

FIRST NATIONAL CORP /VA/  
Form 10-Q  
November 14, 2013  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 10-Q**

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

**For the quarterly period ended September 30, 2013**

**or**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number: 0-23976**

**(Exact name of registrant as specified in its charter)**

**Virginia**  
**(State or other jurisdiction of  
incorporation or organization)**

**54-1232965**  
**(I.R.S. Employer  
Identification No.)**

**112 West King Street, Strasburg, Virginia**  
**(Address of principal executive offices)**

**22657**  
**(Zip Code)**

**(540) 465-9121**

**(Registrant's telephone number, including area code)**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company   
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. As of November 11, 2013, 4,901,464 shares of common stock, par value \$1.25 per share, of the registrant were outstanding.

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**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Financial Statements****FIRST NATIONAL CORPORATION****Consolidated Balance Sheets***(Dollars in thousands, except per share data)*

	(unaudited) September 30, 2013	December 31, 2012
<b>Assets</b>		
Cash and due from banks	\$ 8,649	\$ 7,266
Interest-bearing deposits in banks	29,221	23,762
Securities available for sale, at fair value	105,321	89,456
Restricted securities, at cost	1,804	1,974
Loans held for sale		503
Loans, net of allowance for loan losses, 2013, \$11,875; 2012, \$13,075	354,952	370,519
Other real estate owned, net of valuation allowance, 2013, \$1,565; 2012, \$2,174	3,833	5,590
Premises and equipment, net	17,417	18,589
Accrued interest receivable	1,339	1,459
Bank owned life insurance	9,213	9,014
Other assets	4,706	4,565
<b>Total assets</b>	<b>\$ 536,455</b>	<b>\$ 532,697</b>
<b>Liabilities and Shareholders Equity</b>		
<b>Liabilities</b>		
Deposits:		
Noninterest-bearing demand deposits	\$ 95,609	\$ 85,118
Savings and interest-bearing demand deposits	229,990	221,601
Time deposits	145,664	160,198
<b>Total deposits</b>	<b>\$ 471,263</b>	<b>\$ 466,917</b>
Other borrowings	6,058	6,076
Trust preferred capital notes	9,279	9,279
Accrued interest and other liabilities	6,244	5,536

Total liabilities	\$	492,844	\$	487,808
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**Shareholders Equity**

Preferred stock, \$1,000 liquidation preference; 14,595 shares issued and outstanding, net of discount	\$	14,525	\$	14,409
Common stock, par value \$1.25 per share; authorized 8,000,000 shares; issued and outstanding, 2013 and 2012, 4,901,464 shares		6,127		6,127
Surplus		6,813		6,813
Retained earnings		20,199		18,399
Accumulated other comprehensive loss, net		(4,053)		(859)
<b>Total shareholders equity</b>	<b>\$</b>	<b>43,611</b>	<b>\$</b>	<b>44,889</b>

Total liabilities and shareholders equity	\$	536,455	\$	532,697
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*See Notes to Consolidated Financial Statements*

**Table of Contents****FIRST NATIONAL CORPORATION****Consolidated Statements of Income**

Three months ended September 30, 2013 and 2012

*(Dollars in thousands, except per share data)*

	(unaudited) September 30, 2013	(unaudited) September 30, 2012
<b>Interest and Dividend Income</b>		
Interest and fees on loans	\$ 4,673	\$ 5,189
Interest on federal funds sold		3
Interest on deposits in banks	18	11
Interest and dividends on securities available for sale:		
Taxable interest	498	494
Tax-exempt interest	79	55
Dividends	18	19
<b>Total interest and dividend income</b>	<b>\$ 5,286</b>	<b>\$ 5,771</b>
<b>Interest Expense</b>		
Interest on deposits	\$ 572	\$ 928
Interest on trust preferred capital notes	55	60
Interest on other borrowings	30	47
<b>Total interest expense</b>	<b>\$ 657</b>	<b>\$ 1,035</b>
<b>Net interest income</b>	<b>\$ 4,629</b>	<b>\$ 4,736</b>
Provision for loan losses	275	805
<b>Net interest income after provision for loan losses</b>	<b>\$ 4,354</b>	<b>\$ 3,931</b>
<b>Noninterest Income</b>		
Service charges on deposit accounts	\$ 627	\$ 544
ATM and check card fees	373	369
Trust and investment advisory fees	406	365
Fees for other customer services	86	78
Gains on sale of loans	47	51

Net gains on sale of securities available for sale (includes net gains of \$0 and \$167 for the three months ended September 30, 2013 and 2012, respectively, related to accumulated other comprehensive income reclassifications for previously unrealized net gains on available-for-sale securities)			167
Gain on sale of premises and equipment, net			2
Other operating income	86		33
<b>Total noninterest income</b>	<b>\$ 1,625</b>	<b>\$ 1,609</b>	

**Noninterest Expense**

Salaries and employee benefits	\$ 2,411	\$ 2,398
Occupancy	306	333
Equipment	302	294
Marketing	81	120
Stationery and supplies	66	67
Legal and professional fees	237	293
ATM and check card fees	176	161
FDIC assessment	189	176
Bank franchise tax	71	62
Other real estate owned, net	252	78
Telecommunications expense	72	62
Data processing	99	102
Other operating expense	386	511
<b>Total noninterest expense</b>	<b>\$ 4,648</b>	<b>\$ 4,657</b>



**Table of Contents****FIRST NATIONAL CORPORATION****Consolidated Statements of Income**

(Continued)

Three months ended September 30, 2013 and 2012

*(Dollars in thousands, except per share data)*

	(unaudited) September 30, 2013	(unaudited) September 30, 2012
Income before income taxes	\$ 1,331	\$ 883
Income tax expense	91	195
<b>Net income</b>	<b>\$ 1,240</b>	<b>\$ 688</b>
Effective dividend on preferred stock	229	226
<b>Net income available to common shareholders</b>	<b>\$ 1,011</b>	<b>\$ 462</b>
<b>Earnings per common share, basic and diluted</b>	<b>\$ 0.21</b>	<b>\$ 0.09</b>

*See Notes to Consolidated Financial Statements*

**Table of Contents****FIRST NATIONAL CORPORATION****Consolidated Statements of Income**

Nine months ended September 30, 2013 and 2012

*(Dollars in thousands, except per share data)*

	(unaudited) September 30, 2013	(unaudited) September 30, 2012
<b>Interest and Dividend Income</b>		
Interest and fees on loans	\$ 14,422	\$ 16,001
Interest on federal funds sold		12
Interest on deposits in banks	45	19
Interest and dividends on securities available for sale:		
Taxable interest	1,313	1,542
Tax-exempt interest	228	228
Dividends	56	57
<b>Total interest and dividend income</b>	<b>\$ 16,064</b>	<b>\$ 17,859</b>
<b>Interest Expense</b>		
Interest on deposits	\$ 1,910	\$ 2,874
Interest on trust preferred capital notes	166	182
Interest on other borrowings	89	192
<b>Total interest expense</b>	<b>\$ 2,165</b>	<b>\$ 3,248</b>
<b>Net interest income</b>	<b>\$ 13,899</b>	<b>\$ 14,611</b>
Provision for loan losses	2,525	3,455
<b>Net interest income after provision for loan losses</b>	<b>\$ 11,374</b>	<b>\$ 11,156</b>
<b>Noninterest Income</b>		
Service charges on deposit accounts	\$ 1,550	\$ 1,569
ATM and check card fees	1,071	1,129
Trust and investment advisory fees	1,233	1,079
Fees for other customer services	302	283
Gains on sale of loans	171	143

Net gains on sale of securities available for sale (includes net gains of \$0 and \$1,285 for the nine months ended September 30, 2013 and 2012, respectively, related to accumulated other comprehensive income reclassifications for previously unrealized net gains on available-for-sale securities)			1,285
Gain on sale of premises and equipment, net			2
Other operating income	833		95
<b>Total noninterest income</b>	<b>\$ 5,160</b>	<b>\$</b>	<b>5,585</b>
<b>Noninterest Expense</b>			
Salaries and employee benefits	\$ 7,488	\$	7,155
Occupancy	980		996
Equipment	889		907
Marketing	304		293
Stationery and supplies	222		234
Legal and professional fees	635		741
ATM and check card fees	502		480
FDIC assessment	710		533
Bank franchise tax	209		199
Other real estate owned, net	735		748
Telecommunications expense	212		184
Data processing	277		270
Loss on land lease termination	209		
Other operating expense	1,146		1,255
<b>Total noninterest expense</b>	<b>\$ 14,518</b>	<b>\$</b>	<b>13,995</b>

**Table of Contents****FIRST NATIONAL CORPORATION****Consolidated Statements of Income**

(Continued)

Nine months ended September 30, 2013 and 2012

*(Dollars in thousands, except per share data)*

	(unaudited) September 30, 2013	(unaudited) September 30, 2012
Income before income taxes	\$ 2,016	\$ 2,746
Income tax expense (benefit)	(468)	889
<b>Net income</b>	<b>\$ 2,484</b>	<b>\$ 1,857</b>
Effective dividend on preferred stock	684	677
<b>Net income available to common shareholders</b>	<b>\$ 1,800</b>	<b>\$ 1,180</b>
<b>Earnings per common share, basic and diluted</b>	<b>\$ 0.37</b>	<b>\$ 0.33</b>

*See Notes to Consolidated Financial Statements*

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