

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 |
|---|--------------------------------------|----------------------|
| Assets | | |
| 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 |
| Total assets | \$ 536,455 | \$ 532,697 |
| Liabilities and Shareholders Equity | | |
| Liabilities | | |
| 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 |
| Total deposits | \$ 471,263 | \$ 466,917 |
| 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 |
|-------------------|----|---------|----|---------|

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) |
| Total shareholders equity | \$ | 43,611 | \$ | 44,889 |

| | | | | |
|---|----|---------|----|---------|
| Total liabilities and shareholders equity | \$ | 536,455 | \$ | 532,697 |
|---|----|---------|----|---------|

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 |
|--|--------------------------------------|--------------------------------------|
| Interest and Dividend Income | | |
| 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 |
| Total interest and dividend income | \$ 5,286 | \$ 5,771 |
| Interest Expense | | |
| Interest on deposits | \$ 572 | \$ 928 |
| Interest on trust preferred capital notes | 55 | 60 |
| Interest on other borrowings | 30 | 47 |
| Total interest expense | \$ 657 | \$ 1,035 |
| Net interest income | \$ 4,629 | \$ 4,736 |
| Provision for loan losses | 275 | 805 |
| Net interest income after provision for loan losses | \$ 4,354 | \$ 3,931 |
| Noninterest Income | | |
| 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 |
| Total noninterest income | \$ 1,625 | \$ 1,609 | |

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 |
| Total noninterest expense | \$ 4,648 | \$ 4,657 |

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 |
| Net income | \$ 1,240 | \$ 688 |
| Effective dividend on preferred stock | 229 | 226 |
| Net income available to common shareholders | \$ 1,011 | \$ 462 |
| Earnings per common share, basic and diluted | \$ 0.21 | \$ 0.09 |

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 |
|--|--------------------------------------|--------------------------------------|
| Interest and Dividend Income | | |
| 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 |
| Total interest and dividend income | \$ 16,064 | \$ 17,859 |
| Interest Expense | | |
| Interest on deposits | \$ 1,910 | \$ 2,874 |
| Interest on trust preferred capital notes | 166 | 182 |
| Interest on other borrowings | 89 | 192 |
| Total interest expense | \$ 2,165 | \$ 3,248 |
| Net interest income | \$ 13,899 | \$ 14,611 |
| Provision for loan losses | 2,525 | 3,455 |
| Net interest income after provision for loan losses | \$ 11,374 | \$ 11,156 |
| Noninterest Income | | |
| 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 |
| Total noninterest income | \$ 5,160 | \$ | 5,585 |
| Noninterest Expense | | | |
| 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 |
| Total noninterest expense | \$ 14,518 | \$ | 13,995 |

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 |
| Net income | \$ 2,484 | \$ 1,857 |
| Effective dividend on preferred stock | 684 | 677 |
| Net income available to common shareholders | \$ 1,800 | \$ 1,180 |
| Earnings per common share, basic and diluted | \$ 0.37 | \$ 0.33 |

See Notes to Consolidated Financial Statements

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

Three months ended September 30, 2013 and 2012

(Dollars in thousands)

| | (unaudited) September 30, 2013 | (unaudited) September 30, 2012 |
|--|--------------------------------------|--------------------------------------|
| Net income | \$ 1,240 | \$ 688 |
| Other comprehensive loss: | | |
| Unrealized loss on available for sale securities | (501) | (205) |
| Reclassification adjustment | | (167) |
| Other comprehensive loss | (501) | (372) |
| Total comprehensive income | \$ 739 | \$ 316 |

See Notes to Consolidated Financial Statements

Table of Contents**FIRST NATIONAL CORPORATION****Consolidated Statements of Comprehensive Income (Loss)**

Nine months ended September 30, 2013 and 2012

(Dollars in thousands)

| | (unaudited) September 30, 2013 | (unaudited) September 30, 2012 |
|---|--------------------------------------|--------------------------------------|
| Net income | \$ 2,484 | \$ 1,857 |
| Other comprehensive loss: | | |
| Unrealized gain (loss) on available for sale securities | (3,194) | 122 |
| Reclassification adjustment | | (1,285) |
| Other comprehensive loss | (3,194) | (1,163) |
| Total comprehensive income (loss) | \$ (710) | \$ 694 |

See Notes to Consolidated Financial Statements

Table of Contents**FIRST NATIONAL CORPORATION****Consolidated Statements of Cash Flows**

Nine months ended September 30, 2013 and 2012

(Dollars in thousands)

| | (unaudited) September 30, 2013 | (unaudited) September 30, 2012 |
|--|--------------------------------------|--------------------------------------|
| Cash Flows from Operating Activities | | |
| Net income | \$ 2,484 | \$ 1,857 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 763 | 836 |
| Origination of loans held for sale | (2,567) | (5,279) |
| Proceeds from sale of loans held for sale | 3,241 | 5,696 |
| Gains on sale of loans held for sale | (171) | (143) |
| Provision for loan losses | 2,525 | 3,455 |
| Provision for other real estate owned | 660 | 595 |
| Net gains on sale of securities available for sale | | (1,285) |
| Net gains on sale of other real estate owned | (53) | (297) |
| Income from bank owned life insurance | (199) | |
| Accretion of discounts and amortization of premiums on securities, net | 709 | 586 |
| Changes in assets and liabilities: | | |
| Decrease in interest receivable | 120 | 39 |
| (Increase) decrease in other assets | (532) | 2,868 |
| Increase in other liabilities | 708 | 152 |
| Net cash provided by operating activities | \$ 7,688 | \$ 9,080 |
| Cash Flows from Investing Activities | | |
| Proceeds from sales of securities available for sale | \$ 1,850 | \$ 26,158 |
| Proceeds from maturities, calls, and principal payments of securities available for sale | 19,373 | 19,274 |
| Purchase of securities available for sale | (40,991) | (50,100) |
| Proceeds from redemption of restricted securities | 170 | 832 |
| Purchase of restricted securities | | (30) |
| Purchase of premises and equipment | (232) | (419) |
| Proceeds from sale of premises and equipment | 3 | |

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| | | |
|---|------------|----------|
| Proceeds from sale of other real estate owned | 2,927 | 5,041 |
| Net decrease in loans | 12,294 | 5,058 |
| Net cash provided by (used in) investing activities | \$ (4,606) | \$ 5,814 |

Cash Flows from Financing Activities

| | | |
|--|-----------|-------------|
| Net increase in demand deposits and savings accounts | \$ 18,880 | \$ 11,066 |
| Net decrease in time deposits | (14,534) | (23,280) |
| Principal payments on other borrowings | (18) | (13,018) |
| Net proceeds from issuance of common stock | | 7,601 |
| Cash dividends paid on preferred stock | (568) | (568) |
| Net cash provided by (used in) financing activities | \$ 3,760 | \$ (18,199) |

| | | |
|--|----------|------------|
| Increase (decrease) in cash and cash equivalents | \$ 6,842 | \$ (3,305) |
|--|----------|------------|

Cash and Cash Equivalents

| | | |
|-----------|-----------|-----------|
| Beginning | \$ 31,028 | \$ 29,524 |
| Ending | \$ 37,870 | \$ 26,219 |

See Notes to Consolidated Financial Statements

Table of Contents**FIRST NATIONAL CORPORATION****Consolidated Statements of Cash Flows**

(Continued)

Nine months ended September 30, 2013 and 2012

(Dollars in thousands)

| | (unaudited) September 30, 2013 | (unaudited) September 30, 2012 |
|---|--------------------------------------|--------------------------------------|
| Supplemental Disclosures of Cash Flow Information | | |
| Cash payments for: | | |
| Interest | \$ 2,219 | \$ 3,299 |
| Income Taxes | \$ 310 | \$ 940 |
| Supplemental Disclosures of Noncash Investing and Financing Activities | | |
| Unrealized loss on securities available for sale | \$ (3,194) | \$ (1,193) |
| Transfer from loans to other real estate owned | \$ 748 | \$ 4,287 |
| Transfer from premises and equipment to other real estate owned | \$ 641 | \$ |
| Transfer from other assets to other real estate owned | \$ 452 | \$ |

See Notes to Consolidated Financial Statements

Table of Contents**FIRST NATIONAL CORPORATION****Consolidated Statements of Changes in Shareholders' Equity**

Nine months ended September 30, 2013 and 2012

*(Dollars in thousands)**(unaudited)*

| | Preferred Stock | Common Stock | Surplus | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Total |
|---|--------------------|-----------------|----------|----------------------|---|-----------|
| Balance, December 31, 2011 | \$ 14,263 | \$ 3,695 | \$ 1,644 | \$ 16,503 | \$ 991 | \$ 37,096 |
| Net income | | | | 1,857 | | 1,857 |
| Other comprehensive loss | | | | | (1,163) | (1,163) |
| Issuance of common stock, net of offerings cost | | 2,432 | 5,169 | | | 7,601 |
| Cash dividends on preferred stock | | | | (568) | | (568) |
| Accretion on preferred stock discount | 109 | | | (109) | | |
| Balance, September 30, 2012 | \$ 14,372 | \$ 6,127 | \$ 6,813 | \$ 17,683 | \$ (172) | \$ 44,823 |

| | Preferred Stock | Common Stock | Surplus | Retained Earnings | Accumulated Other Comprehensive Loss | Total |
|---------------------------------------|--------------------|-----------------|----------|----------------------|---|-----------|
| Balance, December 31, 2012 | \$ 14,409 | \$ 6,127 | \$ 6,813 | \$ 18,399 | \$ (859) | \$ 44,889 |
| Net income | | | | 2,484 | | 2,484 |
| Other comprehensive loss | | | | | (3,194) | (3,194) |
| Cash dividends on preferred stock | | | | (568) | | (568) |
| Accretion on preferred stock discount | 116 | | | (116) | | |

Balance, September 30, 2013 \$ 14,525 \$ 6,127 \$ 6,813 \$ 20,199 \$ (4,053) \$ 43,611

See Notes to Consolidated Financial Statements

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FIRST NATIONAL CORPORATION

Notes to Consolidated Financial Statements

(unaudited)

Note 1. General

The accompanying unaudited consolidated financial statements of First National Corporation (the Company) and its subsidiaries, including First Bank (the Bank), have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP. All significant intercompany balances and transactions have been eliminated. In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments and reclassifications of a normal and recurring nature considered necessary to present fairly the financial positions at September 30, 2013 and December 31, 2012, the results of operations and comprehensive income (loss) for the three and nine months ended September 30, 2013 and 2012 and the cash flows and changes in shareholders equity for the nine months ended September 30, 2013 and 2012. The statements should be read in conjunction with the consolidated financial statements and related notes included in the Annual Report on Form 10-K for the year ended December 31, 2012. Operating results for the three and nine month periods ended September 30, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013.

Recent Accounting Pronouncements

In February 2013, the FASB issued ASU 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. The amendments in this ASU require an entity to present (either on the face of the statement where net income is presented or in the notes) the effects on the line items of net income of significant amounts reclassified out of accumulated other comprehensive income. In addition, the amendments require a cross-reference to other disclosures currently required for other reclassification items to be reclassified directly to net income in their entirety in the same reporting period. Companies should apply these amendments for fiscal years, and interim periods within those years, beginning on or after December 15, 2012. The Company has included the required disclosures from ASU 2013-02 in the consolidated financial statements.

In July 2013, the FASB issued ASU 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. The amendments in this Update provide guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, similar tax loss, or tax credit carryforward exists. An unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except as follows. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The

amendments in this ASU are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. Early adoption is permitted. The amendments should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted. The adoption of the new guidance is not expected to have a material impact on the Company's consolidated financial statements.

Table of Contents**FIRST NATIONAL CORPORATION****Notes to Consolidated Financial Statements***(unaudited)***Note 2. Securities**

The Company invests in U.S. agency and mortgage-backed securities, obligations of state and political subdivisions and corporate equity securities. Amortized costs and fair values of securities available for sale at September 30, 2013 and December 31, 2012 were as follows:

| | <i>(in thousands)</i> | | | |
|--|-----------------------|------------|------------|------------|
| | September 30, 2013 | | | |
| | Amortized | Gross | Gross | Fair |
| | Cost | Unrealized | Unrealized | Value |
| | | Gains | (Losses) | |
| U.S. agency and mortgage-backed securities | \$ 88,054 | \$ 726 | \$ (1,949) | \$ 86,831 |
| Obligations of states and political subdivisions | 18,690 | 395 | (600) | 18,485 |
| Corporate equity securities | 1 | 4 | | 5 |
| | \$ 106,745 | \$ 1,125 | \$ (2,549) | \$ 105,321 |

| | <i>(in thousands)</i> | | | |
|--|-----------------------|------------|------------|-----------|
| | December 31, 2012 | | | |
| | Amortized | Gross | Gross | Fair |
| | Cost | Unrealized | Unrealized | Value |
| | | Gains | (Losses) | |
| U.S. agency and mortgage-backed securities | \$ 72,129 | \$ 1,325 | \$ (236) | \$ 73,218 |
| Obligations of states and political subdivisions | 15,556 | 762 | (83) | 16,235 |
| Corporate equity securities | 1 | 2 | | 3 |
| | \$ 87,686 | \$ 2,089 | \$ (319) | \$ 89,456 |

At September 30, 2013 and December 31, 2012, investments in an unrealized loss position that were temporarily impaired were as follows:

(in thousands)

| | September 30, 2013 | | | | | |
|--|---------------------|-------------------|-------------------|-------------------|------------|-------------------|
| | Less than 12 months | | 12 months or more | | Total | |
| | Fair Value | Unrealized (Loss) | Fair Value | Unrealized (Loss) | Fair Value | Unrealized (Loss) |
| U.S. agency and mortgage-backed securities | \$ 50,796 | \$ (1,753) | \$ 5,877 | \$ (196) | \$ 56,673 | \$ (1,949) |
| Obligations of states and political subdivisions | 7,447 | (445) | 2,418 | (155) | 9,865 | (600) |
| | \$ 58,243 | (2,198) | \$ 8,295 | \$ (351) | \$ 66,538 | \$ (2,549) |

(in thousands)

| | December 31, 2012 | | | | | |
|--|---------------------|-------------------|-------------------|-------------------|------------|-------------------|
| | Less than 12 months | | 12 months or more | | Total | |
| | Fair Value | Unrealized (Loss) | Fair Value | Unrealized (Loss) | Fair Value | Unrealized (Loss) |
| U.S. agency and mortgage-backed securities | \$ 19,612 | \$ (236) | \$ | \$ | \$ 19,612 | \$ (236) |
| Obligations of states and political subdivisions | 4,287 | (83) | | | 4,287 | (83) |
| | \$ 23,899 | \$ (319) | \$ | \$ | \$ 23,899 | \$ (319) |

Table of Contents**Notes to Consolidated Financial Statements***(unaudited)*

The tables above provide information about securities that have been in an unrealized loss position for less than twelve consecutive months and securities that have been in an unrealized loss position for twelve consecutive months or more. Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Impairment is considered to be other-than-temporary if the Company (1) intends to sell the security, (2) more likely than not will be required to sell the security before recovering its cost, or (3) does not expect to recover the security's entire amortized cost basis. Presently, the Company does not intend to sell any of these securities, does not expect to be required to sell these securities, and expects to recover the entire amortized cost of all the securities.

At September 30, 2013, there were thirty-seven U.S. agency and mortgage-backed securities and twenty-one obligations of state and political subdivisions in an unrealized loss position. One hundred percent of the Company's investment portfolio is considered investment grade. The weighted-average re-pricing term of the portfolio was 5.1 years at September 30, 2013. At December 31, 2012, there were twelve U.S. agency and mortgage-backed securities and nine obligations of states and political subdivisions in an unrealized loss position. One hundred percent of the Company's investment portfolio was considered investment grade at December 31, 2012. The weighted-average re-pricing term of the portfolio was 3.6 years at December 31, 2012. The change in the unrealized gains and losses of investment securities from December 31, 2012 to September 30, 2013 was related to changes in market interest rates and not credit concerns of the issuer.

Federal Home Loan Bank, Federal Reserve Bank and Community Bankers' Bank stock are generally viewed as long-term investments and as restricted securities, which are carried at cost, because there is a minimal market for the stock. Therefore, when evaluating restricted securities for impairment, their value is based on the ultimate recoverability of the par value rather than by recognizing temporary declines in value. The Company does not consider these investments to be other-than-temporarily impaired at September 30, 2013, and no impairment has been recognized. Restricted securities are not part of the available for sale securities portfolio.

The composition of restricted securities at September 30, 2013 and December 31, 2012 was as follows:

| | <i>(in thousands)</i> | |
|-------------------------------|-----------------------|----------------------|
| | September 30, 2013 | December 31, 2012 |
| Federal Home Loan Bank stock | \$ 908 | \$ 1,078 |
| Federal Reserve Bank stock | 846 | 846 |
| Community Bankers' Bank stock | 50 | 50 |
| | \$ 1,804 | \$ 1,974 |

Note 3. Loans

Loans at September 30, 2013 and December 31, 2012 are summarized as follows:

(in thousands)
September 30,
2013