

AMERICAN NATIONAL BANKSHARES INC.  
Form 10-Q  
May 12, 2014

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 March 31, 2014.

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.

YesxNoo

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.

YesxNoo

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   
Smaller reporting company -

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

YesoNox

At April 30, 2014, the Company had 7,905,243 shares of Common Stock outstanding, \$1 par value.

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AMERICAN NATIONAL BANKSHARES INC.

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## Part I. Financial Information

## Item 1. Financial Statements

## American National Bankshares Inc. and Subsidiaries

## Consolidated Balance Sheets

(Dollars in thousands, except share data)

	(Unaudited) March 31, 2014	(Audited) December 31, 2013
Assets		
Cash and due from banks	\$25,880	\$19,808
Interest-bearing deposits in other banks	45,466	47,873
Securities available for sale, at fair value	349,123	346,124
Restricted stock, at cost	4,529	4,889
Loans held for sale	1,389	2,760
Loans, net of unearned income	783,369	794,671
Less allowance for loan losses	(12,614 )	(12,600 )
Net loans	770,755	782,071
Premises and equipment, net	23,359	23,674
Other real estate owned, net	3,233	3,422
Goodwill	39,043	39,043
Core deposit intangibles, net	2,828	3,159
Bank owned life insurance	14,845	14,746
Accrued interest receivable and other assets	19,352	19,943
Total assets	\$1,299,802	\$1,307,512
Liabilities		
Liabilities:		
Demand deposits -- noninterest bearing	\$218,795	\$229,347
Demand deposits -- interest bearing	170,894	167,736
Money market deposits	194,528	185,270
Savings deposits	89,024	85,724
Time deposits	378,008	389,598
Total deposits	1,051,249	1,057,675
Customer repurchase agreements	34,153	39,478
Long-term borrowings	9,919	9,951
Trust preferred capital notes	27,444	27,419
Accrued interest payable and other liabilities	6,538	5,438
Total liabilities	1,129,303	1,139,961
Shareholders' equity		
Preferred stock, \$5 par, 2,000,000 shares authorized, none outstanding	-	-
Common stock, \$1 par, 20,000,000 shares authorized, 7,905,243 shares outstanding at March 31, 2014 and 7,890,697 shares outstanding at December 31, 2013	7,905	7,891
Capital in excess of par value	58,202	58,050
Retained earnings	100,721	99,090

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Accumulated other comprehensive income, net	3,671	2,520
Total shareholders' equity	170,499	167,551
Total liabilities and shareholders' equity	\$1,299,802	\$1,307,512

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

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American National Bankshares Inc. and Subsidiaries  
Consolidated Statements of Income  
(Dollars in thousands, except share and per share data) (Unaudited)

	Three Months Ended March 31	
	2014	2013
Interest and Dividend Income:		
Interest and fees on loans	\$9,847	\$11,395
Interest and dividends on securities:		
Taxable	964	878
Tax-exempt	1,035	1,052
Dividends	75	55
Other interest income	33	29
Total interest and dividend income	11,954	13,409
Interest Expense:		
Interest on deposits	1,229	1,436
Interest on short-term borrowings	2	21
Interest on long-term borrowings	80	82
Interest on trust preferred capital notes	184	188
Total interest expense	1,495	1,727
Net Interest Income	10,459	11,682
Provision for Loan Losses	-	294
Net Interest Income After Provision for Loan Losses	10,459	11,388
Noninterest Income:		
Trust fees	1,122	588
Service charges on deposit accounts	413	409
Other fees and commissions	444	459
Mortgage banking income	263	718
Securities gains, net	39	198
Other	422	398
Total noninterest income	2,703	2,770
Noninterest Expense:		
Salaries	3,538	3,439
Employee benefits	975	899
Occupancy and equipment	936	916
FDIC assessment	164	161
Bank franchise tax	222	187
Core deposit intangible amortization	331	420
Data processing	348	277
Software	262	212
Foreclosed real estate, net	16	243

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Other	1,631	1,564
Total noninterest expense	8,423	8,318
Income Before Income Taxes	4,739	5,840
Income Taxes	1,289	1,689
Net Income	\$3,450	\$4,151

Net Income Per Common Share:

Basic	\$0.44	\$0.53
Diluted	\$0.44	\$0.53
Average Common Shares Outstanding:		
Basic	7,904,759	7,861,991
Diluted	7,917,601	7,871,508

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



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

	Three Months Ended March 31	
	2014	2013
Net income	\$3,450	\$4,151
Other comprehensive income (loss):		
Unrealized gains (losses) on securities available for sale	1,809	(882 )
Income tax (expense) benefit	(633 )	309
Reclassification adjustment for gains on securities	(39 )	(198 )
Income tax expense	14	69
Other comprehensive income (loss)	1,151	(702 )
Comprehensive income	\$4,601	\$3,449

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

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American National Bankshares Inc. and Subsidiaries  
 Consolidated Statements of Changes in Shareholders' Equity  
 Three Months Ended March 31, 2014 and 2013  
 (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, 2012	\$ 7,847	\$57,211	\$90,591	\$ 7,597	\$ 163,246
Net income	-	-	4,151	-	4,151
Other comprehensive loss	-	-	-	(702 )	(702 )
Equity based compensation	16	130	-	-	146
Cash dividends declared, \$0.23 per share	-	-	(1,809 )	-	(1,809 )
Balance, March 31, 2013	\$ 7,863	\$57,341	\$92,933	\$ 6,895	\$ 165,032
Balance, December 31, 2013	\$ 7,891	\$58,050	\$99,090	\$ 2,520	\$ 167,551
Net income	-	-	3,450	-	3,450
Other comprehensive income	-	-	-	1,151	1,151
Equity based compensation	14	152	-	-	166
Cash dividends declared, \$0.23 per share	-	-	(1,819 )	-	(1,819 )
Balance, March 31, 2014	\$ 7,905	\$58,202	\$100,721	\$ 3,671	\$ 170,499

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

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American National Bankshares Inc. and Subsidiaries  
Consolidated Statements of Cash Flows  
Three Months Ended March 31, 2014 and 2013  
(Dollars in thousands) (Unaudited)

	2014		2013
Cash Flows from Operating Activities:			
Net income	\$ 3,450		\$ 4,151
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	-		294
Depreciation	434		424
Net accretion of purchase accounting adjustments	(896 )		(1,983 )
Core deposit intangible amortization	331		420
Net amortization (accretion) of securities	668		788
Net gain on sale or call of securities	(39 )		(198 )
Gain on sale of loans held for sale	(215 )		(650 )
Proceeds from sales of loans held for sale	13,745		33,782
Originations of loans held for sale	(12,159 )		(23,675 )
Net gain on foreclosed real estate	(49 )		(14 )
Valuation allowance on foreclosed real estate	24		70
Equity based compensation expense	166		146
Deferred income tax expense (benefit)	94		(43 )
Net change in interest receivable	344		175
	(565 )		(1,504 )

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Net change in other assets		
Net change in interest payable	(43 )	(23 )
Net change in other liabilities	1,143	1,813
Net cash provided by operating activities	6,433	13,973
Cash Flows from Investing Activities:		
Proceeds from sales of securities available for sale	2,061	2,627
Proceeds from maturities, calls and paydowns of securities available for sale	22,540	9,329
Purchases of securities available for sale	(26,459 )	(19,555 )
Net change in restricted stock	360	411
Net decrease (increase) in loans	12,225	(2,112 )
Purchases of premises and equipment	(119 )	(178 )
Proceeds from sales of foreclosed real estate	232	645
Net cash provided by (used in) investing activities	10,840	(8,833 )
Cash Flows from Financing Activities:		
Net change in demand, money market, and savings deposits	5,164	4,199
Net change in time deposits	(11,590 )	5,986
Net change in customer repurchase agreements	(5,325 )	(3,276 )
Net change in long-term borrowings	(38 )	(37 )
Common stock dividends paid	(1,819 )	(1,809 )
	(13,608 )	5,063

Net cash (used in)  
provided by financing  
activities

Net Increase in Cash and Cash Equivalents	3,665	10,203
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Cash and Cash Equivalents at Beginning of Period	67,681	47,442
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Cash and Cash Equivalents at End of Period	\$ 71,346	\$ 57,645
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The accompanying notes are an integral part of the consolidated financial statements.

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AMERICAN NATIONAL BANKSHARES INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Basis of Presentation

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, 2014. Certain reclassifications have been made to prior period balances to conform to the current period presentation. 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, 2013.

Note 2 – Recent Accounting Pronouncements

In January 2014, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") 2014-01, "Investments—Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects (a consensus of the FASB Emerging Issues Task Force)." The amendments in this ASU permit reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense (benefit). The amendments in this ASU should be applied retrospectively to all periods presented. A reporting entity that uses the effective yield method to account for its investments in qualified affordable housing projects before the date of adoption may continue to apply the effective yield method for those preexisting investments. The amendments in this ASU are effective for public business entities for annual periods and interim reporting periods within those annual periods, beginning after December 15, 2014. Early adoption is permitted. The Company does not expect the adoption of ASU 2014-01 to have a material impact on its consolidated financial statements.

In January 2014, the FASB issued ASU 2014-04, "Receivables—Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure (a consensus of the FASB Emerging Issues Task Force)." The amendments in this ASU clarify that an in substance

repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendments require interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. The amendments in this ASU are effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. The Company is currently assessing the impact that ASU 2014-04 will have on its consolidated financial statements.

In April 2014, the FASB issued ASU 2014-08, "Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity." The amendments in this ASU change the criteria for reporting discontinued operations while enhancing disclosures in this area. Under the new guidance, only disposals representing a strategic shift in operations should be presented as discontinued operations. Those strategic shifts should have a major effect on the organization's operations and financial results and include disposals of a major geographic area, a major line of business, or a major equity method investment. The new guidance requires expanded disclosures about discontinued operations that will provide financial statement users with more information about the assets, liabilities, income, and expenses of discontinued operations. Additionally, the new guidance requires disclosure of the pre-tax income attributable to a disposal of a significant part of an organization that does not qualify for discontinued operations reporting. The amendments in the ASU are effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. Early adoption is permitted. The Company does not expect the adoption of ASU 2014-08 to have a material impact on its consolidated financial statements.

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## Note 3 – Securities

The amortized cost and estimated fair value of investments in debt and equity securities at March 31, 2014 and December 31, 2013 were as follows:

(in thousands)	March 31, 2014			Estimated
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities available for sale:				
Federal agencies and GSEs	\$72,872	\$ 107	\$ 394	\$72,585
Mortgage-backed and CMOs	64,129	940	398	64,671
State and municipal	194,114	7,178	287	201,005
Corporate	9,733	13	115	9,631
Equity securities	1,000	231	-	1,231
Total securities available for sale	\$341,848	\$ 8,469	\$ 1,194	\$349,123

(in thousands)	December 31, 2013			Estimated
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities available for sale:				
Federal agencies and GSE	\$66,241			