FIRST NATIONAL CORP /VA/
Form 10-Q
August 12, 2016
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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 June 30, 2016

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 x 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 x No ¨

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 x

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date. As of August 12, 2016, 4,925,599 shares of common stock, par value $1.25 per share, of the registrant were outstanding.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

FIRST NATIONAL CORPORATION

Consolidated Balance Sheets

(in thousands, except share and per share data)

	(unaudited) June 30, 2016	December 31, 2015*
Assets		
Cash and due from banks	$ 10,518	$ 8,247
Interest-bearing deposits in banks	40,225	31,087
Securities available for sale, at fair value	94,566	105,559
Securities held to maturity, at carrying value (fair value, 2016, $58,375; 2015, $66,438)	57,401	66,519
Restricted securities, at cost	2,058	1,391
Loans held for sale	1,819	323
Loans, net of allowance for loan losses, 2016, $5,734; 2015, $5,524	459,812	433,475
Other real estate owned, net of valuation allowance, 2016, $181; 2015, $224	442	2,679
Premises and equipment, net	21,126	21,389
Accrued interest receivable	1,612	1,661
Bank owned life insurance	13,935	11,742
Core deposit intangibles, net	1,917	2,322
Other assets	5,917	5,927
Total assets	$ 711,348	$ 692,321
Liabilities and Shareholders Equity		
Liabilities		
Deposits:		
Noninterest-bearing demand deposits	$ 159,278	$ 157,070
Savings and interest-bearing demand deposits	337,589	328,945
Time deposits	133,479	141,101
Total deposits	$ 630,346	$ 627,116
Other borrowings	12,000	
Subordinated debt	4,921	4,913
Junior subordinated debt	9,279	9,279
Accrued interest payable and other liabilities	5,544	5,060
Total liabilities	$ 662,090	$ 646,368

Shareholders Equity		
Preferred stock, par value $1.25 per share; authorized 1,000,000 shares; none issued and outstanding	$	$
Common stock, par value $1.25 per share; authorized 8,000,000 shares; issued and outstanding, 2016, 4,925,599 shares; 2015, 4,916,130 shares	6,157	6,145
Surplus	7,021	6,956
Retained earnings	36,676	34,440
Accumulated other comprehensive loss, net	(596)	(1,588)
Total shareholders equity	$ 49,258	$ 45,953
Total liabilities and shareholders equity	$ 711,348	$ 692,321

* Derived from audited consolidated financial statements.

See Notes to Consolidated Financial Statements

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FIRST NATIONAL CORPORATION

Consolidated Statements of Income

Three months ended June 30, 2016 and 2015

(in thousands, except per share data)

	(unaudited) June 30, 2016	(unaudited) June 30, 2015
Interest and Dividend Income		
Interest and fees on loans	$ 5,370	$ 4,688
Interest on deposits in banks	62	68
Interest and dividends on securities available for sale:		
Taxable interest	683	540
Tax-exempt interest	142	78
Dividends	21	18
Total interest and dividend income	$ 6,278	$ 5,392
Interest Expense		
Interest on deposits	$ 329	$ 266
Interest on federal funds purchased		1
Interest on subordinated debt	89	
Interest on junior subordinated debt	64	55
Interest on other borrowings		2
Total interest expense	$ 482	$ 324
Net interest income	$ 5,796	$ 5,068
Recovery of loan losses		(100)
Net interest income after recovery of loan losses	$ 5,796	$ 5,168
Noninterest Income		
Service charges on deposit accounts	$ 914	$ 752
ATM and check card fees	515	497
Wealth management fees	334	499
Fees for other customer services	137	184
Income from bank owned life insurance	107	90
Net gains on sale of loans	31	50
Bargain purchase gain		201
Other operating income	74	36
Total noninterest income	$ 2,112	$ 2,309

Noninterest Expense		
Salaries and employee benefits	$ 3,415	$ 3,597
Occupancy	365	339
Equipment	394	422
Marketing	120	163
Supplies	103	229
Legal and professional fees	156	431
ATM and check card fees	221	190
FDIC assessment	126	64
Bank franchise tax	90	130
Telecommunications expense	115	100
Data processing expense	146	226
Postage expense	57	80
Amortization expense	198	196
Other real estate owned (income) expense, net	(49)	152
Other operating expense	426	536
Total noninterest expense	$ 5,883	$ 6,855

See Notes to Consolidated Financial Statements

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FIRST NATIONAL CORPORATION

Consolidated Statements of Income

(Continued)

Three months ended June 30, 2016 and 2015

(in thousands, except per share data)

	(unaudited) June 30, 2016	(unaudited) June 30, 2015
Income before income taxes	$ 2,025	$ 622
Income tax expense	592	178
Net income	$ 1,433	$ 444
Effective dividend on preferred stock		328
Net income available to common shareholders	$ 1,433	$ 116
Earnings per common share		
Basic	$ 0.29	$ 0.02
Diluted	$ 0.29	$ 0.02

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FIRST NATIONAL CORPORATION

Consolidated Statements of Comprehensive Income (Loss)

Three months ended June 30, 2016 and 2015

(in thousands)

	(unaudited) June 30, 2016	(unaudited) June 30, 2015
Net income	$ 1,433	$ 444
Other comprehensive income (loss), net of tax, Unrealized holding gains (losses) on available for sale securities, net of tax $126 and ($457), respectively	247	(886)
Total other comprehensive income (loss)	247	(886)
Total comprehensive income (loss)	$ 1,680	$ (442)

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FIRST NATIONAL CORPORATION

Consolidated Statements of Income

Six months ended June 30, 2016 and 2015

(in thousands, except per share data)

	(unaudited) June 30, 2016	(unaudited) June 30, 2015
Interest and Dividend Income		
Interest and fees on loans	$ 10,606	$ 9,228
Interest on deposits in banks	110	73
Interest and dividends on securities available for sale:		
Taxable interest	1,424	898
Tax-exempt interest	289	142
Dividends	40	39
Total interest and dividend income	$ 12,469	$ 10,380
Interest Expense		
Interest on deposits	$ 662	$ 566
Interest on federal funds purchased	3	2
Interest on subordinated debt	179	
Interest on junior subordinated debt	125	109
Interest on other borrowings	5	3
Total interest expense	$ 974	$ 680
Net interest income	$ 11,495	$ 9,700
Recovery of loan losses		(100)
Net interest income after recovery of loan losses	$ 11,495	$ 9,800
Noninterest Income		
Service charges on deposit accounts	$ 1,694	$ 1,299
ATM and check card fees	1,003	846
Wealth management fees	670	1,002
Fees for other customer services	284	291
Income from bank owned life insurance	193	164
Net gains (losses) on calls and sales of securities available for sale	6	(52)
Net gains on sale of loans	52	105
Bargain purchase gain		201
Other operating income	153	44

Total noninterest income	$	4,055	$	3,900
Noninterest Expense				
Salaries and employee benefits	$	6,859	$	6,722
Occupancy		789		656
Equipment		826		703
Marketing		227		260
Supplies		204		574
Legal and professional fees		467		643
ATM and check card fees		426		345
FDIC assessment		248		131
Bank franchise tax		193		252
Telecommunications expense		229		185
Data processing expense		274		413
Postage expense		126		197
Amortization expense		405		200
Other real estate owned (income) expense, net		(121)		116
Other operating expense		848		945
Total noninterest expense	$	12,000	$	12,342

See Notes to Consolidated Financial Statements

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FIRST NATIONAL CORPORATION

Consolidated Statements of Income

(Continued)

Six months ended June 30, 2016 and 2015

(in thousands, except per share data)

	(unaudited) June 30, 2016	(unaudited) June 30, 2015
Income before income taxes	$ 3,550	$ 1,358
Income tax expense	1,018	370
Net income	$ 2,532	$ 988
Effective dividend on preferred stock		657
Net income available to common shareholders	$ 2,532	$ 331
Earnings per common share		
Basic	$ 0.51	$ 0.07
Diluted	$ 0.51	$ 0.07

See Notes to Consolidated Financial Statements

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FIRST NATIONAL CORPORATION

Consolidated Statements of Comprehensive Income

Six months ended June 30, 2016 and 2015

(in thousands)

	(unaudited) June 30, 2016	(unaudited) June 30, 2015
Net income	$ 2,532	$ 988
Other comprehensive income (loss), net of tax, Unrealized holding gains (losses) on available for sale securities, net of tax $515 and ($164), respectively	996	(316)
Reclassification adjustment for (gains) losses included in net income, net of tax ($2) and $18, respectively	(4)	34
Total other comprehensive income (loss)	992	(282)
Total comprehensive income	$ 3,524	$ 706

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FIRST NATIONAL CORPORATION

Consolidated Statements of Cash Flows

Six months ended June 30, 2016 and 2015

(in thousands)

	(unaudited) June 30, 2016	(unaudited) June 30, 2015
Cash Flows from Operating Activities		
Net income	$ 2,532	$ 988
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	669	566
Amortization of core deposit intangibles	405	200
Amortization of debt issuance costs	8	
Origination of loans held for sale	(5,106)	(7,781)
Proceeds from sale of loans held for sale	3,662	6,236
Net gains on sales of loans held for sale	(52)	(105)
Recovery of loan losses		(100)
Net (gains) losses on sale of securities available for sale	(6)	52
Provision for other real estate owned	27	137
Net gains on sale of other real estate owned	(191)	(72)
Income from bank owned life insurance	(193)	(164)
Accretion of discounts and amortization of premiums on securities, net	437	311
Accretion of premium on time deposits	(94)	(81)
Stock-based compensation	56	52
Bargain purchase gain on branch acquisition		(201)
Deferred income tax expense	349	78
Changes in assets and liabilities:		
Decrease (increase) in interest receivable	49	(162)
Increase in other assets	(440)	(380)
Increase in other liabilities	74	1,290
Net cash provided by operating activities	$ 2,186	$ 864
Cash Flows from Investing Activities		
Proceeds from maturities, calls, principal payments, and sales of securities available for sale	12,217	7,690
Proceeds from maturities, calls, principal payments, and sales of securities held to maturity	8,966	240
Purchase of securities available for sale		(37,638)
Purchase of securities held to maturity		(37,602)
Net purchase of restricted securities	(667)	(25)
Purchase of premises and equipment	(406)	(1,222)

Proceeds from sale of other real estate owned		2,438		354
Purchase of bank owned life insurance		(2,000)		
Net increase in loans		(26,374)		(14,738)
Acquisition of branches, net of cash paid				179,501
Net cash (used in) provided by investing activities	$	(5,826)	$	96,560
Cash Flows from Financing Activities				
Net increase in demand deposits and savings accounts	$	10,852	$	1,528
Net decrease in time deposits		(7,528)		(11,705)
Net increase (decrease) in other borrowings		12,000		(13)
Cash dividends paid on common stock, net of reinvestment		(275)		(226)
Cash dividends paid on preferred stock				(657)
Decrease in federal funds purchased				(52)
Net cash provided by (used in) financing activities	$	15,049	$	(11,125)

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FIRST NATIONAL CORPORATION

Consolidated Statements of Cash Flows

(Continued)

Six months ended June 30, 2016 and 2015

(in thousands)

	(unaudited) June 30, 2016	(unaudited) June 30, 2015
Increase in cash and cash equivalents	$ 11,409	$ 86,299
Cash and Cash Equivalents		
Beginning	$ 39,334	$ 24,845
Ending	$ 50,743	$ 111,144
Supplemental Disclosures of Cash Flow Information		
Cash payments for:		
Interest	$ 1,088	$ 617
Income Taxes	$ 1,276	$ 752
Supplemental Disclosures of Noncash Investing and Financing Activities		
Unrealized gains on securities available for sale	$ 1,505	$ 428
Transfer from loans to other real estate owned	$ 37	$ 938
Issuance of common stock, dividend reinvestment plan	$ 21	$ 20
Transactions Related to Acquisition		
Assets acquired	$	$ 193,638
Liabilities assumed		186,819
Net assets acquired	$	$ 6,819

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FIRST NATIONAL CORPORATION

Consolidated Statements of Changes in Shareholders Equity

Six months ended June 30, 2016 and 2015

(in thousands, except share and per share data)

(unaudited)

	Preferred Stock	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance, December 31, 2014	$ 14,595	$ 6,131	$ 6,835	$ 33,557	$ (1,554)	$ 59,564
Net income				988		988
Other comprehensive loss					(282)	(282)
Cash dividends on common stock ($0.05 per share)				(246)		(246)
Stock-based compensation			52			52
Issuance of 2,067 shares common stock, dividend reinvestment plan		3	17			20
Issuance of 4,182 shares common stock, stock incentive plan		5	(5)			
Cash dividends on preferred stock				(657)		(657)
Balance, June 30, 2015	$ 14,595	$ 6,139	$ 6,899	$ 33,642	$ (1,836)	$ 59,439

	Preferred Stock	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance, December 31, 2015	$	$ 6,145	$ 6,956	$ 34,440	$ (1,588)	$ 45,953
Net income				2,532		2,532
Other comprehensive income					992	992
Cash dividends on common stock ($0.06 per share)				(296)		(296)
Stock-based compensation			56			56
Issuance of 2,245 shares common stock, dividend reinvestment plan		3	18			21
Issuance of 7,224 shares common stock, stock incentive plan		9	(9)			
Balance, June 30, 2016	$	$ 6,157	$ 7,021	$ 36,676	$ (596)	$ 49,258

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 subsidiary, 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 June 30, 2016 and December 31, 2015, the statements of income and comprehensive income (loss) for the three and six months ended June 30, 2016 and 2015 and the cash flows and changes in shareholders equity for the six months ended June 30, 2016 and 2015. 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, 2015. Operating results for the three and six month periods ended June 30, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016.

Recent Accounting Pronouncements

In August 2014, the FASB issued ASU No. 2014-15, Presentation of Financial Statements Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity s Ability to Continue as a Going Concern. This update is intended to provide guidance about management s responsibility to evaluate whether there is substantial doubt about an entity s ability to continue as a going concern and to provide related footnote disclosures. Management is required under the new guidance to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity s ability to continue as a going concern within one year after the date the financial statements are issued when preparing financial statements for each interim and annual reporting period. If conditions or events are identified, the ASU specifies the process that must be followed by management and also clarifies the timing and content of going concern footnote disclosures in order to reduce diversity in practice. The amendments in this ASU are effective for annual periods and interim periods within those annual periods beginning after December 15, 2016. Early adoption is permitted. The Company does not expect the adoption of ASU 2014-15 to have an impact on its consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The amendments in ASU 2016-01, among other things: 1) Requires equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. 2) Requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes. 3) Requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e., securities or loans and receivables). 4) Eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost. The amendments in this ASU are effective for public companies for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company does not expect the adoption of ASU 2016-01 to have a material impact on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). Among other things, in the amendments in ASU 2016-02, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date: (1) A lease liability, which is a lessee s obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) A right-of-use asset, which is an asset that represents the lessee s right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. Certain targeted improvements were made to align, where necessary, lessor accounting with the lessee accounting model and Topic 606, Revenue from Contracts with Customers. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted upon issuance. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach. The Company is currently assessing the impact that ASU 2016-02 will have on its consolidated financial statements.

Notes to Consolidated Financial Statements

(unaudited)

In March 2016, the FASB issued ASU No. 2016-07, Investments Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting. Among other things, the amendments in ASU 2016-07, eliminate the requirement that when an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence, an investor must adjust the investment, results of operations, and retained earnings retroactively on a step-by-step basis as if the equity method had been in effect during all previous periods that the investment had been held. The amendments require that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor s previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. Therefore, upon qualifying for the equity method of accounting, no retroactive adjustment of the investment is required. The amendments require that an entity that has an available-for-sale equity security that becomes qualified for the equity method of accounting recognize through earnings the unrealized holding gain or loss in accumulated other comprehensive income at the date the investment becomes qualified for use of the equity method. The amendments are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. The amendments should be applied prospectively upon their effective date to increases in the level of ownership interest or degree of influence that result in the adoption of the equity method. Early adoption is permitted. The Company does not expect the adoption of ASU 2016-07 to have a material impact on its consolidated financial statements.

During March 2016, the FASB issued ASU No. 2016-09, Compensation Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The amendments in this ASU simplify several aspects of the accounting for share-based payment award transactions including: (a) income tax consequences; (b) classification of awards as either equity or liabilities; and (c) classification on the statement of cash flows. The amendments are effective for public companies for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The Company is currently assessing the impact that ASU 2016-09 will have on its consolidated financial statements.

During June 2016, the FASB issued ASU No. 2016-13, Financial Instruments Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The amendments in this ASU, among other things, require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. In addition, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The amendments in this ASU are effective for SEC filers for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. For public companies that are not SEC filers, the amendments in this ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. The Company is currently assessing the impact that ASU 2016-13 will have on its consolidated financial statements.

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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 at June 30, 2016 and December 31, 2015 were as follows (in thousands):

	June 30, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Securities available for sale:				
U.S. agency and mortgage-backed securities	$ 78,864	$ 929	$ (119)	$ 79,674
Obligations of states and political subdivisions	14,488	396	(8)	14,876
Corporate equity securities	1	15		16
Total securities available for sale	$ 93,353	$ 1,340	$ (127)	$ 94,566
Securities held to maturity:				
U.S. agency and mortgage-backed securities	$ 41,239	$ 415	$ (19)	$ 41,635
Obligations of states and political subdivisions	14,662	543		15,205
Corporate debt securities	1,500	35		1,535
Total securities held to maturity	$ 57,401	$ 993	$ (19)	$ 58,375
Total securities	$ 150,754	$ 2,333	$ (146)	$ 152,941

	December 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Securities available for sale:				
U.S. agency and mortgage-backed securities	$ 89,919	$ 261	$ (843)	$ 89,337
Obligations of states and political subdivisions	15,931	333	(50)	16,214
Corporate equity securities	1	7		8
Total securities available for sale	$ 105,851	$ 601	$ (893)	$ 105,559
Securities held to maturity:				
U.S. agency and mortgage-backed securities	$ 49,662	$ 36	$ (326)	$ 49,372

Obligations of states and political subdivisions	15,357	228	(19)	15,566
Corporate debt securities	1,500			1,500
Total securities held to maturity	$ 66,519	$ 264	$ (345)	$ 66,438
Total securities	$ 172,370	$ 865	$ (1,238)	$ 171,997

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Notes to Consolidated Financial Statements

(unaudited)

At June 30, 2016 and December 31, 2015, investments in an unrealized loss position that were temporarily impaired were as follows (in thousands):

	June 30, 2016					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized (Loss)	Fair Value	Unrealized (Loss)	Fair Value	Unrealized (Loss)
Securities available for sale:						
U.S. agency and mortgage-backed securities	$ 780	$ (1)	$ 12,133	$ (118)	$ 12,913	$ (119)
Obligations of states and political subdivisions			522	(8)	522	(8)
Total securities available for sale	$ 780	$ (1)	$ 12,655	$ (126)	$ 13,435	$ (127)
Securities held to maturity:						
U.S. agency and mortgage-backed securities	$	$	$ 6,032	$ (19)	$ 6,032	$ (19)
Total securities held to maturity	$	$	$ 6,032	$ (19)	$ 6,032	$ (19)
Total securities	$ 780	$ (1)	$ 18,687	$ (145)	$ 19,467	$ (146)

	December 31, 2015					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized (Loss)	Fair Value	Unrealized (Loss)	Fair Value	Unrealized (Loss)
Securities available for sale:						
U.S. agency and mortgage-backed securities	$ 50,185	$ (464)	$ 13,409	$ (379)	$ 63,594	$ (843)
Obligations of states and political subdivisions	2,395	(15)	1,053	(35)	3,448	(50)
Total securities available for sale	$ 52,580	$ (479)	$ 14,462	$ (414)	$ 67,042	$ (893)
Securities held to maturity:						
U.S. agency and mortgage-backed securities	$ 32,791	$ (326)	$	$	$ 32,791	$ (326)

Obligations of states and political subdivisions	3,052		(19)						3,052		(19)
Total securities held to maturity	$ 35,843	$	(345)	$		$		$	35,843	$	(345)
Total securities	$ 88,423	$	(824)	$	14,462	$	(414)	$	102,885	$	(1,238)

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 June 30, 2016, there were thirteen U.S. agency and mortgage-backed securities and one obligation of a state and political subdivision 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 3.9 years at June 30, 2016. At December 31, 2015, there were fifty-two U.S. agency and mortgage-backed securities and thirteen 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, 2015. The weighted-average re-pricing term of the portfolio was 4.6 years at December 31, 2015. The unrealized losses at June 30, 2016 in the U.S. agency and mortgage-backed securities portfolio and the obligation of states and political subdivisions portfolio were related to changes in market interest rates and not credit concerns of the issuers.

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For the three and six months ended June 30, 2016, the Company sold one security from the held to maturity portfolio. The Company recognized no gain or loss related to the sale as the carrying value of the security sold equaled the proceeds from the sale of $657 thousand. The sale of this security was in response to credit deterioration of the issuer. There were no sales of securities from the held to maturity portfolio for the three and six month periods ended June 30, 2015.

The amortized cost and fair value of securities at June 30, 2016 by contractual maturity are shown below (in thousands). Expected maturities of mortgage-backed securities will differ from contractual maturities because borrowers may have the right to prepay obligations with or without call or prepayment penalties. Corporate equity securities are not included in the maturity categories in the following maturity summary because they do not have a stated maturity date.

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due within one year	$ 1,666	$ 1,672	$	$
Due after one year through five years	9,649	9,769	1,111	1,131
Due after five years through ten years	13,246	13,578	16,355	16,761
Due after ten years	68,791	69,531	39,935	40,483
Corporate equity securities	1	16		
	$ 93,353	$ 94,566	$ 57,401	$ 58,375

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 June 30, 2016, and no impairment has been recognized.

The composition of restricted securities at June 30, 2016 and December 31, 2015 was as follows (in thousands):

	June 30, 2016	December 31, 2015
Federal Home Loan Bank stock	$ 1,133	$ 466
Federal Reserve Bank stock	875	875
Community Bankers Bank stock	50	50

	$ 2,058	$ 1,391

Note 3. Loans

Loans at June 30, 2016 and December 31, 2015 are summarized as follows (in thousands):

	June 30, 2016	December 31, 2015
Real estate loans:		
Construction and land development	$ 33,232	$ 33,135
Secured by 1-4 family residential	196,295	189,286
Other real estate loans	200,162	181,447
Commercial and industrial loans	24,721	24,048
Consumer and other loans	11,136	11,083
Total loans	$ 465,546	$ 438,999
Allowance for loan losses	(5,734)	(5,524)
Loans, net	$ 459,812	$ 433,475

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Net deferred loan fees included in the above loan categories were $67 thousand at June 30, 2016 and net deferred loan costs included in the above loan categories were $54 thousand at December 31, 2015. Consumer and other loans included $334 thousand and $257 thousand of demand deposit overdrafts at June 30, 2016 and December 31, 2015, respectively.

Risk characteristics of each loan portfolio class that are considered by the Company include:

1-4 family residential mortgage loans carry risks associated with the continued creditworthiness of the borrower and changes in the value of the collateral.

Real estate construction and land development loans carry risks that the project may not be finished according to schedule, the project may not be finished according to budget and the value of the collateral may, at any point in time, be less than the principal amount of the loan. Construction loans also bear the risk that the general contractor, who may or may not be a loan customer, may be unable to finish the construction project as planned because of financial pressure or other factors unrelated to the project.

Other real estate loans carry risks associated with the successful operation of a business or a real estate project, in addition to other risks associated with the ownership of real estate, because repayment of these loans may be dependent upon the profitability and cash flows of the business or project.

Commercial and industrial loans carry risks associated with the successful operation of a business because repayment of these loans may be dependent upon the profitability and cash flows of the business. In addition, there is risk associated with the value of collateral other than real estate which may depreciate over time and cannot be appraised with as much reliability.

Consumer and other loans carry risk associated with the continued creditworthiness of the borrower and the value of the collateral, i.e. rapidly depreciating assets such as automobiles, or lack thereof. Consumer loans are likely to be immediately adversely affected by job loss, divorce, illness or personal bankruptcy, or other changes in circumstances.

The following tables provide a summary of loan classes and an aging of past due loans as of June 30, 2016 and December 31, 2015 (in thousands):

June 30, 2016

Current

	30-59 Days Past Due	60-89 Days Past Due	> 90 Days Past Due	Total Past Due		Total Loans	Non-accrual Loans	90 Days or More Past Due and Accruing
Real estate loans:								
Construction and land development	$ 111	$ 126	$	$ 237	$ 32,995	$ 33,232	$ 1,539	$
Secured by 1-4 family residential	768	202	269	1,239	195,056	196,295	345	
Other real estate loans	331	590	125	1,046	199,116	200,162	2,089	
Commercial and industrial	9	34	8	51	24,670	24,721	84	8
Consumer and other loans	14		3	17	11,119	11,136		3
Total	$ 1,233	$ 952	$ 405	$ 2,590	$ 462,956	$ 465,546	$ 4,057	$ 11

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	December 31, 2015							
	30-59 Days Past Due	60-89 Days Past Due	> 90 Days Past Due	Total Past Due	Current	Total Loans	Non-accrual Loans	90 Days or More Past Due and Accruing
Real estate loans:								
Construction and land development	$	$	$	$	$ 33,135	$ 33,135	$ 1,269	$
Secured by 1-4 family residential	635	18	264	917	188,369	189,286	346	
Other real estate loans	387	358	790	1,535	179,912	181,447	2,145	
Commercial and industrial			92	92	23,956	24,048	94	92
Consumer and other loans	20			20	11,063	11,083		