

AMERICAN NATIONAL BANKSHARES INC
Form 10-Q
August 09, 2007

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 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 **June**
30, 2007.

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
(State or other jurisdiction of
incorporation or organization)

54-1284688
(I.R.S. Employer
Identification No.)

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

24541
(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 is a large accelerated filer, an accelerated filer, or a non-accelerated
filer.

See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange
Act.

Large accelerated filer Accelerated filer Non-accelerated

filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)

Yes No

At August 7, 2007, the Company had 6,142,867 shares Common Stock outstanding, \$1 par value.

AMERICAN NATIONAL BANKSHARES INC.

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American National Bankshares Inc. and Subsidiary
Consolidated Balance Sheets

(Dollars in thousands, except share data)

| | (Unaudited) June 30, 2007 | (Audited) December 31, 2006 |
|--|---------------------------------|-----------------------------------|
| ASSETS | | |
| Cash and due from banks | \$ 21,735 | \$ 24,375 |
| Interest bearing deposits in other banks | 17,053 | 1,749 |
| Securities available for sale, at fair value | 121,083 | 148,748 |
| Securities held to maturity (fair value of \$13,255 in 2007 and \$14,131 in 2006) | 13,148 | 13,873 |
| Total securities | 134,231 | 162,621 |
| Loans held for sale | 2,306 | 1,662 |
| Loans, net of unearned income | 551,744 | 542,228 |
| Less allowance for loan losses | (7,493) | (7,264) |
| Net loans | 544,251 | 534,964 |
| Bank premises and equipment, at cost, less accumulated depreciation of \$15,304 in 2007 and \$14,755 in 2006 | 12,899 | 12,438 |
| Goodwill | 22,468 | 22,468 |
| Core deposit intangibles, net | 2,641 | 2,829 |
| Accrued interest receivable and other assets | 13,553 | 14,614 |
| Total assets | \$ 771,137 | \$ 777,720 |
| LIABILITIES and SHAREHOLDERS' EQUITY | | |
| Liabilities: | | |
| Demand deposits -- noninterest bearing | \$ 107,206 | \$ 106,885 |
| Demand deposits -- interest bearing | 110,482 | 107,170 |
| Money market deposits | 50,749 | 50,948 |
| Savings deposits | 66,948 | 69,517 |
| Time deposits | 260,359 | 274,008 |
| Total deposits | 595,744 | 608,528 |
| Repurchase agreements | 43,615 | 33,368 |
| FHLB borrowings | 10,012 | 15,087 |
| Trust preferred capital notes | 20,619 | 20,619 |
| Accrued interest payable and other liabilities | 3,898 | 5,126 |
| Total liabilities | 673,888 | 682,728 |

| | | | |
|---|----|---------|------------|
| Shareholders' equity: | | | |
| Preferred stock, \$5 par, 200,000 shares authorized, none outstanding | | - | - |
| Common stock, \$1 par, 10,000,000 shares authorized, 6,145,617 shares outstanding at June 30, 2007 and 6,161,865 shares outstanding at December 31, 2006 | | 6,146 | 6,162 |
| Capital in excess of par value | | 26,422 | 26,414 |
| Retained earnings | | 67,122 | 64,584 |
| Accumulated other comprehensive income (loss), net | | (2,441) | (2,168) |
| Total shareholders' equity | | 97,249 | 94,992 |
| Total liabilities and shareholders' equity | \$ | 771,137 | \$ 777,720 |

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

American National Bankshares Inc. and Subsidiary
Consolidated Statements of Income

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

Three Months Ended

June 30

| | 2007 | | 2006 |
|--|-----------|----|--------|
| Interest Income: | | | |
| Interest and fees on loans | \$ 10,408 | \$ | 10,089 |
| Interest and dividends on securities: | | | |
| Taxable | 1,028 | | 1,358 |
| Tax-exempt | 420 | | 430 |
| Dividends | 82 | | 78 |
| Other interest income | 168 | | 191 |
| Total interest income | 12,106 | | 12,146 |
| Interest Expense: | | | |
| Interest on deposits | 3,860 | | 3,538 |
| Interest on repurchase agreements | 449 | | 335 |
| Interest on trust preferred capital notes | 344 | | 320 |
| Interest on other borrowings | 170 | | 242 |
| Total interest expense | 4,823 | | 4,435 |
| Net Interest Income | 7,283 | | 7,711 |
| Provision for loan losses | - | | 354 |
| Net Interest Income After Provision for Loan Losses | 7,283 | | 7,357 |
| Noninterest Income: | | | |
| Trust fees | 924 | | 885 |
| Service charges on deposit accounts | 625 | | 737 |
| Mortgage banking income | 329 | | 203 |
| Brokerage fees | 159 | | 109 |
| Other fees and commissions | 198 | | 183 |
| Securities gains, net | 64 | | 17 |
| Other | 132 | | 133 |
| Total noninterest income | 2,431 | | 2,267 |
| Noninterest Expense: | | | |
| Salaries | 2,514 | | 2,527 |
| Pension and other employee benefits | 737 | | 673 |
| Occupancy and equipment | 850 | | 744 |
| Bank franchise tax | 165 | | 170 |
| Other | 1,182 | | 1,242 |
| Total noninterest expense | 5,448 | | 5,356 |
| Income Before Income Tax Provision | 4,266 | | 4,268 |
| Income Tax Provision | 1,235 | | 1,266 |
| Net Income | \$ 3,031 | \$ | 3,002 |
| Net Income Per Common Share: | | | |
| Basic | \$ 0.49 | \$ | 0.49 |
| Diluted | \$ 0.49 | \$ | 0.48 |

Average Common Shares

Outstanding:

| | | |
|---------|-----------|-----------|
| Basic | 6,150,216 | 6,172,522 |
| Diluted | 6,177,165 | 6,207,543 |

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

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American National Bankshares Inc. and Subsidiary
Consolidated Statements of Income

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

Six Months Ended

June 30

| | 2007 | | 2006 |
|--|-----------|----|--------|
| Interest Income: | | | |
| Interest and fees on loans | \$ 20,487 | \$ | 17,045 |
| Interest and dividends on securities: | | | |
| Taxable | 2,164 | | 2,510 |
| Tax-exempt | 843 | | 881 |
| Dividends | 171 | | 135 |
| Other interest income | 339 | | 423 |
| Total interest income | 24,004 | | 20,994 |
| Interest Expense: | | | |
| Interest on deposits | 7,643 | | 5,845 |
| Interest on repurchase agreements | 875 | | 644 |
| Interest on trust preferred capital notes | 687 | | 320 |
| Interest on other borrowings | 376 | | 455 |
| Total interest expense | 9,581 | | 7,264 |
| Net Interest Income | 14,423 | | 13,730 |
| Provision for loan losses | 303 | | 480 |
| Net Interest Income After Provision for Loan Losses | 14,120 | | 13,250 |
| Noninterest Income: | | | |
| Trust fees | 1,803 | | 1,640 |
| Service charges on deposit accounts | 1,247 | | 1,308 |
| Mortgage banking income | 519 | | 336 |
| Brokerage fees | 248 | | 234 |
| Other fees and commissions | 398 | | 367 |
| Securities gains, net | 89 | | 38 |
| Other | 339 | | 245 |
| Total noninterest income | 4,643 | | 4,168 |
| Noninterest Expense: | | | |
| Salaries | 4,904 | | 4,511 |
| Pension and other employee benefits | 1,385 | | 1,322 |
| Occupancy and equipment | 1,679 | | 1,390 |
| Bank franchise tax | 333 | | 310 |
| Other | 2,317 | | 2,206 |
| Total noninterest expense | 10,618 | | 9,739 |
| Income Before Income Tax Provision | 8,145 | | 7,679 |
| Income Tax Provision | 2,410 | | 2,271 |
| Net Income | \$ 5,735 | \$ | 5,408 |
| Net Income Per Common Share: | | | |
| Basic | \$ 0.93 | \$ | 0.93 |
| Diluted | \$ 0.93 | \$ | 0.93 |

Average Common Shares

Outstanding:

| | | |
|---------|-----------|-----------|
| Basic | 6,153,496 | 5,805,287 |
| Diluted | 6,181,107 | 5,840,871 |

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

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American National Bankshares Inc. and Subsidiary
Consolidated Statements of Changes in Shareholders' Equity

Six Months Ended June 30, 2007 and 2006 (Unaudited)

| (Dollars in thousands) | Common Stock | | Capital in Excess of Par Value | Accumulated | | Total Shareholders' Equity |
|---|--------------|----------|---|----------------------|--|----------------------------------|
| | Shares | Amount | | Retained Earnings | Other Comprehensive Income (Loss) | |
| Balance, December 31, 2005 | 5,441,758 | \$ 5,442 | \$ 9,588 | \$ 59,109 | \$ (720) | \$ 73,419 |
| Net income | - | - | - | 5,408 | - | 5,408 |
| Change in unrealized losses on securities available for sale, net of tax of \$ (751) | - | - | - | - | (1,361) | |
| Less: Reclassification adjustment for gains on securities available for sale, net of tax of \$ (13) | - | - | - | - | (26) | |
| Other comprehensive income (loss) | | | | | (1,387) | (1,387) |
| Total comprehensive income | | | | | | 4,021 |
| Merger acquisition | 746,944 | 747 | 16,799 | | | 17,546 |
| Stock repurchased and retired | (31,200) | (31) | (98) | (597) | - | (726) |
| Stock options exercised | 4,988 | 4 | 64 | - | - | 68 |
| Cash dividends declared (\$.43 per share) | - | - | - | (2,497) | - | (2,497) |
| Balance, June 30, 2006 | 6,162,490 | \$ 6,162 | \$ 26,353 | \$ 61,423 | \$ (2,107) | \$ 91,831 |
| | 6,161,865 | \$ 6,162 | \$ 26,414 | \$ 64,584 | \$ (2,168) | 94,992 |

**Balance, December
31, 2006**

| | | | | | | |
|---|-----------|----------|-----------|-----------|------------|-----------|
| Net income | - | - | - | 5,735 | - | 5,735 |
| Change in unrealized losses on securities available for sale, net of tax of \$ (117) | - | - | - | - | (214) | |
| Less: Reclassification adjustment for gains on securities available for sale, net of tax of \$ (30) | - | - | - | - | (59) | |
| Other comprehensive income (loss) | | | | | (273) | (273) |
| Total comprehensive income | | | | | | 5,462 |
| Stock repurchased and retired | (24,300) | (24) | (104) | (428) | - | (556) |
| Stock options exercised | 8,052 | 8 | 112 | - | - | 120 |
| Cash dividends declared (\$.45 per share) | - | - | - | (2,769) | - | (2,769) |
| Balance, June 30, 2007 | 6,145,617 | \$ 6,146 | \$ 26,422 | \$ 67,122 | \$ (2,441) | \$ 97,249 |

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

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American National Bankshares Inc. and Subsidiary
Consolidated Statements of Cash Flows

Six Months Ended June 30, 2007 and 2006

(Dollars in thousands) (Unaudited)

| | 2007 | 2006 |
|---|----------|----------|
| Cash Flows from Operating Activities: | | |
| Net income | \$ 5,735 | \$ 5,408 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for loan losses | 303 | 480 |
| Depreciation | 564 | 451 |
| Core deposit intangible amortization | 188 | 173 |
| Amortization of purchase accounting adjustments | - | (200) |
| Net amortization (accretion) of bond premiums and discounts | (59) | 17 |
| Net gain on sale or call of securities | (89) | (38) |
| Gain on loans held for sale | (397) | (200) |
| Proceeds from sales of loans held for sale | 17,862 | 6,592 |
| Originations of loans held for sale | (18,109) | (6,683) |
| Net gain on foreclosed real estate | (6) | (3) |
| Change in valuation allowance for foreclosed real estate | (10) | - |
| Gain on sale of premises and equipment | (9) | - |
| Deferred income tax expense (benefit) | 92 | (195) |
| Change in interest receivable | (15) | (304) |
| Change in other assets | 1,117 | (1,883) |
| Change in interest payable | (100) | 222 |
| Change in other liabilities | (1,128) | (956) |
| Net cash provided by operating activities | 5,939 | 2,881 |
| Cash Flows from Investing Activities: | | |
| Proceeds from sales of securities available for sale | 665 | 883 |
| Proceeds from maturities and calls of securities available for sale | 31,589 | 32,781 |
| Proceeds from maturities and calls of securities held to maturity | 725 | 2,862 |
| Purchases of securities available for sale | (4,861) | (38,094) |
| Net change in loans | (9,590) | 1,634 |
| Net cash paid in merger acquisition | - | (14,634) |
| Purchases of bank property and equipment | (1,016) | (397) |
| | 30 | 91 |

| | | |
|---|--------|----------|
| Proceeds from sales of foreclosed real estate | | |
| Net cash provided by (used in) investing activities | 17,542 | (14,874) |

(Continued on next page)

Index**American National Bankshares Inc. and Subsidiary****Consolidated Statements of Cash Flows**

Six Months Ended June 30, 2007 and 2006

(Dollars in thousands) (Unaudited)

| | 2007 | 2006 |
|---|-----------|-----------|
| Cash Flows from Financing Activities: | | |
| Net change in demand, money market, and savings deposits | 865 | 13,682 |
| Net change in time deposits | (13,649) | (14,619) |
| Net change in repurchase agreements | 10,247 | 6,464 |
| Net change in FHLB borrowings | (5,075) | 18,044 |
| Cash dividends paid | (2,769) | (2,497) |
| Repurchase of stock | (556) | (726) |
| Proceeds from exercise of stock options | 120 | 68 |
| Net cash (used in) provided by financing activities | (10,817) | 20,416 |
| Net Increase in Cash and Cash Equivalents | 12,664 | 8,423 |
| Cash and Cash Equivalents at Beginning of Period | 26,124 | 27,354 |
| Cash and Cash Equivalents at End of Period | \$ 38,788 | \$ 35,777 |
| Supplemental Schedule of Cash and Cash Equivalents: | | |
| Cash: | | |
| Cash and due from banks | \$ 21,735 | \$ 19,352 |
| Interest bearing deposits in other banks | 17,053 | 16,425 |
| | \$ 38,788 | \$ 35,777 |
| Supplemental Disclosure of Cash Flow Information: | | |
| Interest paid | \$ 8,995 | \$ 6,403 |
| Income taxes paid | 1,022 | 918 |
| Transfer of loans to other real estate owned | - | 115 |
| Unrealized gain (loss) on securities available for sale | (420) | (2,152) |
| Merger acquisition | | |

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| | | |
|-----------------------------------|---|----------|
| Fair value of assets acquired | - | 175,423 |
| Fair value of common stock issued | - | (17,546) |
| Cash paid | - | (17,087) |
| Liabilities assumed | - | 140,790 |

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

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AMERICAN NATIONAL BANKSHARES INC. AND SUBSIDIARY
NOTES TO FINANCIAL STATEMENTS

Note 1 – Basis of Presentation

The consolidated financial statements include the amounts and results of operations of American National Bankshares Inc. and its wholly owned subsidiary, American National Bank and Trust Company (collectively referred to as the “Company”).

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments (consisting of normal recurring accruals) necessary to present fairly the Company’s financial position as of June 30, 2007; the consolidated statements of income for the three months and six months ended June 30, 2007 and 2006; the consolidated statements of changes in shareholders’ equity for the six months ended June 30, 2007 and 2006; and the consolidated statements of cash flows for the six months ended June 30, 2007 and 2006. Operating results for the six month period ended June 30, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007. Certain reclassifications have been made to prior period balances to conform to the current period presentation. The statements should be read in conjunction with the Notes to Financial Statements included in the Company’s Form 10-K for the year ended December 31, 2006.

Note 2 - Securities

The amortized cost and estimated fair value of investments in debt and equity securities at June 30, 2007 and December 31, 2006 were as follows:

| (in thousands) | June 30, 2007 | | | |
|-------------------------------------|-------------------|---------------------|----------------------|-------------------------|
| | Amortized Cost | Unrealized Gains | Unrealized Losses | Estimated Fair Value |
| Securities available for sale: | | | | |
| Debt securities: | | | | |
| Federal agencies | \$ 62,571 | \$ 1 | \$ 704 | \$ 61,868 |
| Mortgage-backed | 19,530 | 57 | 345 | 19,242 |
| State and municipal | 33,557 | 54 | 793 | 32,818 |
| Corporate | 1,485 | - | 51 | 1,434 |
| Equity securities: | | | | |
| FHLB stock – restricted | 1,851 | - | - | 1,851 |
| Federal Reserve stock - restricted | 1,429 | - | - | 1,429 |
| FNMA and FHLMC preferred stock | 2,067 | 279 | - | 2,346 |
| Other | 95 | - | - | 95 |
| Total securities available for sale | 122,585 | 391 | 1,893 | 121,083 |
| Securities held to maturity: | | | | |
| Federal agencies | 1,000 | - | 1 | 999 |
| Mortgage-backed | 347 | 5 | - | 352 |
| State and municipal | 11,801 | 157 | 54 | 11,904 |
| Total securities held to maturity | 13,148 | 162 | 55 | 13,255 |
| Total securities | \$ 135,733 | \$ 553 | \$ 1,948 | \$ 134,338 |

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| (in thousands) | December 31, 2006 | | | | Estimated Fair Value |
|-------------------------------------|-------------------|---------------------|----------------------|----|-------------------------|
| | Amortized Cost | Unrealized Gains | Unrealized Losses | | |
| Securities available for sale: | | | | | |
| Debt securities: | | | | | |
| Federal agencies | \$ 88,106 | \$ 40 | \$ 819 | \$ | 87,327 |
| Mortgage-backed | 19,225 | 104 | 353 | | 18,976 |
| State and municipal | 33,608 | 168 | 423 | | 33,353 |
| Corporate | 2,490 | 3 | 56 | | 2,437 |
| Equity securities: | | | | | |
| FHLB stock - restricted | 2,248 | - | - | | 2,248 |
| Federal Reserve stock - restricted | 1,429 | - | - | | 1,429 |
| FNMA and FHLMC preferred stock | 2,643 | 254 | - | | 2,897 |
| Other | 81 | - | - | | 81 |
| Total securities available for sale | 149,830 | 569 | 1,651 | | 148,748 |
| Securities held to maturity: | | | | | |
| Federal agencies | 1,001 | - | 12 | | 989 |
| Mortgage-backed | 385 | 9 | - | | 394 |
| State and municipal | 12,487 | 291 | 30 | | 12,748 |
| Total securities held to maturity | 13,873 | 300 | 42 | | 14,131 |
| Total securities | \$ 163,703 | \$ 869 | \$ 1,693 | \$ | 162,879 |

The following table shows gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at June 30, 2007.

| (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 | \$ 60,391 | \$ 705 | \$ 15,951 | \$ 147 | \$ 44,440 | \$ 558 |
| Mortgage-backed | 13,450 | 345 | 3,967 | 41 | 9,483 | 304 |
| State and municipal | 30,798 | 847 | 6,793 | 136 | 24,005 | 711 |
| Corporate | 1,434 | 51 | - | - | 1,434 | 51 |
| Total | \$ 106,073 | \$ 1,948 | \$ 26,711 | \$ 324 | \$ 79,362 | \$ 1,624 |

Management evaluates securities for other-than-temporary impairment quarterly, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to the length of time and the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, and the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. The unrealized losses are attributable to interest rate changes and not credit concerns of the issuer. The Company has the intent and ability to hold these securities for the time necessary to recover the amortized cost. As of June 30, 2007, the Company held 126 securities that had been in a continuous unrealized loss position for twelve months or more.

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, 2006.

| (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 | \$ 72,091 | \$ 831 | \$ 21,439 | \$ 113 | \$ 50,652 | \$ 718 |
| Mortgage-backed | 11,091 | 353 | 242 | 2 | 10,849 | 351 |
| State and municipal | 25,310 | 453 | 3,784 | 51 | 21,526 | 402 |
| Corporate | 1,429 | 56 | - | - | 1,429 | 56 |
| Total | \$ 109,921 | \$ 1,693 | \$ 25,465 | \$ 166 | \$ 84,456 | \$ 1,527 |

Index**Note 3 - Loans**

Loans, excluding loans held for sale, were comprised of the following:

| (in thousands) | June 30, 2007 | December 31, 2006 |
|-----------------------------------|---------------|----------------------|
| Construction and land development | \$ 73,596 | \$ 69,404 |
| Commercial real estate | 196,426 | 186,639 |
| Residential real estate | 129,032 | 131,126 |
| Home equity | 48,136 | 52,531 |
| Total real estate | 447,190 | 439,700 |
| Commercial and industrial | 93,763 | 91,511 |
| Consumer | 10,791 | 11,017 |
| Total loans | \$ 551,744 | \$ 542,228 |

The following is a summary of information pertaining to impaired and nonaccrual loans:

| (in thousands) | June 30, 2007 | December 31, 2006 |
|--|---------------|----------------------|
| Impaired loans without a valuation allowance | \$ 936 | \$ 472 |
| Impaired loans with a valuation allowance | 3,105 | 904 |
| Total impaired loans | \$ 4,041 | \$ 1,376 |
| Allowance provided for impaired loans, included in the allowance for loan losses | \$ 912 | \$ 241 |
| Nonaccrual loans excluded from the impaired loan disclosure | \$ 1,356 | \$ 2,311 |

| (in thousands) | As of and for the Three Months Ended June 30, 2007 | As of and for the Six Months Ended June 30, 2007 | As of and for the Three Months Ended June 30, 2006 | As of and for the Six Months Ended June 30, 2006 |
|--|---|---|---|---|
| Average balance in impaired loans | \$ 2,292 | \$ 1,939 | \$ 3,161 | \$ 3,358 |
| Interest income recognized on impaired loans | \$ 103 | \$ 107 | \$ 23 | \$ 31 |

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| | | | | | | | | |
|---|----|----|----|-----|----|-----|----|-----|
| Interest income recognized on nonaccrual loans | \$ | - | \$ | - | \$ | - | \$ | - |
| Interest on nonaccrual loans had they been accruing | \$ | 73 | \$ | 148 | \$ | 129 | \$ | 195 |
| Loans past due 90 days and still accruing interest | \$ | - | \$ | - | \$ | 226 | \$ | 226 |

No additional funds are committed to be advanced in connection with impaired loans.

Foreclosed real estate was \$85,000 at June 30, 2007 and \$99,000 at December 31, 2006, and is included in other assets on the Consolidated Balance Sheets.

Index**Note 4 - Allowance for Loan Losses and Reserve for Unfunded Lending Commitments**

Changes in the allowance for loan losses and the reserve for unfunded lending commitments for the six months ended June 30, 2007 and 2006, and for the year ended December 31, 2006 are presented below:

| (in thousands) | Six Months Ended June 30, 2007 | Year Ended December 31, 2006 | Six Months Ended June 30, 2006 |
|----------------------------------|--------------------------------------|------------------------------------|--------------------------------------|
| Allowance for Loan Losses | | | |
| Balance, beginning of period | \$ 7,264 | \$ 6,109 | \$ 6,109 |
| Allowance acquired in merger | - | 1,598 | 1,598 |
| Provision for loan losses | 303 | 58 | |