

FLOYD, Va., Nov. 22, 2013 /PRNewswire/ -- Cardinal Bankshares Corporation (OTC: CDBK), parent company of Bank of Floyd, announced today its consolidated financial results for the third quarter of 2013 and reported a net loss of \$1.3 million  
, or  
\$0.88  
per share, for the quarter. The quarterly net loss represents an increase from the net loss of \$841 thousand  
, or  
\$0.55  
per share, reported for the quarter ended  
September 30  
, 2012. However, the Company's net loss for the nine-month period ended at that date of \$1.4 million  
represents a  
\$2.4 million  
improvement from the net loss of  
\$3.8 million  
incurred for the comparable period of 2012.

Michael Larrowe, President and Chief Executive Officer added, "Although not yet reflecting in financial results, our Board and Management remain confident in the positive direction of the Bank and the continued efforts to achieve our long-term goals. The Bank is delivering more services by way of additional delivery channels, improving efficiencies by leveraging technology, dealing with the remaining issues of legacy credits while maintaining strong capital levels and

continuing to build loan loss reserves."

Larrowe continued, "Fundamentally the Bank was later in the recent economic downturn to recognize credit losses from our borrowers' financial challenges than most of our peer institutions. And while improvement is happening, that delay combined with the expense associated with necessary systems and skills development undertaken by the Bank over the last 16 months has caused our financial results to improve more slowly than any of us would like."

### ***Financial Highlights***

Results for the three-month period ending September 30, 2013 included losses recognized on legacy credits of \$971 thousand, a deferred tax asset write-down of \$482 thousand and additions to general reserves of \$275 thousand

. Net interest income for the period increased an encouraging 26.0% over the comparable 2012 period as income from loans continues to increase while interest expense on deposits continues to decline. Capital remains well above required levels.

Net loss for the nine-month period ended September 30, 2013 was \$1.4 million compared to a net loss of \$3.8 million for the same period last year. Net loss per share was \$0.90 for the nine-month period ended September 30, 2013, compared to a net loss per share of \$2.49 for the same period last year.

Other highlights include:

- Total assets decreased by \$11.1 million from \$282.1 million at December 31, 2012 to \$27

1.0 million  
at  
September 30, 2013

- The net loss for the third quarter of 2013 was \$1.3 million, or \$0.88 per share, increasing from a net loss of \$841 thousand for the comparable quarter of 2012. The net loss of \$1.4 million for the nine-month period ending September 30, 2013 decreased by \$2.4 million from a net loss of \$3.8 million for the nine-months ended September 30, 2012

- Decreases in interest bearing deposits and investment securities of \$24.3 million were used to fund increases in loans of \$8.9 million or 6.9% over year-end balances and offset the decrease in total deposits of \$14.4 million or 5.7% over year-end balances.

- Total loans at September 30, 2013 were \$137.6 million, which is an increase of \$8.9 million from December 31, 2012

- An increase in noninterest-bearing deposits of \$3.0 million from December 31, 2012.  
- A decrease in higher cost interest-bearing deposits of \$17.4 million in the nine-month period helped to improve net interest margin.

- An increase in the third quarter 2013 provision for loan losses of \$274 thousand relative to the comparable period of 2012 as losses from legacy loans continue to work through the system.

- Noninterest expense increased \$113 thousand or 5.6% when compared to the prior year's third quarter. This resulted primarily from increased salaries and employee benefits associated with the addition of personnel in key positions.

- Income (loss) before income taxes improved over both the three and nine-month periods ended September 30, 2013 relative to the comparable periods from 2012. The loss before income taxes decreased by \$2 thousand and \$4.5 million in the three and nine-month periods, respectively.

- A write-down of the deferred tax asset of \$482 thousand was taken in the quarter ended September 30, 2013 and is reflected in the income tax expense (benefit) line of the Consolidated Statements of

Operations.

## Capital Levels

Both the Bank's and the Company's capital levels remain well above the regulatory well-capitalized ratios. The Company's consolidated Tier 1 risk-based and total risk-based capital ratios were 13.53% and 14.77%, respectively, at September 30, 2013, down from the 16.49% and 17.48% reported at December 31, 2012. The decline reported in capital ratios relates primarily to the increase in risk-weighted assets associated with increased loans.

## Nonperforming Assets

The Company's ratio of nonperforming assets as a percentage of total assets increased 35 basis points to 3.64% as compared to 3.29% one year earlier. Nonperforming assets increased \$675 thousand from \$9.2 million at September 30, 2012 to \$9.9 million at September 30, 2013.

Nonperforming assets at September 30, 2013 consisted of nonaccrual loans of \$4.3 million, foreclosed assets of \$3.9 million, and loans that were past due greater than 90 days and still accruing interest of \$1.7 million. Nonperforming assets at September 30, 2012 consisted of nonaccrual loans of \$547 thousand and foreclosed assets of \$8.7 million.

The Company recorded a provision for loan losses for the third quarter of 2013 of \$1.2 million, as compared to a provision of \$897 thousand

for the same period last year. Net charge-offs annualized as a percentage of average loans outstanding was 1.65% for the third quarter of 2013, compared to 7.05% for the same quarter in the prior year. Net charge-offs for the quarter ended September 30, 2013 were \$925 thousand, in comparison to \$2.5 million for the same quarter one year ago.

The ratio of allowance for loan losses as a percentage of total loans increased from 1.26% at September 30, 2012 to 1.53% at September 30, 2013. The increase in the allowance from September 30, 2012 is primarily due to the addition of \$700 thousand added to the allowance in the form of general reserves. At September 30, 2013, the Company's total reserves amounted to \$2.1 million, all of which were general reserves to cover estimated losses in the portfolio and none of which are allocated to specific credits.

## Financial Position

At September 30, 2013, the Company's total assets were \$271.0 million, total deposits were \$237.8 million, total loans stood at \$137.6 million and total stockholders' equity was \$23.9 million. Compared with December 31, 2012, the Company's total assets decreased \$11.1 million or 3.9% while total loans increased \$8.9 million. A shift in the mix of interest-earning assets funded the increase in loans.

Total deposits decreased by \$14.4 million or 5.7%, while new advances of \$8.0 million were drawn on the Federal Home Loan Bank of Atlanta during the first nine months of 2013. This shift allowed the Bank to reduce its cost of funds, as rates paid on these borrowings are lower than rates paid on most deposits.

Rising interest rates created an unrealized loss in the investment portfolio that was recognized as a decrease to equity in the amount of \$3.1 million at September 30, 2013. Dividends paid of \$154 thousand and net loss of \$1.4 million account for the remaining reduction to equity for a total decrease in equity of \$4.7 million for the period ending September 30, 2013.

### **Net Interest Income**

The Company's net interest income was \$1.7 million for the three months ended September 30, 2013, an increase of \$361 thousand or 26.0% compared to same period last year. The increase is a result of interest income from new loan originations combined with lower-costs on deposits and debt.

### **Noninterest Income**

Noninterest income increased \$28 thousand for the three-month period ended September 30, 2013, compared to the same period last year, from \$152 thousand to \$180 thousand.

## Noninterest Expense

Noninterest expense for the third quarter of 2013 totaled \$2.1 million, up \$113 thousand or 5.6% as compared to the quarter ended September 30, 2012

Larrowe commented further, "The rapid change in technology and the costs of an ever increasing regulatory burden require more resources to adapt in the short-term while also requiring us to take advantage of available efficiencies over the longer-term. Although these changes are difficult, we are working through those as quickly as possible after much deliberate consideration of the needs of the Bank, its customers, its employees, and long-term shareholder reward.

## Forward Looking Statements

*Information in this press release contains "forward-looking statements." These statements involve risks and uncertainties that could cause actual results to differ materially, including without limitation, the effects of future economic conditions, governmental fiscal and monetary policies, legislative and regulatory changes, the risks of changes in interest rates and the effects of competition.*

## Consolidated Balance Sheets

*(in thousands, except share data)*

# Cardinal Bankshares Corporation Reports Results For the Quarter ended September 30, 2013

Written by Australian Business

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**September 30,**

**December 31,**

**2013**

**2012**

**Assets**

Cash and due from banks

\$ 3,378

\$ 3,069

Interest-bearing deposits in banks

6,808

14,600

Investment securities, available for sale

101,001

106,576

Investment securities, held to maturity

-

11,380

Restricted equity securities

1,179

693

Total loans

137,567

# Cardinal Bankshares Corporation Reports Results For the Quarter ended September 30, 2013

Written by Australian Business

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128,635

Allowance for loan losses

(2,102)

(1,514)

Net loans

135,465

127,121

Bank premises and equipment, net

4,157

3,385

Accrued interest receivable

# Cardinal Bankshares Corporation Reports Results For the Quarter ended September 30, 2013

Written by Australian Business

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808

938

Foreclosed assets

3,902

2,763

Bank owned life insurance

6,529

6,401

Deferred tax asset

5,592

3,681

Accrued taxes receivable

20

-

Other assets

2,207

1,505

Total assets

\$ 271,046

\$ 282,112

**Liabilities and Stockholders' Equity**

***Liabilities***

Noninterest-bearing deposits

\$ 37,545

\$ 34,555

Interest-bearing deposits

200,238

217,613

Total deposits

237,783

252,168

Accrued interest payable

# Cardinal Bankshares Corporation Reports Results For the Quarter ended September 30, 2013

Written by Australian Business

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68

81

FHLB Advances

8,000

-

Other liabilities

1,341

1,325

Total liabilities

247,192

253,574

**Stockholders' Equity**

Common stock, \$10 par value; 5,000,000 shares authorized; 1,535,733 shares issued and outstanding

15,357

15,357

Additional paid-in capital

2,925

2,925

Retained earnings

8,285

9,826

Accumulated other comprehensive income

# Cardinal Bankshares Corporation Reports Results For the Quarter ended September 30, 2013

Written by Australian Business

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(2,713)

430

Total stockholders' equity

23,854

28,538

Total liabilities and stockholders' equity

\$ 271,046

\$ 282,112

**Consolidated Statements of Operations**

# Cardinal Bankshares Corporation Reports Results For the Quarter ended September 30, 2013

Written by Australian Business

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(in thousands, except share data)

Three Months Ended September 30, 2013

Nine Months Ended September 30,

2013

2012

2013

2012

Interest and dividend income

Loans and fees on loans

\$ 1,782

\$ 1,577

# Cardinal Bankshares Corporation Reports Results For the Quarter ended September 30, 2013

Written by Australian Business

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\$ 5,354

\$ 4,974

Federal funds sold

-

1

-

22

Investment securities

509

553

1,613

# Cardinal Bankshares Corporation Reports Results For the Quarter ended September 30, 2013

Written by Australian Business

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1,687

Dividend income

9

5

18

15

Deposits with banks

5

27

21

29

Total interest income

2,305

2,163

7,006

6,727

***Interest expense***

Deposits

553

777

1,745

2,361

# Cardinal Bankshares Corporation Reports Results For the Quarter ended September 30, 2013

Written by Australian Business

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Borrowings

5

-

11

-

Total interest expense

558

777

1,756

2,361

Net interest income

# Cardinal Bankshares Corporation Reports Results For the Quarter ended September 30, 2013

Written by Australian Business

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1,747

1,386

5,250

4,366

**Provision for loan losses**

1,171

897

2,289

4,885

Net interest income after provision for loan losses

576

489

2,961

(519)

***Noninterest income***

Service charges on deposit accounts

50

46

132

133

Other service charges and fees

32

# Cardinal Bankshares Corporation Reports Results For the Quarter ended September 30, 2013

Written by Australian Business

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30

84

89

Net realized gains on sales of securities

(1)

1

813

27

Income on bank owned life insurance

40

47

# Cardinal Bankshares Corporation Reports Results For the Quarter ended September 30, 2013

Written by Australian Business

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128

132

Other income

59

28

125

100

Total noninterest income

180

152

1,282

481

**Noninterest expense**

Salaries and employee benefits

1,104

884

3,226

3,084

Occupancy and equipment

259

306

670

620

Legal and professional

186

109

433

614

Data processing services

111

64

276

188

FDIC insurance premiums

78

91

262

258

Foreclosed assets, net

79

114

275

502

Other operating expense

# Cardinal Bankshares Corporation Reports Results For the Quarter ended September 30, 2013

Written by Australian Business

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308

444

777

839

Total noninterest expense

2,125

2,012

5,919

6,105

Income (loss) before income taxes

(1,369)

# Cardinal Bankshares Corporation Reports Results For the Quarter ended September 30, 2013

Written by Australian Business

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(1,371)

(1,676)

(6,143)

Income tax expense (benefit)

(25)

(530)

(289)

(2,317)

**Net income (loss)** □ □ □ □

\$ (1,344)

\$ (841)

# Cardinal Bankshares Corporation Reports Results For the Quarter ended September 30, 2013

Written by Australian Business

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\$ (1,387)

\$ (3,826)

**Basic earnings (loss) per share**

\$ (0.88)

\$ (0.55)

\$ (0.90)

\$ (2.49)

**Cardinal Bankshares Corporation**

**Financial Highlights ( *Unaudited* )**

*(in thousands)*

**Three Months Ended**

**Nine Months Ended**

**September 30, 2013**

**September30, 2012**

**September30, 2013**

**September30, 2012**

**Per Share**

Earnings per share, basic and diluted

\$ (0.88)

\$ (0.55)

\$ (0.90)

\$ (2.49)

Book value as of September 30, 2013

\$ 15.53

\$ 19.50

### Financial Ratios

Annualized Return on Average Assets

-1.93%

-1.13%

-0.66%

-1.88%

Annualized Return on Average Equity

-21.61%

-10.45%

-6.92%

-15.96%

Annualized Net Interest Margin for the period ended

2.69%

2.77%

2.72%

2.60%

Efficiency Ratio            2

106.12%

223.77%

98.67%

222.94%

**as of September 30,**

**2013**

**2012**

### **Capital Ratios**

Tier 1 risk-based capital - Bank only

12.18%

14.76%

Total risk-based capital - Bank only

13.35%

15.66%

Tier 1 risk-based capital - consolidated

13.53%

18.42%

Total risk-based capital - consolidated

14.77%

19.40%

**Three Months Ended**

**Nine Months Ended**

**September30, 2013**

**September30, 2012**

**September30, 2013**

**September 30, 2012**

**Allowance for Loan Losses at Beginning of Period**

\$ 1,889

\$ 2,998

\$ 1,514

\$ 2,867

Loans Charged-off, net of Recoveries

(925)

(2,511)

(1,668)

(6,368)

Provision for Loan Losses

1,138

897

2,256

4,885

**Allowance for Loan Losses at End of Period**

\$ 2,102

\$ 1,384

\$ 2,102

\$ 1,384

**as of September 30,**

**Credit Quality Ratios**

**2013**

**2012**

Nonperforming Assets as a % of Total Assets

3.64%

3.29%

Total Allowance for Loan Losses as a % of Total Loans

1.53%

1.26%

Total Allowance for Loan Losses as a % of Nonperforming Loans

35.17%

253.02%

Annualized Net Charge-offs as a % of Average Loans

1.65%

7.05%

## **Nonperforming Assets**

Nonaccrual Loans

\$ 4,321

\$ 547

Loans Past Due 90 Days+, still accruing

1,656

-

***Total Nonperforming Loans***

5,977

547

Other Real Estate Owned

3,902

8,657

## Total Nonperforming Assets

\$ 9,879

\$ 9,204

<sup>1</sup> Net interest margin equals net interest income divided by interest-earning average

<sup>2</sup> Efficiency ratio equals noninterest expense (excluding OREO valuations and OF

For Further Information Contact:

Michael D. Larowe, President and Chief Executive Officer Alan Dickerson, Chief Financial Officer (540) 745-4191

SOURCE Cardinal Bankshares Corporation