

NATIONAL BANKSHARES INC

Form 10-Q

November 07, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 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 September 30, 2012

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 0-15204

NATIONAL BANKSHARES, INC.
(Exact name of registrant as specified in its charter)

Virginia
(State or other jurisdiction of incorporation or organization)

54-1375874
(I.R.S. Employer Identification No.)

101 Hubbard Street
P. O. Box 90002
Blacksburg, VA
(Address of principal executive offices)

24062-9002
(Zip Code)

(540) 951-6300
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant 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 (or for such shorter period that the registrant was required to submit and post such files). 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 Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

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

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Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at October 31, 2012
Common Stock, \$1.25 Par Value	6,947,974

(This report contains 55 pages)

NATIONAL BANKSHARES, INC. AND SUBSIDIARIES
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Item 1. Financial Statements

Part I

Financial Information

National Bankshares, Inc. and Subsidiaries
Consolidated Balance Sheets

\$ in thousands, except per share data	(Unaudited) September 30, 2012	December 31, 2011
Assets		
Cash and due from banks	\$ 12,445	\$ 11,897
Interest-bearing deposits	67,394	98,355
Securities available for sale, at fair value	198,079	174,918
Securities held to maturity (fair value approximates \$172,163 at September 30, 2012 and \$151,429 at December 31, 2011)	161,728	143,995
Mortgage loans held for sale	3,015	2,623
Loans:		
Loans, net of unearned income and deferred fees	591,461	588,470
Less allowance for loan losses	(8,254)	(8,068)
Loans, net	583,207	580,402
Premises and equipment, net	10,491	10,393
Accrued interest receivable	6,291	6,304
Other real estate owned, net	1,894	1,489
Intangible assets and goodwill	9,648	10,460
Bank-owned life insurance	20,346	19,812
Other assets	6,434	6,454
Total assets	\$ 1,080,972	\$ 1,067,102
Liabilities and Stockholders' Equity		
Noninterest-bearing demand deposits	\$ 147,346	\$ 142,163
Interest-bearing demand deposits	418,482	404,801
Savings deposits	66,576	61,298
Time deposits	291,979	311,071
Total deposits	924,383	919,333
Accrued interest payable	178	206
Other liabilities	6,013	6,264
Total liabilities	930,574	925,803
Commitments and contingencies	---	---
Stockholders' Equity		
Preferred stock, no par value, 5,000,000 shares authorized; none issued and outstanding	---	---
Common stock of \$1.25 par value. Authorized 10,000,000 shares; issued and outstanding 6,943,974 shares at September 30, 2012 and 6,939,974 shares at December 31, 2011	8,680	8,675
Retained earnings	143,383	133,945
Accumulated other comprehensive loss, net	(1,665)	(1,321)
Total stockholders' equity	150,398	141,299
Total liabilities and stockholders' equity	\$ 1,080,972	\$ 1,067,102

See accompanying notes to consolidated financial statements.

National Bankshares, Inc. and Subsidiaries
Consolidated Statements of Income
Three Months Ended September 30, 2012 and 2011
(Unaudited)

\$ in thousands, except per share data	September 30, 2012	September 30, 2011
Interest Income		
Interest and fees on loans	\$ 8,923	\$ 9,184
Interest on interest-bearing deposits	60	37
Interest on securities – taxable	1,620	1,740
Interest on securities – nontaxable	1,634	1,616
Total interest income	12,237	12,577
Interest Expense		
Interest on time deposits of \$100,000 or more	355	485
Interest on other deposits	1,581	1,797
Total interest expense	1,936	2,282
Net interest income	10,301	10,295
Provision for loan losses	778	643
Net interest income after provision for loan losses	9,523	9,652
Noninterest Income		
Service charges on deposit accounts	674	692
Other service charges and fees	40	57
Credit card fees	807	805
Trust income	271	264
BOLI income	205	189
Other income	130	125
Realized securities losses, net	(19)	(3)
Total noninterest income	2,108	2,129
Noninterest Expense		
Salaries and employee benefits	3,104	2,834
Occupancy and furniture and fixtures	387	349
Data processing and ATM	390	416
FDIC assessment	133	353
Credit card processing	607	639
Intangible assets amortization	270	271
Net costs of other real estate owned	58	52
Franchise taxes	258	162
Other operating expenses	881	811
Total noninterest expense	6,088	5,887
Income before income taxes	5,543	5,894
Income tax expense	1,250	1,385
Net Income	\$ 4,293	\$ 4,509

Basic net income per share	\$	0.62	\$	0.65
Fully diluted net income per share	\$	0.62	\$	0.65
Weighted average number of common shares outstanding – basic		6,941,757		6,937,974
Weighted average number of common shares outstanding – diluted		6,962,852		6,945,174
Dividends declared per share	\$	---	\$	---

See accompanying notes to consolidated financial statements.

National Bankshares, Inc. and Subsidiaries
 Consolidated Statements of Comprehensive Income
 Three Months Ended September 30, 2012 and 2011
 (Unaudited)

\$ in thousands	September 30, 2012	September 30, 2011
Net Income	\$ 4,293	\$ 4,509
Other Comprehensive Income, Net of Tax		
Unrealized holding gains (losses) on available for sale securities net of taxes of (\$351) and \$536 for the periods ended September 30, 2012 and 2011, respectively	(653)	996
Reclassification adjustment, net of taxes of \$6 and \$4 for the periods ended September 30, 2012 and 2011, respectively	12	7
Other comprehensive income (loss), net of taxes of (\$345) and \$540 for the periods ended September 30, 2012 and 2011, respectively	(641)	1,003
Total Comprehensive Income	\$ 3,652	\$ 5,512

See accompanying notes to consolidated financial statements.

National Bankshares, Inc. and Subsidiaries
Consolidated Statements of Income
Nine Months Ended September 30, 2012 and 2011
(Unaudited)

	September 30, 2012	September 30, 2011
\$ in thousands, except per share data		
Interest Income		
Interest and fees on loans	\$ 26,554	\$ 27,386
Interest on interest-bearing deposits	187	104
Interest on securities – taxable	4,991	5,115
Interest on securities – nontaxable	4,801	4,912
Total interest income	36,533	37,517
Interest Expense		
Interest on time deposits of \$100,000 or more	1,171	1,551
Interest on other deposits	4,900	5,456
Total interest expense	6,071	7,007
Net interest income	30,462	30,510
Provision for loan losses	2,554	2,196
Net interest income after provision for loan losses	27,908	28,314
Noninterest Income		
Service charges on deposit accounts	1,956	1,952
Other service charges and fees	130	174
Credit card fees	2,441	2,365
Trust income	1,037	817
BOLI income	605	559
Other income	341	293
Realized securities gains (losses), net	33	(7)
Total noninterest income	6,543	6,153
Noninterest Expense		
Salaries and employee benefits	9,014	8,561
Occupancy and furniture and fixtures	1,181	1,207
Data processing and ATM	1,206	1,289
FDIC assessment	343	1,049
Credit card processing	1,817	1,871
Intangible assets amortization	812	813
Net costs of other real estate owned	209	281
Franchise taxes	646	619
Other operating expenses	2,302	2,306
Total noninterest expense	17,530	17,996
Income before income taxes	16,921	16,471
Income tax expense	3,859	3,722
Net Income	\$ 13,062	\$ 12,749

Basic net income per share	\$	1.88	\$	1.84
Fully diluted net income per share	\$	1.88	\$	1.83
Weighted average number of common shares outstanding – basic		6,940,573		6,936,100
Weighted average number of common shares outstanding – diluted		6,958,316		6,951,155
Dividends declared per share	\$	0.53	\$	0.48

See accompanying notes to consolidated financial statements.

National Bankshares, Inc. and Subsidiaries
Consolidated Statements of Comprehensive Income
Nine Months Ended September 30, 2012 and 2011
(Unaudited)

\$ in thousands	September 30, 2012	September 30, 2011
Net Income	\$ 13,062	\$ 12,749
Other Comprehensive Income, Net of Tax		
Unrealized holding gains (losses) on available for sale securities net of taxes of (\$178) and \$1,689 for the periods ended September 30, 2012 and 2011, respectively	(331)	3,137
Reclassification adjustment, net of taxes of (\$7) and \$8 for the periods ended September 30, 2012 and 2011, respectively	(13)	14
Other comprehensive income (loss), net of taxes of (\$185) and \$1,697 for the periods ended September 30, 2012 and 2011, respectively	(344)	3,151
Total Comprehensive Income	\$ 12,718	\$ 15,900

See accompanying notes to consolidated financial statements.

National Bankshares, Inc. and Subsidiaries
Consolidated Statements of Changes in Stockholders' Equity
Nine Months Ended September 30, 2012 and 2011
(Unaudited)

\$ in thousands	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balances at December 31, 2010	\$8,667	\$123,161	\$ (2,641)	\$129,187
Net income	---	12,749	---	12,749
Dividends \$0.48 per share	---	(3,329)	---	(3,329)
Stock options exercised	5	57	---	62
Other comprehensive income, net of tax \$1,697	---	---	3,151	3,151
Balances at September 30, 2011	\$8,672	\$132,638	\$ 510	\$141,820
Balances at December 31, 2011	\$8,675	\$133,945	\$ (1,321)	\$141,299
Net income	---	13,062	---	13,062
Dividends \$0.53 per share	---	(3,678)	---	(3,678)
Stock options exercised	5	54	---	59
Other comprehensive loss, net of tax (\$185)	---	---	(344)	(344)
Balances at September 30, 2012	\$8,680	\$143,383	\$ (1,665)	\$150,398

See accompanying notes to consolidated financial statements.

National Bankshares, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
Nine Months Ended September 30, 2012 and 2011
(Unaudited)

	September 30, 2012	September 30, 2011
\$ in thousands		
Cash Flows from Operating Activities		
Net income	\$ 13,062	\$ 12,749
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	2,554	2,196
Depreciation of bank premises and equipment	571	601
Amortization of intangibles	812	813
Amortization of premiums and accretion of discounts, net	168	167
(Gains) losses on disposal of fixed assets	(2)	1
(Gains) losses on sales and calls of securities available for sale, net	(19)	22
Gains on calls of securities held to maturity, net	(14)	(15)
Losses and write-downs on other real estate owned	29	137
Net change in:		
Mortgage loans held for sale	(392)	1,352
Accrued interest receivable	13	(343)
Other assets	(266)	1,006
Accrued interest payable	(28)	(50)
Other liabilities	(251)	(2,351)
Net cash provided by operating activities	16,237	16,285
Cash Flows from Investing Activities		
Net change interest-bearing deposits	30,961	(502)
Proceeds from calls, principal payments, sales and maturities of securities available for sale	119,493	52,025
Proceeds from calls, principal payments and maturities of securities held to maturity	24,255	15,958
Purchases of securities available for sale	(143,306)	(42,574)
Purchases of securities held to maturity	(42,063)	(23,158)
Purchases of loan participations	(2,000)	(41)
Collections of loan participations	4,656	159
Loan originations and principal collections, net	(9,699)	(22,787)
Proceeds from disposal of other real estate owned	1,174	1,318
Recoveries on loans charged off	76	64
Additions to bank premises and equipment	(667)	(464)
Proceeds from disposal of bank premises and equipment	---	4
Net cash used in investing activities	(17,120)	(19,998)
Cash Flows from Financing Activities		
Net change in time deposits	(19,092)	(19,543)
Net change in other deposits	24,142	29,195
Cash dividends paid	(3,678)	(3,329)
Stock options exercised	59	62
Net cash provided by financing activities	1,431	6,385

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Net change in cash and due from banks	548	2,672
Cash and due from banks at beginning of period	11,897	9,858
Cash and due from banks at end of period	\$ 12,445	\$ 12,530

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Supplemental Disclosures of Cash Flow Information

Interest paid on deposits and borrowed funds	\$6,099	\$7,057
Income taxes paid	3,937	2,783

Supplemental Disclosure of Noncash Activities

Loans charged against the allowance for loan losses	\$2,444	\$1,205
Loans transferred to other real estate owned	1,608	1,491
Unrealized net gains (losses) on securities available for sale	(529)	4,848

See accompanying notes to consolidated financial statements.

National Bankshares, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
September 30, 2012
(Unaudited)

\$ in thousands, except per share data

Note 1: General

The consolidated financial statements of National Bankshares, Inc. (“NBI”) and its wholly-owned subsidiaries, The National Bank of Blacksburg (“NBB”) and National Bankshares Financial Services, Inc. (“NBFS”) (collectively, the “Company”), conform to accounting principles generally accepted in the United States of America and to general practices within the banking industry. The accompanying interim period consolidated financial statements are unaudited; however, in the opinion of management, all adjustments consisting of normal recurring adjustments, which are necessary for a fair presentation of the consolidated financial statements, have been included. The results of operations for the nine months ended September 30, 2012 are not necessarily indicative of results of operations for the full year or any other interim period. The interim period consolidated financial statements and financial information included in this Form 10-Q should be read in conjunction with the notes to consolidated financial statements included in the Company’s 2011 Form 10-K. The Company posts all reports required to be filed under the Securities and Exchange Act of 1934 on its web site at www.nationalbankshares.com.

Subsequent events have been considered through the date when the Form 10-Q was issued.

Note 2: Stock-Based Compensation

The Company had a stock option plan, the 1999 Stock Option Plan, that was adopted in 1999 and that was terminated on March 9, 2009. Incentive stock options were granted annually to key employees of NBI and its subsidiaries from 1999 to 2005 and none have been granted since 2005. All of the stock options are vested.

Options	Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2012	77,000	\$22.82		
Exercised	4,000	14.83		
Forfeited or expired	---	---		
Outstanding September 30, 2012	73,000	\$23.26	3.97	\$745
Exercisable at September 30, 2012	73,000	\$23.26	3.97	\$745

There were 4,000 shares with an intrinsic value of \$74 exercised during the first nine months of 2012. There were 4,500 shares with an intrinsic value of \$42 exercised during the first nine months of 2011.

Note 3: Loan Portfolio

The loan portfolio, excluding loans held for sale, was comprised of the following.

September 30,	December 31,
------------------	-----------------

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	2012	2011
Real estate construction	\$49,799	\$48,528
Consumer real estate	141,413	149,750
Commercial real estate	305,367	303,192
Commercial non real estate	35,729	38,849
Public sector and IDA	26,589	15,407
Consumer non real estate	32,564	32,744
Total	\$591,461	\$588,470

Note 4: Allowance for Loan Losses, Nonperforming Assets and Impaired Loans

The allowance for loan losses methodology incorporates individual evaluation of impaired loans and collective evaluation of groups of non-impaired loans. The Company performs ongoing analysis of the loan portfolio to determine credit quality and to identify impaired loans. Credit quality is rated based on the loan's payment history, the borrower's current financial situation and value of the underlying collateral.

Impaired loans are those loans that have been modified in a troubled debt restructure ("TDR" or "restructure") and larger, non-homogeneous loans that are in nonaccrual or exhibit payment history or financial status that indicate the probability that collection will not occur according to the loan's terms. Generally, impaired loans are risk rated "classified" or "other assets especially mentioned." Impaired loans are measured at the lower of the invested amount or the fair market value. Impaired loans with an impairment loss are designated nonaccrual. Please refer to Note 1 of the Company's 2011 Form 10-K, "Summary of Significant Accounting Policies" for additional information on evaluation of impaired loans and associated specific reserves, and policies regarding nonaccruals, past due status and charge-offs. Troubled debt restructurings impact the estimation of the appropriate level of the allowance for loan losses. If the restructuring included forgiveness of a portion of principal or accrued interest, the charge-off is included in the historical charge-off rates applied to the collective evaluation methodology. Further, restructured loans are individually evaluated for impairment, with amounts below fair value accrued in the allowance for loan losses. TDRs that experience a payment default are examined to determine whether the default indicates collateral dependency or cash flows below those that were included in the fair value measurement. TDRs, as well as all impaired loans, that are determined to be collateral dependent or for which decreased cash flows indicate a decline in fair value are charged down to fair value.

The Company evaluated characteristics in the loan portfolio and determined major segments and smaller classes within each segment for application of the allowance for loan losses methodology. These characteristics include collateral type, repayment sources, and (if applicable) the borrower's business model.

Change in Portfolio Segments and Classes

During the first quarter of 2012, the Company revised its basis for determining segments and classes for the allowance for loan losses. In previous periods, the loan portfolio was segmented primarily by repayment source, whereas beginning with the first quarter of 2012 disaggregation is based primarily upon collateral type for secured loans and borrower type or repayment terms for unsecured loans. This aligns the allowance categories with those used for financial statements and other notes, providing greater uniformity and comparability. Consistent with accounting guidance, prior periods have not been restated and are shown as originally published using the segments and classes in effect for the period. These changes had an insignificant effect on the calculation of the balance in the allowance for loan losses.

The segments and classes used in determining the allowance for loan losses, beginning with the first quarter of 2012 are as follows.

Real Estate Construction	Commercial Non Real Estate
Construction, residential	Commercial and Industrial
Construction, other	
	Public Sector and IDA
Consumer Real Estate	Public sector and IDA
Equity lines	
Residential closed-end first liens	Consumer Non Real Estate
Residential closed-end junior liens	Credit cards
	Automobile
Commercial Real Estate	Other consumer loans
Multifamily real estate	

Commercial real estate, owner occupied

Commercial real estate, other

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Prior to the first quarter of 2012, the Company's segments and classes were as follows.

Consumer Real Estate	Commercial Real Estate
Equity lines	College housing
Closed-end consumer real estate	Office/Retail space
Consumer construction	Nursing homes
	Hotels
Consumer, Non Real Estate	Municipalities
Credit cards	Medical professionals
Consumer, general	Religious organizations
Consumer overdraft	Convenience stores
	Entertainment and sports
Commercial & Industrial	Nonprofits
Commercial & Industrial	Restaurants
	General contractors
Construction, Development and Land	Other commercial real estate
Residential	
Commercial	

Risk factors are analyzed for each class to estimate collective reserves. Factors include allocations for the historical charge-off percentage and changes in national and local economic and business conditions, in the nature and volume of the portfolio, in loan officers' experience and in loan quality. Increased allocations for the risk factors applied to each class are made for special mention and classified loans. The Company allocates additional reserves for "high risk" loans, determined to be junior lien mortgages, high loan-to-value loans and interest-only loans.

A detailed analysis showing the allowance roll-forward by portfolio segment and related loan balance by segment follows.

Activity in the Allowance for Loan Losses for the Three Months Ended September 30, 2012

	Real Estate Construction	Consumer Real Estate	Commercial Real Estate	Commercial Non Real Estate	Public Sector and IDA	Consumer Non Real Estate	Unallocated	Total
Balance, June 30, 2012	\$ 1,396	\$ 1,910	\$ 3,257	\$ 909	\$ 111	\$ 422	\$ 163	\$ 8,168
Charge-offs	(51)	(33)	(592)	---	---	(40)	---	(716)
Recoveries	---	---	---	1	---	23	---	24
Provision for loan losses	(158)	95	872	(46)	34	(5)	(14)	778
Balance, September 30, 2012	\$ 1,187	\$ 1,972	\$ 3,537	\$ 864	\$ 145	\$ 400	\$ 149	\$ 8,254

Activity in the Allowance for Loan Losses for the Nine Months Ended September 30, 2012

	Real Estate Construction	Consumer Real Estate	Commercial Real Estate	Commercial Non Real Estate	Public Sector and IDA	Consumer Non Real Estate	Unallocated	Total
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Balance, December 31, 2011	\$ 1,079	\$ 1,245	\$ 3,515	\$ 1,473	\$ 232	\$ 403	\$ 121	\$ 8,068
Charge-offs	(640)	(278)	(1,329)	(5)	---	(192)	---	(2,444)
Recoveries	13	2	---	2	---	59	---	76
Provision for loan losses	735	1,003	1,351	(606)	(87)	130	28	2,554
Balance, September 30, 2012	\$ 1,187	\$ 1,972	\$ 3,537	\$ 864	\$ 145	\$ 400	\$ 149	\$ 8,254

Activity in the Allowance for Loan Losses for the Three Months Ended September 30, 2011

	Consumer Real Estate(1)	Consumer Non Real Estate(1)	Commercial Real Estate(1)	Commercial & Industrial(1)	Construction, Development & Other Land(1)	Unallocated	Total
Balance, June 30, 2011	\$ 1,371	\$ 483	\$ 4,333	\$ 1,348	\$ 636	\$ 323	\$ 8,494
Charge-offs	(217)	(58)	(41)	(30)	(100)	---	(446)
Recoveries	---	28	---	---	---	---	28
Provision for loan losses	61	8	339	(76)	515	(204)	643
Balance, September 30, 2011	\$ 1,215	\$ 461	\$ 4,631	\$ 1,242	\$ 1,051	\$ 119	\$ 8,719

(1) Segments at September 30, 2011 are reported using the segmentation method in effect for 2011. The Company began reporting under revised segments beginning in 2012.

Activity in the Allowance for Loan Losses for the Nine Months Ended September 30, 2011

	Consumer Real Estate(1)	Consumer Non Real Estate(1)	Commercial Real Estate(1)	Commercial & Industrial(1)	Construction, Development & Other Land(1)	Unallocated	Total
Balance, December 31, 2010	\$ 1,059	\$ 586	\$ 4,033	\$ 1,108	\$ 749	\$ 129	\$ 7,664
Charge-offs	(429)	(208)	(301)	(167)	(100)	---	(1,205)
Recoveries	7	56	---	1	---	---	64
Provision for loan losses	578	27	899	300	402	(10)	2,196
Balance, September 30, 2011	\$ 1,215	\$ 461	\$ 4,631	\$ 1,242	\$ 1,051	\$ 119	\$ 8,719

(1) Segments at September 30, 2011 are reported using the segmentation method in effect for 2011. The Company began reporting under revised segments beginning in 2012.

Allowance for Loan Losses as of September 30, 2012

	Real Estate Construction	Consumer Real Estate	Commercial Real Estate	Commercial Non Real Estate	Public Sector and IDA	Consumer Non Real Estate	Unallocated	Total
Individually evaluated for impairment	\$ ---	\$ 47	\$ 44	\$ 236	\$ ---	\$ ---	\$ ---	\$ 327
Collectively evaluated for impairment	1,187	1,925	3,493	628	145	400	149	7,927
Total	\$ 1,187	\$ 1,972	\$ 3,537	\$ 864	\$ 145	\$ 400	\$ 149	\$ 8,254

Allowance for Loan Losses as of December 31, 2011

	Consumer Real Estate(1)	Consumer Non Real Estate(1)	Commercial Real Estate(1)	Commercial & Industrial(1)	Construction, & Other Development Land(1)	Unallocated	Total
Individually evaluated for impairment	\$---	\$---	\$1,014	\$ 62	\$ 47	\$---	\$1,123
Collectively evaluated for impairment	1,052	401	3,497	973	901	121	6,945
Total	\$1,052	\$401	\$4,511	\$ 1,035	\$ 948	\$121	\$8,068

(1) Segments at December 31, 2011 are reported using the segmentation method in effect for 2011. The Company began reporting under revised segments beginning in 2012.

	Loans as of September 30, 2012							Total
	Real Estate Construction	Consumer Real Estate	Commercial Real Estate	Commercial Non Real Estate	Public Sector and IDA	Consumer Non Real Estate	Unallocated	
Individually evaluated for impairment	\$ 3,623	\$ 949	\$ 6,859	\$ 534	\$ ---	\$ ---	\$ ---	\$ 11,965
Collectively evaluated for impairment	46,176	140,464	298,508	35,195	26,589	32,564	---	579,496
Total	\$ 49,799	\$ 141,413	\$ 305,367	\$ 35,729	\$ 26,589	\$ 32,564	\$ ---	591,461

	Loans as of December 31, 2011						Total
	Consumer Real Estate(1)	Consumer Non Real Estate(1)	Commercial Real Estate(1)	Commercial & Industrial(1)	Construction, Development & Other Land(1)	Unallocated	
Individually evaluated for impairment	\$238	\$---	\$9,067	\$139	\$3,152	\$---	\$12,596
Collectively evaluated for impairment	109,843	29,707	357,507	37,584	41,233	---	575,874
Total	\$110,081	\$29,707	\$366,574	\$37,723	\$44,385	\$---	\$588,470

(1) Segments at December 31, 2011 are reported using the segmentation method in effect for 2011. The Company began reporting under revised segments beginning in 2012.

A summary of ratios for the allowance for loan losses follows.

	2012	Nine Months Ended September 30, 2011	Year Ended December 31, 2011
Ratio of allowance for loan losses to the end of period loans, net of unearned income and deferred fees		1.40%	1.37%
Ratio of net charge-offs to average loans, net of unearned income and deferred fees(1)		0.54%	0.43%

(1) Net charge-offs are on an annualized basis.

A summary of nonperforming assets follows.

	2012	September 30, 2011	December 31, 2011
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Nonperforming assets:

Nonaccrual loans	\$	3,876		\$	1,263		\$	1,398
Restructured loans in nonaccrual		2,254			3,081			3,806
Total nonperforming loans		6,130			4,344			5,204
Other real estate owned, net		1,894			1,759			1,489
Total nonperforming assets	\$	8,024		\$	6,103		\$	6,693
Ratio of nonperforming assets to loans, net of unearned income and deferred fees, plus other real estate owned		1.35	%		1.02	%		1.13 %
Ratio of allowance for loan losses to nonperforming loans(1)		134.65	%		200.71	%		155.03 %

(1) The Company defines nonperforming loans as nonaccrual loans. Loans 90 days or more past due and still accruing and accruing restructured loans are excluded.

A summary of loans past due 90 days or more and impaired loans follows.

	September 30,		December 31,	
	2012	2011	2011	
Loans past due 90 days or more and still accruing	\$ 114	\$ 339	\$ 481	
Ratio of loans past due 90 days or more and still accruing to loans, net of unearned income and deferred fees	0.02	% 0.06	% 0.08	%
Accruing restructured loans	\$ 2,021	\$ 5,524	\$ 3,756	
Impaired loans:				
Impaired loans with no valuation allowance	\$ 11,063	\$ 2,286	\$ 5,505	
Impaired loans with a valuation allowance	902	7,754	7,091	
Total impaired loans	\$ 11,965	\$ 10,040	\$ 12,596	
Valuation allowance	(327)	(1,829)	(1,123)	
Impaired loans, net of allowance	\$ 11,638	\$ 8,211	\$ 11,473	
Average recorded investment in impaired loans(1)	\$ 13,831	\$ 7,834	\$ 8,734	
Interest income recognized on impaired loans, after designation as impaired	\$ 292	\$ 90	\$ 141	
Amount of income recognized on a cash basis	\$ ---	\$ ---	\$ ---	

(1) Recorded investment includes principal, accrued interest and net deferred fees.

Nonaccrual loans are designated as impaired. No interest income was recognized on nonaccrual loans for the nine months ended September 30, 2012 or September 30, 2011 or for the year ended December 31, 2011, respectively. Please refer to Note 8 for a detailed analysis of the changes in impaired loans with a valuation allowance.

A detailed analysis of investment in impaired loans, associated reserves and interest income recognized, segregated by loan class follows.

	Impaired Loans as of September 30, 2012				
	Principal Balance	(A) Total Recorded Investment(1)	Recorded Investment(1) in (A) for Which There is No Related Allowance	Recorded Investment(1) in (A) for Which There is a Related Allowance	Related Allowance
Real Estate Construction					
Construction, residential	\$ 123	\$ 118	\$ 118	\$---	\$---
Construction, other	3,500	3,498	3,498	---	---
Consumer Real Estate					
Equity lines					
Residential closed-end first liens	790	793	638	155	47
Residential closed-end junior liens	159	159	159	---	---
Commercial Real Estate					
Multifamily real estate	2,034	2,049	1,787	262	44
Commercial real estate, owner occupied	4,825	4,842	4,842	---	---
Commercial real estate, other	---	---	---	---	---
Commercial Non Real Estate					
Commercial and Industrial	534	534	44	490	236
Public Sector and IDA					
Public sector and IDA	---	---	---	---	---
Consumer Non Real Estate					
Credit cards	---	---	---	---	---
Automobile	---	---	---	---	---
Other consumer loans	---	---	---	---	---
Total	\$ 11,965	\$ 11,993	\$ 11,086	\$ 907	\$ 327

(1) Recorded investment includes the unpaid principal balance and any accrued interest and net deferred fees.

	Impaired Loans as of December 31, 2011(3)				
	Principal Balance	(A) Total Recorded Investment(1)	Recorded Investment(1) in (A) for Which There is No Related Allowance	Recorded Investment(1) in (A) for Which There is a Related Allowance	Related Allowance
Consumer Real Estate(2)					
Closed-end consumer real estate	\$237	\$ 237	\$237	\$---	\$---
Commercial Real Estate(2)					
College housing	366	366	366	---	---
Office and retail	3,500	3,500	---	3,500	57
Hotel	3,319	3,320	2,794	526	16
Medical professionals	66	67	---	67	66
General contractors	703	703	176	527	402
Other commercial real estate	1,113	1,112	425	687	474
Commercial & Industrial(2)					
Commercial and Industrial	139	139	---	139	62
Construction, Development and Land(2)					
Residential	2,901	2,912	1,256	1,656	46
Commercial	252	252	252	---	---
Total	\$12,596	\$ 12,608	\$5,506	\$7,102	\$1,123

- (1) Recorded investment includes the unpaid principal balance and any accrued interest and net deferred fees.
- (2) Only classes with impaired loans are shown.
- (3) Segments and classes at December 31, 2011 are reported using the segmentation method in effect for 2011. The Company began reporting under revised segments beginning in 2012.

The following tables show the average investment and interest income recognized for impaired loans.

	Average Investment and Interest Income for Impaired Loans			
	For the Three Months Ended September 30, 2012		For the Nine Months Ended September 30, 2012	
	Average Recorded Investment(1)	Interest Income Recognized	Average Recorded Investment(1)	Interest Income Recognized
Real Estate Construction				
Construction, residential	\$ 1,428	\$ ---	\$ 1,486	\$ ---
Construction, other	3,498	58	4,568	184
Consumer Real Estate				
Equity lines	6	---	135	2
Residential closed-end first liens	1,038	3	889	7
Residential closed-end junior liens	220	---	245	---
Commercial Real Estate				
Multifamily real estate	2,083	16	1,226	24
Commercial real estate, owner occupied	5,401	28	4,656	72
Commercial real estate, other	---	---	---	---
Commercial Non Real Estate				
Commercial and Industrial	549	1	587	3
Public Sector and IDA				
Public sector and IDA	---	---	---	---
Consumer Non Real Estate				
Credit cards	---	---	---	---
Automobile	8	---	5	---
Other consumer	---	---	34	---
Total	\$ 14,231	\$ 106	\$ 13,831	\$ 292

(1) Recorded investment includes the unpaid principal balance and any accrued interest and net deferred fees.

	Average Investment and Interest Income of Impaired Loans For the Year Ended December 31, 2011(3)	
	Average Recorded Investment(1)	Interest Income Recognized
Consumer Real Estate(2)		
Closed-end consumer real estate	\$450	\$ 3
Commercial Real Estate(2)		
College housing	281	7
Office & retail	292	---
Hotel	3,445	41
Medical professionals	67	5
General contractors	112	4
Other commercial real estate	1,139	24
Commercial & Industrial(2)		
Commercial and Industrial	553	---
Construction, Development and Land(2)		
Residential	2,143	49
Commercial	252	8
Total	\$8,734	\$ 141

(1) Recorded investment includes the unpaid principal balance and any accrued interest and net deferred fees.

(2) Only classes with impaired loans are shown.

(3) Segments at December 31, 2011 are reported using the segmentation method in effect for 2011. The Company began reporting under revised segments beginning in 2012.

An analysis of past due and nonaccrual loans as of September 30, 2012 follows.

	30 – 89 Days Past Due	90 or More Days Past Due	90 or More Days Past Due and Still Accruing	Nonaccruals (Including Impaired Nonaccruals)
Real Estate Construction				
Construction, residential	\$ 158	\$ 123	\$---	\$ 123
Construction, other	---	89	---	89
Consumer Real Estate				
Equity lines	14	54	30	24
Residential closed-end first liens	2,167	593	48	972
Residential closed-end junior liens	99	114	---	198
Commercial Real Estate				