AMERICAN NATIONAL BANKSHARES INC
Form 10-Q
May 09, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 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 March 31, 2011.

¨ 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 x No ¨

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

Yes ¨ No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer”, “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer o Accelerated filer x Non-accelerated filer o
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 ¨ No x

At May 6, 2011, the Company had 6,153,433 shares of Common Stock outstanding, $1 par value.

AMERICAN NATIONAL BANKSHARES INC.

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Part I. Financial Information
Item 1. Financial Statements

American National Bankshares Inc. and Subsidiaries
Consolidated Balance Sheets
(Dollars in thousands, except share data)

	(Unaudited) March 31, 2011	(Audited) December 31, 2010
ASSETS		
Cash and due from banks	$ 14,248	$ 9,547
Interest-bearing deposits in other banks	25,397	8,967
Securities available for sale, at fair value	226,171	228,295
Securities held to maturity (fair value of $3,236 at 3/31/11 and $3,440 at 12/31/10)	3,146	3,334
Total securities	229,317	231,629
Restricted stock, at cost	4,062	4,062
Loans held for sale	1,309	3,135
Loans, net of unearned income	516,629	520,781
Less allowance for loan losses	(8,257)	(8,420)
Net loans	508,372	512,361
Premises and equipment, net	19,308	19,509
Other real estate owned, net	3,532	3,716
Goodwill	22,468	22,468
Core deposit intangibles, net	1,226	1,320
Accrued interest receivable and other assets	15,999	16,950
Total assets	$ 845,238	$ 833,664
LIABILITIES and SHAREHOLDERS' EQUITY		
Liabilities:		
Demand deposits -- noninterest bearing	$ 117,260	$ 105,240
Demand deposits -- interest bearing	96,686	90,012
Money market deposits	57,530	59,891
Savings deposits	63,236	62,522
Time deposits	328,771	322,433
Total deposits	663,483	640,098

Short-term borrowings:				
Customer repurchase agreements		43,871		47,084
Other short-term borrowings		-		6,110
Long-term borrowings		4,450		8,488
Trust preferred capital notes		20,619		20,619
Accrued interest payable and other liabilities		3,443		3,178
Total liabilities		735,866		725,577
Shareholders' equity:				
Preferred stock, $5 par, 2,000,000 shares authorized,				
none outstanding		-		-
Common stock, $1 par, 20,000,000 shares authorized,				
6,153,433 shares outstanding at March 31, 2011 and				
6,127,735 shares outstanding at December 31, 2010		6,153		6,128
Capital in excess of par value		27,541		27,268
Retained earnings		75,214		74,850
Accumulated other comprehensive income (loss), net		464		(159)
Total shareholders' equity		109,372		108,087
Total liabilities and shareholders' equity	$	845,238	$	833,664

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	
	2011	2010
Interest and Dividend Income:		
Interest and fees on loans	$ 6,679	$ 7,155
Interest and dividends on securities:		
Taxable	1,169	1,316
Tax-exempt	716	466
Dividends	27	23
Other interest income	70	91
Total interest and dividend income	8,661	9,051
Interest Expense:		
Interest on deposits	1,580	1,635
Interest on short-term borrowings	80	105
Interest on long-term borrowings	53	64
Interest on trust preferred capital notes	343	343
Total interest expense	2,056	2,147
Net Interest Income	6,605	6,904
Provision for Loan Losses	337	285
Net Interest Income After Provision for Loan Losses	6,268	6,619
Noninterest Income:		
Trust fees	928	812
Service charges on deposit accounts	421	479
Other fees and commissions	316	278
Mortgage banking income	147	246
Securities gains (losses), net	1	(29)
Other	158	138
Total noninterest income	1,971	1,924
Noninterest Expense:		
Salaries	2,485	2,398
Employee benefits	541	640
Occupancy and equipment	699	779
FDIC assessment	205	195
Bank franchise tax	175	167
Core deposit intangible amortization	94	94
Foreclosed real estate, net	22	3
Other	1,558	1,224
Total noninterest expense	5,779	5,500

Income Before Income Taxes		2,460		3,043
Income Taxes		682		858
Net Income	$	1,778	$	2,185
Net Income Per Common Share:				
Basic	$	0.29	$	0.36
Diluted	$	0.29	$	0.36
Average Common Shares Outstanding:				
Basic		6,143,602		6,119,415
Diluted		6,152,738		6,124,306

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, 2011 and 2010
(Dollars in thousands) (Unaudited)

	Common Stock		Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	Shares	Amount				
Balance, December 31, 2009	6,110,335	$ 6,110	$ 26,962	$ 72,208	$ 1,109	$ 106,389
Net income	-	-	-	2,185	-	2,185
Change in unrealized losses on securities available for sale, net of tax, $(64)	-	-	-	-	(116)	
Add: Reclassification adjustment for losses on impairment of securites, net of tax, $11	-	-	-	-	20	
Less: Reclassification adjustment for gains on securities available for sale, net of tax of $ 0	-	-	-	-	(2)	
Other comprehensive loss					(98)	(98)
Total comprehensive income						2,087
Stock options exercised	2,764	3	42	-	-	45
Stock option expense	-	-	16	-	-	16
	10,176	10	43	-	-	53

Equity based compensation						
Cash dividends declared, $0.23 per share	-	-		(1,408)	-	(1,408)
Balance, March 31, 2010	6,123,275	$ 6,123	$ 27,063	$ 72,985	$ 1,011	$ 107,182
Balance, December 31, 2010	6,127,735	$ 6,128	$ 27,268	$ 74,850	$ (159)	$ 108,087
Net income	-	-	-	1,778	-	1,778
Change in unrealized gains on securities available for sale, net of tax, $336	-	-	-	-	624	
Less: Reclassification adjustment for gains on securities available for sale, net of tax of $0	-	-	-	-	(1)	
Other comprehensive income					623	623
Total comprehensive income						2,401
Stock options exercised	10,510	10	162	-	-	172
Stock option expense	-	-	16	-	-	16
Equity based compensation	15,188	15	95	-	-	110
Cash dividends declared, $0.23 per share	-	-		(1,414)	-	(1,414)
Balance, March 31, 2011	6,153,433	$ 6,153	$ 27,541	$ 75,214	$ 464	$ 109,372

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, 2011 and 2010
(Dollars in thousands) (Unaudited)

	2011	2010
Cash Flows from Operating Activities:		
Net income	$ 1,778	$ 2,185
Adjustments to reconcile net income to net		
cash provided by operating activities:		
Provision for loan losses	337	285
Depreciation	304	323
Core deposit intangible amortization	94	94
Net amortization of securities	267	41
Net gain on sale or call of securities	(1)	(2)
Impairment of securities	-	31
Gain on sale of loans held for sale	(123)	(222)
Proceeds from sales of loans held for sale	8,678	9,893
Originations of loans held for sale	(6,729)	(9,389)
Net loss on sale of foreclosed real estate	12	3
Net change in valuation allowance on foreclosed real estate	10	-
Stock-based compensation expense	16	16
Equity based compensation expense	110	53
Deferred income tax expense (benefit)	41	(300)
Net change in interest receivable	348	(175)
Net change in other assets	226	235
Net change in interest payable	(77)	(31)
Net change in other liabilities	342	1,256
Net cash provided by operating activities	5,633	4,296
Cash Flows from Investing Activities:		
Proceeds from maturities and calls of securities available for sale	29,423	33,857
Proceeds from maturities and calls of securities held to maturity	190	727
Purchases of securities available for sale	(26,608)	(36,232)
Net change in loans	3,474	11,760
	(103)	(273)

Purchases of bank property and equipment				
Proceeds from sales of foreclosed real estate		340		122
Net cash provided by investing activities		6,716		9,961
Cash Flows from Financing Activities:				
Net change in demand, money market, and savings deposits		17,047		7,917
Net change in time deposits		6,338		(2,569)
Net change in repurchase agreements		(3,213)		(5,557)
Net change in short-term borrowings		(6,110)		-
Net change in long-term borrowings		(4,038)		(38)
Cash dividends paid		(1,414)		(1,408)
Proceeds from exercise of stock options		172		45
Net cash provided by (used in) financing activities		8,782		(1,610)
Net Increase in Cash and Cash Equivalents		21,131		12,647
Cash and Cash Equivalents at Beginning of Period		18,514		23,943
Cash and Cash Equivalents at End of Period	$	39,645	$	36,590

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. and its wholly owned subsidiary, American National Bank and Trust Company (collectively referred to as the "Company"). American National 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 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 and the valuation of foreclosed real estate.

In April 2006, AMNB Statutory Trust I, a Delaware statutory trust (the "Trust") and a wholly owned subsidiary of the Company was formed for the purpose of issuing preferred securities (the "Trust Preferred Securities") in a private placement pursuant to an applicable exemption from registration. Proceeds from the securities were used to fund the acquisition of Community First Financial Corporation ("Community First") which occurred in April 2006. Refer to Note 9 for further details concerning this variable interest entity.

All significant inter-company transactions and accounts are eliminated in consolidation, with the exception of the Trust, 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 Company's financial position as of March 31, 2011; the consolidated statements of income for the three months ended March 31, 2011 and 2010; the consolidated statements of changes in shareholders' equity for the three months ended March 31, 2011 and 2010; and the consolidated statements of cash flows for the three months ended March 31, 2011 and 2010. Operating results for the three month periods ended March 31, 2011 are not necessarily indicative of the results that may occur for the year ending December 31, 2011. 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 Form 10-K for the year ended December 31, 2010.

Note 2 – Recent Accounting Pronouncements

In January 2010, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2010-06, "Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements." ASU 2010-06 amends Subtopic 820-10 to clarify existing disclosures, require new disclosures, and includes conforming amendments to guidance on employers' disclosures about postretirement benefit plan assets. ASU 2010-06 is effective for interim and annual periods beginning after December 15, 2009, except for disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years. The adoption of the new guidance did not have a material impact on the Company’s consolidated financial statements.

In July 2010, the FASB issued ASU 2010-20, “Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses.” The new disclosure guidance significantly expands the existing requirements and will lead to greater transparency into a company’s exposure to credit losses from lending arrangements. The extensive new disclosures of information as of the end of a reporting period became effective for both interim and annual reporting periods ending on or after December 15, 2010. Specific disclosures regarding activity that occurred before the issuance of the ASU, such as the allowance roll forward and modification disclosures, will be required for periods beginning on or after December 15, 2010. The Company has included the required disclosures in its consolidated financial statements.

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In December 2010, the FASB issued ASU 2010-29, “Disclosure of Supplementary Pro Forma Information for Business Combinations.” The guidance requires pro forma disclosure for business combinations that occurred in the current reporting period as though the acquisition date for all business combinations that occurred during the year had been as of the beginning of the annual reporting period. If comparative financial statements are presented, the pro forma information should be reported as though the acquisition date for all business combinations that occurred during the current year had been as of the beginning of the comparable prior annual reporting period. ASU 2010-29 is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. Early adoption is permitted. The adoption of the new guidance did not have a material impact on the Company’s consolidated financial statements.

In December 2010, the FASB issued ASU 2010-28, “When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts.” The amendments in this ASU modify Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. The amendments in this Update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. Early adoption is not permitted. The adoption of the new guidance did not have a material impact on the Company’s consolidated financial statements.

The Securities Exchange Commission (“SEC”) has issued Final Rule No. 33-9002, “Interactive Data to Improve Financial Reporting”, which requires companies to submit financial statements in XBRL (extensible business reporting language) format with their SEC filings on a phased-in schedule. Large accelerated filers and foreign large accelerated filers using U.S. generally accepted accounting principles (“GAAP”) were required to provide interactive data reports starting with their first quarterly report for fiscal periods ending on or after June 15, 2010. All remaining filers are required to provide interactive data reports starting with their first quarterly report for fiscal periods ending on or after June 15, 2011.

In March 2011, the SEC issued Staff Accounting Bulletin (“SAB”) 114. This SAB revises or rescinds portions of the interpretive guidance included in the codification of the Staff Accounting Bulletin Series. This update is intended to make the relevant interpretive guidance consistent with current authoritative accounting guidance issued as a part of the FASB’s Codification. The principal changes involve revision or removal of accounting guidance references and other conforming changes to ensure consistency of referencing through the SAB Series. The effective date for SAB 114 is March 28, 2011. The adoption of the new guidance did not have a material impact on the Company’s consolidated financial statements

In April 2011, the FASB issued ASU 2011-02, “A Creditor’s Determination of Whether a Restructuring Is a Troubled Debt Restructuring.” The amendments in this ASU clarify the guidance on a creditor’s evaluation of whether it has granted a concession to a debtor. They also clarify the guidance on a creditor’s evaluation of whether a debtor is experiencing financial difficulty. The amendments in this update are effective for the first interim or annual period beginning on or after June 15, 2011. Early adoption is permitted. Retrospective application to the beginning of the annual period of adoption for modifications occurring on or after the beginning of the annual adoption period is required. As a result of applying these amendments, an entity may identify receivables that are newly considered to be impaired. For purposes of measuring impairment of those receivables, an entity should apply the amendments prospectively for the first interim or annual period beginning on or after June 15, 2011. The Company is currently assessing the impact that ASU 2011-02 will have on its consolidated financial statements.

Refer to the Company’s Annual Report on Form 10-K for the year ended December 31, 2010 for previously announced accounting pronouncements.

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Note 3 – Securities

The amortized cost and estimated fair value of investments in debt and equity securities at March 31, 2011 and December 31, 2010 were as follows:

	March 31, 2011			
(in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Securities available for sale:				
Federal agencies & GSE	$ 38,065	$ 539	$ 43	$ 38,561
Mortgage-backed & CMO's	56,412	1,145	228	57,329
State and municipal	126,794	2,170	804	128,160
Corporate	1,977	144	-	2,121
Total securities available for sale	223,248	3,998	1,075	226,171
Securities held to maturity:				
State and municipal	3,146	90	-	3,236
Total securities held to maturity	3,146	90	-	3,236
Total Securities	226,394	$ 4,088	$ 1,075	$ 229,407

	December 31, 2010			
(in thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Securities available for sale:				
Federal agencies & GSE	$ 57,292	$ 785	$ -	$ 58,077
Mortgage-backed & CMO's	62,128	1,273	419	62,982
State and municipal	104,937	1,582	1,421	105,098
Corporate	1,974	164	-	2,138
Total securities available for sale	226,331	3,804	1,840	228,295
Securities held to maturity:				
State and municipal	3,334	106	-	3,440
Total securities held to maturity	3,334	106	-	3,440
Total securities	$ 229,665	$ 3,910	$ 1,840	$ 231,735

Temporarily Impaired Securities

The following table shows estimated fair value and gross unrealized losses, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at March 31, 2011. The reference point for determining when securities are in an unrealized loss position is month-end. Therefore, it is possible that a security's market value exceeded its amortized cost on other days during the past twelve-month period.

Available for sale and held to maturity securities that have been in a continuous unrealized loss position are as follows:

	Total	Less than 12 Months	12 Months or More
	Estimated	Estimated	Estimated

(in thousands)	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
GSE debt securities	$ 6,295	$ 43	$ 6,295	$ 43	$ -	$ -
Mortgage-backed	17,557	154	17,557	154	-	-
Private label CMO’s	1,645	74	990	3	655	71
State and municipal	44,722	804	44,722	804	-	-
Total	$ 70,219	$ 1,075	$ 69,564	$ 1,004	$ 655	$ 71

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GSE debt securities. The unrealized losses on the five investments in GSEs ("government sponsored entities") 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 bases 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 March 31, 2011.

GSE residential mortgage-backed securities. The unrealized losses on the Company's investment in 12 GSE mortgage-backed securities 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 bases 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 bases, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at March 31, 2011.

Private-Label Residential Mortgage-Backed Securities: The unrealized losses associated with three private residential collateralized mortgage obligations ("CMOs") are primarily driven by higher projected collateral losses, wider credit spreads and changes in interest rates. We assess for credit impairment using a cash flow model. One variable rate CMO was downgraded to CCC status by Standard and Poor's in the first quarter of 2010. The Company engaged an independent advisory firm to review collateral. Based upon such review, the Company took an other-than-temporary impairment charge of $31,000 in the first quarter of 2010. Based upon management's assessment of the expected credit losses of the securities given the performance of the underlying collateral compared to the credit enhancement, the Company expects to recover the remaining amortized cost basis of these securities.

State and municipal securities: The unrealized losses on the 55 investments in state and municipal securities were caused by interest rate increases, which were substantial in the municipal bond market during the fourth quarter of 2010 and only somewhat mitigated during the first quarter of 2011. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost bases 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 bases, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at March 31, 2011.

The Company's investment in Federal Home Loan Bank of Atlanta ("FHLB") stock totaled $2,512,000 at March 31, 2011. FHLB stock is generally viewed as a long-term investment and as a restricted investment security, which is carried at cost, because there is no market for the stock, other than the FHLB's or member institutions. Therefore, when evaluating FHLB 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 this investment to be other-than-temporarily impaired at March 31, 2011 and no impairment has been recognized. FHLB stock is shown in restricted stock on the balance sheet and is not a part of the available for sale securities portfolio.

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, 2010.

	Total	Less than 12 Months	12 Months or More

(in thousands)	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss
Mortgage-backed	$ 22,106	$ 216	$ 22,106	$ 216	$ -	$ -
Private label CMO’s	1,583	203	1,031	18	552	185
State and municipal	46,532	1,421	46,532	1,421	-	-
Total	$ 70,221	$ 1,840	$ 69,669	$ 1,655	$ 552	$ 185

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Other-Than-Temporary-Impaired Securities

Other than the private label CMO discussed above, no other securities have been considered other than temporarily impaired as of March 31, 2011 and December 31, 2010.

Note 4 - Loans

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

(in thousands)	March 31, 2011	December 31, 2010
Commercial	$ 84,702	$ 85,051
Commercial real estate:		
Construction and land development	36,516	37,168
Commercial real estate	207,502	210,393
Residential real estate:		
Residential	118,603	119,398
Home equity	61,674	61,064
Consumer	7,632	7,707
Total loans	$ 516,629	$ 520,781

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

(in thousands)	March 31, 2011	December 31, 2010
Impaired loans with a valuation allowance	$ -	$ -
Impaired loans without a valuation allowance	1,396	560
Total impaired loans	$ 1,396	$ 560
Allowance provided for impaired loans, included in the allowance for loan losses	$ -	$ -
Nonaccrual loans excluded from the impaired loan disclosure	$ 2,021	$ 2,037

(in thousands)	March 31, 2011	December 31, 2010

Average balance in impaired loans	$	773	$	2,503
Interest income recognized on impaired loans	$	-	$	17
Interest income recognized on nonaccrual loans	$	-	$	-
Loans past due 90 days and still accruing interest	$	-	$	-

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

The following table shows an analysis by portfolio segment of the Company's past due loans at March 31, 2011 and December 31, 2010. It is the operating policy of the Company that any loan past due 90 days will be transferred to nonaccrual loan status, therefore there are no loans reported in the 90 days and accruing column below.

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At March 31, 2011 (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	$ 5	$ -	$ -	$ 351	$ 356	$ 84,346	$ 84,702
Commercial real estate:							
Construction and land development	1	132	-	780	913	35,603	36,516
Commercial real estate	476	-	-	1,005	1,481	206,021	207,502
Residential:							
Residential	990	579	-	1,139	2,708	115,895	118,603
Home equity	89	89	-	92	270	61,404	61,674
Consumer:							
Consumer	17	12	-	50	79	7,553	7,632
Total	$ 1,578	$ 812	$ -	$ 3,417	$ 5,807	$ 510,822	$ 516,629

At December 31, 2010 (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	$ -	$ 46	$ -	$ 401	$ 447	$ 84,604	$ 85,051
Commercial real estate:							
Construction and land development	-	40	-	59	99	37,069	37,168
Commercial real estate	572	175	-	614	1,361	209,032	210,393
Residential:							
Residential	742	704	-	1,419	2,865	116,533	119,398
Home equity	15	23	-	97	135	60,929	61,064
Consumer:							
Consumer	8	72	-	7	87	7,620	7,707
Total	$ 1,337	$ 1,060	$ -	$ 2,597	$ 4,994	$ 515,787	$ 520,781

The following table presents the Company’s impaired loan balances by portfolio segment at March 31, 2011.

(in thousands)	Unpaid	Average	Interest

	Recorded Investment	Principal Balance	Related Allowance	Recorded Investment	Income Recognized
With no related allowance recorded:					
Commercial	$ 144	$ 149	$ -	$ 144	$ -
Commercial real estate	952	952	-	318	-
Residential	300	342	-	311	-
With an related allowance recorded:					
Commercial	-	-	-	-	-
Commercial real estate	-	-	-	-	-
Residential	-	-	-	-	-
Total:					
Commercial	$ 144	$ 149	$ -	$ 144	$ -
Commercial real estate	952	952	-	318	-
Residential	300	342	-	311	-

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The following table presents the Company's impaired loan balances by portfolio segment at December 31, 2010.

(in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial	$ 231	$ 240	$ -	$ 531	$ 9
Commercial real estate	329	355	-	1,291	7
Residential	-	-	-	681	1
With an related allowance recorded:					
Commercial	-	-	-	-	-
Commercial real estate	-	-	-	-	-
Residential	-	-	-	-	-
Total:					
Commercial	$ 231	$ 240	$ -	$ 531	$ 9
Commercial real estate	329	355	-	1,291	7
Residential	-	-	-	681	1

The following table shows the Company's commercial loan portfolio broken down by internal risk grading.

Credit Quality Indicators
As of March 31, 2011
(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	$ 82,975	$ 31,420	$ 196,218	$ 104,890	$ 60,130
Special Mention	1,149	1,602	6,448	9,890	1,162
Substandard	578	3,494	4,836	3,823	382
Doubtful	-	-	-	-	-
Total	$ 84,702	$ 36,516	$ 207,502	$ 118,603	$ 61,674

Consumer Credit Exposure

Credit Risk Profile Based on
Payment Activity

		Consumer
Performing	$	7,366
Nonperforming		266
Total	$	7,632

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Credit Quality Indicators
As of December 31, 2010
(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	$ 83,693	$ 31,868	$ 196,668	$ 107,351	$ 59,604
Special Mention	844	1,669	8,387	8,350	1,150
Substandard	514	3,631	5,338	3,697	310
Doubtful	-	-	-	-	-
Total	$ 85,051	$ 37,168	$ 210,393	$ 119,398	$ 61,064

Consumer Credit Exposure
Credit Risk Profile Based on Payment Activity

	Consumer
Performing	$ 7,423
Nonperforming	284
Total	$ 7,707

Loans classified in the Pass category typically are fundamentally sound and risk factors are reasonable and acceptable.

Loans classified in the Special Mention category typically have been criticized internally, by loan review or the loan officer, or by external regulators under the current credit policy regarding risk grades.

Loans classified in the substandard category typically have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt; they are typically characterized by the distinct possibility that the bank will sustain some loss if the deficiencies are not corrected.

Loans classified in the Doubtful category typically have all the weaknesses inherent in loans classified as substandard, plus the added characteristic the weaknesses make collection or liquidation in full on the basis of currently existing facts, conditions, and values highly questionable and improbable. However, these loans are not yet rated as loss because certain events may occur that may salvage the debt.

Consumer loans are classified as performing or nonperforming. A loan is nonperforming when payments of interest and principal are past due 90 days or more; or payments are less than 90 days past due, but there are other good reasons to doubt that payment will be made in full.

Other real estate was $3,532,000 at March 31, 2011 and $3,716,000 December 31, 2010.

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Note 5 – 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 three months ended March 31, 2011 and 2010, and for the year ended December 31, 2010, are presented below:

(in thousands)	Three Months Ended March 31, 2011	Year Ended December 31, 2010	Three Months Ended March 31, 2010
Allowance for Loan Losses			
Balance, beginning of period	$ 8,420	$ 8,166	$ 8,166
Provision for loan losses	337	1,490	285
Charge-offs	(571)	(1,531)	(427)
Recoveries	71	295	88
Balance, end of period	$ 8,257	$ 8,420	$ 8,112