

AMERICAN NATIONAL BANKSHARES INC.
Form 10-Q
November 07, 2016
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED September 30, 2016.

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: 0-12820

AMERICAN NATIONAL BANKSHARES INC.
(Exact name of registrant as specified in its charter)

VIRGINIA 54-1284688
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

628 Main Street
Danville, Virginia 24541
(Address of principal executive offices) (Zip Code)

(434) 792-5111
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months.

Yes 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

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

At November 2, 2016, the Company had 8,615,473 shares of Common Stock outstanding, \$1 par value.

AMERICAN NATIONAL BANKSHARES INC.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

American National Bankshares Inc.

Consolidated Balance Sheets

(Dollars in thousands, except per share data)

	(Unaudited)	(*)
	September 30,	December 31,
	2016	2015
Assets		
Cash and due from banks	\$ 37,679	\$ 19,352
Interest-bearing deposits in other banks	35,138	75,985
Securities available for sale, at fair value	351,439	340,349
Restricted stock, at cost	6,006	5,312
Loans held for sale	4,776	3,266
Loans, net of unearned income	1,083,201	1,005,525
Less allowance for loan losses	(12,757)	(12,601)
Net loans	1,070,444	992,924
Premises and equipment, net	22,846	23,567
Other real estate owned, net of valuation allowance \$134 in 2016 and \$329 in 2015	1,145	2,184
Goodwill	43,872	43,872
Core deposit intangibles, net	1,894	2,683
Bank owned life insurance	17,998	17,658
Accrued interest receivable and other assets	22,297	20,447
Total assets	\$ 1,615,534	\$ 1,547,599
Liabilities		
Demand deposits -- noninterest bearing	\$ 339,797	\$ 322,442
Demand deposits -- interest bearing	196,696	227,030
Money market deposits	255,748	200,495
Savings deposits	119,476	115,383
Time deposits	394,291	397,310
Total deposits	1,306,008	1,262,660
Customer repurchase agreements	44,090	40,611
Other short-term borrowings	15,000	—
Long-term borrowings	9,974	9,958
Junior subordinated debt	27,698	27,622
Accrued interest payable and other liabilities	9,051	8,913
Total liabilities	1,411,821	1,349,764
Shareholders' equity		
Preferred stock, \$5 par, 2,000,000 shares authorized, none outstanding	—	—
Common stock, \$1 par, 20,000,000 shares authorized, 8,610,741 shares outstanding at September 30, 2016 and 8,622,007 shares outstanding at December 31, 2015	8,573	8,605
Capital in excess of par value	74,839	75,375
Retained earnings	117,543	111,565

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Accumulated other comprehensive income, net	2,758	2,290
Total shareholders' equity	203,713	197,835
Total liabilities and shareholders' equity	\$ 1,615,534	\$ 1,547,599

(*) - Derived from audited consolidated financial statements.

The accompanying notes are an integral part of the consolidated financial statements.

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American National Bankshares Inc.
Consolidated Statements of Income

(Dollars in thousands, except share and per share data) (Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Interest and Dividend Income:				
Interest and fees on loans	\$12,032	\$11,474	\$35,789	\$35,011
Interest on federal funds sold	—	1	—	6
Interest and dividends on securities:				
Taxable	1,112	1,052	3,346	3,021
Tax-exempt	767	899	2,407	2,799
Dividends	74	91	258	258
Other interest income	78	25	203	123
Total interest and dividend income	14,063	13,542	42,003	41,218
Interest Expense:				
Interest on deposits	1,291	1,205	3,902	3,583
Interest on short-term borrowings	4	2	6	7
Interest on long-term borrowings	81	82	243	243
Interest on junior subordinated debt	223	192	644	564
Total interest expense	1,599	1,481	4,795	4,397
Net Interest Income	12,464	12,061	37,208	36,821
Provision for Loan Losses	100	—	200	700
Net Interest Income After Provision for Loan Losses	12,364	12,061	37,008	36,121
Noninterest Income:				
Trust fees	938	1,006	2,829	2,963
Service charges on deposit accounts	514	521	1,520	1,543
Other fees and commissions	663	592	1,991	1,787
Mortgage banking income	512	376	1,169	987
Securities gains, net	73	6	661	553
Brokerage fees	209	255	636	681
Income from Small Business Investment Companies	—	99	238	427
Other	211	200	740	528
Total noninterest income	3,120	3,055	9,784	9,469
Noninterest Expense:				
Salaries	4,626	4,179	12,872	12,634
Employee benefits	1,034	1,029	3,203	3,215
Occupancy and equipment	1,004	1,094	3,162	3,290
FDIC assessment	138	185	519	565
Bank franchise tax	257	220	769	675
Core deposit intangible amortization	213	300	789	901
Data processing	437	366	1,340	1,311
Software	301	290	872	850
Other real estate owned, net	105	(126)	314	60
Merger related expense	—	87	—	1,948
Other	1,752	1,764	5,601	5,628
Total noninterest expense	9,867	9,388	29,441	31,077
Income Before Income Taxes	5,617	5,728	17,351	14,513

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Income Taxes	1,654	1,691	5,172	4,081
Net Income	\$3,963	\$4,037	\$12,179	\$10,432
Net Income Per Common Share:				
Basic	\$0.46	\$0.47	\$1.41	\$1.20
Diluted	\$0.46	\$0.47	\$1.41	\$1.20
Average Common Shares Outstanding:				
Basic	8,608,323	8,668,618	8,610,100	8,698,394
Diluted	8,618,333	8,676,571	8,618,386	8,706,870

The accompanying notes are an integral part of the consolidated financial statements.

American National Bankshares Inc.
 Consolidated Statements of Comprehensive Income
 (Dollars in thousands) (Unaudited)

	Three Months Ended September 30,	
	2016	2015
Net income	\$3,963	\$4,037
Other comprehensive income (loss):		
Unrealized gains (losses) on securities available for sale	(1,424)	1,365
Tax effect	499	(478)
Reclassification adjustment for gains on sales of securities	(73)	(6)
Tax effect	25	3
Other comprehensive income (loss)	(973)	884
Comprehensive income	\$2,990	\$4,921

American National Bankshares Inc.
 Consolidated Statements of Comprehensive Income
 (Dollars in thousands) (Unaudited)

	Nine Months Ended September 30,	
	2016	2015
Net income	\$12,179	\$10,432
Other comprehensive income (loss):		
Unrealized gains (losses) on securities available for sale	1,381	(29)
Tax effect	(483)	10
Reclassification adjustment for gains on sales of securities	(661)	(553)
Tax effect	231	194
Other comprehensive income (loss)	468	(378)
Comprehensive income	\$12,647	\$10,054

The accompanying notes are an integral part of the consolidated financial statements.

American National Bankshares Inc.
 Consolidated Statements of Changes in Shareholders' Equity
 (Dollars in thousands, except per share data) (Unaudited)

	Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income	Total Shareholders' Equity
Balance, December 31, 2014	\$ 7,872	\$ 57,650	\$ 104,594	\$ 3,664	\$ 173,780
Net income	—	—	10,432	—	10,432
Other comprehensive loss	—	—	—	(378)	(378)
Issuance of common stock (825,586 shares)	826	19,657	—	—	20,483
Stock repurchased (121,636 shares)	(122)	(2,686)	—	—	(2,808)
Stock options exercised (22,074 shares)	22	377	—	—	399
Equity based compensation (30,831 shares)	13	526	—	—	539
Cash dividends paid, \$0.69 per share	—	—	(5,996)	—	(5,996)
Balance, September 30, 2015	\$ 8,611	\$ 75,524	\$ 109,030	\$ 3,286	\$ 196,451
Balance, December 31, 2015	\$ 8,605	\$ 75,375	\$ 111,565	\$ 2,290	\$ 197,835
Net income	—	—	12,179	—	12,179
Other comprehensive income	—	—	—	468	468
Stock repurchased (51,384 shares)	(51)	(1,241)	—	—	(1,292)
Stock options exercised (4,134 shares)	4	97	—	—	101
Vesting of restricted stock (5,510 shares)	5	(5)	—	—	—
Equity based compensation (35,984 shares)	10	613	—	—	623
Cash dividends paid, \$0.72 per share	—	—	(6,201)	—	(6,201)
Balance, September 30, 2016	\$ 8,573	\$ 74,839	\$ 117,543	\$ 2,758	\$ 203,713

The accompanying notes are an integral part of the consolidated financial statements.

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American National Bankshares Inc.
 Consolidated Statements of Cash Flows
 (Dollars in thousands) (Unaudited)

	Nine Months Ended September 30,	
	2016	2015
Cash Flows from Operating Activities:		
Net income	\$12,179	\$10,432
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	200	700
Depreciation	1,409	1,357
Net accretion of acquisition accounting adjustments	(1,709)	(2,503)
Core deposit intangible amortization	789	901
Net amortization of securities	2,034	2,062
Net gains on sale or call of securities	(661)	(553)
Gain on sale of loans held for sale	(906)	(771)
Proceeds from sales of loans held for sale	53,266	42,691
Originations of loans held for sale	(53,870)	(44,302)
Net loss (gain) on other real estate owned	72	(199)
Valuation allowance on other real estate owned	156	86
Net loss on sale of premises and equipment	9	5
Equity based compensation expense	623	539
Net change in bank owned life insurance	(340)	(343)
Deferred income tax (benefit) expense	(1,596)	1,482
Net change in interest receivable	(458)	491
Net change in other assets	(211)	107
Net change in interest payable	(18)	3
Net change in other liabilities	156	(606)
Net cash provided by operating activities	11,124	11,579
Cash Flows from Investing Activities:		
Proceeds from sales of securities available for sale	9,317	7,429
Proceeds from maturities, calls and paydowns of securities available for sale	116,254	70,759
Purchases of securities available for sale	(137,314)	(75,069)
Net change in restricted stock	(694)	(354)
Net increase in loans	(76,015)	(24,073)
Proceeds from sale of premises and equipment	1	42
Purchases of premises and equipment	(536)	(1,203)
Proceeds from sales of other real estate owned	908	1,993
Cash paid in bank acquisition	—	(5,935)
Cash acquired in bank acquisition	—	18,173
Net cash used in investing activities	(88,079)	(8,238)
Cash Flows from Financing Activities:		
Net change in demand, money market, and savings deposits	46,367	31,727
Net change in time deposits	(3,019)	(18,148)
Net change in customer repurchase agreements	3,479	(9,901)
Net change in other short-term borrowings	15,000	—
Common stock dividends paid	(6,201)	(5,996)

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Repurchase of common stock	(1,292)	(2,808)
Proceeds from exercise of stock options	101	399
Net cash provided by (used in) financing activities	54,435	(4,727)
Net Decrease in Cash and Cash Equivalents	(22,520)	(1,386)
Cash and Cash Equivalents at Beginning of Period	95,337	67,303
Cash and Cash Equivalents at End of Period	\$72,817	\$65,917

The accompanying notes are an integral part of the consolidated financial statements.

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AMERICAN NATIONAL BANKSHARES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Accounting Policies

The consolidated financial statements include the accounts of American National Bankshares Inc. (the "Company") and its wholly owned subsidiary, American National Bank and Trust Company (the "Bank"). The Bank offers a wide variety of retail, commercial, secondary market mortgage lending, and trust and investment services which also include non-deposit products such as mutual funds and insurance policies.

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, goodwill and intangible assets, other than temporary impairment, the valuation of deferred tax assets and liabilities, and the valuation of other real estate owned ("OREO").

All significant inter-company transactions and accounts are eliminated in consolidation, with the exception of the AMNB Trust and the MidCarolina Trusts, as detailed in Note 9.

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments (consisting of normal recurring accruals) necessary to present fairly the results of the interim periods. The results of operations for the interim periods are not necessarily indicative of the results that may occur for any other period. Certain reclassifications have been made to prior period balances to conform to the current period presentation. These reclassifications did not have an impact on net income and were considered immaterial. These statements should be read in conjunction with the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

Recent Accounting Pronouncements

In August 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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 a material 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); and (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 is currently assessing the impact that ASU 2016-01 will have on its

consolidated financial statements.

In February 2016, the FASB issued ASU No. 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,

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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.

During March 2016, the FASB issued ASU No. 2016-05, "Derivatives and Hedging (Topic 815): Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships." The amendments in this ASU clarify that a change in the counterparty to a derivative instrument that has been designated as the hedging instrument does not, in and of itself, require dedesignation of that hedging relationship provided that all other hedge accounting criteria remain intact. The amendments are effective for public business entities for financial statements issued for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. The Company does not expect the adoption of ASU 2016-05 to have a material impact on its consolidated financial statements.

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." The amendments in this ASU 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. In addition, the amendments in this ASU 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 Shares-Based Payment Accounting." The amendments in this ASU simplify several aspects of the accounting for share-based payment award transactions including: (1) income tax consequences; (2) classification of awards as either equity or liabilities; and (3) 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 Securities and Exchange Commission ("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.

During August 2016, the FASB issued ASU No. 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments", to address diversity in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendments are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The amendments should be applied using a retrospective transition method to each period presented. If retrospective application is impractical for some of the issues addressed by the update, the amendments for those issues would be applied prospectively as of the earliest date practicable. Early adoption is permitted, including adoption in an interim period. The Company does not expect the adoption of ASU 2016-15 to have a material impact on its consolidated financial statements.

Note 2 – Acquisition of MainStreet BankShares, Inc.

On January 1, 2015, the Company completed its acquisition of MainStreet BankShares, Inc. ("MainStreet"). The merger of MainStreet with and into the Company was effected pursuant to the terms and conditions of the Agreement and Plan of Reorganization, dated as of August 24, 2014, between the Company and MainStreet, and a related Plan of Merger. Immediately after the merger, Franklin Community Bank, N.A., MainStreet's wholly owned bank subsidiary, merged with and into the Bank.

Pursuant to the MainStreet merger agreement, the former holders of shares of MainStreet common stock received \$3.46 in cash and 0.482 shares of the Company's common stock for each share of MainStreet common stock held immediately prior to the effective date of the merger, plus cash in lieu of fractional shares. Each option to purchase shares of MainStreet common stock that was outstanding immediately prior to the effective date of the merger vested upon the merger and was converted into an option to purchase shares of the Company's common stock, adjusted based on a 0.643 exchange ratio. Each share of the Company's common stock outstanding immediately prior to the merger remained outstanding and was unaffected by the merger. The cash portion of the merger consideration was funded through a cash dividend of \$6,000,000 from the Bank to the Company, and no borrowing was incurred by the Company or the Bank in connection with the merger. Replacement stock option awards representing 43,086 shares of the Company's common stock were granted in conjunction with the MainStreet acquisition.

MainStreet was the holding company for Franklin Community Bank, N.A. As of January 1, 2015, MainStreet had net loans of approximately \$122,000,000, total assets of approximately \$164,000,000, and total deposits of approximately \$137,000,000. Franklin Community Bank, N.A. provided banking services to its customers from three banking offices located in Rocky Mount, Hardy, and Union Hall, Virginia, which are now branch offices of the Bank.

The net impact of the amortization and accretion of premiums and discounts associated with the Company's acquisition accounting adjustments related to the MainStreet acquisition had the following impact on the Consolidated Statements of Income during the nine months ended September 30, 2016 and 2015 (dollars in thousands):

	Nine Months Ended	
	September 30, 2016	September 30, 2015
Acquired performing loans	\$203	\$ 317
Acquired impaired loans	445	827
CD valuation	—	216
Brokered CD valuation	—	2
Amortization of core deposit intangible	(185)	(220)
Net impact to income before taxes	\$463	\$ 1,142

Note 3 – Securities

The amortized cost and fair value of investments in debt and equity securities at September 30, 2016 and December 31, 2015 were as follows (dollars in thousands):

	September 30, 2016			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities available for sale:				
Federal agencies and GSEs	\$96,840	\$ 225	\$ 87	\$96,978
Mortgage-backed and CMOs	79,631	1,376	20	80,987
State and municipal	157,922	4,924	26	162,820
Corporate	8,697	123	—	8,820
Equity securities	1,288	546	—	1,834
Total securities available for sale	\$344,378	\$ 7,194	\$ 133	\$351,439
	December 31, 2015			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities available for sale:				
Federal agencies and GSEs	\$81,601	\$ 170	\$ 319	\$81,452
Mortgage-backed and CMOs	70,520	799	389	70,930
State and municipal	170,268	5,659	36	175,891
Corporate	10,619	28	57	10,590
Equity securities	1,000	486	—	1,486
Total securities available for sale	\$334,008	\$ 7,142	\$ 801	\$340,349

Restricted Stock

Due to restrictions placed upon the Bank's common stock investment in the Federal Reserve Bank of Richmond ("FRB") and Federal Home Loan Bank of Atlanta ("FHLB"), these securities have been classified as restricted equity securities and carried at cost. The restricted securities are not subject to the investment security classification and are included as a separate line item on the Company's Consolidated Balance Sheet. The FRB requires the Bank to maintain stock with a par value equal to 3.0% of its outstanding capital and an additional 3.0% is on call. The FHLB requires the Bank to maintain stock in an amount equal to 4.5% of outstanding borrowings and a specific percentage of the Bank's total assets. The cost of restricted stock at September 30, 2016 and December 31, 2015 was as follows (dollars in thousands):

	September 30, 2016	December 31, 2015
FRB stock	\$ 3,553	\$ 3,535
FHLB stock	2,453	1,777
Total restricted stock	\$ 6,006	\$ 5,312

Temporarily Impaired Securities

The following table shows estimated fair value and gross unrealized losses, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at September 30, 2016. The reference point for determining when securities are in an unrealized loss position is month-end. Therefore, it is possible that a security's market value exceeded its amortized cost on other days during the past twelve-month period.

Available for sale securities that have been in a continuous unrealized loss position are as follows (dollars in thousands):

	Total		Less than 12 Months		12 Months or More	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Federal agencies and GSEs	\$35,876	\$ 87	\$35,876	\$ 87	\$—	\$ —
Mortgage-backed and CMOs	2,140	20	334	1	1,806	19
State and municipal	8,906	26	8,089	26	817	—
Total	\$46,922	\$ 133	\$44,299	\$ 114	\$2,623	\$ 19

Federal agencies and GSEs: The unrealized loss on the Company's investment in eight government sponsored entity ("GSE") securities was caused by interest rate increases. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost basis of the investments. Because the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost basis, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at September 30, 2016.

Mortgage-backed securities and CMOs: The unrealized losses on the Company's investment in six GSE mortgage-backed securities and collateralized mortgage obligations ("CMOs") were caused by interest rate increases. The contractual cash flows of those investments are guaranteed by an agency of the U.S. Government. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost basis of the Company's investments. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost basis, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at September 30, 2016.

State and municipal securities: The unrealized losses on 13 state and municipal securities were caused by interest rate increases. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost basis of the investments. Because the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost basis, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at September 30, 2016.

Corporate securities: The Company had zero investments with unrealized losses in corporate securities. In prior periods when unrealized losses were shown they were caused by interest rate increases. The contractual terms of those investments did not permit the issuer to settle the securities at a price less than the amortized cost basis of the investments. Because the Company did not intend to sell the investments and it was not more likely than not that the Company would be required to sell the investments before recovery of their amortized cost basis, which may have been maturity, the Company did not consider those investments to be other-than-temporarily impaired at September 30, 2016.

Restricted stock: When evaluating restricted stock for impairment, its value is based on the ultimate recoverability of the par value rather than by recognizing temporary declines in value. The Company does not consider restricted stock to be other-than-temporarily impaired at September 30, 2016, and no impairment has been recognized.

The table below shows estimated fair value and gross unrealized losses, aggregated by investment category and length of time that individual securities had been in a continuous unrealized loss position, at December 31, 2015 (dollars in thousands):

	Total		Less than 12 Months		12 Months or More	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Federal agencies and GSEs	\$57,711	\$ 319	\$57,711	\$ 319	\$—	\$ —
Mortgage-backed and CMOs	37,368	389	35,424	346	1,944	43

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State and municipal	13,540	36	12,716	34	824	2
Corporate	5,107	57	3,530	29	1,577	28
Total	\$113,726	\$ 801	\$109,381	\$ 728	\$4,345	\$ 73

Other-Than-Temporary-Impaired Securities

As of September 30, 2016 and December 31, 2015, there were no securities classified as other-than-temporary impaired.

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Note 4 – Loans

Loans, excluding loans held for sale, at September 30, 2016 and December 31, 2015, were comprised of the following (dollars in thousands):

	September 30, 2016	December 31, 2015
Commercial	\$ 204,184	\$ 177,481
Commercial real estate:		
Construction and land development	91,688	72,968
Commercial real estate	454,797	430,186
Residential real estate:		
Residential	218,632	220,434
Home equity	108,617	98,449
Consumer	5,283	6,007
Total loans	\$ 1,083,201	\$ 1,005,525

Acquired Loans

The outstanding principal balance and the carrying amount of these loans included in the consolidated balance sheets at September 30, 2016 and December 31, 2015 are as follows (dollars in thousands):

	September 30, 2016	December 31, 2015
Outstanding principal balance	\$ 112,205	\$ 145,380
Carrying amount	103,911	135,254

The outstanding principal balance and related carrying amount of acquired impaired loans, for which the Company applies FASB Accounting Standards Codification ("ASC") 310-30 to account for interest earned, as of the indicated dates are as follows (dollars in thousands):

	September 30, 2016	December 31, 2015
Outstanding principal balance	\$ 35,697	\$ 40,951
Carrying amount	29,739	33,878

The following table presents changes in the accretible yield on acquired impaired loans, for which the Company applies FASB ASC 310-30, at September 30, 2016 and December 31, 2015 (dollars in thousands):

	September 30, 2016	December 31, 2015
Balance at January 1	\$ 7,299	\$ 1,440
Additions from merger with MainStreet	—	7,140
Accretion	(1,079)	(211)
Other changes, net	201	(1,070)
	\$ 6,421	\$ 7,299

Past Due Loans

The following table shows an analysis by portfolio segment of the Company's past due loans at September 30, 2016 (dollars in thousands):

	30-59 Days Past Due	60-89 Days Past Due	90 Days + Past Due and Still Accruing	Non-Accrual Loans	Total Past Due	Current	Total Loans
Commercial	\$ 13	\$ —	\$ —	—\$ 67	\$ 80	\$ 204,104	\$ 204,184
Commercial real estate:							
Construction and land development	15	—	—	66	81	91,607	91,688
Commercial real estate	129	114	—	905	1,148	453,649	454,797
Residential:							
Residential	517	73	—	2,073	2,663	215,969	218,632
Home equity	95	34	—	726	855	107,762	108,617
Consumer	2	18	—	9	29	5,254	5,283
Total	\$ 771	\$ 239	\$ —	—\$ 3,846	\$ 4,856	\$ 1,078,345	\$ 1,083,201

The following table shows an analysis by portfolio segment of the Company's past due loans at December 31, 2015 (dollars in thousands):

	30-59 Days Past Due	60-89 Days Past Due	90 Days + Past Due and Still Accruing	Non-Accrual Loans	Total Past Due	Current	Total Loans
Commercial	\$ 137	\$ —	\$ —	—\$ 90	\$ 227	\$ 177,254	\$ 177,481
Commercial real estate:							
Construction and land development	—	—	—	258	258	72,710	72,968
Commercial real estate	135	182	—	2,497	2,814	427,372	430,186
Residential:							
Residential	913	398	—	1,731	3,042	217,392	220,434
Home equity	140	12	—	620	772	97,677	98,449
Consumer	53	1	—	9	63	5,944	6,007
Total	\$ 1,378	\$ 593	\$ —	—\$ 5,205	\$ 7,176	\$ 998,349	\$ 1,005,525

Impaired Loans

The following table presents the Company's impaired loan balances by portfolio segment, excluding acquired impaired loans, at September 30, 2016 (dollars in thousands):

Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
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With no related allowance recorded: