AMERICAN NATIONAL BANKSHARES INC.
Form 10-Q
November 09, 2015
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

x	QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED September 30, 2015.
o	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 x No o

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 x No o

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 o	Accelerated filer x	Non-accelerated filer o (Do not check if a smaller reporting company)
Smaller reporting company o		

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

At November 5, 2015, the Company had 8,636,842 shares of Common Stock outstanding, $1 par value.

AMERICAN NATIONAL BANKSHARES INC.
Index

Index

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
American National Bankshares Inc.
Consolidated Balance Sheets
(Dollars in thousands, except per share data)

Assets	(Unaudited) September 30, 2015	(*) December 31, 2014
Cash and due from banks	$19,280	$29,272
Interest-bearing deposits in other banks	46,637	38,031
Securities available for sale, at fair value	358,306	344,716
Restricted stock, at cost	5,308	4,367
Loans held for sale	2,998	616
Loans, net of unearned income	980,984	840,925
Less allowance for loan losses	(12,611)	(12,427)
Net loans	968,373	828,498
Premises and equipment, net	23,854	23,025
Other real estate owned, net of valuation allowance $359 in 2015 and $2,971 in 2014	1,333	2,119
Goodwill	44,333	39,043
Core deposit intangibles, net	2,983	2,045
Bank owned life insurance	17,491	15,193
Accrued interest receivable and other assets	21,541	19,567
Total assets	$1,512,437	$1,346,492
Liabilities		
Demand deposits -- noninterest bearing	$305,110	$254,458
Demand deposits -- interest bearing	220,562	193,432
Money market deposits	191,534	174,000
Savings deposits	108,992	90,130
Time deposits	400,323	363,817
Total deposits	1,226,521	1,075,837
Customer repurchase agreements	43,579	53,480
Long-term borrowings	9,952	9,935
Junior subordinated debt	27,597	27,521
Accrued interest payable and other liabilities	8,337	5,939
Total liabilities	1,315,986	1,172,712
Shareholders' equity		
Preferred stock, $5 par, 2,000,000 shares authorized, none outstanding	—	—
Common stock, $1 par, 20,000,000 shares authorized, 8,630,329 shares outstanding at September 30, 2015 and 7,873,474 shares outstanding at December 31, 2014	8,611	7,872
Capital in excess of par value	75,524	57,650

Retained earnings	109,030	104,594
Accumulated other comprehensive income, net	3,286	3,664
Total shareholders' equity	196,451	173,780
Total liabilities and shareholders' equity	$1,512,437	$1,346,492

(*) - Derived from audited consolidated financial statements.

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

3

Index

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,	
	2015	2014	2015	2014
Interest and Dividend Income:				
Interest and fees on loans	$11,474	$9,864	$35,011	$29,398
Interest on federal funds sold	1	—	6	—
Interest and dividends on securities:				
Taxable	1,052	918	3,021	2,850
Tax-exempt	899	966	2,799	3,017
Dividends	91	72	258	221
Other interest income	25	32	123	100
Total interest and dividend income	13,542	11,852	41,218	35,586
Interest Expense:				
Interest on deposits	1,205	1,120	3,583	3,510
Interest on short-term borrowings	2	4	7	8
Interest on long-term borrowings	82	82	243	243
Interest on junior subordinated debt	192	186	564	555
Total interest expense	1,481	1,392	4,397	4,316
Net Interest Income	12,061	10,460	36,821	31,270
Provision for Loan Losses	—	—	700	150
Net Interest Income After Provision for Loan Losses	12,061	10,460	36,121	31,120
Noninterest Income:				
Trust fees	1,006	992	2,963	3,131
Service charges on deposit accounts	521	441	1,543	1,285
Other fees and commissions	592	479	1,787	1,416
Mortgage banking income	376	342	987	880
Gains on sales of securities	6	315	553	504
Other	554	412	1,636	1,168
Total noninterest income	3,055	2,981	9,469	8,384
Noninterest Expense:				
Salaries	4,179	3,714	12,634	10,890
Employee benefits	1,029	799	3,215	2,621
Occupancy and equipment	1,094	933	3,290	2,779
FDIC assessment	185	157	565	486
Bank franchise tax	220	216	675	669
Core deposit intangible amortization	300	227	901	888
Data processing	366	361	1,311	1,054
Software	290	248	850	745
Other real estate owned, net	(126)	141	60	148
Acquisition related expense	87	268	1,948	268
Other	1,764	1,763	5,628	5,067

Total noninterest expense	9,388	8,827	31,077	25,615
Income Before Income Taxes	5,728	4,614	14,513	13,889
Income Taxes	1,691	1,446	4,081	4,038
Net Income	$4,037	$3,168	$10,432	$9,851
Net Income Per Common Share:				
Basic	$0.47	$0.40	$1.20	$1.25
Diluted	$0.47	$0.40	$1.20	$1.25
Weighted Average Common Shares Outstanding:				
Basic	8,668,618	7,841,078	8,698,394	7,871,016
Diluted	8,676,571	7,851,735	8,706,870	7,881,441

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

Index

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

	Three Months Ended September 30,	
	2015	2014
Net income	$4,037	$3,168
Other comprehensive income (loss):		
Unrealized gains (losses) on securities available for sale	1,365	(343)
Income tax (expense) benefit	(478)	121
Reclassification adjustment for gains on sales of securities	(6)	(315)
Income tax expense	3	110
Other comprehensive income (loss)	884	(427)
Comprehensive income	$4,921	$2,741

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)

	Nine Months Ended September 30,	
	2015	2014
Net income	$10,432	$9,851
Other comprehensive income (loss):		
Unrealized gains (losses) on securities available for sale	(29)	3,888
Income tax (expense) benefit	10	(1,360)
Reclassification adjustment for gains on sales of securities	(553)	(504)
Income tax expense	194	176
Other comprehensive income (loss)	(378)	2,200
Comprehensive income	$10,054	$12,051

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5

Index

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, 2013	$7,891	$58,050	$99,090	$2,520	$167,551
Net income	—	—	9,851	—	9,851
Other comprehensive income	—	—	—	2,200	2,200
Stock repurchased and retired	(70)	(1,438)	—	—	(1,508)
Equity based compensation	22	475	—	—	497
Cash dividends paid, $0.69 per share	—	—	(5,426)	—	(5,426)
Balance, September 30, 2014	$7,843	$57,087	$103,515	$4,720	$173,165
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	826	19,657	—	—	20,483
Stock repurchased and retired	(122)	(2,686)	—	—	(2,808)
Stock options exercised	22	377	—	—	399
Equity based compensation	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

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

Index

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

	Nine Months Ended September 30,	
	2015	2014
Cash Flows from Operating Activities:		
Net income	$10,432	$9,851
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	700	150
Depreciation	1,357	1,274
Net accretion of purchase accounting adjustments	(2,790)	(2,064)
Core deposit intangible amortization	901	888
Net amortization (accretion) of securities	2,062	1,916
Net gains on sale or call of securities	(553)	(504)
Net gain on sale of loans held for sale	(771)	(686)
Proceeds from sales of loans held for sale	42,691	40,813
Originations of loans held for sale	(44,302)	(38,178)
Net gain on other real estate owned	(199)	(100)
Valuation allowance on other real estate owned	86	46
Net loss on sale of premises and equipment	5	—
Equity based compensation expense	539	497
Net change in bank owned life insurance	(343)	(297)
Deferred income tax expense	1,482	396
Net change in interest receivable	491	(619)
Net change in other assets	107	450
Net change in interest payable	3	(29)
Net change in other liabilities	(606)	153
Net cash provided by operating activities	11,292	13,957
Cash Flows from Investing Activities:		
Proceeds from sales of securities available for sale	7,429	13,667
Proceeds from maturities, calls and paydowns of securities available for sale	70,759	52,901
Purchases of securities available for sale	(75,069)	(47,006)
Net change in restricted stock	(354)	360
Net increase in loans	(23,786)	(20,276)
Proceeds from sale of premises and equipment	42	—
Purchases of premises and equipment	(1,203)	(685)
Proceeds from sales of other real estate owned	1,993	1,498
Cash paid in bank acquisition	(5,935)	—
Cash acquired in bank acquisition	18,173	—
Net cash (used in) provided by investing activities	(7,951)	459
Cash Flows from Financing Activities:		
Net change in demand, money market, and savings deposits	31,727	23,792
Net change in time deposits	(18,148)	(30,407)
Net change in customer repurchase agreements	(9,901)	12,467
Net change in long-term borrowings	—	(38)
Common stock dividends paid	(5,996)	(5,426)

Repurchase of stock	(2,808)	(1,508)
Proceeds from exercise of stock options	399	—
Net cash used in financing activities	(4,727)	(1,120)
Net Increase (Decrease) in Cash and Cash Equivalents	(1,386)	13,296
Cash and Cash Equivalents at Beginning of Period	67,303	67,681
Cash and Cash Equivalents at End of Period	$65,917	$80,977

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

Index

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 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, the valuation of foreclosed real estate, goodwill and intangible assets, the valuation of deferred tax assets, other-than-temporary impairments of securities, and acquired loans with specific credit-related deterioration.

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 the year ending December 31, 2015. 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, 2014.

Recent Accounting Pronouncements

In June 2014, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2014-11, “Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures.” This ASU aligns the accounting for repurchase-to-maturity transactions and repurchase agreements executed as a repurchase financing with the accounting for other typical repurchase agreements. The new guidance eliminates sale accounting for repurchase-to-maturity transactions and supersedes the guidance under which a transfer of a financial asset and a contemporaneous repurchase financing could be accounted for on a combined basis as a forward agreement. The amendments in the ASU also require a new disclosure for transactions economically similar to repurchase agreements in which the transferor retains substantially all of the exposure to the economic return on the transferred financial assets throughout the term of the transaction. Additional disclosures will be required for the nature of collateral pledged in repurchase agreements and similar transactions accounted for as secured borrowings. The amendments in this ASU are effective for the first interim or annual period beginning after December 15, 2014; however, the disclosure for transactions accounted for as secured borrowings is required to be presented for annual periods beginning after December 15, 2014, and interim periods beginning after March 15, 2015. Early adoption is not permitted. The adoption of the new guidance did not have a material impact on the Company’s consolidated financial statements.

In June 2014, the FASB issued ASU No. 2014-12, “Compensation - Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period.” The new guidance applies to reporting entities that grant employees share-based payments in which the terms of the award allow a performance target to be achieved after the requisite service period. The amendments in the ASU require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. Existing guidance in “Compensation - Stock Compensation (Topic 718),” should be applied to account for these types of awards. The amendments in this ASU are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Early adoption is permitted and reporting entities may choose to apply the amendments in the ASU either on a prospective or retrospective basis. The Company is currently assessing the impact that ASU 2014-12 will have on the Company's consolidated financial statements.

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

In November 2014, the FASB issued ASU No. 2014-16, "Derivatives and Hedging (Topic 815): Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity." The amendments in this ASU do not change the current criteria in GAAP for determining when separation of certain embedded derivative features in a hybrid financial instrument is required. The amendments clarify how current GAAP should be interpreted in evaluating the economic characteristics and risks of a host contract in a hybrid financial instrument that is issued in the form of a share. Specifically, the amendments clarify that an entity should consider all relevant terms and features, including the embedded derivative feature being evaluated for bifurcation, in evaluating the nature of the host contract. Furthermore, the amendments clarify that no single term or feature would necessarily determine the economic characteristics and risks of the host contract. Rather, the nature of the host contract depends upon the economic characteristics and risks of the entire hybrid financial instrument. The amendments in this ASU also clarify that, in evaluating the nature of a host contract, an entity should assess the substance of the relevant terms and features (i.e., the relative strength of the debt-like or equity-like terms and features given the facts and circumstances) when considering how to weight those terms and features. The amendments in this ASU are effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption, including adoption in an interim period, is permitted. The Company does not expect the adoption of ASU 2014-16 to have a material impact on its consolidated financial statements.

In January 2015, the FASB issued ASU No. 2015-01, "Income Statement-Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items." The amendments in this ASU eliminate from GAAP the concept of extraordinary items. Subtopic 225-20, Income Statement - Extraordinary and Unusual Items, required that an entity separately classify, present, and disclose extraordinary events and transactions. Presently, an event or transaction is presumed to be an ordinary and usual activity of the reporting entity unless evidence clearly supports its classification as an extraordinary item. If an event or transaction meets the criteria for extraordinary classification, an entity is required to segregate the extraordinary item from the results of ordinary operations and show the item separately in the income statement, net of tax, after income from continuing operations. The entity also is required to disclose applicable income taxes and either present or disclose earnings-per-share data applicable to the extraordinary item. The amendments in this ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. The Company does not expect the adoption of ASU 2015-01 to have a material impact on its consolidated financial statements.

In February 2015, the FASB issued ASU No. 2015-02, "Consolidation (Topic 810): Amendments to the Consolidation Analysis." The amendments in this ASU are intended to improve targeted areas of consolidation guidance for legal entities such as limited partnerships, limited liability corporations, and securitization structures (collateralized debt obligations, collateralized loan obligations, and mortgage-backed security transactions). In addition to reducing the number of consolidation models from four to two, the new standard simplifies the FASB Accounting Standards Codification and improves current GAAP by placing more emphasis on risk of loss when determining a controlling financial interest, reducing the frequency of the application of related-party guidance when determining a controlling financial interest in a variable interest entity ("VIE"), and changing consolidation conclusions for public and private companies in several industries that typically make use of limited partnerships or VIEs. The amendments in this ASU are effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. ASU 2015-02 may be applied retrospectively in previously issued financial statements for one or more years with a cumulative-effect adjustment to retained earnings as of the beginning of the first year restated. The Company does not expect the adoption of ASU 2015-02 to have a material impact on its consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-03, “Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs.” The amendments in this ASU are intended to simplify the presentation of debt issuance costs. These amendments require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. The amendments in this ASU are effective for public business entities for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption is permitted for financial statements that have not been previously issued. The Company does not expect the adoption of ASU 2015-03 to have a material impact on its consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-05, "Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement." The amendments in this ASU provide guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The amendments do not change the accounting for a customer's accounting for service contracts. As a result of the amendments, all software licenses within the scope of Subtopic 350-40 will be accounted for consistent with other licenses of intangible assets. The amendments in this ASU are effective for public business entities for annual periods, including interim periods within those annual periods, beginning after December 15, 2015. Early adoption is permitted. An entity can elect to adopt the amendments either: (1) prospectively to all arrangements entered into or materially modified after the effective date; or (2) retrospectively. The Company is currently assessing the impact that ASU 2015-05 will have on its consolidated financial statements.

In May 2015, the FASB issued ASU No. 2015-08, "Business Combinations (Topic 805): Pushdown Accounting - Amendments to SEC Paragraphs Pursuant to Staff Accounting Bulletin No. 115." The amendments in ASU 2015-08 amend various Securities and Exchange Commission ("SEC") paragraphs pursuant to the issuance of Staff Accounting Bulletin No. 115, Topic 5: Miscellaneous Accounting, regarding various pushdown accounting issues, and did not have a material impact on the Company's consolidated financial statements.

In July 2015, the FASB issued ASU No. 2015-12, "Plan Accounting: Defined Benefit Pension Plans (Topic 960), Defined Contribution Pension Plans (Topic 962), and Health and Welfare Benefit Plans (Topic 965) - 1. Fully Benefit-Responsive Investment Contracts, 2. Plan Investment Disclosures, and 3. Measurement Date Practical Expedient." The amendments within this ASU are in 3 parts. Among other things, Part 1 amendments designate contract value as the only required measure for fully benefit-responsive investment contracts; Part 2 amendments eliminate the requirement that plans disclose: (a) individual investments that represent 5 percent or more of net assets available for benefits; and (b) the net appreciation or depreciation for investments by general type requirements for both participant-directed investments and nonparticipant-directed investments. Part 3 amendments provide a practical expedient to permit plans to measure investments and investment-related accounts (e.g., a liability for a pending trade with a broker) as of a month-end date that is closest to the plan's fiscal year-end, when the fiscal period does not coincide with month-end. The amendments in Parts 1 and 2 of this ASU are effective on a retrospective basis and Part 3 is effective on a prospective basis, for fiscal years beginning after December 15, 2015. Early adoption is permitted. The Company is currently assessing the impact that ASU 2015-12 will have on its consolidated financial statements.

In August 2015, the FASB issued ASU No. 2015-14, "Revenue from Contracts with Customers (Topic 606): Deferral of Effective Date." The amendments in ASU 2015-14 defer the effective date of ASU 2014-09 for all entities by one year. Public business entities, certain not-for-profit entities, and certain employee benefit plans should apply the guidance in ASU 2014-09 to an annual reporting period beginning after December 15, 2017, including interim reporting periods within that reporting period. Earlier application is permitted only as of an annual reporting period beginning after December 15, 2016, including interim reporting periods within that reporting period. All other entities should apply the guidance in ASU 2014-09 to an annual reporting period beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019. All other entities may apply the guidance in ASU 2014-09 earlier as of an annual reporting period beginning after December 15, 2016, including interim reporting periods within that reporting period. All other entities also may apply the guidance in ASU 2014-09 earlier as of an annual reporting period beginning after December 15, 2016, and interim reporting periods within annual reporting periods beginning one year after the annual reporting period in which the entity first applies the guidance in ASU 2014-09. The Company does not expect the adoption of ASU 2015-14 to have a material impact on its consolidated financial statements.

In August 2015, the FASB issued ASU 2015-15, “Interest - Imputation of Interest (Subtopic 835-30) - Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements (Amendments to SEC Paragraphs Pursuant to Staff Announcement at June 18, 2015 EITF Meeting).” On April 7, 2015, the FASB issued ASU 2015-03, Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs, which requires entities to present debt issuance costs related to a recognized debt liability as a direct deduction from the carrying amount of that debt liability. The guidance in ASU 2015-03 (see paragraph 835-30-45-1A) does not address presentation or subsequent measurement of debt issuance costs related to line-of-credit arrangements. Given the absence of authoritative guidance within ASU 2015-03 for debt issuance costs related to line-of-credit arrangements, the SEC staff stated that they would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding

Index

borrowings on the line-of-credit arrangement. ASU 2015-15 adds these SEC comments to the "S" section of the Codification. The Company does not expect the adoption of ASU 2015-15 to have a material impact on its consolidated financial statements.

In September 2015, the FASB issued ASU 2015-16, “Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments.” The amendments in ASU 2015-16 require that an acquirer recognize adjustments to estimated amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The amendments require that the acquirer record, in the same period’s financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the estimated amounts, calculated as if the accounting had been completed at the acquisition date. The amendments also require an entity to present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the estimated amounts had been recognized as of the acquisition date. The amendments in this ASU are effective for public business entities for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017. The amendments should be applied prospectively to adjustments to provisional amounts that occur after the effective date with earlier application permitted for financial statements that have not been issued. The Company does not expect the adoption of ASU 2015-16 to have a material impact on its consolidated financial statements.

Note 2 – Acquisition of MainStreet

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, 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. The value of the consideration transferred with the replacement awards did not result in any goodwill.

The transaction was accounted for using the acquisition method of accounting and, accordingly, assets acquired, liabilities assumed, and consideration exchanged were recorded at estimated fair values on the acquisition date. Fair values are preliminary and subject to refinement for up to one year after the closing date of the acquisition.

Index

In connection with the merger, the consideration paid, and the fair value of identifiable assets acquired and liabilities assumed as of the merger date are summarized in the following table (dollars in thousands):

Consideration Paid:	
Common shares issued (825,586)	$20,483
Cash paid to shareholders	5,935
Value of consideration	26,418
Assets acquired:	
Cash and cash equivalents	18,173
Investment securities	18,800
Restricted stock	587
Loans	115,050
Premises and equipment	1,030
Deferred income taxes	2,773
Core deposit intangible	1,839
Other real estate owned	168
Banked owned life insurance	1,955
Other assets	1,077
Total assets	161,452
Liabilities assumed:	
Deposits	137,323
Other liabilities	3,001
Total liabilities	140,324
Net assets acquired	21,128
Goodwill resulting from merger with MainStreet	$5,290

The following table details the changes in fair value of net assets acquired and liabilities assumed from the amounts originally reported in the Form 10-Q for the quarterly period ended June 30, 2015 (dollars in thousands):

Goodwill at June 30, 2015	$5,167
Effect of adjustments to:	
Loans	(353)
Premises and equipment	289
Other Assets	187
Goodwill at September 30, 2015	$5,290

The increase in goodwill made during the third quarter of 2015 was due to a reevaluation of the loan portfolio, fair value appraisals of premises, and a change in estimated tax refunds due to MainStreet. As a part of the reevaluation, numerous loans were transferred to the purchased credit impaired portfolio primarily because of concerns over underlying collateral values, repayment terms and debt service coverage. The transfer resulted in a reduction in goodwill and accretion income of $353,000.

In many cases, the fair values of assets acquired and liabilities assumed were determined by estimating the cash flows expected to result from those assets and liabilities and discounting them at appropriate market rates. The most significant category of assets for which this procedure was used was that of acquired loans. The Company acquired the $122,447,000 loan portfolio at a fair value discount of $7,397,000. The estimated fair value of the performing portion of the portfolio was $87,803,000. The excess of expected cash flows above the fair value of the performing portion of loans will be accreted to interest income over the remaining lives of the loans in accordance with FASB Accounting Standards Codification ("ASC") 310-20.

Index

Certain loans, those for which specific credit-related deterioration since origination was identified, are recorded at fair value, reflecting the present value of the amounts expected to be collected. Income recognition on these loans is based on reasonable expectations about the timing and amount of cash flows to be collected. Acquired loans deemed impaired and considered collateral dependent, with the timing of the sale of loan collateral indeterminate, remain on non-accrual status and have no accretable yield.

The following table details the acquired loans that are accounted for in accordance with FASB ASC 310-30 as of January 1, 2015, after adjusting for the aforementioned reevaluation in the third quarter (dollars in thousands):

Contractually required principal and interest at acquisition	$33,066
Contractual cash flows not expected to be collected (nonaccretable difference)	1,828
Expected cash flows at acquisition	34,894
Interest component of expected cash flows (accretable yield)	7,647
Fair value of acquired loans accounted for under FASB ASC 310-30	$27,247

In accordance with GAAP, there was no carryover of the allowance for loan losses that had been previously recorded by MainStreet.

In connection with the acquisition of MainStreet, the Company acquired an investment portfolio with a fair value of $18,800,000. The fair value of the investment portfolio was determined by taking into account market prices obtained from independent valuation sources.

In connection with the acquisition of MainStreet, the Company recorded a deferred income tax asset of $2,773,000 related to tax attributes of MainStreet, along with the effects of fair value adjustments resulting from applying the acquisition method of accounting.

In connection with the acquisition of MainStreet, the Company acquired other real estate owned with a fair value of $168,000. Other real estate owned was measured at fair value less estimated cost to sell.

In connection with the acquisition of MainStreet, the Company acquired premises and equipment with a fair value of $1,030,000.

The fair value of savings and transaction deposit accounts acquired from MainStreet was assumed to approximate their carrying value as these accounts have no stated maturity and are payable on demand. Certificates of deposit accounts were valued by comparing the contractual cost of the portfolio to an identical portfolio bearing current market rates. The portfolio was segregated into pools based on segments: retail, individual retirement accounts, and brokered. For each segment, the projected cash flows from maturing certificates were then calculated based on contractual rates and prevailing market rates. The valuation adjustment for each segment is equal to the present value of the difference of these two cash flows, discounted at the assumed market rate for a certificate with a corresponding maturity. This valuation adjustment of $290,000 will be accreted to reduce interest expense over the average remaining maturities of the respective pools, which is estimated to be 12 months.

A core deposit intangible of $1,839,000 was recognized in connection with the acquisition of MainStreet. This intangible will be amortized over a 10 year period on an accelerated cost recovery basis.

Direct costs related to the acquisition were expensed as incurred. During 2015, the Company incurred $1,948,000 acquisition related expenses.

Index

The following table presents unaudited pro forma information as if the acquisition of MainStreet had occurred on January 1, 2014. This pro forma information gives effect to certain adjustments, including acquisition accounting fair value adjustments, amortization of core deposit intangible and related income tax effects. The pro forma information does not necessarily reflect the results of operations that would have occurred had the merger with MainStreet occurred in 2014. In particular, expected operational cost savings are not reflected in the pro forma amounts (dollars in thousands).

	Pro forma Nine Months Ended	
	September 30, 2015	September 30, 2014
Net interest income	$37,584	$37,302
Provision for loan loss	(700)	(150)
Non-interest income	9,469	9,055
Non-interest expense and income taxes	(35,660)	(34,644)
Net income	$10,693	$11,563

	Pro forma Three Months Ended	
	September 30, 2015	September 30, 2014
Net interest income	$12,378	$12,512
Provision for loan loss	—	—
Non-interest income	3,055	3,205
Non-interest expense and income taxes	(11,245)	(11,868)
Net income	$4,188	$3,849

Note 3 – Securities

The amortized cost and fair value of investments in debt and equity securities at September 30, 2015 and December 31, 2014 were as follows (dollars in thousands):

	September 30, 2015			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities available for sale:				
Federal agencies and GSEs	$103,765	$510	$29	$104,246
Mortgage-backed and CMOs	54,687	1,086	74	55,699
State and municipal	179,761	6,623	28	186,356
Corporate	10,681	57	30	10,708
Equity securities	1,000	297	—	1,297
Total securities available for sale	$349,894	$8,573	$161	$358,306

	December 31, 2014			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities available for sale:				
Federal agencies and GSEs	$81,958	$252	$104	$82,106
Mortgage-backed and CMOs	56,289	1,248	112	57,425
State and municipal	188,060	7,523	90	195,493
Corporate	8,416	16	53	8,379
Equity securities	1,000	313	—	1,313
Total securities available for sale	$335,723	$9,352	$359	$344,716

14

Index

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 balance sheet. The FRB requires the Bank to maintain stock with a par value equal to 6.0% of its common stock and paid-in surplus. One-half of this amount is paid to the FRB and the remaining half is subject to call when deemed necessary by the Board of Governors of the Federal Reserve System. The FHLB requires the Bank to maintain stock in an amount equal to a specific percentage of the Bank's total assets and 4.5% of outstanding borrowings. The cost of restricted stock at September 30, 2015 and December 31, 2014 was as follows (dollars in thousands):

	September 30, 2015	December 31, 2014
FRB stock	$3,531	$2,742
FHLB stock	1,777	1,625
Total restricted stock	$5,308	$4,367

Temporarily Impaired Securities

The following table shows 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, 2015. 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 (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	$15,037	$29	$12,939	$27	$2,098	$2
Mortgage-backed and CMOs	8,281	74	6,243	54	2,038	20
State and municipal	8,457	28	8,457	28	—	—
Corporate	2,726	30	1,135	9	1,591	21
Total	$34,501	$161	$28,774	$118	$5,727	$43

Federal Agencies and GSE debt securities: The unrealized losses on the Company's investment in four government sponsored entities ("GSE") 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, 2015.

Mortgage-backed securities and CMOs: The unrealized losses on the Company's investment in 13 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, 2015.

State and municipal securities: The unrealized losses on 11 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, 2015.

Corporate securities: The unrealized losses on three investments in corporate 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

Index

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, 2015.

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, 2015, and no impairment has been recognized.

The table below shows gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities had been in a continuous unrealized loss position, at December 31, 2014 (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	$28,979	$104	$21,449	$35	$7,530	$69
Mortgage-backed and CMOs	7,182	112	1,171	13	6,011	99
State and municipal	20,542	90	15,836	60	4,706	30
Corporate	5,032	53	2,273	4	2,759	49
Total	$61,735	$359	$40,729	$112	$21,006	$247

Other-Than-Temporary-Impaired Securities

As of September 30, 2015 and December 31, 2014, there were no securities classified as having other-than-temporary impairment.

Note 4 – Loans

Segments

Loans, excluding loans held for sale, as of September 30, 2015 and December 31, 2014, were comprised of the following (dollars in thousands):

	September 30, 2015	December 31, 2014
Commercial	$164,025	$126,981
Commercial real estate:		
Construction and land development	68,692	50,863
Commercial real estate	424,404	391,472
Residential real estate:		
Residential	219,415	175,293
Home equity	98,249	91,075
Consumer	6,199	5,241
Total loans	$980,984	$840,925

Acquired Loans

Interest income, including accretion income of $2,379,000, on loans acquired from MidCarolina Financial Corporation ("MidCarolina") and MainStreet for the nine months ended September 30, 2015 was approximately $11,333,000. The outstanding principal balance and the carrying amount of these loans included in the consolidated balance sheets at September 30, 2015 and December 31, 2014 are as follows (dollars in thousands):

	September 30, 2015	December 31, 2014
Outstanding principal balance	$162,190	$84,892
Carrying amount	151,026	78,111

Index

The outstanding principal balance and related carrying amount of acquired impaired loans, for which the Company applies FASB ASC 310-30, to account for interest earned, at September 30, 2015 and December 31, 2014 are as follows (dollars in thousands):

	September 30, 2015	December 31, 2014
Outstanding principal balance	$43,325	$18,357
Carrying amount	35,569	14,933

The following table presents changes in the accretable yield on acquired impaired loans, for which the Company applies FASB ASC 310-30, for the nine months ended September 30, 2015 (dollars in thousands):

	Accretable Yield
Balance at December 31, 2014	$1,440
Additions from merger with MainStreet	7,647
Accretion	(1,437)
Other changes, net	(589)
Balance at September 30, 2015	$7,061

Past Due Loans

The following table shows an analysis by portfolio segment of the Company's past due loans at September 30, 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	$4	$—	$—	$103	$107	$163,918	$164,025
Commercial real estate:							
Construction and land development	84	—	—	263	347	68,345	68,692
Commercial real estate	137	598	—	2,651	3,386	421,018	424,404
Residential:							
Residential	709	235	—	1,368	2,312	217,103	219,415
Home equity	58	32	—	960	1,050	97,199	98,249
Consumer	3	34	—	14	51	6,148	6,199
Total	$995	$899	$—	$5,359	$7,253	$973,731	$980,984

Index

The following table shows an analysis by portfolio segment of the Company's past due loans at December 31, 2014 (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	$114	$165	$—	$—	$279	$126,702	$126,981
Commercial real estate:							
Construction and land development	44	269	—	279	592	50,271	50,863
Commercial real estate	257	—	—	3,010	3,267	388,205	391,472
Residential:							
Residential	390	325	—	560	1,275	174,018	175,293
Home equity	223	60	—	262	545	90,530	91,075
Consumer	1	42	—	1	44	5,197	5,241
Total	$1,029	$861	$—	$4,112	$6,002	$834,923	$840,925

Index

Impaired Loans

The following table presents the Company's impaired loan balances by portfolio segment, excluding loans acquired with deteriorated credit quality, at September 30, 2015 (dollars in thousands):

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial	$107	$108	$—	$203	$—
Commercial real estate:					
Construction and land development	249	306	—	382	—
Commercial real estate	1,108	1,425	—	1,524	—
Residential:					
Residential	920	921	—	626	—
Home equity	803	803	—	695	—
Consumer	15	15	—	34	1
	$3,202	$3,578	$—	$3,464	$1
With a related allowance recorded:					
Commercial	—	—	—	—	—
Commercial real estate:					
Construction and land development	413	413	2	484	21
Commercial real estate	249	249	6	254	12
Residential					
Residential	379	379	24	333	10
Home equity	106	106	2	24	—
Consumer	—	—	—	—	—
	$1,147	$1,147	$34	$1,095	$43
Total:					
Commercial	$107	$108	$—	$203	$—
Commercial real estate:					
Construction and land development	662	719	2	866	21
Commercial real estate	1,357	1,674	6	1,778	12
Residential:					
Residential	1,299	1,300	24	959	10
Home equity	909	909	2	719	—
Consumer	15	15	—	34	1
	$4,349	$4,725	$34	$4,559	$44

Index

The following table presents the Company's impaired loan balances by portfolio segment, excluding loans acquired with deteriorated credit quality, at December 31, 2014 (dollars in thousands):

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial	$7	$7	$—	$12	$1
Commercial real estate:					
Construction and land development	280	325	—	448	—
Commercial real estate	1,520	1,797	—	1,844	—
Residential:					
Residential	603	603	—	723	8
Home equity	256	256	—	316	—
Consumer	1	1	—	2	—
	$2,667	$2,989	$—	$3,345	$9
With a related allowance recorded:					
Commercial	$—	$—	$—	$—	$—
Commercial real estate:					
Construction and land development	576	577	12	593	34
Commercial real estate	1,275	1,422	149	1,297	8
Residential:					
Residential	4	4	1	4	—
Home equity	—	—	—	—	—
Consumer	15	15	3	17	1
	$1,870	$2,018	$165	$1,911	$43
Total:					
Commercial	$7	$7	$—	$12	$1
Commercial real estate:					
Construction and land development	856	902	12	1,041	34
Commercial real estate	2,795	3,219	149	3,141	8
Residential:					
Residential	607	607	1	727	8
Home equity	256	256	—	316	—
Consumer	16	16	3	19	1
	$4,537	$5,007	$165	$5,256	$52

Index

The following tables show the detail of loans modified as troubled debt restructurings ("TDRs") during the three and nine months ended September 30, 2015 included in the impaired loan balances (dollars in thousands):

	Loans Modified as a TDR for the Three Months Ended September 30, 2015		
Loan Type	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial	2	$ 52	$ 31
Commercial real estate	—	—	—
Construction and land development	—	—	—
Home Equity	1	106	106
Residential real estate	1	382	294
Consumer	—	—	—
Total	4	$ 540	$ 431

	Loans Modified as a TDR for the Nine Months Ended September 30, 2015		
Loan Type	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial	2	$ 52	$ 31
Commercial real estate	3	256	249
Construction and land development	—	—	—
Home Equity	1	106	106
Residential real estate	5	776	680
Consumer	—	—	—
Total	11	$ 1,190	$ 1,066

The following tables show the detail of loans modified as TDRs during the three and nine months ended September 30, 2014 included in the impaired loan balances (dollars in thousands):

	Loans Modified as a TDR for the Three Months Ended September 30, 2014		
Loan Type	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial	—	$ —	$ —
Commercial real estate	—	—	—
Construction and land development	—	—	—
Home Equity	—	—	—
Residential real estate	—	—	—
Consumer	—	—	—
Total	—	$ —	$ —

Index

Loan Type	Loans Modified as a TDR for the Nine Months Ended September 30, 2014 Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial	—	$ —	$ —
Commercial real estate	1	182	179
Construction and land development	—	—	—
Home Equity	1	8	8
Residential real estate	2	121	115
Consumer	—	—	—
Total	4	$ 311	$ 302

During the three and nine months ended September 30, 2015 and September 30, 2014, the Company had one loan that subsequently defaulted within twelve months of modification as a TDR. The credit is a commercial real estate loan which became over 90 days past due during the third quarter of 2015, after being restructured in the second quarter of 2015. The Company defines defaults as one or more payments that occur more than 90 days past the due date, charge-off or foreclosure subsequent to modification.

Residential Real Estate in Process of Foreclosure

The Company had $386,000 in residential real estate in the process of foreclosure and $131,000 in residential other real estate owned at September 30, 2015.

Risk Grades

The following table shows the Company's loan portfolio broken down by internal risk grading as of September 30, 2015 (dollars in thousands):

Commercial and Consumer Credit Exposure

Credit Risk Profile by Internally Assigned Grade

	Commercial	Commercial Real Estate Construction	Commercial Real Estate Other	Residential	Home Equity
Pass	$ 162,525	$ 63,538	$ 411,483	$ 198,067	$ 95,351
Special Mention	1,362	1,579	6,179	16,268	1,528
Substandard	138	3,575	6,742	5,080	1,370
Doubtful	—	—	—	—	—
Total	$ 164,025	$ 68,692	$ 424,404	$ 219,415	$ 98,249

Consumer Credit Exposure

Credit Risk Profile Based on Payment Activity

	Consumer
Performing	$ 6,148
Nonperforming	51
Total	$ 6,199

Index

The following table shows the Company's loan portfolio broken down by internal risk grading as of December 31, 2014 (dollars in thousands):
Commercial and Consumer Credit Exposure
Credit Risk Profile by Internally Assigned Grade

	Commercial	Commercial Real Estate Construction	Commercial Real Estate Other	Residential	Home Equity
Pass	$125,405	$45,534	$382,607	$165,367	$88,646
Special Mention	1,569	569	4,889	6,709	1,801
Substandard	7	4,760	3,976	3,217	628
Doubtful	—	—	—	—	—
Total	$126,981				