AMERICAN NATIONAL BANKSHARES INC.
Form 10-Q
August 03, 2018
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 June 30, 2018.

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).
Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth 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
	Emerging growth company o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.
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 July 27, 2018, the Company had 8,711,427 shares of Common Stock outstanding, $1 par value.

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

	(Unaudited) June 30, 2018	(*) December 31, 2017
Assets		
Cash and due from banks	$24,042	$ 28,594
Interest-bearing deposits in other banks	9,300	23,883
Equity securities, at fair value	2,177	—
Securities available for sale, at fair value	341,247	321,337
Restricted stock, at cost	5,463	6,110
Loans held for sale	2,296	1,639
Loans, net of unearned income	1,339,379	1,336,125
Less allowance for loan losses	(13,508)	(13,603)
Net loans	1,325,871	1,322,522
Premises and equipment, net	25,879	25,901
Other real estate owned, net of valuation allowance of $114 in 2018 and $147 in 2017	1,124	1,225
Goodwill	43,872	43,872
Core deposit intangibles, net	1,037	1,191
Bank owned life insurance	18,674	18,460
Accrued interest receivable and other assets	23,549	21,344
Total assets	$1,824,531	$ 1,816,078
Liabilities		
Demand deposits -- noninterest bearing	$420,795	$ 394,344
Demand deposits -- interest bearing	251,056	226,914
Money market deposits	383,963	403,024
Savings deposits	132,839	126,786
Time deposits	372,093	383,658
Total deposits	1,560,746	1,534,726
Short-term borrowings:		
Customer repurchase agreements	6,776	10,726
Other short-term borrowings	5,500	24,000
Junior subordinated debt	27,876	27,826
Accrued interest payable and other liabilities	10,285	10,083
Total liabilities	1,611,183	1,607,361
Shareholders' equity		
Preferred stock, $5 par, 2,000,000 shares authorized, none outstanding	—	—
Common stock, $1 par, 20,000,000 shares authorized, 8,708,127 shares outstanding at June 30, 2018 and 8,650,547 shares outstanding at December 31, 2017	8,654	8,604
Capital in excess of par value	77,496	76,179
Retained earnings	135,108	127,010

Accumulated other comprehensive loss, net	(7,910)	(3,076)
Total shareholders' equity	213,348	208,717
Total liabilities and shareholders' equity	$ 1,824,531	$ 1,816,078

(*) - Derived from audited consolidated financial statements.

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Interest and Dividend Income:				
Interest and fees on loans	$14,766	$13,752	$29,423	$26,456
Interest and dividends on securities:				
Taxable	1,540	1,133	2,864	2,287
Tax-exempt	423	509	842	1,144
Dividends	78	84	158	163
Other interest income	185	125	373	234
Total interest and dividend income	16,992	15,603	33,660	30,284
Interest Expense:				
Interest on deposits	1,873	1,352	3,698	2,552
Interest on short-term borrowings	2	14	12	42
Interest on long-term borrowings	—	81	—	161
Interest on junior subordinated debt	329	244	619	483
Total interest expense	2,204	1,691	4,329	3,238
Net Interest Income	14,788	13,912	29,331	27,046
Provision for Loan Losses	(30)	350	(74)	650
Net Interest Income After Provision for Loan Losses	14,818	13,562	29,405	26,396
Noninterest Income:				
Trust fees	945	908	1,874	1,820
Service charges on deposit accounts	592	607	1,204	1,196
Other fees and commissions	679	627	1,321	1,234
Mortgage banking income	491	462	941	991
Securities gains, net	289	331	410	590
Brokerage fees	209	192	431	384
Income from Small Business Investment Companies	171	6	326	32
Other	187	215	389	372
Total noninterest income	3,563	3,348	6,896	6,619
Noninterest Expense:				
Salaries	5,095	4,733	10,092	9,532
Employee benefits	1,111	1,061	2,286	2,181
Occupancy and equipment	1,100	1,148	2,228	2,216
FDIC assessment	132	134	278	263
Bank franchise tax	291	263	572	519
Core deposit intangible amortization	77	203	154	368
Data processing	467	502	889	989
Software	354	271	659	550
Other real estate owned, net	25	68	55	111
Other	2,350	2,328	4,491	4,423
Total noninterest expense	11,002	10,711	21,704	21,152
Income Before Income Taxes	7,379	6,199	14,597	11,863
Income Taxes	1,399	1,920	2,805	3,521
Net Income	$5,980	$4,279	$11,792	$8,342

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Net Income Per Common Share:				
Basic	$ 0.69	$ 0.50	$ 1.36	$ 0.97
Diluted	$ 0.69	$ 0.49	$ 1.36	$ 0.96
Average Common Shares Outstanding:				
Basic	8,692,107	8,640,648	8,680,739	8,636,954
Diluted	8,704,726	8,659,165	8,695,860	8,655,173

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

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

	Three Months Ended June 30,	
	2018	2017
Net income	$5,980	$4,279
Other comprehensive income (loss):		
Unrealized gains (losses) on securities available for sale	(1,446)	879
Tax effect	325	(307)
Reclassification adjustment for gains on sales of securities	—	(331)
Tax effect	—	116
Unrealized losses on cash flow hedges	(237)	—
Tax effect	53	—
Other comprehensive income (loss)	(1,305)	357
Comprehensive income	$4,675	$4,636

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)

	Six Months Ended June 30,	
	2018	2017
Net income	$11,792	$8,342
Other comprehensive income (loss):		
Unrealized gains (losses) on securities available for sale	(5,180)	1,890
Tax effect	1,186	(661)
Reclassification adjustment for gains on sales of securities	(8)	(590)
Tax effect	2	207
Unrealized losses on cash flow hedges	(237)	—
Tax effect	53	—
Other comprehensive income (loss)	(4,184)	846
Comprehensive income	$7,608	$9,188

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

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American National Bankshares Inc.
Consolidated Statements of Changes in Shareholders' Equity
Six Months Ended June 30, 2018 and 2017
(Dollars in thousands, except per share data) (Unaudited)

	Common Stock	Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance, December 31, 2016	$ 8,578	$ 75,076	$ 119,600	$ (1,874)	$ 201,380
Net income	—	—	8,342	—	8,342
Other comprehensive income	—	—	—	846	846
Stock options exercised (3,300 shares)	3	70	—	—	73
Vesting of restricted stock (6,468 shares)	7	(7)	—	—	—
Equity based compensation (21,562 shares)	7	552	—	—	559
Cash dividends paid, $0.48 per share	—	—	(4,147)	—	(4,147)
Balance, June 30, 2017	$ 8,595	$ 75,691	$ 123,795	$ (1,028)	$ 207,053
Balance, December 31, 2017	$ 8,604	$ 76,179	$ 127,010	$ (3,076)	$ 208,717
Net income	—	—	11,792	—	11,792
Other comprehensive loss	—	—	—	(4,184)	(4,184)
Reclassification for ASU 2016-01 adoption	—	—	650	(650)	—
Stock options exercised (32,010 shares)	32	743	—	—	775
Vesting of restricted stock (10,101 shares)	10	(10)	—	—	—
Equity based compensation (25,570 shares)	8	584	—	—	592
Cash dividends paid, $0.50 per share	—	—	(4,344)	—	(4,344)
Balance, June 30, 2018	$ 8,654	$ 77,496	$ 135,108	$ (7,910)	$ 213,348

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

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

	Six Months Ended June 30,	
	2018	2017
Cash Flows from Operating Activities:		
Net income	$11,792	$8,342
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	(74)	650
Depreciation	933	913
Net accretion of acquisition accounting adjustments	(804)	(1,029)
Core deposit intangible amortization	154	368
Net amortization of securities	859	996
Net gains on sale or call of securities	(8)	(590)
Unrealized holding gains on equity securities	(402)	—
Gain on sale of loans held for sale	(941)	(774)
Proceeds from sales of loans held for sale	39,145	43,421
Originations of loans held for sale	(38,861)	(39,030)
Net (gain) loss on other real estate owned	(25)	3
Valuation allowance on other real estate owned	22	74
Net gain on sale of premises and equipment	(3)	—
Equity based compensation expense	592	559
Earnings on bank owned life insurance	(214)	(218)
Deferred income tax (benefit) expense	(27)	1,138
Net change in interest receivable	(62)	263
Net change in other assets	(875)	(1,232)
Net change in interest payable	(2)	(13)
Net change in other liabilities	(34)	(1,204)
Net cash provided by operating activities	11,165	12,637
Cash Flows from Investing Activities:		
Proceeds from sales of equity securities	431	—
Proceeds from sales of securities available for sale	22,066	55,403
Proceeds from maturities, calls and paydowns of securities available for sale	16,000	26,075
Purchases of securities available for sale	(66,221)	(14,585)
Net change in restricted stock	647	723
Net increase in loans	(2,952)	(123,113)
Proceeds from sale of premises and equipment	24	—
Purchases of premises and equipment	(932)	(1,739)
Proceeds from sales of other real estate owned	636	78
Net cash used in investing activities	(30,301)	(57,158)
Cash Flows from Financing Activities:		
Net change in demand, money market, and savings deposits	37,585	81,875
Net change in time deposits	(11,565)	10,326
Net change in customer repurchase agreements	(3,950)	9,116
Net change in other short-term borrowings	(18,500)	(20,000)
Common stock dividends paid	(4,344)	(4,147)
Proceeds from exercise of stock options	775	73

Net cash provided by financing activities	1	77,243
Net Increase (Decrease) in Cash and Cash Equivalents	(19,135)	32,722
Cash and Cash Equivalents at Beginning of Period	52,477	53,207
Cash and Cash Equivalents at End of Period	$33,342	$85,929

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

AMERICAN NATIONAL BANKSHARES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Note 1 – Accounting Policies

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

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

All significant inter-company transactions and accounts are eliminated in consolidation, with the exception of the AMNB Trust and the MidCarolina Trusts, as detailed in Note 8.

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments (consisting of normal recurring accruals) necessary to present fairly the results of the interim periods. The results of operations for the interim periods are not necessarily indicative of the results that may occur for any other period. Certain reclassifications have been made to prior period balances to conform to the current period presentation. These reclassifications did not have an impact on net income and were considered immaterial. These statements should be read in conjunction with the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

Adoption of New Accounting Standards

On January 1, 2018, the Company adopted Accounting Standards Update ("ASU") 2016-01, "Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities," which amended the guidance on the classification and measurement of financial instruments. Upon adoption of ASU 2016-01, the Company reclassified $650,000 from accumulated other comprehensive loss to retained earnings for the difference in amortized cost and fair value. In 2018, the Company recognized the equity securities fair value change in net income. Previously, the fair value changes were recognized, net of tax, in other comprehensive loss. The adoption of ASU 2016-01 did not have a material effect on the Company's consolidated financial statements.

During the first quarter of 2018, the Company adopted ASU 2014-09, "Revenue from Contracts with Customers", and all subsequent amendments to the ASU (collectively "ASC 606"), which (i) creates a single framework for recognizing revenue from contracts with customers that fall within its scope and (ii) revises when it is appropriate to recognize a gain (loss) from the transfer of nonfinancial assets, such as OREO. The majority of the Company's revenue is from interest income, including loans and securities, that are outside the scope of the standard. The services that fall within the scope of the standard are presented within noninterest income on the consolidated statement of income and are recognized as revenue as the Company satisfies its obligations to the customer. The revenue that falls within the scope of ASC 606 is primarily related to service charges on deposit accounts, cardholder and merchant income, wealth advisory services income, other service charges and fees, sales of other real estate, insurance commissions and miscellaneous fees. ASC 606 did not result in a change to the accounting for any in-scope revenue streams; as such, no cumulative effect adjustment was recorded.

Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-02, "Leases (Topic 842)." Among other things, in the amendments in ASU 2016-02, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date: (1) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. Certain targeted improvements were made to align, where necessary, lessor accounting with the lessee accounting model and Topic 606, Revenue from Contracts with Customers. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted upon issuance. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach. The Company has analyzed all leases currently in place and determined the adoption of ASU 2016-02 will not have a material impact on its consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." The amendments in this ASU, among other things, require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. In addition, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The amendments in this ASU are effective for Securities and Exchange Commission ("SEC") filers for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The Company has formed a committee to address the adoption of the standard and engaged a third party vendor to assist with the data gathering and analysis. The Company is currently assessing the impact that ASU 2016-13 will have on its consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, "Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment". The amendments in this ASU simplify how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. Instead, under the amendments in this ASU, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. Public business entities that are SEC filers should adopt the amendments in this ASU for annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company does not expect the adoption of ASU 2017-04 to have a material impact on its consolidated financial statements.

In March 2017, the FASB issued ASU 2017-08, "Receivables-Nonrefundable Fees and Other Costs (Subtopic 310 20), Premium Amortization on Purchased Callable Debt Securities." The amendments in this ASU shorten the amortization period for certain callable debt securities purchased at a premium. Upon adoption of the standard, premiums on these qualifying callable debt securities will be amortized to the earliest call date. Discounts on purchased debt securities will continue to be accreted to maturity. The amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. Upon transition, entities should apply the guidance on a modified retrospective basis, with a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption and provide the disclosures required for a change in accounting principle. The Company is currently assessing the impact that ASU 2017-08 will have on its consolidated financial statements.

In August 2017, the FASB issued ASU 2017-12, “Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities.” The amendments in this ASU modify the designation and measurement guidance for hedge accounting as well as provide for increased transparency regarding the presentation of economic results on both the financial statements and related footnotes. Certain aspects of hedge effectiveness assessments will also be simplified upon implementation of this update. The amendments are effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2018. Early adoption is permitted, including adoption in any interim period. The Company is currently assessing the impact that ASU 2017-12 will have on its consolidated financial statements.

In February 2018, the FASB issued ASU 2018-03, “Technical Corrections and Improvements to Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities.” The amendments provide targeted improvements to address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. Specifically, the amendments include clarifications related to: measurement elections, transition requirements, and adjustments associated with equity securities without readily determinable fair values; fair value measurement requirements for forward contracts and purchased options on equity securities; presentation requirements for hybrid financial liabilities for which the fair value option has been elected; and measurement requirements for liabilities denominated in a foreign currency for which the fair value option has been elected. The amendments are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years beginning after June 15, 2018. Early adoption is permitted. The Company does not expect the adoption of ASU 2018-03 to have a material impact on its consolidated financial statements.

In June 2018, the FASB issued ASU 2018-07, "Compensation- Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting." The amendments expand the scope of Topic 718 to include share-based payments issued to non-employees for goods or services, which were previously excluded. The amendments will align the accounting for share-based payments to nonemployees and employees more similarly. The amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. The Company does not expect the adoption of ASU 2018-07 to have a material impact on its consolidated financial statements.

Note 2 – Securities

The amortized cost and fair value of investments in debt and equity securities at June 30, 2018 and December 31, 2017 were as follows (dollars in thousands):

	June 30, 2018			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities available for sale:				
Federal agencies and GSEs	$137,147	$ —	$ 4,302	$132,845
Mortgage-backed and CMOs	110,341	145	3,014	107,472
State and municipal	92,952	706	656	93,002
Corporate	7,826	131	29	7,928
Total securities available for sale	$348,266	$ 982	$ 8,001	$341,247

The Company adopted ASU 2016-01 effective January 1, 2018 and had equity securities with a fair value of $2,177,000 at June 30, 2018 and recognized in income $402,000 of unrealized holding gains in the first six months of 2018. During the six months ended June 30, 2018, the Company sold $431,000 in equity securities at fair value.

	December 31, 2017			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities available for sale:				
Federal agencies and GSEs	$114,246	$ 8	$ 2,127	$112,127
Mortgage-backed and CMOs	106,163	293	1,140	105,316
State and municipal	92,711	1,262	347	93,626
Corporate	7,842	234	14	8,062
Equity securities	1,383	823	—	2,206
Total securities available for sale	$322,345	$ 2,620	$ 3,628	$321,337

Restricted Stock

Due to restrictions placed upon the Bank's common stock investment in the Federal Reserve Bank of Richmond ("FRB") and Federal Home Loan Bank of Atlanta ("FHLB"), these securities have been classified as restricted equity securities and carried at cost. The restricted securities are not subject to the investment security classification and are included as a separate line item on the Company's consolidated balance sheets. The FRB requires the Bank to maintain stock with a par value equal to 3.00% of its outstanding capital and an additional 3.00% is on call. The FHLB requires the Bank to maintain stock in an amount equal to 4.25% of outstanding borrowings and a specific percentage of the Bank's total assets. The cost of restricted stock at June 30, 2018 and December 31, 2017 was as follows (dollars in thousands):

	June 30, 2018	December 31, 2017
FRB stock	$ 3,603	$ 3,587
FHLB stock	1,860	2,523
Total restricted stock	$ 5,463	$ 6,110

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 June 30, 2018. The reference point for determining when securities are in an unrealized loss position is month-end. Therefore, it is possible that a security's market value exceeded its amortized cost on other days during the past twelve-month period.

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

	Total		Less than 12 Months		12 Months or More	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Federal agencies and GSEs	$127,846	$ 4,302	$75,470	$ 1,206	$52,376	$ 3,096
Mortgage-backed and CMOs	99,504	3,014	75,725	1,887	23,779	1,127
State and municipal	46,908	656	39,967	320	6,941	336
Corporate	1,497	29	481	19	1,016	10
Total	$275,755	$ 8,001	$191,643	$ 3,432	$84,112	$ 4,569

Federal agencies and GSEs: The unrealized losses on the Company's investment in 28 government sponsored entities ("GSE") securities were caused by interest rate increases. Twelve of these securities were in an unrealized loss position for 12 months or more. 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 June 30, 2018.

Mortgage-backed securities: The unrealized losses on the Company's investment in 65 GSE mortgage-backed securities were caused by interest rate increases. Seventeen of these securities were in an unrealized loss position for 12 months or more. 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 June 30, 2018.

Collateralized Mortgage Obligations: The unrealized losses associated with three private GSE collateralized mortgage obligations ("CMO") were due to normal market fluctuations. One of these securities was in an unrealized loss position for 12 months or more. 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 its amortized cost basis, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at June 30, 2018.

State and municipal securities: The unrealized losses on 66 state and municipal securities were caused by interest rate increases. Eleven of these securities were in an unrealized loss position for 12 months or more. 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 June 30, 2018.

Corporate securities: The unrealized losses on two corporate securities were caused by interest rate increases. One of these securities was in an unrealized loss position for 12 months or more. 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 June 30, 2018.

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 June 30, 2018, and no impairment has been recognized.

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The table below shows estimated fair value and gross unrealized losses, aggregated by investment category and length of time that individual securities had been in a continuous unrealized loss position, at December 31, 2017 (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	$99,133	$ 2,127	$45,474	$ 321	$53,659	$ 1,806
Mortgage-backed and CMOs	90,806	1,140	64,449	533	26,357	607
State and municipal	34,550	347	27,442	159	7,108	188
Corporate	1,529	14	495	5	1,034	9
Total	$226,018	$ 3,628	$137,860	$ 1,018	$88,158	$ 2,610

Other-Than-Temporarily-Impaired Securities

As of June 30, 2018 and December 31, 2017, there were no securities classified as other-than-temporarily impaired.

Realized Gains and Losses

The following table presents the gross realized gains and losses on and the proceeds from the sale of securities available for sale during the three and six months ended June 30, 2018 and 2017 (dollars in thousands):

	Three Months Ended June 30, 2018	Six Months Ended June 30, 2018
Realized gains (losses):		
Gross realized gains	$—	$105
Gross realized losses	—	(97)
Net realized gains	$—	$8
Proceeds from sales of securities	$—	$22,066

	Three Months Ended June 30, 2017	Six Months Ended June 30, 2017
Realized gains (losses):		
Gross realized gains	$341	$605
Gross realized losses	(10)	(15)
Net realized gains	$331	$590
Proceeds from sales of securities	$13,884	$55,403

Note 3 – Loans

Loans, excluding loans held for sale, at June 30, 2018 and December 31, 2017, were comprised of the following (dollars in thousands):

	June 30, 2018	December 31, 2017
Commercial	$291,454	$ 251,666
Commercial real estate:		
Construction and land development	96,740	123,147
Commercial real estate	633,128	637,701
Residential real estate:		
Residential	207,374	209,326
Home equity	105,558	109,857

Consumer	5,125	4,428
Total loans	$ 1,339,379	$ 1,336,125

Acquired Loans

The outstanding principal balance and the carrying amount of these loans, including FASB Accounting Standards Codification ("ASC") 310-30, included in the consolidated balance sheets at June 30, 2018 and December 31, 2017 are as follows (dollars in thousands):

	June 30, 2018	December 31, 2017
Outstanding principal balance	$70,321	$ 79,523
Carrying amount	65,136	73,796

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

	June 30, 2018	December 31, 2017
Outstanding principal balance	$25,839	$ 27,876
Carrying amount	21,720	23,430

The following table presents changes in the accretable yield on acquired impaired loans, for which the Company applies FASB ASC 310-30, for the six months ended June 30, 2018 and the year ended December 31, 2017 (dollars in thousands):

	June 30, 2018	December 31, 2017
Balance at January 1	$4,890	$ 6,103
Accretion	(1,348)	(3,117)
Reclassification from nonaccretable difference	478	1,006
Other changes, net*	1,192	898
	$5,212	$ 4,890

* This line item represents changes in the cash flows expected to be collected due to the impact of non-credit changes such as prepayment assumptions, changes in interest rates on variable rate acquired impaired loans, and discounted payoffs that occurred in the period.

Past Due Loans

The following table shows an analysis by portfolio segment of the Company's past due loans at June 30, 2018 (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	$ 75	$ —	$ —	$ 526	$ 601	$ 290,853	$ 291,454
Commercial real estate:							
Construction and land development	—	—	—	33	33	96,707	96,740
Commercial real estate	48	30	—	228	306	632,822	633,128
Residential:							
Residential	257	—	229	941	1,427	205,947	207,374
Home equity	55	—	—	133	188	105,370	105,558
Consumer	32	—	—	—	32	5,093	5,125
Total	$ 467	$ 30	$ 229	$ 1,861	$ 2,587	$ 1,336,792	$ 1,339,379

The following table shows an analysis by portfolio segment of the Company's past due loans at December 31, 2017 (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	$92	$ —	$ —	$90	$182	$251,484	$251,666
Commercial real estate:							
Construction and land development	—	—	—	36	36	123,111	123,147
Commercial real estate	86	—	280	489	855	636,846	637,701
Residential:							
Residential	282	71	79	1,343	1,775	207,551	209,326
Home equity	141	16	—	243	400	109,457	109,857
Consumer	21	5	—	—	26	4,402	4,428
Total	$622	$ 92	$ 359	$2,201	$3,274	$1,332,851	$1,336,125

Impaired Loans

The following table presents the Company's impaired loan balances by portfolio segment, excluding acquired impaired loans, at June 30, 2018 (dollars in thousands):

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial	$ 159	$ 158	$ —	$ 161	$ 6
Commercial real estate:					
Construction and land development	—	—	—	—	—
Commercial real estate	516	513	—	612	19
Residential:					
Residential	1,142	1,144	—	1,023	14
Home equity	158	158	—	147	6
Consumer	—	—	—	5	—
	$ 1,975	$ 1,973	$ —	$ 1,948	$ 45
With a related allowance recorded:					
Commercial	$ 387	$ 384	$ 196	$ 435	$ 9
Commercial real estate:					
Construction and land development*	33	34	—	35	—
Commercial real estate*	28	28	—	30	—
Residential					
Residential	182	181	12	465	5
Home equity*	132	135	—	200	1
Consumer*	—	—	—	—	—
	$ 762	$ 762	$ 208	$ 1,165	$ 15
Total:					
Commercial	$ 546	$ 542	$ 196	$ 596	$ 15
Commercial real estate:					
Construction and land development	33	34	—	35	—
Commercial real estate	544	541	—	642	19
Residential:					
Residential	1,324	1,325	12	1,488	19
Home equity	290	293	—	347	7
Consumer	—	—	—	5	—
	$ 2,737	$ 2,735	$ 208	$ 3,113	$ 60

* Allowance is reported as zero in the table due to presentation in thousands and rounding.

In the table above, recorded investment may exceed unpaid principal balance due to acquired loans with a premium and loans where unearned costs exceed unearned fees.

The following table presents the Company's impaired loan balances by portfolio segment, excluding acquired impaired loans, at December 31, 2017 (dollars in thousands):

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial	$ 4	$ 4	$ —	$ 19	$ 1
Commercial real estate:					
Construction and land development	—	—	—	56	4
Commercial real estate	791	789	—	1,069	66
Residential:					
Residential	717	719	—	575	41
Home equity	142	142	—	109	10
Consumer	5	5	—	6	1
	$ 1,659	$ 1,659	$ —	$ 1,834	$ 123
With a related allowance recorded:					
Commercial	$ 202	$ 201	$ 154	$ 150	$ 16
Commercial real estate:					
Construction and land development*	37	37	—	56	—
Commercial real estate*	34	32	—	126	11
Residential:					
Residential	1,022	1,022	12	1,174	27
Home equity	263	261	1	251	1
Consumer*	—	—	—	5	—
	$ 1,558	$ 1,553	$ 167	$ 1,762	$ 55
Total:					
Commercial	$ 206	$ 205	$ 154	$ 169	$ 17
Commercial real estate:					
Construction and land development	37	37	—	112	4
Commercial real estate	825	821	—	1,195	77
Residential:					
Residential	1,739	1,741	12	1,749	68
Home equity	405	403	1	360	11
Consumer	5	5	—	11	1
	$ 3,217	$ 3,212	$ 167	$ 3,596	$ 178

* Allowance is reported as zero in the table due to presentation in thousands and rounding.

In the table above, recorded investment may exceed unpaid principal balance due to acquired loans with a premium and loans where unearned costs exceed unearned fees.

The following tables show the detail of loans modified as troubled debt restructurings ("TDRs") during the three and six months ended June 30, 2018 included in the impaired loan balances (dollars in thousands):

	Loans Modified as a TDR for the Three Months Ended June 30, 2018		
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	—	$ —	$ —

	Loans Modified as a TDR for the Six Months Ended June 30, 2018		
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	1	11	11
Consumer	—	—	—
Total	1	$ 11	$ 11

The following tables show the detail of loans modified as TDRs during the three and six months ended June 30, 2017 included in the impaired loan balances (dollars in thousands):

	Loans Modified as a TDR for the Three Months Ended June 30, 2017		
Loan Type	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial	1	$	