

FIRST NATIONAL CORP /VA/
Form 10-Q
May 12, 2014
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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 March 31, 2014

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	54-1232965 (I.R.S. Employer
incorporation or organization)	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 May 9, 2014, 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***(in thousands, except per share data)*

	(unaudited) March 31, 2014	December 31, 2013
Assets		
Cash and due from banks	\$ 7,106	\$ 5,767
Interest-bearing deposits in banks	27,017	25,741
Securities available for sale, at fair value	110,561	103,301
Restricted securities, at cost	1,636	1,804
Loans, net of allowance for loan losses, 2014, \$10,283; 2013, \$10,644	349,250	346,449
Other real estate owned, net of valuation allowance, 2014, \$1,686; 2013, \$1,665	2,992	3,030
Premises and equipment, net	16,470	16,642
Accrued interest receivable	1,305	1,302
Bank owned life insurance	11,052	10,978
Other assets	7,206	7,876
Total assets	\$ 534,595	\$ 522,890
Liabilities and Shareholders Equity		
Liabilities		
Deposits:		
Noninterest-bearing demand deposits	\$ 101,813	\$ 92,901
Savings and interest-bearing demand deposits	239,725	234,054
Time deposits	120,151	123,756
Total deposits	\$ 461,689	\$ 450,711
Other borrowings	6,046	6,052
Trust preferred capital notes	9,279	9,279
Accrued interest and other liabilities	2,614	3,288
Total liabilities	\$ 479,628	\$ 469,330

Shareholders Equity

Preferred stock, \$1,000 per share liquidation preference; authorized 1,000,000 shares; 14,595 shares issued and outstanding, net of discount	\$ 14,595	\$ 14,564
Common stock, par value \$1.25 per share; authorized 8,000,000 shares; issued and outstanding, 2014 and 2013, 4,901,464 shares	6,127	6,127
Surplus	6,813	6,813
Retained earnings	28,286	27,360
Accumulated other comprehensive loss, net	(854)	(1,304)
Total shareholders equity	\$ 54,967	\$ 53,560
Total liabilities and shareholders equity	\$ 534,595	\$ 522,890

See Notes to Consolidated Financial Statements

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

Three months ended March 31, 2014 and 2013

(in thousands, except per share data)

	(unaudited) March 31, 2014	(unaudited) March 31, 2013
Interest and Dividend Income		
Interest and fees on loans	\$ 4,215	\$ 4,933
Interest on deposits in banks	16	10
Interest and dividends on securities available for sale:		
Taxable interest	562	372
Tax-exempt interest	95	73
Dividends	21	19
Total interest and dividend income	\$ 4,909	\$ 5,407
Interest Expense		
Interest on deposits	\$ 400	\$ 706
Interest on trust preferred capital notes	54	56
Interest on other borrowings	29	29
Total interest expense	\$ 483	\$ 791
Net interest income	\$ 4,426	\$ 4,616
Recovery of loan losses	(200)	(250)
Net interest income after recovery of loan losses	\$ 4,626	\$ 4,866
Noninterest Income		
Service charges on deposit accounts	\$ 630	\$ 459
ATM and check card fees	335	333
Wealth management fees	484	452
Fees for other customer services	87	88
Net gains on sale of loans		59
Other operating income	80	107

Total noninterest income	\$	1,616	\$	1,498
Noninterest Expense				
Salaries and employee benefits	\$	2,509	\$	2,634
Occupancy		315		378
Equipment		304		299
Marketing		109		110
Stationery and supplies		80		75
Legal and professional fees		202		179
ATM and check card fees		163		158
FDIC assessment		172		341
Bank franchise tax		94		68
Other real estate owned, net		31		107
Telecommunications		71		62
Data processing		115		83
Loss on disposal of premises and equipment		2		206
Other operating expense		446		410
Total noninterest expense	\$	4,613	\$	5,110

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

(Continued)

Three months ended March 31, 2014 and 2013

(in thousands, except per share data)

	(unaudited) March 31, 2014	(unaudited) March 31, 2013
Income before income taxes	\$ 1,629	\$ 1,254
Income tax expense	483	271
Net income	\$ 1,146	\$ 983
Effective dividend and accretion on preferred stock	220	226
Net income available to common shareholders	\$ 926	\$ 757
Earnings per common share, basic and diluted	\$ 0.19	\$ 0.15

See Notes to Consolidated Financial Statements

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

Three months ended March 31, 2014 and 2013

(in thousands)

	(unaudited) March 31, 2014	(unaudited) March 31, 2013
Net income	\$ 1,146	\$ 983
Other comprehensive income (loss), net of tax, Unrealized gains (losses) on available for sale securities	450	(132)
Total comprehensive income	\$ 1,596	\$ 851

See Notes to Consolidated Financial Statements

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

Three months ended March 31, 2014 and 2013

(in thousands)

	(unaudited) March 31, 2014	(unaudited) March 31, 2013
Cash Flows from Operating Activities		
Net income	\$ 1,146	\$ 983
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	248	252
Origination of loans held for sale		(1,799)
Proceeds from sale of loans held for sale		2,361
Net gains on sales of loans held for sale		(59)
Recovery of loan losses	(200)	(250)
Provision for other real estate owned	23	174
Net gains on sale of other real estate owned	(1)	(116)
Losses on disposal of premises and equipment	2	206
Income from bank owned life insurance	(74)	(63)
Accretion of discounts and amortization of premiums on securities, net	160	278
Changes in assets and liabilities:		
(Increase) decrease in interest receivable	(3)	29
Decrease in other assets	437	470
Increase (decrease) in other liabilities	(674)	1,113
Net cash provided by operating activities	\$ 1,064	\$ 3,579
Cash Flows from Investing Activities		
Proceeds from sales of securities available for sale	\$	\$ 1,850
Proceeds from maturities, calls, and principal payments of securities available for sale	3,052	7,999
Purchase of securities available for sale	(9,790)	(9,892)
Proceeds from redemption of restricted securities	168	169
Purchase of premises and equipment	(77)	(226)
Proceeds from sale of premises and equipment		3
Proceeds from sale of other real estate owned	16	1,038
Net (increase) decrease in loans	(2,601)	1,121

Net cash provided by (used in) investing activities	\$ (9,232)	\$ 2,062
Cash Flows from Financing Activities		
Net increase in demand deposits and savings accounts	\$ 14,583	\$ 8,220
Net decrease in time deposits	(3,605)	(5,157)
Principal payments on other borrowings	(6)	(6)
Cash dividends paid on preferred stock	(189)	(189)
Net cash provided by financing activities	\$ 10,783	\$ 2,868
Increase in cash and cash equivalents	\$ 2,615	\$ 8,509
Cash and Cash Equivalents		
Beginning	\$ 31,508	\$ 31,028
Ending	\$ 34,123	\$ 39,537

See Notes to Consolidated Financial Statements

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

(Continued)

Three months ended March 31, 2014 and 2013

(in thousands)

	(unaudited) March 31, 2014	(unaudited) March 31, 2013
Supplemental Disclosures of Cash Flow Information		
Cash payments for:		
Interest	\$ 500	\$ 813
Supplemental Disclosures of Noncash Investing and Financing Activities		
Unrealized gains (losses) on securities available for sale	\$ 682	\$ (132)
Transfer from loans to other real estate owned	\$	\$ 65
Transfer from premises and equipment to other real estate owned	\$	\$ 224

See Notes to Consolidated Financial Statements

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FIRST NATIONAL CORPORATION

Consolidated Statements of Changes in Shareholders' Equity

Three months ended March 31, 2014 and 2013

(in thousands)

(unaudited)