

Village Bank & Trust Financial Corp.  
Form 10-Q  
November 04, 2013

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q  
QUARTERLY REPORT UNDER SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2013

TRANSITION REPORT UNDER SECTION 13 OR 15(d)  
OF THE EXCHANGE ACT

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

Commission file number: 0-50765

VILLAGE BANK AND TRUST FINANCIAL CORP.  
(Exact name of registrant as specified in its charter)

Virginia  
(State or other jurisdiction of  
incorporation or organization)

16-1694602  
(I.R.S. Employer  
Identification No.)

15521 Midlothian Turnpike, Midlothian, Virginia  
(Address of principal executive offices)

23113  
(Zip code)

804-897-3900  
(Registrant's telephone number, including area code)

Indicate by check whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act 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 .

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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 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 equity, as of the latest practicable date.

4,251,795 shares of common stock, \$4.00 par value, outstanding as of November 1, 2013

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## PART I – FINANCIAL INFORMATION

## ITEM 1 – FINANCIAL STATEMENTS

Village Bank and Trust Financial Corp. and Subsidiary  
Consolidated Balance Sheets  
September 30, 2013 (Unaudited) and December 31, 2012

	September 30, 2013	December 31, 2012
<b>Assets</b>		
Cash and due from banks	\$ 13,142,811	\$ 13,945,105
Federal funds sold	20,632,216	39,185,837
Total cash and cash equivalents	33,775,027	53,130,942
Investment securities available for sale	59,112,521	25,154,046
Loans held for sale	14,526,577	24,188,384
<b>Loans</b>		
Outstandings	303,001,827	354,910,266
Allowance for loan losses	(8,627,944 )	(10,807,827 )
Deferred fees and costs	690,947	787,823
	295,064,830	344,890,262
Premises and equipment, net	23,672,984	25,815,342
Accrued interest receivable	1,517,519	1,676,518
Bank owned life insurance	6,718,678	6,575,018
Other real estate owned	19,651,654	20,203,691
Other assets	5,680,845	8,453,169
	\$459,720,635	\$510,087,372
<b>Liabilities and Stockholders' Equity</b>		
<b>Liabilities</b>		
<b>Deposits</b>		
Noninterest bearing demand	\$ 59,172,655	\$ 57,049,348
Interest bearing	342,423,760	379,273,614
Total deposits	401,596,415	436,322,962
Federal Home Loan Bank advances	18,000,000	28,000,000
Long-term debt - trust preferred securities	8,764,000	8,764,000
Other borrowings	3,289,463	4,851,811
Accrued interest payable	1,054,233	911,635
Other liabilities	5,762,908	6,272,163
Total liabilities	438,467,019	485,122,571
<b>Stockholders' equity</b>		
Preferred stock, \$4 par value, \$1,000 liquidation preference, 1,000,000 shares authorized, 14,738 shares issued and outstanding	58,952	58,952
Common stock, \$4 par value - 10,000,000 shares authorized; 4,251,795 shares issued and outstanding at September 30, 2013 4,251,795 shares issued and outstanding at December 31, 2012	17,007,180	17,007,180

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Additional paid-in capital	40,711,221	40,705,257
Retained earnings (deficit)	(34,026,563 )	(33,173,525 )
Common stock warrant	732,479	732,479
Discount on preferred stock	(87,392 )	(198,993 )
Accumulated other comprehensive loss	(3,142,261 )	(166,549 )
Total stockholders' equity	21,253,616	24,964,801
	\$459,720,635	\$510,087,372

See accompanying notes to consolidated financial statements

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Village Bank and Trust Financial Corp. and Subsidiary  
Consolidated Statements of Operations  
Three and Nine Months Ended September 30 2013 and 2012  
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Interest income				
Loans	\$4,459,368	\$5,488,927	\$14,224,369	\$17,002,398
Investment securities	323,763	166,684	750,678	532,229
Federal funds sold	18,145	11,570	71,159	44,123
Total interest income	4,801,276	5,667,181	15,046,206	17,578,750
Interest expense				
Deposits	850,206	1,187,060	2,842,814	3,791,427
Borrowed funds	167,249	263,747	610,594	798,868
Total interest expense	1,017,455	1,450,807	3,453,408	4,590,295
Net interest income	3,783,821	4,216,374	11,592,798	12,988,455
Provision for loan losses	-	700,000	823,000	9,095,000
Net interest income (loss) after provision for loan losses	3,783,821	3,516,374	10,769,798	3,893,455
Noninterest income				
Service charges and fees	645,499	604,377	1,790,785	1,652,355
Gain on sale of loans	2,126,263	2,394,138	6,454,380	6,336,030
Gain on sale of assets	-	-	598,182	-
Gain on sale of investment securities	-	556,805	216,879	820,482
Rental income	213,736	187,839	657,224	557,920
Other	99,485	285,723	396,093	497,927
Total noninterest income	3,084,983	4,028,882	10,113,543	9,864,714
Noninterest expense				
Salaries and benefits	3,633,542	3,484,073	10,592,092	9,888,166
Occupancy	501,951	513,278	1,588,646	1,579,976
Equipment	166,287	231,556	523,416	710,522
Supplies	100,057	125,514	323,639	322,727
Professional and outside services	499,676	708,554	1,823,453	2,077,845
Advertising and marketing	49,917	48,362	192,478	172,408
Expenses related to foreclosed real estate	1,301,423	1,724,348	3,575,924	3,520,971
Other operating expenses	882,777	915,333	2,452,456	2,946,054
Total noninterest expense	7,135,630	7,751,018	21,072,104	21,218,669
Net income (loss) before income taxes	(266,826 )	(205,762 )	(188,763 )	(7,460,500 )
Income tax expense (benefit)	-	161,315	-	4,043,229

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Net income (loss)	(266,826 )	(367,077 )	(188,763 )	(11,503,729)
Preferred stock dividends and amortization of discount	221,531	221,142	664,275	627,031
Net income (loss) available to common shareholders	\$(488,357 )	\$(588,219 )	\$(853,038 )	\$(12,130,760)
Earnings (loss) per share, basic	\$(0.11 )	\$(0.14 )	\$(0.20 )	\$(2.85 )
Earnings (loss) per share, diluted	\$(0.11 )	\$(0.14 )	\$(0.20 )	\$(2.85 )

See accompanying notes to consolidated financial statements



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Village Bank and Trust Financial Corp. and Subsidiary  
Consolidated Statements of Changes in Comprehensive Income (Loss)  
Three and Nine Months Ended September 30, 2013 and 2012  
(Unaudited)

	Three Months Ended September 30,					
	Amount	2013 Tax Expense (Benefit)	Total	Amount	2012 Tax Expense (Benefit)	Total
Net income (loss)	\$(266,826 )	\$-	\$(266,826 )	\$(205,762 )	\$161,315	\$(367,077 )
Other comprehensive income (loss)						
Unrealized holding gains (losses) arising during the period	(596,664 )	(202,866 )	(393,798 )	(62,063 )	(21,101 )	(40,962 )
Reclassification adjustment for (gains) losses realized in income	-	-	-	(556,805 )	(189,314 )	(367,491 )
Minimum pension adjustment	3,250	1,105	2,145	3,250	1,105	2,145
Total other comprehensive income (loss)	(593,414 )	(201,761 )	(391,653 )	(615,618 )	(209,310 )	(406,308 )
Total comprehensive income (loss)	\$(860,240 )	\$(201,761 )	\$(658,479 )	\$(821,380 )	\$(47,995 )	\$(773,385 )

	Nine Months Ended September 30,					
	Amount	2013 Tax Expense (Benefit)	Total	Amount	2012 Tax Expense (Benefit)	Total
Net income (loss)	\$(188,763 )	\$-	\$(188,763 )	\$(7,460,500)	\$4,043,229	\$(11,503,729)
Other comprehensive income (loss)						
Unrealized holding gains (losses) arising during the period	(4,301,526)	(1,462,519)	(2,839,007)	603,865	205,314	398,551
Reclassification adjustment for (gains) losses realized in income	(216,879 )	(73,739 )	(143,140 )	(820,482 )	(278,964 )	(541,518 )
Minimum pension adjustment	9,750	3,315	6,435	9,750	3,315	6,435
Total other comprehensive income (loss)	(4,508,655)	(1,532,943)	(2,975,712)	(206,867 )	(70,335 )	(136,532 )
	\$(4,697,418)	\$(1,532,943)	\$(3,164,475)	\$(7,667,367)	\$3,972,894	\$(11,640,261)

Total comprehensive  
income (loss)

See accompanying notes to consolidated  
financial statements.

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Village Bank and Trust Financial Corp. and Subsidiary  
Consolidated Statements of Stockholders' Equity  
Nine Months Ended September, 2013 and 2012  
(Unaudited)

	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Earnings (Deficit)	Warrant	Discount on Preferred Stock	Accumulated Other Comprehensive Income (loss)	Total
Balance, December 31, 2012	\$58,952	\$17,007,180	\$40,705,257	\$(33,173,525)	\$732,479	\$(198,993)	\$(166,549 )	\$24,964,801
Amortization of preferred stock discount	-			(111,601 )	-	111,601		-
Preferred stock dividend	-	-		(552,674 )	-	-	-	(552,674)
Stock based compensation	-	-	5,964	-	-	-	-	5,964
Minimum pension adjustment (net of income taxes of \$3,315)	-	-	-	-	-	-	6,435	6,435
Net income	-	-	-	(188,763 )	-	-	-	(188,763)
Change in unrealized gain (loss) on investment securities available-for-sale, net of reclassification and tax effect	-	-	-	-	-	-	(2,982,147)	(2,982,147)
Balance, September 30, 2013	\$58,952	\$17,007,180	\$40,711,221	\$(34,026,563)	\$732,479	\$(87,392 )	\$(3,142,261)	\$21,253,616
Balance, December 31, 2011	\$58,952	\$16,973,512	\$40,732,178	\$(21,895,557)	\$732,479	\$(346,473)	\$(7,449 )	\$36,247,642
Amortization of preferred stock discount	-			(110,469 )	-	110,469		-

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Preferred stock dividend	-	-	(513,562 )	-	-	-	(513,562
Issuance of common stock	-	33,668	(33,668 )	-	-	-	-
Stock based compensation	-	-	6,506	-	-	-	6,506
Minimum pension adjustment (net of income taxes of \$3,315)	-	-	-	-	-	-	6,435
Net loss	-	-	-	(11,503,729)	-	-	(11,503,729
Change in unrealized gain (loss) on investment securities available-for-sale, net of reclassification and tax effect	-	-	-	-	-	-	(142,967 )
Balance, September 30, 2012	\$58,952	\$17,007,180	\$40,705,016	\$(34,023,317)	\$732,479	\$(236,004)	\$(143,981 )
							\$24,100,325

See accompanying notes to consolidated financial statements.

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Village Bank and Trust Financial Corp. and Subsidiary  
Consolidated Statements of Cash Flows  
Nine Months Ended September 30, 2013 and 2012  
(Unaudited)

	2013	2012
<b>Cash Flows from Operating Activities</b>		
Net income (loss)	\$(188,763 )	\$(11,503,729 )
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	981,157	1,030,061
Deferred income taxes	(40,518 )	(6,584,167 )
Valuation allowance	-	10,513,053
Provision for loan losses	823,000	9,095,000
Write-down of other real estate owned	1,281,611	1,157,613
Gain on securities sold	(216,879 )	(820,483 )
Gain on loans sold	(6,454,380 )	(6,336,030 )
Gain on sale of premises and equipment	(598,182 )	-
Loss on sale of other real estate owned	325,791	137,252
Stock compensation expense	5,964	6,506
Proceeds from sale of mortgage loans	235,276,016	224,700,116
Origination of mortgage loans for sale	(219,159,829)	(224,722,414)
Amortization of premiums and accretion of discounts on securities, net	312,679	237,964
(Increase) decrease in interest receivable	158,999	245,652
Increase in bank owned life insurance	(143,660 )	(460,533 )
Decrease in other assets	4,355,535	3,961,133
Increase in interest payable	142,598	224,107
Decrease in other liabilities	(1,061,929 )	(1,438,512 )
Net cash provided by (used in) operating activities	15,799,210	(557,411 )
<b>Cash Flows from Investing Activities</b>		
Purchases of available for sale securities	(54,106,582 )	(62,813,678 )
Proceeds from the sale or calls of available for sale securities	15,533,902	57,581,103
Proceeds from maturities and principal payments of available for sale securities	-	2,345,817
Net decrease in loans	43,821,628	25,205,931
Proceeds from sale of other real estate owned	4,125,439	2,501,486
Purchases of premises and equipment	77,759	(274,756 )
Proceeds from sale of premises and equipment	1,681,624	-
Net cash provided by investing activities	11,133,770	24,545,903
<b>Cash Flows from Financing Activities</b>		
Net decrease in deposits	(34,726,547 )	(50,378,915 )
Net decrease in Federal Home Loan Bank Advances	(10,000,000 )	(9,750,000 )
Net decrease in other borrowings	(1,562,348 )	(427,268 )
Net cash used in financing activities	(46,288,895 )	(60,556,183 )
Net decrease in cash and cash equivalents	(19,355,915 )	(36,567,691 )
Cash and cash equivalents, beginning of period	53,130,942	62,786,016

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Cash and cash equivalents, end of period	\$33,775,027	\$26,218,325
Supplemental Schedule of Non Cash Activities		
Real estate owned assets acquired in settlement of loans	\$5,180,804	\$15,195,148
Dividends on preferred stock accrued	\$552,674	\$513,562

See accompanying notes to consolidated financial statements.

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Village Bank and Trust Financial Corp. and Subsidiary  
Notes to Condensed Consolidated Financial Statements  
Three and Nine Months Ended September 30, 2013 and 2012  
(Unaudited)

## Note 1 - Principles of presentation

Village Bank and Trust Financial Corp. (the “Company”) is the holding company of Village Bank (the “Bank”). The consolidated financial statements include the accounts of the Company, the Bank and the Bank’s three wholly-owned subsidiaries, Village Bank Mortgage Company, Village Insurance Agency, Inc., and Village Financial Services Company. All material intercompany balances and transactions have been eliminated in consolidation.

In the opinion of management, the accompanying condensed consolidated financial statements of the Company have been prepared on the accrual basis in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. However, all adjustments that are, in the opinion of management, necessary for a fair presentation have been included. The results of operations for the three and nine month periods ended September 30, 2013 are not necessarily indicative of the results to be expected for the full year ending December 31, 2013. The unaudited interim financial statements should be read in conjunction with the audited financial statements and notes to financial statements that are presented in the Company’s Annual Report on Form 10-K for the year ended December 31, 2012 as filed with the Securities and Exchange Commission.

## Note 2 - Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the balance sheets and statements of income for the period. Actual results could differ significantly from those estimates. A material estimate that is particularly susceptible to significant change in the near term relates to the determination of the allowance for loan losses and the related provision.

## Note 3 - Earnings (loss) per common share

The following table presents the basic and diluted earnings per share computations:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Numerator				
Net income (loss) - basic and diluted	\$(266,826 )	\$(367,077 )	\$(188,763 )	\$(11,503,729)
Preferred stock dividend and accretion	221,531	221,142	664,275	627,031
Net income (loss) available to common shareholders	\$(488,357 )	\$(588,219 )	\$(853,038 )	\$(12,130,760)
Denominator				
Weighted average shares outstanding - basic	4,251,795	4,250,990	4,251,795	4,250,990
Dilutive effect of common stock options and restricted stock awards	13,185	-	13,185	-

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Weighted average shares outstanding - diluted	4,264,980	4,250,990	4,264,980	4,250,990
Earnings (loss) per share - basic and diluted				
Earnings (loss) per share - basic	\$(0.11	) \$(0.14	) \$(0.20	) \$(2.85
Effect of dilutive common stock options	-	-	-	-
Earnings (loss) per share - diluted	\$(0.11	) \$(0.14	) \$(0.20	) \$(2.85

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Outstanding options and warrants to purchase common stock were considered in the computation of diluted earnings per share for the periods presented. Stock options for 256,130 and 266,530 shares of common stock were not included in computing diluted earnings per share for the three and nine months ended September 30, 2013 and 2012 respectively because their effects were anti-dilutive. Warrants for 499,029 shares of common stock were not included in computing earnings per share in 2013 and 2012 because their effects were also anti-dilutive.

## Note 4 – Investment securities available for sale

At September 30, 2013 and December 31, 2012, all of our securities were classified as available for sale. The following table presents the composition of our investment portfolio at the dates indicated (dollars in thousands).

	Par Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Average Yield	
September 30, 2013							
US Treasury							
Five to ten years	\$8,000	\$7,820	\$-	\$(408)	\$7,412	2.13	%
Total	8,000	7,820	-	(408)	7,412	2.13	%
US Government Agencies							
One to Five years	3,000	2,006	-	(67)	1,939	0.85	%
Five to ten years	30,625	33,777	-	(2,486)	31,291	1.77	%
More than ten years	2,000	1,982	-	(210)	1,772	2.22	%
Total	35,625	37,765	-	(2,763)	35,002	1.74	%
Mortgage-backed securities							
More than ten years	2,979	2,997	5	(31)	2,971	2.08	%
Total	2,979	2,997	5	(31)	2,971	2.08	%
Municipals							
Five to ten years	6,155	6,706	-	(581)	6,125	2.72	%
More than ten years	6,780	8,452	-	(849)	7,603	3.34	%
Total	12,935	15,158	-	(1,430)	13,728	3.06	%
Total investment securities	\$59,539	\$63,740	\$5	\$(4,632)	\$59,113	2.11	%
December 31, 2012							
US Government Agencies							
More than ten years	\$10,500	\$11,394	\$8	\$(15)	\$11,387	2.27	%
Total	10,500	11,394	8	(15)	11,387	2.27	%
Mortgage-backed securities							
More than ten years	1,744	1,830	1	(2)	1,829	0.97	%
Total	1,744	1,830	1	(2)	1,829	0.97	%
Municipals							
One to five years	1,000	1,100	-	(22)	1,078	3.25	%
Five to ten years	3,500	4,031	-	(47)	3,984	2.29	%
More than ten years	5,280	6,908	10	(42)	6,876	2.70	%
Total	9,780	12,039	10	(111)	11,938	2.61	%
Total investment securities	\$22,024	\$25,263	\$19	\$(128)	\$25,154	2.34	%



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Investment securities available for sale that have an unrealized loss position at September 30, 2013 and December 31, 2012 are detailed below (dollars in thousands).

	Securities in a loss Position for less than 12 Months		Securities in a loss Position for more than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value (Loss)	Unrealized Losses	Fair Value	Unrealized Losses
September 30, 2013						
Investment securities available for sale						
US Treasuries	\$42,414	\$(3,171)	) \$-	\$-	\$42,414	\$(3,171)
Municipals	11,125	(1,243)	) 2,603	(187)	13,728	(1,430)
Mortgage-backed securities	1,929	(30)	) 149	(1)	2,078	(31)
Total	\$55,468	\$(4,444)	) \$2,752	\$(188)	\$58,220	\$(4,632)
December 31, 2012						
Investment securities available for sale						
US Treasuries	\$4,378	\$(15)	) \$-	\$-	\$4,378	\$(15)
Municipals	8,064	(111)	) -	-	8,064	(111)
Mortgage-backed securities	167	(2)	) -	-	167	(2)
Total	\$12,609	\$(128)	) \$-	\$-	\$12,609	\$(128)

Management does not believe that any individual unrealized loss as of September 30, 2013 and December 31, 2012 is other than a temporary impairment. These unrealized losses are attributable to changes in interest rates. As of September 30, 2013, management does not have the intent to sell any of the securities classified as available for sale and management believes that it is more likely than not that the Company will not have to sell any such securities before a recovery of cost.

## Note 5 – Loans and allowance for loan losses

The following table presents the composition of our loan portfolio (excluding mortgage loans held for sale) at the dates indicated (dollars in thousands).

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	September 30, 2013		December 31, 2012			
	Amount	%	Amount	%		
Construction and land development						
Residential	\$3,597,711	1.19	%	\$2,845,594	0.80	%
Commercial	31,516,394	10.40	%	41,209,831	11.61	%
Total construction and land development	35,114,105	11.59	%	44,055,425	12.41	%
Commercial real estate						
Farmland	1,919,288	0.63	%	2,581,297	0.73	%
Commercial real estate - owner occupied	72,494,729	23.93	%	92,772,532	26.14	%
Commercial real estate - non-owner occupied	46,758,475	15.43	%	54,550,817	15.37	%
Multifamily	11,593,977	3.83	%	7,978,389	2.25	%
Total commercial real estate	132,766,469	43.82	%	157,883,035	44.49	%
Consumer real estate						
Home equity lines	21,855,368	7.22	%	25,521,397	7.19	%
Secured by 1-4 family residential, secured by first deeds of trust	71,935,655	23.74	%	80,788,425	22.76	%
Secured by 1-4 family residential, secured by second deeds of trust	8,784,143	2.89	%	9,517,245	2.68	%
Total consumer real estate	102,575,166	33.85	%	115,827,067	32.63	%
Commercial and industrial loans (except those secured by real estate)	30,374,673	10.02	%	34,384,117	9.69	%
Consumer and other	2,171,414	0.72	%	2,760,622	0.78	%
Total loans	303,001,827	100.0	%	354,910,266	100.0	%
Deferred loan cost (unearned income), net	690,947			787,823		
Less: Allowance for loan losses	(8,627,944 )			(10,807,827 )		
	\$295,064,830			\$344,890,262		

The Company assigns risk rating classifications to its loans. These risk ratings are divided into the following groups:

- Risk rated 1 to 4 loans are considered of sufficient quality to preclude an adverse rating. 1-4 assets generally are well protected by the current net worth and paying capacity of the obligor or by the value of the asset or underlying collateral;
  - Risk rated 5 loans are defined as having potential weaknesses that deserve management's close attention;
- Risk rated 6 loans are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any, and;
- Risk rated 7 loans have all the weaknesses inherent in risk rated 6 loans, with the added characteristics that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable.

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The following tables provide information on the risk rating of loans at the dates indicated:

	September 30, 2013				Total Loans
	Risk Rated 1-4	Risk Rated 5	Risk Rated 6	Risk Rated 7	
Construction and land development					
Residential	\$3,387,941	\$209,770	\$-	\$-	\$3,597,711
Commercial	18,872,141	2,183,558	10,078,612	382,083	31,516,394
Total construction and land development	22,260,082	2,393,328	10,078,612	382,083	35,114,105
Commercial real estate					
Farmland	1,354,495	-	-	564,793	1,919,288
Commercial real estate - owner occupied	51,567,488	12,927,673	7,999,568	-	72,494,729
Commercial real estate - non-owner occupied	30,214,409	6,185,443	10,358,623	-	46,758,475
Multifamily	10,002,231	1,591,746	-	-	11,593,977
Total commercial real estate	93,138,623	20,704,862	18,358,191	564,793	132,766,469
Consumer real estate					
Home equity lines	17,921,068	874,579	3,059,721	-	21,855,368
Secured by 1-4 family residential, secured by first deeds of trust	49,204,650	7,427,413	15,303,592	-	71,935,655
Secured by 1-4 family residential, secured by second deeds of trust	6,541,571	213,540	2,029,032	-	8,784,143
Total consumer real estate	73,667,289	8,515,532	20,392,345	-	102,575,166
Commercial and industrial loans (except those secured by real estate)	21,984,571	3,594,882	4,795,220	-	30,374,673
Consumer and other	1,910,429	141,552	119,433	-	2,171,414
<b>Total Loans</b>	<b>\$212,960,994</b>	<b>\$35,350,156</b>	<b>\$53,743,801</b>	<b>\$946,876</b>	<b>\$303,001,827</b>

	December 31, 2012				Total Loans
	Risk Rated 1-4	Risk Rated 5	Risk Rated 6	Risk Rated 7	
Construction and land development:					
Residential	\$2,173,885	\$671,709	\$-	\$-	\$2,845,594
Commercial	17,638,646	7,496,950	16,074,235	-	41,209,831
Total construction and land development	19,812,531	8,168,659	16,074,235	-	44,055,425
Commercial real estate:					
Farmland	1,531,808	-	1,049,489	-	2,581,297
Commercial real estate - owner occupied	63,772,277	19,273,229	9,727,026	-	92,772,532
Commercial real estate - non-owner occupied	24,199,053	15,671,633	14,170,546	509,585	54,550,817
Multifamily	5,438,427	1,739,283	800,679	-	7,978,389
Total commercial real estate	94,941,565	36,684,145	25,747,740	509,585	157,883,035

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Consumer real estate:					
Home equity lines	20,180,206	2,015,248	3,325,943	-	25,521,397
Secured by 1-4 family residential, secured by first deeds of trust	49,659,724	11,235,261	19,893,440	-	80,788,425
Secured by 1-4 family residential, secured by second deeds of trust	7,385,394	342,770	1,789,081	-	9,517,245
Total consumer real estate	77,225,324	13,593,279	25,008,464	-	115,827,067
Commercial and industrial loans (except those secured by real estate)	26,712,028	2,590,735	5,081,354	-	34,384,117
Consumer and other	2,446,304	261,140	53,178	-	2,760,622
 Total Loans	 \$221,137,752	 \$61,297,958	 \$71,964,971	 \$509,585	 \$354,910,266

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The following table presents the aging of the recorded investment in past due loans and leases as of the dates indicated:

	September 30, 2013						Recorded Investment > 90 Days and Accruing
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans	
Construction and land development							
Residential	\$ -	\$ -	\$ -	\$ -	\$ 3,597,711	\$ 3,597,711	\$ -
Commercial	2,143	-	-	2,143	31,514,251	31,516,394	-
Total							
construction and land development	2,143	-	-	2,143	35,111,962	35,114,105	-
Commercial real estate							
Farmland	-	-	-	-	1,919,288	1,919,288	-
Commercial real estate - owner occupied	-	-	-	-	72,494,729	72,494,729	-
Commercial real estate - non-owner occupied	-	-	-	-	46,758,475	46,758,475	-
Multifamily	222,558	-	-	222,558	11,371,419	11,593,977	-
Total							
commercial real estate	222,558	-	-	222,558	132,543,911	132,766,469	-
Consumer real estate							
Home equity lines	49,990	25,000	-	74,990	21,780,378	21,855,368	-
Secured by 1-4 family residential, secured by first deeds of trust	950,426	347,350	-	1,297,776	70,637,879	71,935,655	-
Secured by 1-4 family residential, secured by second deeds of	58,071	-	-	58,071	8,726,072	8,784,143	-

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trust							
Total consumer real estate	1,058,487	372,350	-	1,430,837	101,144,329	102,575,166	-
Commercial and industrial loans (except those secured by real estate)	2,529,797	-	-	2,529,797	27,844,876	30,374,673	-
Consumer and other	5,085	970	-	6,055	2,165,359	2,171,414	-
Total loans	\$ 3,818,070	\$ 373,320	\$ -	\$ 4,191,390	\$ 298,810,437	\$ 303,001,827	\$ -

December 31, 2012

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days and Accruing
Construction and land development:							
Residential	\$ -	\$ -	\$ -	\$ -	\$ 2,845,594	\$ 2,845,594	\$ -
Commercial	76,351	10,709	-	87,060	41,122,771	41,209,831	-
Total construction and land development	76,351	10,709	-	87,060	43,968,365	44,055,425	-
Commercial real estate:							
Farmland	-	-	-	-	2,581,297	2,581,297	-
Commercial real estate - owner occupied	708,278	377,563	-	1,085,841	91,686,691	92,772,532	-
Commercial real estate - non-owner occupied	1,094,906	714,655	-	1,809,561	52,741,256	54,550,817	-
Multifamily	-	-	-	-	7,978,389	7,978,389	-
Total commercial real estate	1,803,184	1,092,218	-	2,895,402	154,987,633	157,883,035	-
Consumer real estate:	110,614	24,746	16,130	151,490	25,369,907	25,521,397	16,130



Home equity lines							
Secured by 1-4 family residential, secured by first deeds of trust	645,807	1,507,073	-	2,152,880	78,635,545	80,788,425	-
Secured by 1-4 family residential, secured by second deeds of trust	157,816	50,016	50,000	257,832	9,259,413	9,517,245	50,000
Total consumer real estate	914,237	1,581,835	66,130	2,562,202	113,264,865	115,827,067	66,130
Commercial and industrial loans (except those secured by real estate)	40,171	31,057	49,139	120,367	34,263,750	34,384,117	49,139
Consumer and other	4,286	36,030	-	40,316	2,720,306	2,760,622	-
Total Loans	\$ 2,838,229	\$ 2,751,849	\$ 115,269	\$ 5,705,347	\$ 349,204,919	\$ 354,910,266	\$ 115,269

Loans are considered impaired when, based on current information and events it is probable the Company will be unable to collect all amounts due in accordance with the original contractual terms of the loan agreement, including scheduled principal and interest payments. Loans evaluated individually for impairment include non-performing loans, such as loans on non-accrual, loans past due by 90 days or more, restructured loans and other loans selected by management. The evaluations are based upon discounted expected cash flows or collateral valuations. If the evaluation shows that a loan is individually impaired, then a specific reserve is established for the amount of impairment. Impairment is evaluated in total for smaller-balance loans of a similar nature and on an individual loan basis for other loans. If a loan is impaired, a specific valuation allowance is allocated, if necessary, so that the loan is reported net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Interest payments on impaired loans are typically applied to principal unless collectability of the principal amount is reasonably assured, in which case interest is recognized on a cash basis. Impaired loans, or portions thereof, are charged off when deemed uncollectible. Impaired loans are set forth in the following table as of the dates indicated

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September 30, 2013

	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded			
Construction and land development			
Commercial	\$5,239,636	\$7,416,295	\$-
Total construction and land development	5,239,636	7,416,295	-
Commercial real estate			
Commercial real estate - owner occupied	11,142,720	11,425,337	-
Commercial real estate - non-owner occupied	11,188,393	11,386,393	-
Multifamily	2,385,796	2,385,796	-
Total commercial real estate	24,716,909	25,197,526	-
Consumer real estate			
Home equity lines	1,093,103	1,191,959	-
Secured by 1-4 family residential, secured by first deeds of trust	12,875,639	13,477,859	-
Secured by 1-4 family residential, secured by second deeds of trust	973,479	1,143,136	-
Total consumer real estate	14,942,221	15,812,954	-
Commercial and industrial loans (except those secured by real estate)	468,908	745,448	-
Consumer and other	93,876	93,876	-
	45,461,550	49,266,099	-
With an allowance recorded			
Construction and land development:			
Commercial	1,458,303	1,458,303	219,633
Total construction and land development	1,458,303	1,458,303	219,633
Commercial real estate:			
Farmland	564,793	1,012,793	448,000
Commercial real estate - non-owner occupied	1,084,608	1,084,608	251,108
Total commercial real estate	1,649,401	2,097,401	699,108
Consumer real estate:			
Secured by 1-4 family residential, secured by first deeds of trust	1,843,732	1,843,732	353,313
Secured by 1-4 family residential, secured by second deeds of trust	133,335	133,335	33,307
Total consumer real estate	1,977,067	1,977,067	386,620
Commercial and industrial loans (except those secured by real estate)	416,765	416,765	233,611
Consumer and other	-	-	-
	5,501,536	5,949,536	1,538,972
Total			
Construction and land development			
Commercial	6,697,939	8,874,598	219,633
Total construction and land development	6,697,939	8,874,598	219,633

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Commercial real estate			
Farmland	564,793	1,012,793	448,000
Commercial real estate - owner occupied	11,142,720	11,425,337	-
Commercial real estate - non-owner occupied	12,273,001	12,471,001	251,108
Multifamily	2,385,796	2,385,796	-
Total commercial real estate	26,366,310	27,294,927	699,108
Consumer real estate			
Home equity lines	1,093,103	1,191,959	-
Secured by 1-4 family residential, secured by first deeds of trust	14,719,371	15,321,591	353,313
Secured by 1-4 family residential, secured by second deeds of trust	1,106,814	1,276,471	33,307
Total consumer real estate	16,919,288	17,790,021	386,620
Commercial and industrial loans (except those secured by real estate)	885,673	1,162,213	233,611
Consumer and other	93,876	93,876	-
	\$50,963,086	\$55,215,635	\$1,538,972

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	December 31, 2012		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded			
Construction and land development			
Commercial	\$8,254,440	\$13,625,670	\$-
Total construction and land development	8,254,440	13,625,670	-
Commercial real estate			
Farmland	1,049,489	1,049,489	-
Commercial real estate - owner occupied	8,250,071	8,715,684	-
Commercial real estate - non-owner occupied	13,777,787	14,124,016	-
Multifamily	2,825,274	2,825,274	-
Total commercial real estate	25,902,621	26,714,463	-
Consumer real estate			
Home equity lines	1,939,020	1,938,005	-
Secured by 1-4 family residential, secured by first deeds of trust	10,686,435	10,928,024	-
Secured by 1-4 family residential, secured by second deeds of trust	601,805	861,158	-
Total consumer real estate	13,227,260	13,727,187	-
Commercial and industrial loans (except those secured by real estate)	858,136	1,421,196	-
Consumer and other	50,415	50,390	-
	48,292,872	55,538,906	-
With an allowance recorded			
Construction and land development			
Commercial	430,828	430,828	62,643
Total construction and land development	430,828	430,828	62,643
Commercial real estate:			
Farmland			
Commercial real estate - owner occupied	2,940,647	3,261,584	663,330
Commercial real estate - non-owner occupied	1,434,195	1,434,195	508,704
Multifamily	-	-	-
Total commercial real estate	4,374,842	4,695,779	1,172,034
Consumer real estate:			
Home equity lines	-	-	-
Secured by 1-4 family residential, secured by first deeds of trust	1,155,027	1,155,027	20,896
Secured by 1-4 family residential, secured by second deeds of trust	338,345	386,629	43,456
Total consumer real estate	1,493,372	1,541,656	64,352
Commercial and industrial loans (except those secured by real estate)	182,840	182,840	39,243
Consumer and other	-	-	-
	6,481,882	6,851,103	1,338,272

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Total			
Construction and land development			
Commercial	8,685,268	14,056,498	62,643
Total construction and land development	8,685,268	14,056,498	62,643
Commercial real estate			
Farmland	1,049,489	1,049,489	-
Commercial real estate - owner occupied	11,190,718	11,977,268	663,330
Commercial real estate - non-owner occupied	15,211,982	15,558,211	508,704
Multifamily	2,825,274	2,825,274	-
Total commercial real estate	30,277,463	31,410,242	1,172,034
Consumer real estate			
Home equity lines	1,939,020	1,938,005	-
Secured by 1-4 family residential, secured by first deeds of trust	11,841,462	12,083,051	20,896
Secured by 1-4 family residential, secured by second deeds of trust	940,150	1,247,787	43,456
Total consumer real estate	14,720,632	15,268,843	64,352
Commercial and industrial loans (except those secured by real estate)	1,040,976	1,604,036	39,243
Consumer and other	50,415	50,390	-
	\$54,774,754	\$62,390,009	\$1,338,272

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The following is a summary of average recorded investment in impaired loans with and without a valuation allowance and interest income recognized on those loans for the periods indicated:

	For the Three Months Ended September 30, 2013		For the Nine Months Ended September 30, 2013	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Impaired loans with no related allowance recorded				
Construction and land development				
Commercial	\$5,748,852			