latest practicable date for determination, 3,052,591 shares of common stock, \$1.00 par value, of the registrant were outstanding.

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**Table of Contents****PART I - FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****CONSOLIDATED BALANCE SHEETS**

(In thousands, except for share and per share amounts)

|                                                                                                                                   | June 30, 2007<br>(Unaudited) | December 31, 2006 |
|-----------------------------------------------------------------------------------------------------------------------------------|------------------------------|-------------------|
| <b>ASSETS</b>                                                                                                                     |                              |                   |
| Cash and due from banks                                                                                                           | \$ 13,617                    | \$ 11,496         |
| Interest-bearing deposits in other banks                                                                                          | 4,551                        | 17,010            |
| Total cash and cash equivalents                                                                                                   | 18,168                       | 28,506            |
| Securities-available for sale at fair value, amortized cost of \$71,687 and \$66,407, respectively                                | 71,698                       | 67,584            |
| Loans held for sale, net                                                                                                          | 44,294                       | 53,504            |
| Loans, net                                                                                                                        | 551,437                      | 517,843           |
| Federal Home Loan Bank stock                                                                                                      | 2,014                        | 2,093             |
| Corporate premises and equipment, net                                                                                             | 33,698                       | 33,189            |
| Accrued interest receivable                                                                                                       | 4,737                        | 4,432             |
| Goodwill                                                                                                                          | 10,724                       | 10,724            |
| Other assets                                                                                                                      | 17,355                       | 16,593            |
| Total assets                                                                                                                      | \$ 754,125                   | \$ 734,468        |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                                                                                       |                              |                   |
| <b>Deposits</b>                                                                                                                   |                              |                   |
| Noninterest-bearing demand deposits                                                                                               | \$ 100,018                   | \$ 90,260         |
| Savings and interest-bearing demand deposits                                                                                      | 177,716                      | 188,450           |
| Time deposits                                                                                                                     | 275,739                      | 254,125           |
| Total deposits                                                                                                                    | 553,473                      | 532,835           |
| Short-term borrowings                                                                                                             | 28,306                       | 12,462            |
| Long-term borrowings                                                                                                              | 82,159                       | 92,284            |
| Trust preferred capital notes                                                                                                     | 10,310                       | 10,310            |
| Accrued interest payable                                                                                                          | 2,029                        | 1,915             |
| Other liabilities                                                                                                                 | 13,678                       | 16,656            |
| Total liabilities                                                                                                                 | 689,955                      | 666,462           |
| Commitments and contingent liabilities                                                                                            |                              |                   |
| <b>Shareholders' equity</b>                                                                                                       |                              |                   |
| Preferred stock (\$1.00 par value, 3,000,000 shares authorized)                                                                   |                              |                   |
| Common stock (\$1.00 par value, 8,000,000 shares authorized, 3,051,191 and 3,182,411 shares issued and outstanding, respectively) | 3,028                        | 3,159             |
| Additional paid-in capital                                                                                                        | 22                           | 324               |
| Retained earnings                                                                                                                 | 61,750                       | 64,402            |
| Accumulated other comprehensive (loss) income, net                                                                                | (630)                        | 121               |

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|                                            |            |            |
|--------------------------------------------|------------|------------|
| Total shareholders' equity                 | 64,170     | 68,006     |
| Total liabilities and shareholders' equity | \$ 754,125 | \$ 734,468 |

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

**Table of Contents****CONSOLIDATED STATEMENTS OF INCOME**

(Unaudited)

(In thousands, except for share and per share amounts)

|                                                             | Three Months Ended |               | Six Months Ended |               |
|-------------------------------------------------------------|--------------------|---------------|------------------|---------------|
|                                                             | June 30,           |               | June 30,         |               |
|                                                             | 2007               | 2006          | 2007             | 2006          |
| <b>Interest income</b>                                      |                    |               |                  |               |
| Interest and fees on loans                                  | \$ 15,058          | \$ 14,172     | \$ 29,226        | \$ 26,767     |
| Interest on money market investments                        | 58                 | 144           | 409              | 275           |
| Interest and dividends on securities                        |                    |               |                  |               |
| U.S. government agencies and corporations                   | 66                 | 60            | 129              | 119           |
| Tax-exempt obligations of states and political subdivisions | 627                | 585           | 1,229            | 1,169         |
| Corporate bonds and other                                   | 161                | 89            | 276              | 213           |
| <b>Total interest income</b>                                | <b>15,970</b>      | <b>15,050</b> | <b>31,269</b>    | <b>28,543</b> |
| <b>Interest expense</b>                                     |                    |               |                  |               |
| Savings and interest bearing deposits                       | 627                | 549           | 1,307            | 1,112         |
| Certificates of deposit, \$100 or more                      | 1,235              | 750           | 2,360            | 1,364         |
| Other time deposits                                         | 1,866              | 1,353         | 3,606            | 2,564         |
| Borrowings                                                  | 2,001              | 1,891         | 3,845            | 3,436         |
| <b>Total interest expense</b>                               | <b>5,729</b>       | <b>4,543</b>  | <b>11,118</b>    | <b>8,476</b>  |
| <b>Net interest income</b>                                  | <b>10,241</b>      | <b>10,507</b> | <b>20,151</b>    | <b>20,067</b> |
| Provision for loan losses                                   | 1,490              | 825           | 2,890            | 2,100         |
| <b>Net interest income after provision for loan losses</b>  | <b>8,751</b>       | <b>9,682</b>  | <b>17,261</b>    | <b>17,967</b> |
| <b>Noninterest income</b>                                   |                    |               |                  |               |
| Gains on sales of loans                                     | 4,439              | 4,256         | 8,067            | 8,119         |
| Service charges on deposit accounts                         | 872                | 898           | 1,725            | 1,572         |
| Other service charges and fees                              | 1,248              | 1,260         | 2,187            | 2,352         |
| Gains on calls of available for sale securities             | 6                  | 50            | 9                | 81            |
| Other income                                                | 597                | 418           | 972              | 744           |
| <b>Total noninterest income</b>                             | <b>7,162</b>       | <b>6,882</b>  | <b>12,960</b>    | <b>12,868</b> |
| <b>Noninterest expenses</b>                                 |                    |               |                  |               |
| Salaries and employee benefits                              | 7,903              | 7,153         | 15,205           | 14,102        |
| Occupancy expenses                                          | 1,579              | 1,326         | 3,023            | 2,534         |
| Other expenses                                              | 2,901              | 2,660         | 5,637            | 5,133         |
| <b>Total noninterest expenses</b>                           | <b>12,383</b>      | <b>11,139</b> | <b>23,865</b>    | <b>21,769</b> |
| <b>Income before income taxes</b>                           | <b>3,530</b>       | <b>5,425</b>  | <b>6,356</b>     | <b>9,066</b>  |
| Income tax expense                                          | 1,068              | 1,699         | 1,883            | 2,814         |

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|                                                                                              |    |           |    |           |    |           |    |           |
|----------------------------------------------------------------------------------------------|----|-----------|----|-----------|----|-----------|----|-----------|
| Net income                                                                                   | \$ | 2,462     | \$ | 3,726     | \$ | 4,473     | \$ | 6,252     |
| Per share data                                                                               |    |           |    |           |    |           |    |           |
| Net income basic                                                                             | \$ | .81       | \$ | 1.18      | \$ | 1.45      | \$ | 1.99      |
| Net income assuming dilution                                                                 | \$ | .77       | \$ | 1.14      | \$ | 1.39      | \$ | 1.91      |
| Cash dividends paid and declared                                                             | \$ | .31       | \$ | .29       | \$ | .62       | \$ | .56       |
| Weighted average number of shares basic                                                      |    | 3,053,550 |    | 3,150,352 |    | 3,079,506 |    | 3,149,496 |
| Weighted average number of shares assuming dilution                                          |    | 3,185,113 |    | 3,275,074 |    | 3,213,597 |    | 3,274,768 |
| <i>The accompanying notes are an integral part of the consolidated financial statements.</i> |    |           |    |           |    |           |    |           |

**Table of Contents****CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY**

(Unaudited)

(In thousands)

|                                                                             | Common<br>Stock | Additional<br>Paid-In<br>Capital | Comprehensive<br>Income | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>(Loss)<br>Income,<br>Net | Total     |
|-----------------------------------------------------------------------------|-----------------|----------------------------------|-------------------------|----------------------|-------------------------------------------------------------------|-----------|
| December 31, 2006                                                           | \$ 3,159        | \$ 324                           |                         | \$ 64,402            | \$ 121                                                            | \$ 68,006 |
| Comprehensive income                                                        |                 |                                  |                         |                      |                                                                   |           |
| Net income                                                                  |                 |                                  | \$ 4,473                | 4,473                |                                                                   | 4,473     |
| Other comprehensive loss, net of tax                                        |                 |                                  |                         |                      |                                                                   |           |
| Amortization of prepaid pension transition costs                            |                 |                                  | 7                       |                      | 7                                                                 | 7         |
| Unrealized holding losses on securities, net of reclassification adjustment |                 |                                  | (758)                   |                      | (758)                                                             | (758)     |
| Comprehensive income                                                        |                 |                                  | \$ 3,722                |                      |                                                                   |           |
| Purchase of common stock                                                    | (149)           | (858)                            |                         | (5,228)              |                                                                   | (6,235)   |
| Share-based compensation                                                    |                 | 152                              |                         |                      |                                                                   | 152       |
| Stock options exercised                                                     | 18              | 404                              |                         |                      |                                                                   | 422       |
| Cash dividends                                                              |                 |                                  |                         | (1,897)              |                                                                   | (1,897)   |
| June 30, 2007                                                               | \$ 3,028        | \$ 22                            |                         | \$ 61,750            | \$ (630)                                                          | \$ 64,170 |

**Disclosure of Reclassification Amount:**

|                                                                             |          |
|-----------------------------------------------------------------------------|----------|
| Unrealized net holding losses arising during period                         | \$ (752) |
| Less: reclassification adjustment for gains included in net income          | (6)      |
| Unrealized holding losses on securities, net of reclassification adjustment | \$ (758) |

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



**Table of Contents****CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY**

(Unaudited)

(In thousands)

|                                                                                | Common<br>Stock | Additional<br>Paid-In<br>Capital | Comprehensive<br>Income | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income | Total     |
|--------------------------------------------------------------------------------|-----------------|----------------------------------|-------------------------|----------------------|-------------------------------------------------|-----------|
| December 31, 2005                                                              | \$ 3,141        | \$ 183                           |                         | \$ 55,930            | \$ 832                                          | \$ 60,086 |
| Comprehensive income                                                           |                 |                                  |                         |                      |                                                 |           |
| Net income                                                                     |                 |                                  | \$ 6,252                | 6,252                |                                                 | 6,252     |
| Other comprehensive loss, net of tax                                           |                 |                                  |                         |                      |                                                 |           |
| Unrealized holding losses on securities, net of<br>reclassification adjustment |                 |                                  | (754)                   |                      | (754)                                           | (754)     |
| Comprehensive income                                                           |                 |                                  | \$ 5,498                |                      |                                                 |           |
| Purchase of common stock                                                       | (12)            | (459)                            |                         |                      |                                                 | (471)     |
| Share-based compensation                                                       |                 | 23                               |                         |                      |                                                 | 23        |
| Stock options exercised                                                        | 21              | 330                              |                         |                      |                                                 | 351       |
| Cash dividends                                                                 |                 |                                  |                         | (1,764)              |                                                 | (1,764)   |
| June 30, 2006                                                                  | \$ 3,150        | \$ 77                            |                         | \$ 60,418            | \$ 78                                           | \$ 63,723 |

**Disclosure of Reclassification Amount:**

|                                                                                |          |
|--------------------------------------------------------------------------------|----------|
| Unrealized net holding losses arising during period                            | \$ (701) |
| Less: reclassification adjustment for gains included in net<br>income          | (53)     |
| Unrealized holding losses on securities, net of<br>reclassification adjustment | \$ (754) |

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

**Table of Contents****CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited)

(In thousands)

|                                                                                             | <b>Six Months Ended June 30,</b> |                  |
|---------------------------------------------------------------------------------------------|----------------------------------|------------------|
|                                                                                             | <b>2007</b>                      | <b>2006</b>      |
| <b>Operating activities:</b>                                                                |                                  |                  |
| Net income                                                                                  | \$ 4,473                         | \$ 6,252         |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: |                                  |                  |
| Depreciation                                                                                | 1,287                            | 992              |
| Provision for loan losses                                                                   | 2,890                            | 2,100            |
| Share-based compensation                                                                    | 152                              | 23               |
| Amortization of prepaid pension transition costs                                            | 7                                |                  |
| Accretion of discounts and amortization of premiums on investment securities, net           | 23                               | 17               |
| Net realized gains on calls of securities                                                   | (9)                              | (81)             |
| Proceeds from sale of loans                                                                 | 461,184                          | 459,251          |
| Origination of loans held for sale                                                          | (451,974)                        | (476,608)        |
| Change in other assets and liabilities:                                                     |                                  |                  |
| Accrued interest receivable                                                                 | (305)                            | (315)            |
| Other assets                                                                                | (354)                            | (3,534)          |
| Accrued interest payable                                                                    | 114                              | 274              |
| Other liabilities                                                                           | (2,978)                          | 3,217            |
| <b>Net cash provided by (used in) operating activities</b>                                  | <b>14,510</b>                    | <b>(8,412)</b>   |
| <b>Investing activities:</b>                                                                |                                  |                  |
| Proceeds from maturities and calls of securities available for sale                         | 2,486                            | 5,143            |
| Purchases of securities available for sale                                                  | (7,780)                          | (5,455)          |
| Net redemptions (purchases) of Federal Home Loan Bank stock                                 | 79                               | (802)            |
| Net increase in customer loans                                                              | (36,484)                         | (36,508)         |
| Purchases of corporate premises and equipment                                               | (1,818)                          | (4,208)          |
| Disposals of corporate premises and equipment                                               | 22                               | 71               |
| <b>Net cash used in investing activities</b>                                                | <b>(43,495)</b>                  | <b>(41,759)</b>  |
| <b>Financing activities:</b>                                                                |                                  |                  |
| Net (decrease) increase in demand, interest bearing demand and savings deposits             | (976)                            | 39               |
| Net increase in time deposits                                                               | 21,614                           | 15,528           |
| Net increase in borrowings                                                                  | 5,719                            | 21,019           |
| Purchase of common stock                                                                    | (6,235)                          | (471)            |
| Proceeds from exercise of stock options                                                     | 422                              | 351              |
| Cash dividends                                                                              | (1,897)                          | (1,764)          |
| <b>Net cash provided by financing activities</b>                                            | <b>18,647</b>                    | <b>34,702</b>    |
| Net decrease in cash and cash equivalents                                                   | (10,338)                         | (15,469)         |
| Cash and cash equivalents at beginning of period                                            | 28,506                           | 42,878           |
| <b>Cash and cash equivalents at end of period</b>                                           | <b>\$ 18,168</b>                 | <b>\$ 27,409</b> |
| <b>Supplemental disclosure</b>                                                              |                                  |                  |
| Interest paid                                                                               | \$ 11,004                        | \$ 8,202         |

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|                   |    |       |    |       |
|-------------------|----|-------|----|-------|
| Income taxes paid | \$ | 1,484 | \$ | 2,347 |
|-------------------|----|-------|----|-------|

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

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**Note 1**

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial reporting and with applicable quarterly reporting regulations of the Securities and Exchange Commission. They do not include all of the information and notes required by accounting principles generally accepted in the United States of America 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, 2006.

In the opinion of C&F Financial Corporation's management, all adjustments, consisting only of normal recurring accruals, necessary to present fairly the financial position as of June 30, 2007 and the results of operations for the three and six months ended June 30, 2007 and 2006 and cash flows for the six months ended June 30, 2007 and 2006 have been made. The results of operations for the interim periods are not necessarily indicative of the results to be expected for the full year.

The consolidated financial statements include the accounts of C&F Financial Corporation (the Corporation) and its subsidiary, Citizens and Farmers Bank (C&F Bank or the Bank), with all significant intercompany transactions and accounts being eliminated in consolidation. In addition, the Corporation owns C&F Financial Statutory Trust I, an unconsolidated subsidiary. The subordinated debt owed to the trust is reported as a liability of the Corporation.

**Share-Based Compensation:** Effective January 1, 2006, the Corporation adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 123(R), *Share-Based Payment*, which requires that the Corporation recognize expense related to the fair value of share-based compensation awards in net income.

The Corporation has elected to follow the modified prospective transition method allowed by SFAS 123(R). Under the modified prospective transition method, compensation expense is recognized prospectively for all unvested options outstanding at January 1, 2006 and for all awards modified or granted after that date. Compensation expense for the three months and six months ended June 30, 2007 included \$73,000 (\$45,000 after tax) and \$152,000 (\$94,000 after tax), respectively, for options and restricted stock granted during 2007 and 2006. As of June 30, 2007, there was \$902,000 of total unrecognized compensation expense related to nonvested stock options and restricted stock that will be recognized over the remaining requisite service period.

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Stock option plan activity for the six months ended June 30, 2007 is summarized below:

|                                      | Shares   | Exercise Price* | Remaining Contractual Life (in years)* | Intrinsic Value of Unexercised In-The Money Options (in 000 s) |
|--------------------------------------|----------|-----------------|----------------------------------------|----------------------------------------------------------------|
| Options outstanding, January 1, 2007 | 530,167  | \$ 31.54        | 6.7                                    | \$ 4,511                                                       |
| Granted                              | 13,500   | 37.17           |                                        |                                                                |
| Exercised                            | (18,100) | 23.35           |                                        |                                                                |
| Options outstanding at June 30, 2007 | 525,567  | 31.97           | 6.3                                    | \$ 4,803                                                       |
| Options exercisable at June 30, 2007 | 512,067  | 31.83           | 6.2                                    | \$ 4,752                                                       |

\* *Weighted average*

The total intrinsic value of in-the-money options exercised during the first half of 2007 was \$352,000. Cash received from option exercises during the first half of 2007 was \$422,000. The Corporation issues new shares to satisfy the exercise of stock options.

**Note 2**

Diluted net income per share has been calculated on the basis of the weighted average number of shares of common stock and common stock equivalents outstanding for the applicable periods. Potentially-dilutive common stock had no effect on income available to common shareholders.

**Note 3**

During the first six months of 2007, the Corporation purchased 149,720 shares of its common stock in negotiated and open-market transactions at prices ranging from \$37.25 to \$45.07. During the first six months of 2006, the Corporation purchased 12,022 shares of its common stock in open-market transactions at prices from \$39.43 to \$40.00.

**Table of Contents****Note 4**

Securities in an unrealized loss position at June 30, 2007, by duration of the period of unrealized loss, are shown below. No impairment has been recognized on any securities in a loss position based on management's intent and demonstrated ability to hold such securities to scheduled maturity or call dates and management's evaluation that there is no permanent impairment in the value of these securities.

| (in 000 \$)                                      | Less Than 12 Months |                 | 12 Months or More |                 | Total      |                 |
|--------------------------------------------------|---------------------|-----------------|-------------------|-----------------|------------|-----------------|
|                                                  | Fair Value          | Unrealized Loss | Fair Value        | Unrealized Loss | Fair Value | Unrealized Loss |
| U.S. government agencies and corporations        | \$ 1,400            | \$ 9            | \$ 4,643          | \$ 103          | \$ 6,043   | \$ 112          |
| Mortgage-backed securities                       | 386                 | 10              | 1,104             | 35              | 1,490      | 45              |
| Obligations of states and political subdivisions | 20,828              | 360             | 5,918             | 118             | 26,746     | 478             |
| Subtotal-debt securities                         | 22,614              | 379             | 11,665            | 256             | 34,279     | 635             |
| Preferred stock                                  | 1,084               | 38              | 174               | 14              | 1,258      | 52              |
| Total temporarily impaired securities            | \$ 23,698           | \$ 417          | \$ 11,839         | \$ 270          | \$ 35,537  | \$ 687          |

The primary cause of the temporary impairments in the Corporation's investment in debt securities was the decline in prices as interest rates have risen. There are 99 debt securities and three equity securities totaling \$34.3 million and \$1.3 million, respectively, considered temporarily impaired at June 30, 2007. Because the Corporation has the intent and demonstrated ability to hold these investments until a recovery of unrealized losses, which may be maturity, the Corporation does not consider these investments to be other-than-temporarily impaired at June 30, 2007.

Securities in an unrealized loss position at December 31, 2006 are shown below by duration of the period of unrealized loss.

| (in 000 \$)                                      | Less Than 12 Months |                 | 12 Months or More |                 | Total      |                 |
|--------------------------------------------------|---------------------|-----------------|-------------------|-----------------|------------|-----------------|
|                                                  | Fair Value          | Unrealized Loss | Fair Value        | Unrealized Loss | Fair Value | Unrealized Loss |
| U.S government agencies and corporations         | \$ 476              | \$ 2            | \$ 4,654          | \$ 92           | \$ 5,130   | \$ 94           |
| Mortgage-backed securities                       | 1,246               | 33              | 427               | 1               | 1,673      | 34              |
| Obligations of states and political subdivisions | 2,284               | 10              | 4,530             | 49              | 6,814      | 59              |
| Subtotal-debt securities                         | 4,006               | 45              | 9,611             | 142             | 13,617     | 187             |
| Preferred stock                                  | 585                 | 10              | 1,178             | 19              | 1,763      | 29              |
| Total temporarily impaired securities            | \$ 4,591            | \$ 55           | \$ 10,789         | \$ 161          | \$ 15,380  | \$ 216          |

**Table of Contents****Note 5**

The Bank has a noncontributory defined benefit plan for which the components of net periodic benefit cost are as follows:

| (in 000 s)                                   | Three Months Ended June 30, |               |
|----------------------------------------------|-----------------------------|---------------|
|                                              | 2007                        | 2006          |
| Service cost                                 | \$ 194                      | \$ 188        |
| Interest cost                                | 96                          | 86            |
| Expected return on plan assets               | (112)                       | (107)         |
| Amortization of net obligation at transition | (1)                         | (1)           |
| Amortization of prior service cost           | 2                           | 2             |
| Amortization of net loss                     | 4                           | 11            |
| <b>Net periodic benefit cost</b>             | <b>\$ 183</b>               | <b>\$ 179</b> |

| (in 000 s)                                   | Six Months Ended June 30, |               |
|----------------------------------------------|---------------------------|---------------|
|                                              | 2007                      | 2006          |
| Service cost                                 | \$ 388                    | \$ 376        |
| Interest cost                                | 192                       | 172           |
| Expected return on plan assets               | (224)                     | (214)         |
| Amortization of net obligation at transition | (2)                       | (2)           |
| Amortization of prior service cost           | 4                         | 4             |
| Amortization of net loss                     | 8                         | 22            |
| <b>Net periodic benefit cost</b>             | <b>\$ 366</b>             | <b>\$ 358</b> |

In December 2006, the Bank made a \$1.18 million contribution to the plan. The estimated minimum contribution for 2007 is approximately \$58,000.

**Note 6**

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 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 automobile loans.

The Corporation's other subsidiaries include:

an investment company that derives revenues from brokerage services,

an insurance company that derives revenues from insurance services, and

a title company that derives revenues from title insurance services.

The results of these other subsidiaries are not significant to the Corporation as a whole and have been included in Other.

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| (in 000 s)                      | Three Months Ended June 30, 2007 |                  |                   |              |                    |                   |
|---------------------------------|----------------------------------|------------------|-------------------|--------------|--------------------|-------------------|
|                                 | Retail Banking                   | Mortgage Banking | Consumer Finance  | Other        | Eliminations       | Consolidated      |
| <b>Revenues:</b>                |                                  |                  |                   |              |                    |                   |
| Interest income                 | \$ 9,865                         | \$ 808           | \$ 6,343          | \$           | \$ (1,046)         | \$ 15,970         |
| Gains on sales of loans         |                                  | 4,513            |                   |              | (74)               | 4,439             |
| Other                           | 1,400                            | 844              | 108               | 371          |                    | 2,723             |
| <b>Total operating income</b>   | <b>11,265</b>                    | <b>6,165</b>     | <b>6,451</b>      | <b>371</b>   | <b>(1,120)</b>     | <b>23,132</b>     |
| <b>Expenses:</b>                |                                  |                  |                   |              |                    |                   |
| Interest expense                | 4,223                            | 444              | 2,094             | 43           | (1,075)            | 5,729             |
| Provision for loan losses       | 40                               |                  | 1,450             |              |                    | 1,490             |
| Personnel expenses              | 3,613                            | 3,110            | 1,066             | 175          | (61)               | 7,903             |
| Other                           | 2,217                            | 1,628            | 598               | 37           |                    | 4,480             |
| <b>Total operating expenses</b> | <b>10,093</b>                    | <b>5,182</b>     | <b>5,208</b>      | <b>255</b>   | <b>(1,136)</b>     | <b>19,602</b>     |
| Income before income taxes      | 1,172                            | 983              | 1,243             | 116          | 16                 | 3,530             |
| Provision for income taxes      | 175                              | 373              | 473               | 44           | 3                  | 1,068             |
| <b>Net income</b>               | <b>\$ 997</b>                    | <b>\$ 610</b>    | <b>\$ 770</b>     | <b>\$ 72</b> | <b>\$ 13</b>       | <b>\$ 2,462</b>   |
| <b>Total assets</b>             | <b>\$ 607,938</b>                | <b>\$ 52,934</b> | <b>\$ 154,808</b> | <b>\$ 74</b> | <b>\$ (61,629)</b> | <b>\$ 754,125</b> |
| <b>Capital expenditures</b>     | <b>\$ 372</b>                    | <b>\$ 95</b>     | <b>\$ 127</b>     | <b>\$</b>    | <b>\$</b>          | <b>\$ 594</b>     |
| (in 000 s)                      | Three Months Ended June 30, 2006 |                  |                   |              |                    |                   |
|                                 | Retail Banking                   | Mortgage Banking | Consumer Finance  | Other        | Eliminations       | Consolidated      |
| <b>Revenues:</b>                |                                  |                  |                   |              |                    |                   |
| Interest income                 | \$ 10,003                        | \$ 643           | \$ 5,175          | \$           | \$ (771)           | \$ 15,050         |
| Gains on sales of loans         |                                  | 4,265            |                   |              | (9)                | 4,256             |
| Other                           | 1,332                            | 897              | 107               | 290          |                    | 2,626             |
| <b>Total operating income</b>   | <b>11,335</b>                    | <b>5,805</b>     | <b>5,282</b>      | <b>290</b>   | <b>(780)</b>       | <b>21,932</b>     |
| <b>Expenses:</b>                |                                  |                  |                   |              |                    |                   |
| Interest expense                | 3,354                            | 324              | 1,651             |              | (786)              | 4,543             |
| Provision for loan losses       | (250)                            |                  | 1,075             |              |                    | 825               |
| Personnel expenses              | 3,173                            | 2,992            | 761               | 208          | 19                 | 7,153             |
| Other                           | 1,969                            | 1,495            | 484               | 38           |                    | 3,986             |
| <b>Total operating expenses</b> | <b>8,246</b>                     | <b>4,811</b>     | <b>3,971</b>      | <b>246</b>   | <b>(767)</b>       | <b>16,507</b>     |
| Income before income taxes      | 3,089                            | 994              | 1,311             | 44           | (13)               | 5,425             |
| Provision for income taxes      | 807                              | 381              | 498               | 17           | (4)                | 1,699             |
| <b>Net income</b>               | <b>\$ 2,282</b>                  | <b>\$ 613</b>    | <b>\$ 813</b>     | <b>\$ 27</b> | <b>\$ (9)</b>      | <b>\$ 3,726</b>   |
| <b>Total assets</b>             | <b>\$ 582,242</b>                | <b>\$ 70,660</b> | <b>\$ 128,359</b> | <b>\$ 70</b> | <b>\$ (65,660)</b> | <b>\$ 715,671</b> |
| <b>Capital expenditures</b>     | <b>\$ 1,330</b>                  | <b>\$ 67</b>     | <b>\$ 37</b>      | <b>\$ 3</b>  | <b>\$</b>          | <b>\$ 1,437</b>   |



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| (in 000 s)                      | Six Months Ended June 30, 2007 |                  |                   |              |                    |                   |
|---------------------------------|--------------------------------|------------------|-------------------|--------------|--------------------|-------------------|
|                                 | Retail Banking                 | Mortgage Banking | Consumer Finance  | Other        | Eliminations       | Consolidated      |
| <b>Revenues:</b>                |                                |                  |                   |              |                    |                   |
| Interest income                 | \$ 19,397                      | \$ 1,329         | \$ 12,280         | \$           | \$ (1,737)         | \$ 31,269         |
| Gains on sales of loans         |                                | 8,145            |                   |              | (78)               | 8,067             |
| Other                           | 2,581                          | 1,435            | 238               | 639          |                    | 4,893             |
| <b>Total operating income</b>   | <b>21,978</b>                  | <b>10,909</b>    | <b>12,518</b>     | <b>639</b>   | <b>(1,815)</b>     | <b>44,229</b>     |
| <b>Expenses:</b>                |                                |                  |                   |              |                    |                   |
| Interest expense                | 8,151                          | 614              | 4,038             | 86           | (1,771)            | 11,118            |
| Provision for loan losses       | 40                             |                  | 2,850             |              |                    | 2,890             |
| Personnel expenses              | 7,178                          | 5,676            | 2,055             | 348          | (52)               | 15,205            |
| Other                           | 4,354                          | 3,076            | 1,157             | 73           |                    | 8,660             |
| <b>Total operating expenses</b> | <b>19,723</b>                  | <b>9,366</b>     | <b>10,100</b>     | <b>507</b>   | <b>(1,823)</b>     | <b>37,873</b>     |
| Income before income taxes      | 2,255                          | 1,543            | 2,418             | 132          | 8                  | 6,356             |
| Provision for income taxes      | 325                            | 586              | 919               | 50           | 3                  | 1,883             |
| <b>Net income</b>               | <b>\$ 1,930</b>                | <b>\$ 957</b>    | <b>\$ 1,499</b>   | <b>\$ 82</b> | <b>\$ 5</b>        | <b>\$ 4,473</b>   |
| <b>Total assets</b>             | <b>\$ 607,938</b>              | <b>\$ 52,934</b> | <b>\$ 154,808</b> | <b>\$ 74</b> | <b>\$ (61,629)</b> | <b>\$ 754,125</b> |
| <b>Capital expenditures</b>     | <b>\$ 1,457</b>                | <b>\$ 149</b>    | <b>\$ 212</b>     | <b>\$</b>    | <b>\$</b>          | <b>\$ 1,818</b>   |
| (in 000 s)                      | Six Months Ended June 30, 2006 |                  |                   |              |                    |                   |
|                                 | Retail Banking                 | Mortgage Banking | Consumer Finance  | Other        | Eliminations       | Consolidated      |
| <b>Revenues:</b>                |                                |                  |                   |              |                    |                   |
| Interest income                 | \$ 18,633                      | \$ 1,219         | \$ 10,145         | \$           | \$ (1,454)         | \$ 28,543         |
| Gains on sales of loans         |                                | 8,143            |                   |              | (24)               | 8,119             |
| Other                           | 2,370                          | 1,657            | 215               | 507          |                    | 4,749             |
| <b>Total operating income</b>   | <b>21,003</b>                  | <b>11,019</b>    | <b>10,360</b>     | <b>507</b>   | <b>(1,478)</b>     | <b>41,411</b>     |
| <b>Expenses:</b>                |                                |                  |                   |              |                    |                   |
| Interest expense                | 6,263                          | 607              | 3,110             |              | (1,504)            | 8,476             |
| Provision for loan losses       | (250)                          |                  | 2,350             |              |                    | 2,100             |
| Personnel expenses              | 6,333                          | 5,891            | 1,485             | 355          | 38                 | 14,102            |
| Other                           | 3,816                          | 2,799            | 974               | 78           |                    | 7,667             |
| <b>Total operating expenses</b> | <b>16,162</b>                  | <b>9,297</b>     | <b>7,919</b>      | <b>433</b>   | <b>(1,466)</b>     | <b>32,345</b>     |
| Income before income taxes      | 4,841                          | 1,722            | 2,441             | 74           | (12)               | 9,066             |
| Provision for income taxes      | 1,205                          | 658              | 927               | 28           | (4)                | 2,814             |
| <b>Net income</b>               | <b>\$ 3,636</b>                | <b>\$ 1,064</b>  |                   |              |                    |                   |