

NATIONAL BANKSHARES INC
Form 10-Q
August 08, 2018

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2018

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 0-15204

NATIONAL BANKSHARES, INC.

(Exact name of registrant as specified in its charter)

Virginia

54-1375874

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

101 Hubbard Street

P. O. Box 90002

Blacksburg, VA 24062-9002
(Address of principal executive offices) (Zip Code)
(540) 951-6300

(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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company Emerging growth company

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

Yes No

Note: the text of Form 10-Q does not, and this amendment will not, appear in the Code of Federal Regulations.

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.

<u>Class</u>	<u>Outstanding at August 6, 2018</u>
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Common Stock, \$1.25 Par Value	6,957,974
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(This report contains 62 pages)

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National Bankshares, Inc. and Subsidiaries

Consolidated Balance Sheets

	(Unaudited)	
	June 30, 2018	December 31, 2017
(in thousands, except share and per share data)		
Assets		
Cash and due from banks	\$ 12,530	\$ 12,926
Interest-bearing deposits	29,981	51,233
Securities available for sale, at fair value	467,505	331,387
Securities held to maturity (fair value of \$130,113 at December 31, 2017)	---	127,164
Restricted stock, at cost	1,221	1,200
Loans held for sale	1,118	260
Loans:		
Loans, net of unearned income and deferred fees and costs	690,863	668,069
Less allowance for loan losses	(7,579)	(7,925)
Loans, net	683,284	660,144
Premises and equipment, net	8,757	8,221
Accrued interest receivable	5,400	5,297
Other real estate owned, net	2,582	2,817
Intangible assets and goodwill	5,873	5,898
Bank-owned life insurance	34,212	33,756
Other assets	15,014	16,454
Total assets	\$ 1,267,477	\$ 1,256,757
Liabilities and Stockholders' Equity		
Noninterest-bearing demand deposits	\$ 195,949	\$ 182,511
Interest-bearing demand deposits	625,447	622,189
Savings deposits	141,943	140,150
Time deposits	105,442	114,884
Total deposits	1,068,781	1,059,734
Accrued interest payable	51	62
Other liabilities	12,794	12,065
Total liabilities	1,081,626	1,071,861
Commitments and contingencies		
Stockholders' Equity		

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Preferred stock, no par value, 5,000,000 shares authorized; none issued and outstanding	---	---
Common stock of \$1.25 par value. Authorized 10,000,000 shares; issued and outstanding 6,957,974 shares at June 30, 2018 and at December 31, 2017	8,698	8,698
Retained earnings	189,194	185,893
Accumulated other comprehensive loss, net	(12,041)	(9,695)
Total stockholders' equity	185,851	184,896
Total liabilities and stockholders' equity	\$ 1,267,477	\$1,256,757

See accompanying notes to consolidated financial statements.

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National Bankshares, Inc. and Subsidiaries

Consolidated Statements of Income

Three Months Ended June 30, 2018 and 2017

(Unaudited)

(in thousands, except share and per share data)	June 30, 2018	June 30, 2017
Interest Income		
Interest and fees on loans	\$7,622	\$7,453
Interest on interest-bearing deposits	226	231
Interest on securities – taxable	1,746	1,397
Interest on securities – nontaxable	1,132	1,214
Total interest income	10,726	10,295
Interest Expense		
Interest on time deposits	116	135
Interest on other deposits	1,029	913
Total interest expense	1,145	1,048
Net interest income	9,581	9,247
Provision for loan losses	342	464
Net interest income after provision for loan losses	9,239	8,783
Noninterest Income		
Service charges on deposit accounts	694	692
Other service charges and fees	34	41
Credit and debit card fees	365	295
Trust income	374	361
BOLI income	228	146
Other income	173	192
Realized securities gain, net	---	4
Total noninterest income	1,868	1,731
Noninterest Expense		
Salaries and employee benefits	3,545	3,419
Occupancy and furniture and fixtures	491	469
Data processing and ATM	607	542
FDIC assessment	90	91

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Intangible assets amortization	12	12
Net costs of other real estate owned	164	55
Franchise taxes	320	329
Write-down of insurance receivable	287	---
Other operating expenses	908	1,057
Total noninterest expense	6,424	5,974
Income before income taxes	4,683	4,540
Income tax expense	642	970

(continued)

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Net Income	\$4,041	\$3,570
Basic net income per common share	\$0.58	\$0.51
Fully diluted net income per common share	\$0.58	\$0.51
Weighted average number of common shares outstanding – basic and diluted	6,957,974	6,957,974
Dividends declared per common share	\$0.58	\$0.56

See accompanying notes to consolidated financial statements.

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National Bankshares, Inc. and Subsidiaries

Consolidated Statements of Comprehensive Income

Three Months Ended June 30, 2018 and 2017

(Unaudited)

(in thousands)	June 30, 2018	June 30, 2017
Net Income	\$4,041	\$3,570
Other Comprehensive Income, Net of Tax		
Unrealized holding gain (loss) on available for sale securities net of tax of (\$155) and \$874 for the periods ended June 30, 2018 and 2017, respectively	(582)	1,626
Unrealized holding gain on securities transferred from held to maturity to available for sale, net of tax of \$237 for the period ended June 30, 2018	891	---
Other comprehensive income, net of tax	309	1,626
Total Comprehensive Income	\$4,350	\$5,196

See accompanying notes to consolidated financial statements.

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National Bankshares, Inc. and Subsidiaries

Consolidated Statements of Income

Six Months Ended June 30, 2018 and 2017

(Unaudited)

(in thousands, except share and per share data)	June 30, 2018	June 30, 2017
Interest Income		
Interest and fees on loans	\$15,154	\$14,906
Interest on interest-bearing deposits	398	379
Interest on securities – taxable	3,354	2,799
Interest on securities – nontaxable	2,304	2,449
Total interest income	21,210	20,533
Interest Expense		
Interest on time deposits	237	280
Interest on other deposits	1,989	1,796
Total interest expense	2,226	2,076
Net interest income	18,984	18,457
Provision for (recovery of) loan losses	(130)	523
Net interest income after provision for (recovery of) loan losses	19,114	17,934
Noninterest Income		
Service charges on deposit accounts	1,364	1,357
Other service charges and fees	67	110
Credit and debit card fees	709	539
Trust income	776	762
BOLI income	456	289
Other income	519	520
Realized securities gain, net	---	4
Total noninterest income	3,891	3,581
Noninterest Expense		
Salaries and employee benefits	7,239	6,942
Occupancy and furniture and fixtures	963	907
Data processing and ATM	1,340	1,108
FDIC assessment	181	186

Intangible assets amortization	25	43
Net costs of other real estate owned	249	84
Franchise taxes	651	651
Write-down of insurance receivable	2,010	---
Other operating expenses	1,930	2,336
Total noninterest expense	14,588	12,257
Income before income taxes	8,417	9,258
Income tax expense	1,080	2,039

(continued)

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Net Income	\$7,337	\$7,219
Basic net income per common share	\$1.05	\$1.04
Fully diluted net income per common share	\$1.05	\$1.04
Weighted average number of common shares outstanding – basic and diluted	6,957,974	6,957,974
Dividends declared per common share	\$0.58	\$0.56

See accompanying notes to consolidated financial statements.

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National Bankshares, Inc. and Subsidiaries

Consolidated Statements of Comprehensive Income

Six Months Ended June 30, 2018 and 2017

(Unaudited)

(in thousands)	June 30, 2018	June 30, 2017
Net Income	\$7,337	\$7,219
Other Comprehensive Income (Loss), Net of Tax		
Unrealized holding gain (loss) on available for sale securities net of tax of (\$861) and \$1,454 for the periods ended June 30, 2018 and 2017, respectively	(3,237)	2,701
Unrealized holding gain on securities transferred from held to maturity to available for sale, net of tax of \$237 for the period ended June 30, 2018	891	---
Other comprehensive income (loss), net of tax	(2,346)	2,701
Total Comprehensive Income	\$4,991	\$9,920

See accompanying notes to consolidated financial statements.

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National Bankshares, Inc. and Subsidiaries

Consolidated Statements of Changes in Stockholders' Equity

Six Months Ended June 30, 2018 and 2017

(Unaudited)

(in thousands)	Common Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balances at December 31, 2016	\$ 8,698	\$ 178,224	\$ (8,659)) \$ 178,263
Net income	---	7,219	---	7,219
Dividends \$0.56 per share	---	(3,897)	---	(3,897)
Other comprehensive income, net of tax of \$1,454	---	---	2,701	2,701
Balances at June 30, 2017	\$ 8,698	181,546	(5,958)) 184,286
Balances at December 31, 2017	\$ 8,698	\$ 185,893	\$ (9,695)) \$ 184,896
Net income	---	7,337	---	7,337
Dividends \$0.58 per share	---	(4,036)	---	(4,036)
Other comprehensive loss, net of tax of (\$624)	---	---	(2,346)) (2,346)
Balances at June 30, 2018	\$ 8,698	\$ 189,194	\$ (12,041)) \$ 185,851

See accompanying notes to consolidated financial statements.

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National Bankshares, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

Six Months Ended June 30, 2018 and 2017

(Unaudited)

(in thousands)	June 30, 2018	June 30, 2017
Cash Flows from Operating Activities		
Net income	\$7,337	\$7,219
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for (recovery of) loan losses	(130)	523
Depreciation of bank premises and equipment	411	400
Amortization of intangibles	25	43
Amortization of premiums and accretion of discounts, net	30	31
Gain on calls of securities held to maturity, net	---	(4)
Loss and write-down on other real estate owned, net	217	49
Increase in cash value of bank-owned life insurance	(456)	(289)
Origination of mortgage loans held for sale	(5,792)	(4,889)
Proceeds from sale of mortgage loans held for sale	5,016	4,953
Gain on sale of mortgage loans held for sale	(82)	(77)
Write-down of insurance receivable	2,010	---
Net change in:		
Accrued interest receivable	(103)	121
Other assets	54	(2,534)
Accrued interest payable	(11)	(12)
Other liabilities	729	486
Net cash provided by operating activities	9,255	6,020
Cash Flows from Investing Activities		
Net change in interest-bearing deposits	21,252	(8,828)
Proceeds from calls, principal payments, sales and maturities of securities available for sale	5,879	9,334
Proceeds from calls, principal payments and maturities of securities held to maturity	6,430	4,204
Purchase of securities available for sale	(24,263)	(9,318)
Net change in restricted stock	(21)	(30)
Purchase of BOLI	---	(10,000)
Purchase of loan participations	(7,117)	(672)
Collection of loan participations	456	743
Loan originations and principal collections, net	(16,473)	(7,702)

Proceeds from sale of other real estate owned	18	196
Recoveries on loans charged off	124	101
Proceeds from sale and purchases of premises and equipment, net	(947)	(104)
Net cash used in investing activities	(14,662)	(22,076)

(continued)

Table of Contents**Cash Flows from Financing Activities**

Net change in time deposits	(9,442)	(8,673)
Net change in other deposits	18,489	27,588
Cash dividends paid	(4,036)	(3,897)
Net cash provided by financing activities	5,011	15,018
Net change in cash and due from banks	(396)	(1,038)
Cash and due from banks at beginning of period	12,926	13,974
Cash and due from banks at end of period	\$12,530	\$12,936

Supplemental Disclosures of Cash Flow Information

Interest paid on deposits and borrowed funds	\$2,237	\$2,088
Income taxes paid	224	2,151

Supplemental Disclosure of Noncash Activities

Loans charged against the allowance for loan losses	\$340	\$552
Loans transferred to other real estate owned	---	97
Unrealized net gain (loss) on securities available for sale	(2,970)	4,155
Unrealized net gain on securities transferred from held to maturity to available for sale		