AMERICAN NATIONAL BANKSHARES INC.
Form 10-Q
August 04, 2017
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, 2017.

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 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 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 31, 2017, the Company had 8,642,913 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, 2017 | (*) December 31, 2016 |
|---|---|---|
| Assets | | |
| Cash and due from banks | $23,765 | $ 20,268 |
| Interest-bearing deposits in other banks | 62,164 | 32,939 |
| | | |
| Securities available for sale, at fair value | 280,503 | 346,502 |
| Restricted stock, at cost | 5,501 | 6,224 |
| Loans held for sale | 2,379 | 5,996 |
| | | |
| Loans, net of unearned income | 1,288,693 | 1,164,821 |
| Less allowance for loan losses | (13,632) | (12,801) |
| Net loans | 1,275,061 | 1,152,020 |
| | | |
| Premises and equipment, net | 26,265 | 25,439 |
| Other real estate owned, net of valuation allowance of $248 in 2017 and $134 in 2016 | 1,686 | 1,328 |
| Goodwill | 43,872 | 43,872 |
| Core deposit intangibles, net | 1,351 | 1,719 |
| Bank owned life insurance | 18,381 | 18,163 |
| Accrued interest receivable and other assets | 23,545 | 24,168 |
| Total assets | $1,764,473 | $ 1,678,638 |
| | | |
| Liabilities | | |
| Demand deposits -- noninterest bearing | $390,603 | $ 378,600 |
| Demand deposits -- interest bearing | 218,714 | 209,430 |
| Money market deposits | 339,106 | 283,035 |
| Savings deposits | 125,237 | 120,720 |
| Time deposits | 389,181 | 378,855 |
| Total deposits | 1,462,841 | 1,370,640 |
| | | |
| Short-term borrowings: | | |
| Customer repurchase agreements | 48,282 | 39,166 |
| Other short-term borrowings | — | 20,000 |
| Long-term borrowings | 9,991 | 9,980 |
| Junior subordinated debt | 27,775 | 27,724 |
| Accrued interest payable and other liabilities | 8,531 | 9,748 |
| Total liabilities | 1,557,420 | 1,477,258 |
| | | |
| Shareholders' equity | | |
| Preferred stock, $5 par, 2,000,000 shares authorized, none outstanding | — | — |
| Common stock, $1 par, 20,000,000 shares authorized, 8,642,913 shares outstanding at June 30, 2017 and 8,618,051 shares outstanding at December 31, 2016 | 8,595 | 8,578 |
| Capital in excess of par value | 75,691 | 75,076 |

| | | |
|---|---|---|
| Retained earnings | 123,795 | 119,600 |
| Accumulated other comprehensive loss, net | (1,028 ) | (1,874 ) |
| Total shareholders' equity | 207,053 | 201,380 |
| Total liabilities and shareholders' equity | $ 1,764,473 | $ 1,678,638 |

(*) - 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, | |
|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 |
| Interest and Dividend Income: | | | | |
| Interest and fees on loans | $13,752 | $ 11,642 | $26,456 | $ 23,757 |
| Interest and dividends on securities: | | | | |
| Taxable | 1,133 | 1,150 | 2,287 | 2,234 |
| Tax-exempt | 509 | 817 | 1,144 | 1,640 |
| Dividends | 84 | 93 | 163 | 184 |
| Other interest income | 125 | 67 | 234 | 125 |
| Total interest and dividend income | 15,603 | 13,769 | 30,284 | 27,940 |
| Interest Expense: | | | | |
| Interest on deposits | 1,352 | 1,314 | 2,552 | 2,611 |
| Interest on short-term borrowings | 14 | 1 | 42 | 2 |
| Interest on long-term borrowings | 81 | 81 | 161 | 162 |
| Interest on junior subordinated debt | 244 | 213 | 483 | 421 |
| Total interest expense | 1,691 | 1,609 | 3,238 | 3,196 |
| Net Interest Income | 13,912 | 12,160 | 27,046 | 24,744 |
| Provision for Loan Losses | 350 | 50 | 650 | 100 |
| Net Interest Income After Provision for Loan Losses | 13,562 | 12,110 | 26,396 | 24,644 |
| Noninterest Income: | | | | |
| Trust fees | 908 | 961 | 1,820 | 1,891 |
| Service charges on deposit accounts | 501 | 514 | 985 | 1,006 |
| Other fees and commissions | 733 | 656 | 1,445 | 1,328 |
| Mortgage banking income | 462 | 365 | 991 | 657 |
| Securities gains, net | 331 | 222 | 590 | 588 |
| Brokerage fees | 192 | 223 | 384 | 427 |
| Income from Small Business Investment Companies | 6 | 72 | 32 | 238 |
| Other | 215 | 354 | 372 | 529 |
| Total noninterest income | 3,348 | 3,367 | 6,619 | 6,664 |
| Noninterest Expense: | | | | |
| Salaries | 4,733 | 4,031 | 9,532 | 8,246 |
| Employee benefits | 1,130 | 1,055 | 2,313 | 2,169 |
| Occupancy and equipment | 1,148 | 1,059 | 2,216 | 2,158 |
| FDIC assessment | 134 | 193 | 263 | 381 |
| Bank franchise tax | 263 | 256 | 519 | 512 |
| Core deposit intangible amortization | 203 | 288 | 368 | 576 |
| Data processing | 502 | 459 | 989 | 903 |
| Software | 271 | 274 | 550 | 571 |
| Other real estate owned, net | 68 | 76 | 111 | 209 |
| Other | 2,259 | 1,965 | 4,291 | 3,849 |
| Total noninterest expense | 10,711 | 9,656 | 21,152 | 19,574 |
| Income Before Income Taxes | 6,199 | 5,821 | 11,863 | 11,734 |
| Income Taxes | 1,920 | 1,733 | 3,521 | 3,518 |
| Net Income | $4,279 | $ 4,088 | $8,342 | $ 8,216 |

| | | | | |
|---|---|---|---|---|
| Net Income Per Common Share: | | | | |
| Basic | $0.50 | $ 0.47 | $0.97 | $ 0.95 |
| Diluted | $0.49 | $ 0.47 | $0.96 | $ 0.95 |
| Average Common Shares Outstanding: | | | | |
| Basic | 8,640,648 | 8,610,156 | 8,636,954 | 8,610,998 |
| Diluted | 8,659,165 | 8,619,833 | 8,655,173 | 8,616,873 |

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, | |
|---|---|---|
| | 2017 | 2016 |
| Net income | $4,279 | $4,088 |
| Other comprehensive income: | | |
| Unrealized gains on securities available for sale | 879 | 583 |
| Tax effect | (307) | (204) |
| Reclassification adjustment for gains on sales of securities | (331) | (222) |
| Tax effect | 116 | 78 |
| Other comprehensive income | 357 | 235 |
| Comprehensive income | $4,636 | $4,323 |

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, | |
|---|---|---|
| | 2017 | 2016 |
| Net income | $8,342 | $8,216 |
| Other comprehensive income: | | |
| Unrealized gains on securities available for sale | 1,890 | 2,805 |
| Tax effect | (661) | (982) |
| Reclassification adjustment for gains on sales of securities | (590) | (588) |
| Tax effect | 207 | 206 |
| Other comprehensive income | 846 | 1,441 |
| Comprehensive income | $9,188 | $9,657 |

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

American National Bankshares Inc.
Consolidated Statements of Changes in Shareholders' Equity
(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, 2015 | $ 8,605 | $ 75,375 | $ 111,565 | $ 2,290 | $ 197,835 |
| Net income | — | — | 8,216 | — | 8,216 |
| Other comprehensive income | — | — | — | 1,441 | 1,441 |
| Stock repurchased (47,976 shares) | (48) | (1,155) | — | — | (1,203) |
| Stock options exercised (4,134 shares) | 4 | 97 | — | — | 101 |
| Vesting of restricted stock (3,046 shares) | 3 | (3) | — | — | — |
| Equity based compensation (30,995 shares) | 8 | 439 | — | — | 447 |
| Cash dividends paid, $0.48 per share | — | — | (4,133) | — | (4,133) |
| Balance, June 30, 2016 | $ 8,572 | $ 74,753 | $ 115,648 | $ 3,731 | $ 202,704 |
| 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 |

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, 2017 | 2016 |
|---|---|---|
| Cash Flows from Operating Activities: | | |
| Net income | $8,342 | $8,216 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for loan losses | 650 | 100 |
| Depreciation | 913 | 949 |
| Net accretion of acquisition accounting adjustments | (1,029) | (1,353) |
| Core deposit intangible amortization | 368 | 576 |
| Net amortization of securities | 996 | 1,356 |
| Net gains on sale or call of securities | (590) | (588) |
| Gain on sale of loans held for sale | (774) | (514) |
| Proceeds from sales of loans held for sale | 43,421 | 30,465 |
| Originations of loans held for sale | (39,030) | (31,377) |
| Net loss on other real estate owned | 3 | 64 |
| Valuation allowance on other real estate owned | 74 | 76 |
| Net loss on sale of premises and equipment | — | 8 |
| Equity based compensation expense | 559 | 447 |
| Earnings on bank owned life insurance | (218) | (227) |
| Deferred income tax expense (benefit) | 1,138 | (1,763) |
| Net change in interest receivable | 263 | (858) |
| Net change in other assets | (1,232) | 151 |
| Net change in interest payable | (13) | 13 |
| Net change in other liabilities | (1,204) | 625 |
| Net cash provided by operating activities | 12,637 | 6,366 |
| | | |
| Cash Flows from Investing Activities: | | |
| Proceeds from sales of securities available for sale | 55,403 | 9,317 |
| Proceeds from maturities, calls and paydowns of securities available for sale | 26,075 | 63,183 |
| Purchases of securities available for sale | (14,585) | (93,501) |
| Net change in restricted stock | 723 | (50) |
| Net increase in loans | (123,113) | (51,143) |
| Proceeds from sale of premises and equipment | — | 1 |
| Purchases of premises and equipment | (1,739) | (269) |
| Proceeds from sales of other real estate owned | 78 | 852 |
| Net cash used in investing activities | (57,158) | (71,610) |
| | | |
| Cash Flows from Financing Activities: | | |
| Net change in demand, money market, and savings deposits | 81,875 | 29,697 |
| Net change in time deposits | 10,326 | 6,028 |
| Net change in customer repurchase agreements | 9,116 | 12,758 |
| Net change in other short-term borrowings | (20,000) | — |
| Common stock dividends paid | (4,147) | (4,133) |
| Repurchase of common stock | — | (1,203) |
| Proceeds from exercise of stock options | 73 | 101 |
| Net cash provided by financing activities | 77,243 | 43,248 |

| | | |
|---|---|---|
| Net Increase (Decrease) in Cash and Cash Equivalents | 32,722 | (21,996 ) |
| Cash and Cash Equivalents at Beginning of Period | 53,207 | 95,337 |
| Cash and Cash Equivalents at End of Period | $85,929 | $73,341 |

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, 2016.
Adoption of New Accounting Standard
During the first quarter of 2017, the Company adopted Accounting Standards Update ("ASU") 2016-09, "Compensation-Stock Compensation (Topic 718): Improvements to Employer Share- Based Payment Accounting." This ASU simplifies several aspects of the accounting for share-based payment award transactions, one of which is the recognition of excess tax benefits and deficiencies related to share-based payments, including tax benefits of dividends on share-based payment awards. Prior to the adoption of ASU 2016-09, such tax consequences were recognized as components of additional paid-in capital. With the adoption of this ASU, tax benefits and deficiencies are recognized within income tax expense. In accordance with the adoption provisions of ASU 2016-09, the results for the second quarter and first six months of 2016 include only the excess tax (expense) benefits attributable to the second quarter and first six months of 2016 in the amount of $2,000 and $50,000, respectively.
Recent Accounting Pronouncements
In January 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-01, "Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities." The amendments in ASU 2016-01, among other things: (1) requires equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income; (2) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; (3) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e., securities or loans and receivables); and (4) eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost. The amendments in this ASU are effective for public companies for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company is currently assessing the impact that ASU 2016-01 will have on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 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 is currently assessing the impact that ASU 2016-02 will have on its consolidated financial statements.

During June 2016, the FASB issued ASU No. 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 is currently assessing the impact that ASU 2016-13 will have on its consolidated financial statements.

During August 2016, the FASB issued ASU No. 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments", to address diversity in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendments are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The amendments should be applied using a retrospective transition method to each period presented. If retrospective application is impractical for some of the issues addressed by the update, the amendments for those issues would be applied prospectively as of the earliest date practicable. Early adoption is permitted, including adoption in an interim period. The Company does not expect the adoption of ASU 2016-15 to have a material impact on its consolidated financial statements.

During January 2017, the FASB issued ASU No. 2017-01, "Business Combinations (Topic 805): Clarifying the Definition of a Business". The amendments in this ASU clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. Under the current implementation guidance in Topic 805, there are three elements of a business-inputs, processes, and outputs. While an integrated set of assets and activities (collectively referred to as a "set") that is a business usually has outputs, outputs are not required to be present. In addition, all the inputs and processes that a seller uses in operating a set are not required if market participants can acquire the set and continue to produce outputs. The amendments in this ASU provide a screen to determine when a set is not a business. If the screen is not met, the amendments (1) require that to be considered a business, a set must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output and (2) remove the evaluation of whether a market participant could replace missing elements. The ASU provides a framework to assist entities in evaluating whether both an input and a substantive process are present. The amendments in this ASU are effective for annual periods beginning after December 15, 2017, including interim periods within those annual periods. The amendments in this ASU should be applied prospectively on or after the effective date. No disclosures are required at transition. The Company does not expect the adoption of ASU 2017-01 to have a material impact on its consolidated financial statements.

During January 2017, the FASB issued ASU No. 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.

During March 2017, the FASB issued ASU 2017-07, "Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost." The amendments in this ASU require an employer that offers defined benefit pension plans, other postretirement benefit plans, or other types of benefits accounted for under Topic 715 to report the service cost component of net periodic benefit cost in the same line item(s) as other compensation costs arising from services rendered during the period. The other components of net periodic benefit cost are required to be presented in the income statement separately from the service cost component. If the other components of net periodic benefit cost are not presented on a separate line or lines, the line item(s) used in the income statement must be disclosed. In addition, only the service cost component will be eligible for capitalization as part of an asset, when applicable. The amendments are effective for annual periods beginning after December 15, 2017, including interim periods within those annual periods. Early adoption is permitted. The Company does not expect the adoption of ASU 2017-07 to have a material impact on its consolidated financial statements.

During 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.

During May 2017, the FASB issued ASU 2017-09, "Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting." The amendments provide guidance on determining which changes to the terms and conditions of share-based payment awards require an entity to apply modification accounting under Topic 718. The amendments are effective for all entities for annual periods, including interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted, including adoption in any interim period, for reporting periods for which financial statements have not yet been issued. The Company is currently assessing the impact that ASU 2017-09 will have on its consolidated financial statements.

Note 2 – Securities

The amortized cost and fair value of investments in debt and equity securities at June 30, 2017 and December 31, 2016 were as follows (dollars in thousands):

| | June 30, 2017 | | | |
|---|---|---|---|---|
| | Amortized Cost | Unrealized Gains | Unrealized Losses | Fair Value |
| Securities available for sale: | | | | |
| Federal agencies and GSEs | $93,406 | $ 23 | $ 1,737 | $91,692 |
| Mortgage-backed and CMOs | 79,334 | 423 | 689 | 79,068 |
| State and municipal | 97,297 | 2,167 | 259 | 99,205 |
| Corporate | 8,108 | 212 | 5 | 8,315 |
| Equity securities | 1,288 | 935 | — | 2,223 |
| Total securities available for sale | $279,433 | $ 3,760 | $ 2,690 | $280,503 |

| | December 31, 2016 | | | |
|---|---|---|---|---|
| | Amortized Cost | Unrealized Gains | Unrealized Losses | Fair Value |
| Securities available for sale: | | | | |
| Federal agencies and GSEs | $106,379 | $ 62 | $ 2,387 | $104,054 |
| Mortgage-backed and CMOs | 79,917 | 514 | 938 | 79,493 |
| State and municipal | 145,757 | 2,540 | 782 | 147,515 |
| Corporate | 13,392 | 123 | 23 | 13,492 |
| Equity securities | 1,288 | 660 | — | 1,948 |
| Total securities available for sale | $346,733 | $ 3,899 | $ 4,130 | $346,502 |

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 Sheet. The FRB requires the Bank to maintain stock with a par value equal to 3.0% of its outstanding capital and an additional 3.0% is on call. The FHLB requires the Bank to maintain stock in an amount equal to 4.5% of outstanding borrowings and a specific percentage of the Bank's total assets. The cost of restricted stock at June 30, 2017 and December 31, 2016 was as follows (dollars in thousands):

| | June 30, 2017 | December 31, 2016 |
|---|---|---|
| FRB stock | $ 3,573 | $ 3,559 |
| FHLB stock | 1,928 | 2,665 |
| Total restricted stock | $ 5,501 | $ 6,224 |

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, 2017. 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 | $83,671 | $ 1,737 | $83,671 | $ 1,737 | $— | $ — |
| Mortgage-backed and CMOs | 60,908 | 689 | 59,334 | 660 | 1,574 | 29 |
| State and municipal | 14,541 | 259 | 13,480 | 237 | 1,061 | 22 |
| Corporate | 1,553 | 5 | 1,553 | 5 | — | — |
| Total | $160,673 | $ 2,690 | $158,038 | $ 2,639 | $2,635 | $ 51 |

Federal agencies and GSEs: The unrealized losses on the Company's investment in 21 government sponsored entities ("GSE") securities 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 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, 2017.

Mortgage-backed securities: The unrealized losses on the Company's investment in 38 GSE mortgage-backed securities were caused by interest rate increases. Four 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, 2017.

Collateralized Mortgage Obligations: The unrealized losses associated with two private GSE collateralized mortgage obligations ("CMO") were due to normal market fluctuations. One of these securities had been 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, 2017.

State and municipal securities: The unrealized losses on 21 state and municipal securities 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 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, 2017.

Corporate securities: The unrealized losses on two corporate securities 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 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, 2017.

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, 2017, and no impairment has been recognized.

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, 2016 (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 | $89,597 | $ 2,387 | $89,597 | $ 2,387 | $— | $ — |
| Mortgage-backed and CMOs | 57,762 | 938 | 56,076 | 911 | 1,686 | 27 |
| State and municipal | 47,221 | 782 | 47,221 | 782 | — | — |
| Corporate | 2,895 | 23 | 2,895 | 23 | — | — |
| Total | $197,475 | $ 4,130 | $195,789 | $ 4,103 | $1,686 | $ 27 |

Other-Than-Temporary-Impaired Securities

As of June 30, 2017 and December 31, 2016, 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 during the three and six months ended June 30, 2017 and 2016 (dollars in thousands):

| | 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 |

| | Three Months Ended June 30, 2016 | Six Months Ended June 30, 2016 |
|---|---|---|
| Realized gains (losses): | | |

| | | |
|---|---|---|
| Gross realized gains | $222 | $593 |
| Gross realized losses | — | (5 ) |
| Net realized gains | $222 | $588 |
| Proceeds from sales of securities | $3,146 | $9,317 |

Note 3 – Loans

Loans, excluding loans held for sale, at June 30, 2017 and December 31, 2016, were comprised of the following (dollars in thousands):

| | June 30, 2017 | December 31, 2016 |
|---|---|---|
| Commercial | $236,418 | $ 208,717 |
| Commercial real estate: | | |
| Construction and land development | 132,322 | 114,258 |
| Commercial real estate | 590,093 | 510,960 |
| Residential real estate: | | |
| Residential | 211,305 | 215,104 |
| Home equity | 113,580 | 110,751 |
| Consumer | 4,975 | 5,031 |
| Total loans | $1,288,693 | $ 1,164,821 |

Acquired Loans

The outstanding principal balance and the carrying amount of these loans included in the consolidated balance sheets at June 30, 2017 and December 31, 2016 are as follows (dollars in thousands):

| | June 30, 2017 | December 31, 2016 |
|---|---|---|
| Outstanding principal balance | $91,983 | $ 104,172 |
| Carrying amount | 85,283 | 96,487 |

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

| | June 30, 2017 | December 31, 2016 |
|---|---|---|
| Outstanding principal balance | $32,206 | $ 34,378 |
| Carrying amount | 27,040 | 28,669 |

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, 2017 and the year ended December 31, 2016 (dollars in thousands):

| | June 30, 2017 | December 31, 2016 |
|---|---|---|
| Balance at January 1 | $6,103 | $ 7,299 |
| Accretion | (1,460 ) | (3,232 ) |
| Reclassification from nonaccretable difference | 374 | 2,197 |
| Other changes, net* | 717 | (161 ) |
| | $5,734 | $ 6,103 |

*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 quarter.

Past Due Loans

The following table shows an analysis by portfolio segment of the Company's past due loans at June 30, 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 | $67 | $ 109 | $ 140 | $ 25 | $341 | $236,077 | $236,418 |
| Commercial real estate: | | | | | | | |
| Construction and land development | 249 | — | 241 | 61 | 551 | 131,771 | 132,322 |
| Commercial real estate | 426 | — | 278 | 811 | 1,515 | 588,578 | 590,093 |
| Residential: | | | | | | | |
| Residential | 942 | 132 | 952 | 1,012 | 3,038 | 208,267 | 211,305 |
| Home equity | 71 | 8 | — | 201 | 280 | 113,300 | 113,580 |
| Consumer | 21 | 7 | — | 7 | 35 | 4,940 | 4,975 |
| Total | $1,776 | $256 | $ 1,611 | $ 2,117 | $5,760 | $1,282,933 | $1,288,693 |

The following table shows an analysis by portfolio segment of the Company's past due loans at December 31, 2016 (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 | $50 | $— | $ — | $ 19 | $69 | $208,648 | $208,717 |
| Commercial real estate: | | | | | | | |
| Construction and land development | 60 | 12 | — | 64 | 136 | 114,122 | 114,258 |
| Commercial real estate | — | 127 | 339 | 773 | 1,239 | 509,721 | 510,960 |
| Residential: | | | | | | | |
| Residential | 1,280 | 117 | 248 | 1,802 | 3,447 | 211,657 | 215,104 |
| Home equity | 229 | — | — | 289 | 518 | 110,233 | 110,751 |
| Consumer | 6 | 5 | — | 18 | 29 | 5,002 | 5,031 |
| Total | $1,625 | $261 | $ 587 | $ 2,965 | $5,438 | $1,159,383 | $1,164,821 |

Impaired Loans

The following table presents the Company's impaired loan balances by portfolio segment, excluding acquired impaired loans, at June 30, 2017 (dollars in thousands):

| | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment | Interest Income Recognized |
|---|---|---|---|---|---|
| With no related allowance recorded: | | | | | |
| Commercial | $ 18 | $ 17 | $ — | $ 17 | $ 1 |
| Commercial real estate: | | | | | |
| Construction and land development | 71 | 71 | — | 155 | 4 |
| Commercial real estate | 1,067 | 1,064 | — | 1,305 | 38 |
| Residential: | | | | | |
| Residential | 443 | 446 | — | 378 | 17 |
| Home equity | 145 | 145 | — | 131 | 5 |
| Consumer | 7 | 7 | — | 9 | — |
| | $ 1,751 | $ 1,750 | $ — | $ 1,995 | $ 65 |
| With a related allowance recorded: | | | | | |
| Commercial | 78 | 77 | 5 | 78 | 2 |
| Commercial real estate: | | | | | |
| Construction and land development* | 61 | 62 | — | 213 | — |
| Commercial real estate* | 95 | 95 | — | 224 | — |
| Residential | | | | | |
| Residential | 1,086 | 1,085 | 9 | 1,498 | 17 |
| Home equity | 222 | 220 | 1 | 320 | 1 |
| Consumer* | 7 | 7 | — | 13 | — |
| | $ 1,549 | $ 1,546 | $ 15 | $ 2,346 | $ 20 |
| Total: | | | | | |
| Commercial | $ 96 | $ 94 | $ 5 | $ 95 | $ 3 |
| Commercial real estate: | | | | | |
| Construction and land development | 132 | 133 | — | 368 | 4 |
| Commercial real estate | 1,162 | 1,159 | — | 1,529 | 38 |
| Residential: | | | | | |
| Residential | 1,529 | 1,531 | 9 | 1,876 | 34 |
| Home equity | 367 | 365 | 1 | 451 | 6 |
| Consumer | 14 | 14 | — | 22 | — |
| | $ 3,300 | $ 3,296 | $ 15 | $ 4,341 | $ 85 |

*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, 2016 (dollars in thousands):

| | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment | Interest Income Recognized |
|---|---|---|---|---|---|
| With no related allowance recorded: | | | | | |
| Commercial | $ 24 | $ 24 | $ — | $ 12 | $ 2 |
| Commercial real estate: | | | | | |
| Construction and land development | 158 | 157 | — | 198 | 16 |
| Commercial real estate | 1,916 | 1,917 | — | 1,409 | 107 |
| Residential: | | | | | |
| Residential | 557 | 567 | — | 318 | 38 |
| Home equity | 6 | 6 | — | 153 | 16 |
| Consumer | 9 | 9 | — | 10 | 1 |
| | $ 2,670 | $ 2,680 | $ — | $ 2,100 | $ 180 |
| With a related allowance recorded: | | | | | |
| Commercial* | $ 19 | $ 19 | $ — | $ 78 | $ 1 |
| Commercial real estate: | | | | | |
| Construction and land development* | 64 | 65 | — | 272 | 10 |
| Commercial real estate* | 48 | 48 | — | 286 | 7 |
| Residential: | | | | | |
| Residential | 1,639 | 1,639 | 22 | 1,593 | 32 |
| Home equity | 386 | 385 | 1 | 345 | 4 |
| Consumer* | 18 | 18 | — | 14 | — |
| | $ 2,174 | $ 2,174 | $ 23 | $ 2,588 | $ 54 |
| Total: | | | | | |
| Commercial | $ 43 | $ 43 | $ — | $ 90 | $ 3 |
| Commercial real estate: | | | | | |
| Construction and land development | 222 | 222 | — | 470 | 26 |
| Commercial real estate | 1,964 | 1,965 | — | 1,695 | 114 |
| Residential: | | | | | |
| Residential | 2,196 | 2,206 | 22 | 1,911 | 70 |
| Home equity | 392 | 391 | 1 | 498 | 20 |
| Consumer | 27 | 27 | — | 24 | 1 |
| | $ 4,844 | $ 4,854 | $ 23 | $ 4,688 | $ 234 |

*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, 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 | $ 5 | $ 5 |
| Commercial real estate | — | — | — |
| Construction and land development | — | — | — |
| Home Equity | 1 | 36 | 36 |
| Residential real estate | — | — | — |
| Consumer | — | — | — |
| Total | 2 | $ 41 | $ 41 |

| | Loans Modified as a TDR for the Six Months Ended June 30, 2017 | | |
|---|---|---|---|
| Loan Type | Number of Contracts | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment |
| Commercial | 3 | $ 73 | $ 73 |
| Commercial real estate | — | — | — |
| Construction and land development | — | — | — |
| Home Equity | 2 | 57 | 57 |
| Residential real estate | — | — | — |
| Consumer | — | — | — |
| Total | 5 | $ 130 | $ 130 |

The following tables show the detail of loans modified as TDRs during the three and six months ended June 30, 2016 included in the impaired loan balances (dollars in thousands):

| | Loans Modified as a TDR for the Three Months Ended June 30, 2016 | | |
|---|---|---|---|
| Loan Type | Number of Contracts | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment |
| Commercial | 1 | $ 24 | $ 24 |
| Commercial real estate | 1 | 937 | 937 |
| Construction and land development | — | — | — |
| Home Equity | — | — | — |
| Residential real estate | 1 | 2 | 1 |
| Consumer | — | — | — |
| Total | 3 | $ 963 | $ 962 |

| Loan Type | Loans Modified as a TDR for the Six Months Ended June 30, 2016 | | |
|---|---|---|---|
| | Number of Contracts | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment |
| Commercial | 1 | $ 24 | $ 24 |
| Commercial real estate | 2 | 1,005 | 1,003 |
| Construction and land development | — | — | — |
| Home Equity | — | — | — |
| Residential real estate | 1 | 2 | 1 |
| Consumer | — | — | — |
| Total | 4 | $ 1,031 | $ 1,028 |

During the three and six months ended June 30, 2017 and 2016, the Company had no loans that subsequently defaulted within twelve months of modification. The Company defines defaults as one or more payments that occur more than 90 days past the due date, charge-off or foreclosure subsequent to modification.

Residential Real Estate in Process of Foreclosure

The Company had $1,127,000 in residential real estate loans in the process of foreclosure at June 30, 2017 and $928,000 and $653,000 in residential OREO at June 30, 2017 and December 31, 2016, respectively.

Risk Grades

The following table shows the Company's loan portfolio broken down by internal risk grading as of June 30, 2017 (dollars in thousands):

Commercial and Consumer Credit Exposure

Credit Risk Profile by Internally Assigned Grade

| | Commercial | Construction and Land Development | Commercial Real Estate Other | Residential | Home Equity |
|---|---|---|---|---|---|
| Pass | $ 235,653 | $ 128,538 | $ 580,241 | $ 198,350 | $ 111,640 |
| Special Mention | 367 | 2,072 | 4,126 | 8,771 | 1,339 |
| Substandard | 398 | 1,712 | 5,726 | 4,184 | 601 |
| Doubtful | — | — | — | — | — |
| Total | $ 236,418 | $ 132,322 | $ 590,093 | $ 211,305 | $ 113,580 |

Consumer Credit Exposure

Credit Risk Profile Based on Payment Activity

| | Consumer |
|---|---|
| Performing | $ 4,965 |
| Nonperforming | 10 |
| Total | $ 4,975 |

The following table shows the Company's loan portfolio broken down by internal risk grading as of December 31, 2016 (dollars in thousands):

Commercial and Consumer Credit Exposure

Credit Risk Profile by Internally Assigned Grade

| | Commercial | Construction and Land Development | Commercial Real Estate Other | Residential | Home Equity |
|---|---|---|---|---|---|
| Pass | $ 208,098 | $ 112,729 | $ 501,081 | $ 199,278 | $ 108,799 |
| Special Mention | 592 | 902 | 4,859 | 10,600 | 1,257 |
| Substandard | 27 | 627 | 5,020 | 5,226 | 695 |
| Doubtful | — | — | — | — | — |
| Total | $ 208,717 | $ 114,258 | $ 510,960 | $ 215,104 | $ 110,751 |

Consumer Credit Exposure

Credit Risk Profile Based on Payment Activity

| | Consumer |
|---|---|
| Performing | $ 5,003 |
| Nonperforming | 28 |
| Total | $ 5,031 |

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 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 that 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.

Note 4 – Allowance for Loan Losses and Reserve for Unfunded Lending Commitments

Changes in the allowance for loan losses and the reserve for unfunded lending commitments as of the indicated dates and periods are presented below (dollars in thousands):

| | Six Months Ended June 30, 2017 | Year Ended December 31, 2016 | Six Months Ended June 30, 2016 |
|---|---|---|---|
| Allowance for Loan Losses | | | |
| Balance, beginning of period | $12,801 | $ 12,601 | $12,601 |
| Provision for loan losses | 650 | 250 | 100 |
| Charge-offs | (134) | (326) | (158) |
| Recoveries | 315 | 276 | 131 |
| Balance, end of period | $13,632 | $ 12,801 | $12,674 |
| | | | |
| Reserve for Unfunded Lending Commitments | | | |
| Balance, beginning of period | $203 | $ 184 | $184 |
| Provision for unfunded commitments | 4 | 19 | 12 |
| Charge-offs | — | — | — |
| Balance, end of period | $207 | $ 203 | $196 |

The reserve for unfunded loan commitments is included in other liabilities.

The following table presents changes in the Company's allowance for loan losses by portfolio segment and the related loan balance total by segment at and for the six months ended June 30, 2017 (dollars in thousands):

| | Commercial | Commercial Real Estate | Residential Real Estate | Consumer | Total |
|---|---|---|---|---|---|
| Allowance for Loan Losses | | | | | |
| Balance at December 31, 2016: | $ 2,095 | $ 7,355 | $ 3,303 | $ 48 | $ 12,801 |
| Provision for loan losses | 77 | 754 | (203) | 22 | 650 |
| Charge-offs | (23) | (1) | (24) | (86) | (134) |
| Recoveries | 212 | 15 | 22 | 66 | 315 |
| Balance at June 30, 2017: | $ 2,361 | $ 8,123 | $ 3,098 | $ 50 | $ 13,632 |
| | | | | | |
| Balance at June 30, 2017: | | | | | |
| | | | | | |
| Allowance for Loan Losses | | | | | |
| Individually evaluated for impairment | $ 5 | $ — | $ 10 | $ — | $ 15 |
| Collectively evaluated for impairment | 2,295 | 8,035 | 2,832 | 50 | 13,212 |
| Acquired impaired loans | 61 | 88 | 256 | — | 405 |
| Total | $ 2,361 | $ 8,123 | $ 3,098 | $ 50 | $ 13,632 |
| | | | | | |
| Loans | | | | | |
| Individually evaluated for impairment | $ 96 | $ 1,294 | $ 1,896 | $ 14 | $ 3,300 |
| Collectively evaluated for impairment | 235,899 | 707,480 | 310,028 | 4,946 | 1,258,353 |
| Acquired impaired loans | 423 | 13,641 | 12,961 | 15 | 27,040 |
| Total | $ 236,418 | $ 722,415 | $ 324,885 | $ 4,975 | $ 1,288,693 |

The following table presents changes in the Company's allowance for loan losses by portfolio segment and the related loan balance total by segment at and for the year ended December 31, 2016 (dollars in thousands):

| | Commercial | Commercial Real Estate | Residential Real Estate | Consumer | Total |
|---|---|---|---|---|---|
| Allowance for Loan Losses | | | | | |
| Balance at December 31, 2015: | $ 2,065 | $ 6,930 | $ 3,546 | $ 60 | $ 12,601 |
| Provision for loan losses | 30 | 403 | (224 ) | 41 | 250 |
| Charge-offs | (40 ) | (10 ) | (87 ) | (189 ) | (326 ) |
| Recoveries | 40 | 32 | 68 | 136 | 276 |
| Balance at December 31, 2016: | $ 2,095 | $ 7,355 | $ 3,303 | $ 48 | $ 12,801 |
| | | | | | |
| Balance at December 31, 2016: | | | | | |
| | | | | | |
| Allowance for Loan Losses | | | | | |
| Individually evaluated for impairment | $ — | $ — | $ 23 | $ — | $ 23 |
| Collectively evaluated for impairment | 2,087 | 7,248 | 3,046 | 48 | 12,429 |
| Acquired impaired loans | 8 | 107 | 234 | — | 349 |
| Total | $ 2,095 | $ 7,355 | $ 3,303 | $ 48 | $ 12,801 |
| | | | | | |
| Loans | | | | | |
| Individually evaluated for impairment | $ 43 | $ 2,186 | $ 2,588 | $ 27 | $ 4,844 |
| Collectively evaluated for impairment | 208,258 | 610,462 | 307,600 | 4,988 | 1,131,308 |
| Acquired impaired loans | 416 | 12,570 | 15,667 | 16 | 28,669 |
| Total | $ 208,717 | $ 625,218 | $ 325,855 | $ 5,031 | $ 1,164,821 |

The allowance for loan losses is allocated to loan segments based upon historical loss factors, risk grades on individual loans, portfolio analysis of smaller balance homogenous loans, and qualitative factors.  Qualitative factors include trends in delinquencies, nonaccrual loans, and loss rates; trends in volume and terms of loans, effects of changes in risk selection, underwriting standards, and lending policies; experience of lending officers, other lending staff and loan review; national, regional, and local economic trends and conditions; legal, regulatory and collateral factors; and concentrations of credit.

Note 5 – Goodwill and Other Intangible Assets

The Company records as goodwill the excess of the purchase price over the fair value of the identifiable net assets acquired. Impairment testing is performed annually, as well as when an event triggering impairment may have occurred. The Company performs its annual analysis as of June 30 each fiscal year. Accounting guidance permits preliminary assessment of qualitative factors to determine whether more substantial impairment testing is required. The Company chose to bypass the preliminary assessment and utilized a two-step process for impairment testing of goodwill. The first step tests for impairment, while the second step, if necessary, measures the impairment.  No indicators of impairment were identified as of June 30, 2017.

Core deposit intangibles resulting from the acquisition of MidCarolina Financial Corporation ("MidCarolina") in July 2011 were $6,556,000 and are being amortized on an accelerated basis over 108 months. Core deposit intangibles resulting from the acquisition of MainStreet BankShares, Inc. ("MainStreet") in January 2015 were $1,839,000 and are being amortized on an accelerated basis over 120 months.

The changes in the carrying amount of goodwill and intangibles for the six months ended June 30, 2017, are as follows (dollars in thousands):

| | Goodwill | Intangibles |
|---|---|---|
| Balance at December 31, 2016 | $ 43,872 | $ 1,719 |
| Additions | — | — |
| Amortization | — | (368 ) |
| Impairment | — | — |
| Balance at June 30, 2017 | $ 43,872 | $ 1,351 |

Note 6 – Short-term Borrowings

Short-term borrowings consist of customer repurchase agreements, overnight borrowings from the FHLB, and Federal Funds purchased. The Company has federal funds lines of credit established with two correspondent banks in the amounts of $15,000,000, each, and, additionally, has access to the FRB's discount window. Customer repurchase agreements are collateralized by securities of the U.S. Government or its agencies or GSEs. They mature daily. The interest rates may be changed at the discretion of the Company. The securities underlying these agreements remain under the Company's control. FHLB overnight borrowings contain floating interest rates that may change daily at the discretion of the FHLB. Federal funds purchased are unsecured overnight borrowings from other financial institutions. Short-term borrowings consisted of the following at June 30, 2017 and December 31, 2016 (dollars in thousands):

| | June 30, 2017 | December 31, 2016 |
|---|---|---|
| Customer repurchase agreements | $ 48,282 | $ 39,166 |
| Other short-term borrowings | — | 20,000 |
| | $ 48,282 | $ 59,166 |

Note 7 – Long-term Borrowings

Under the terms of its collateral agreement with the FHLB, the Company provides a blanket lien covering all of its residential first mortgage loans, second mortgage loans, home equity lines of credit, and commercial real estate loans. In addition, the Company pledges as collateral its capital stock in the FHLB and deposits with the FHLB. The Company has a line of credit with the FHLB equal to 30% of the Company's assets, subject to the amount of collateral pledged. As of June 30, 2017, $467,616,000 in eligible collateral was pledged under the blanket floating lien agreement which covers both short-term and long-term borrowings.

Long-term borrowings consisted of the following fixed rate, long-term advances as of June 30, 2017 and December 31, 2016 (dollars in thousands):

| June 30, 2017 | | | December 31, 2016 | | |
|---|---|---|---|---|---|
| Due by | Advance Amount | Weighted Average Rate | Due by | Advance Amount | Weighted Average Rate |
| November 30, 2017 | $ 9,991 | 2.98 % | November 30, 2017 | $ 9,980 | 2.98 % |

The advance due in November 2017 is net of a fair value discount of $9,000. The original discount recorded on July 1, 2011, was a result of the merger with MidCarolina. The adjustment to the face value is being amortized into interest expense over the life of the borrowing. There were no long-term borrowings acquired in the MainStreet acquisition and no borrowings were incurred to fund the acquisition.

In the regular course of conducting its business, the Company takes deposits from political subdivisions of the states of Virginia and North Carolina. At June 30, 2017, the Bank's public deposits totaled $228,523,000. The Company is required to provide collateral to secure the deposits that exceed the insurance coverage provided by the Federal Deposit Insurance Corporation. This collateral can be provided in the form of certain types of government or agency bonds or letters of credit from the FHLB. At June 30, 2017, the Company had $190,700,000 in letters of credit with the FHLB outstanding, as well as $67,990,000 in agency, state, and municipal securities pledged to provide collateral for such deposits.

Note 8 – Junior Subordinated Debt

On April 7, 2006, AMNB Statutory Trust I, a Delaware statutory trust and a wholly owned unconsolidated subsidiary of the Company, issued $20,000,000 of preferred securities (the "Trust Preferred Securities") in a private placement pursuant to an applicable exemption from registration. The Trust Preferred Securities mature on June 30, 2036, but may be redeemed at the Company's option beginning on September 30, 2011. Distributions are cumulative and will accrue from the date of original issuance, but may be deferred by the Company from time to time for up to 20 consecutive quarterly periods. The Company has guaranteed the payment of all required distributions on the Trust Preferred Securities. The proceeds of the Trust Preferred Securities received by the trust, along with proceeds of $619,000 received by the trust from the issuance of common securities by the trust to the Company, were used to purchase $20,619,000 of the Company's junior subordinated debt securities (the "Junior Subordinated Debt"), issued pursuant to junior subordinated debentures entered into between the Company and Wilmington Trust Company, as trustee. The proceeds of the Junior Subordinated Debt were used to fund the cash portion of the merger consideration to the former shareholders of Community First Financial Corporation in connection with the Company's acquisition of that company in 2006, and for general corporate purposes.

On July 1, 2011, in connection with the MidCarolina merger, the Company assumed $8,764,000 in junior subordinated debt to MidCarolina Trust I and MidCarolina Trust II, two separate Delaware statutory trusts (the "MidCarolina Trusts"), to fully and unconditionally guarantee the preferred securities issued by the MidCarolina Trusts. These long-term obligations, which currently qualify as Tier 1 capital, constitute a full and unconditional guarantee by the Company of the MidCarolina Trusts' obligations. The MidCarolina Trusts were not consolidated in the Company's financial statements.

In accordance with ASC 810-10-15-14, "Consolidation - Overall - Scope and Scope Exceptions," the Company did not eliminate through consolidation the Company's $619,000 equity investment in AMNB Statutory Trust I or the $264,000 equity investment in the MidCarolina Trusts. Instead, the Company reflected this equity investment in the "Accrued interest receivable and other assets" line item in the consolidated balance sheets.

A description of the junior subordinated debt securities outstanding payable to the trusts is shown below as of June 30, 2017 and December 31, 2016 (dollars in thousands):

| | | | | Principal Amount | |
|---|---|---|---|---|---|
| Issuing Entity | Date Issued | Interest Rate | Maturity Date | June 30, 2017 | December 31, 2016 |
| AMNB Trust I | 4/7/2006 | Libor plus 1.35% | 6/30/2036 | $20,619 | $ 20,619 |
| MidCarolina Trust I | 10/29/2002 | Libor plus 3.45% | 11/7/2032 | 4,294 | 4,265 |
| MidCarolina Trust II | 12/3/2003 | Libor plus 2.95% | 10/7/2033 | 2,862 | 2,840 |
| | | | | $27,775 | $ 27,724 |

The principal amounts reflected above for the MidCarolina Trusts are net of fair value adjustments of $1,608,000 and $1,659,000 at June 30, 2017 and December 31, 2016, respectively. The original fair value adjustments of $1,197,000 and $1,021,000 were recorded as a result of the acquisition of MidCarolina on July 1, 2011, and are being amortized into interest expense over the remaining lives of the respective borrowings.

Note 9 – Stock Based Compensation

The Company's 2008 Stock Incentive Plan ("2008 Plan") was adopted by the Board of Directors of the Company on February 19, 2008, and approved by shareholders on April 22, 2008, at the Company's 2008 Annual Meeting of Shareholders. The 2008 Plan provides for the granting of restricted stock awards and incentive and non-statutory options to employees and directors on a periodic basis, at the discretion of the Board of Directors or a Board designated committee. The 2008 Plan authorizes the issuance of up to 500,000 shares of common stock. The 2008 Plan replaced the Company's stock option plan that was approved by the shareholders at the 1997 Annual Meeting, which expired in 2006.

Stock Options

Accounting guidance requires that compensation cost relating to share-based payment transactions be recognized in the financial statements with measurement based upon the fair value of the equity or liability instruments issued.

A summary of stock option transactions for the six months ended June 30, 2017 is as follows:

| | Option Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term | Aggregate Intrinsic Value ($000) |
|---|---|---|---|---|
| Outstanding at December 31, 2016 | 58,411 | $ 24.37 | | |
| Acquired in acquisition | — | — | | |
| Granted | — | — | | |
| Exercised | (3,300 ) | 21.97 | | |
| Forfeited | (578 ) | 23.33 | | |
| Expired | (1,320 ) | 41.67 | | |
| Outstanding at June 30, 2017 | 53,213 | $ 24.10 | 1.28 years | $ 684 |
| Exercisable at June 30, 2017 | 53,213 | $ 24.10 | 1.28 years | $ 684 |

The fair value of options is estimated at the date of grant using the Black-Scholes option pricing model and expensed over the options' vesting period. No stock options have been granted since 2009. As of June 30, 2017, there were no unrecognized compensation expenses related to nonvested stock option grants.

Restricted Stock

The Company from time-to-time grants shares of restricted stock to key employees and non-employee directors. These awards help align the interests of these employees and directors with the interests of the shareholders of the Company by providing economic value directly related to increases in the value of the Company's common stock. The value of the stock awarded is established as the fair value of the stock at the time of the grant. The Company recognizes expense, equal to the total value of such awards, ratably over the vesting period of the stock grants. The majority of the restricted stock granted in 2016 and 2017 cliff vests at the end of a 36 month period beginning on the date of the grant. The remainder vests a third each year beginning on the date of the grant. Nonvested restricted stock activity for the six months ended June 30, 2017 is summarized in the following table.

| Restricted Stock | Shares | Weighted Average Grant Date Value |
|---|---|---|
| Nonvested at December 31, 2016 | 50,822 | $ 23.21 |
| Granted | 14,453 | 34.74 |
| Vested | (17,126) | 24.21 |
| Forfeited | — | — |
| Nonvested at June 30, 2017 | 48,149 | $ 26.32 |

As of June 30, 2017 and December 31, 2016, there was $765,000 and $568,000, respectively, in unrecognized compensation cost related to nonvested restricted stock granted under the 2008 Plan. The weighted average period over which this cost is expected to be recognized is 1.54 years. The share based compensation expense for nonvested restricted stock was $304,000 and $153,000 during the first six months of 2017 and 2016, respectively.

Starting in 2010, the Company began offering its outside directors alternatives with respect to director compensation. The regular quarterly board retainer can be received in the form of either (a) $5,800 in cash or (b) shares of immediately vested, but restricted stock with a market value of $6,250. Monthly meeting fees can also be received as $725 per meeting in cash or $900 in immediately vested, but restricted stock. For 2017, all 12 outside directors have elected to receive stock in lieu of cash for either all or part of their monthly retainer board fees. Only outside directors receive board fees. The Company issued 7,109 and 7,451 shares and recognized share based compensation expense of $255,000 and $198,000 during the first six months of 2017 and 2016, respectively.

Note 10 – Earnings Per Common Share

The following shows the weighted average number of shares used in computing earnings per common share and the effect on weighted average number of shares of potentially dilutive common stock. Potentially dilutive common stock had no effect on income available to common shareholders. Nonvested restricted shares are included in the computation of basic earnings per share as the holder is entitled to full shareholder benefits during the vesting period including voting rights and sharing in nonforfeitable dividends. The following table presents basic and diluted earnings per share for the three and six month periods ended June 30, 2017 and 2016.

| | Three Months Ended June 30, | | | |
|---|---|---|---|---|
| | 2017 | | 2016 | |
| | Shares | Per Share Amount | Shares | Per Share Amount |
| Basic earnings per share | 8,640,648 | $ 0.50 | 8,610,156 | $ 0.47 |
| Effect of dilutive securities - stock options | 18,517 | (0.01 ) | 9,677 | — |
| Diluted earnings per share | 8,659,165 | $ 0.49 | 8,619,833 | $ 0.47 |

| | Six Months Ended June 30, | | | |
|---|---|---|---|---|
| | 2017 | | 2016 | |
| | Shares | Per Share Amount | Shares | Per Share Amount |
| Basic earnings per share | 8,636,954 | $ 0.97 | 8,610,998 | $ 0.95 |
| Effect of dilutive securities - stock options | 18,219 | (0.01 ) | 5,875 | — |
| Diluted earnings per share | 8,655,173 | $ 0.96 | 8,616,873 | $ 0.95 |

Outstanding stock options on common stock that were not included in computing diluted earnings per share for the six month periods ended June 30, 2017 and 2016 because their effects were anti-dilutive, averaged 660 and 30,571 shares, respectively.

Note 11 – Employee Benefit Plans

The following information for the six months ended June 30, 2017 and 2016 pertains to the Company's non-contributory defined benefit pension plan which was frozen in 2009. If lump sum payments exceed the service cost plus interest cost, an additional settlement charge will apply (dollars in thousands):

| Components of Net Periodic Benefit Cost | Six Months Ended June 30, | |
|---|---|---|
| | 2017 | 2016 |
| Service cost | $— | $— |
| Interest cost | 118 | 134 |
| Expected return on plan assets | (177 ) | (192) |
| Recognized loss due to settlement | 70 | 114 |
| Recognized net actuarial loss | 109 | — |
| Net periodic cost | $120 | $56 |

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Note 12 – Fair Value of Financial Instruments

Determination of Fair Value

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with the fair value measurements and disclosures topic of FASB ASC 820, the fair value of an instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company's various instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

The fair value guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

Fair Value Hierarchy

In accordance with this guidance, the Company groups its financial assets and financial liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

| | |
|---|---|
| Level 1 – | Valuation is based on quoted prices in active markets for identical assets and liabilities. |
| Level 2 – | Valuation is based on observable inputs including quoted prices in active markets for similar assets and liabilities, quoted prices for identical or similar assets and liabilities in less active markets, and model-based valuation techniques for which significant assumptions can be derived primarily from or corroborated by observable data in the market. |
| Level 3 – | Valuation is based on model-based techniques that use one or more significant inputs or assumptions that are unobservable in the market. |

The following describes the valuation techniques used by the Company to measure certain financial assets and financial liabilities recorded at fair value on a recurring basis in the financial statements:

Securities available for sale: Securities available for sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted market prices, when available (Level 1). If quoted market prices are not available, fair values are measured utilizing independent valuation techniques of identical or similar securities for which significant assumptions are derived primarily from or corroborated by observable market data. Third party vendors compile prices from various sources and may determine the fair value of identical or similar securities by using pricing models that consider observable market data (Level 2). If no observable market data is available, valuations are based upon third party model based techniques (Level 3). There were no securities recorded with a Level 3 valuation at June 30, 2017 or December 31, 2016.

The following table presents the balances of financial assets measured at fair value on a recurring basis at the dates indicated (dollars in thousands):

| | Fair Value Measurements at June 30, 2017 Using | | | |
|---|---|---|---|---|
| | Balance at June 30, | Quoted Prices in Active Markets for Identical Assets | Significant Other Observable Inputs | Significant Unobservable Inputs |
| Description | 2017 | Level 1 | Level 2 | Level 3 |
| Assets: | | | | |
| Securities available for sale: | | | | |
| Federal agencies and GSEs | $91,692 | $ — | $ 91,692 | $ — |
| Mortgage-backed and CMOs | 79,068 | — | 79,068 | — |
| State and municipal | 99,205 | — | 99,205 | — |
| Corporate | 8,315 | — | 8,315 | — |
| Equity securities | 2,223 | — | 2,223 | — |
| Total | $280,503 | $ — | $ 280,503 | $ — |

| | Fair Value Measurements at December 31, 2016 Using | | | |
|---|---|---|---|---|
| | Balance at December 31, | Quoted Prices in Active Markets for Identical Assets | Significant Other Observable Inputs | Significant Unobservable Inputs |
| Description | 2016 | Level 1 | Level 2 | Level 3 |
| Assets: | | | | |
| Securities available for sale: | | | | |
| Federal agencies and GSEs | $104,054 | $ — | $ 104,054 | $ — |
| Mortgage-backed and CMOs | 79,493 | — | 79,493 | — |
| State and municipal | 147,515 | — | 147,515 | — |
| Corporate | 13,492 | — | 13,492 | — |
| Equity securities | 1,948 | — | 1,498 | — |
| Total | $346,502 | $ — | $ 346,052 | $ — |

Certain assets are measured at fair value on a nonrecurring basis in accordance with GAAP. Adjustments to the fair value of these assets usually result from the application of lower-of-cost-or-market accounting or write-downs of individual assets.

The following describes the valuation techniques used by the Company to measure certain assets recorded at fair value on a nonrecurring basis in the financial statements:

Loans held for sale: Loans held for sale are carried at fair value. These loans currently consist of one-to-four family residential loans originated for sale in the secondary market. Fair value is based on the price secondary markets are currently offering for similar loans using observable market data which is not materially different than cost due to the short duration between origination and sale (Level 2). As such, the Company records any fair value adjustments on a nonrecurring basis. No nonrecurring fair value adjustments were recorded on loans held for sale during the six month

period ended June 30, 2017 or the year ended December 31, 2016. Gains and losses on the sale of loans are recorded within mortgage banking income on the Consolidated Statements of Income.
Impaired loans: Loans are designated as impaired when, in the judgment of management based on current information and events, it is probable that all amounts due according to the contractual terms of the loan agreements will not be collected when due. The measurement of the loss associated with impaired loans can be based on either the observable market price of the loan or the fair value of the collateral. Collateral may be in the form of real estate or business assets including equipment, inventory, and accounts receivable. The vast majority of the Company's collateral is real estate. The value of real estate collateral is determined utilizing a market valuation approach based on an appraisal, of one year or less, conducted by an independent, licensed appraiser using observable market data (Level 2). However, if the collateral is a house or building in the process of construction or if an appraisal of the property is more than one year old and not solely based on observable market comparables

or management determines the fair value of the collateral is further impaired below the appraised value, then a Level 3 valuation is considered to measure the fair value. The value of business equipment is based upon an outside appraisal, of one year or less, if deemed significant, or the net book value on the applicable business's financial statements if not considered significant using observable market data. Likewise, values for inventory and accounts receivable collateral are based on financial statement balances or aging reports (Level 3). Impaired loans allocated to the allowance for loan losses are measured at fair value on a nonrecurring basis. Any fair value adjustments are recorded in the period incurred as provision for loan losses on the Consolidated Statements of Income.
OREO: Measurement for fair values for OREO are the same as impaired loans. Any fair value adjustments are recorded in the period incurred as a valuation allowance against other real estate owned with the associated expense included in other real estate owned expense, net on the Consolidated Statements of Income.
The following table summarizes the Company's assets that were measured at fair value on a nonrecurring basis at the dates indicated (dollars in thousands):

| | Fair Value Measurements at June 30, 2017 Using | | | |
|---|---|---|---|---|
| | Balance at June 30, | Quoted Prices in Active Markets for Identical Assets | Significant Other Observable Inputs | Significant Unobservable Inputs |
| Description | 2017 | Level 1 | Level 2 | Level 3 |
| Assets: | | | | |
| Loans held for sale | $2,379 | $ — | $ 2,379 | $ — |
| Impaired loans, net of valuation allowance | 1,534 | — | — | 1,534 |
| Other real estate owned, net | 1,686 | — | — | 1,686 |

| | Fair Value Measurements at December 31, 2016 Using | | | |
|---|---|---|---|---|
| | Balance at December 31, | Quoted Prices in Active Markets for Identical Assets | Significant Other Observable Inputs | Significant Unobservable Inputs |
| Description | 2016 | Level 1 | Level 2 | Level 3 |
| Assets: | | | | |
| Loans held for sale | $5,996 | $ — | $ 5,996 | $ — |
| Impaired loans, net of valuation allowance | 2,151 | — | — | 2,151 |
| Other real estate owned, net | 1,328 | — | — | 1,328 |

The following tables summarize the Company's quantitative information about Level 3 fair value measurements at the dates indicated:

Quantitative Information About Level 3 Fair Value Measurements at June 30, 2017

| Assets | Valuation Technique | Unobservable Input | Weighted Rate |
|---|---|---|---|
| Impaired loans | Discounted appraised value | Selling cost | 8 % |
| Other real estate owned, net | Discounted appraised value | Selling cost | 8 % |

Quantitative Information About Level 3 Fair Value Measurements at December 31, 2016

| Assets | Valuation Technique | Unobservable Input | Weighted Rate |
|---|---|---|---|
| Impaired loans | Discounted appraised value | Selling cost | 8 % |
| Other real estate owned, net | Discounted appraised value | Selling cost | 6 % |

ASC 825, "Financial Instruments," requires disclosure about fair value of financial instruments for interim periods and excludes certain financial instruments and all non-financial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Company. The carrying values and estimated fair values of the Company's financial instruments at June 30, 2017 are as follows (dollars in thousands):

| | Fair Value Measurements at June 30, 2017 Using | | | | |
|---|---|---|---|---|---|
| | | Quoted Prices in Active Markets for Identical Assets | Significant Other Observable Inputs | Significant Unobservable Inputs | Fair Value |
| | Carrying Value | Level 1 | Level 2 | Level 3 | Balance |
| Financial Assets: | | | | | |
| Cash and cash equivalents | $85,929 | $85,929 | $— | $ — | $85,929 |
| Securities available for sale | 280,503 | — | 280,503 | — | 280,503 |
| Restricted stock | 5,501 | — | 5,501 | — | 5,501 |
| Loans held for sale | 2,379 | — | 2,379 | — | 2,379 |
| Loans, net of allowance | 1,275,061 | — | — | 1,276,921 | 1,276,921 |
| Bank owned life insurance | 18,381 | — | 18,381 | — | 18,381 |
| Accrued interest receivable | 4,820 | — | 4,820 | — | 4,820 |
| | | | | | |
| Financial Liabilities: | | | | | |
| Deposits | $1,462,841 | $— | $1,073,660 | $ 385,502 | $1,459,162 |
| Repurchase agreements | 48,282 | — | 48,282 | — | 48,282 |
| Long-term borrowings | 9,991 | — | — | 10,052 | 10,052 |
| Junior subordinated debt | 27,775 | — | — | 27,403 | 27,403 |
| Accrued interest payable | 611 | — | 611 | — | 611 |

The carrying values and estimated fair values of the Company's financial instruments at December 31, 2016 are as follows (dollars in thousands):

| | | Fair Value Measurements at December 31, 2016 Using | | | |
|---|---|---|---|---|---|
| | | Quoted Prices in Active Markets for Identical Assets | Significant Other Observable Inputs | Significant Unobservable Inputs | Fair Value |
| | Carrying Value | Level 1 | Level 2 | Level 3 | Balance |
| Financial Assets: | | | | | |
| Cash and cash equivalents | $53,207 | $53,207 | $— | $ — | $53,207 |
| Securities available for sale | 346,502 | — | 346,502 | — | 346,502 |
| Restricted stock | 6,224 | — | 6,224 | — | 6,224 |
| Loans held for sale | 5,996 | — | 5,996 | — | 5,996 |
| Loans, net of allowance | 1,152,020 | — | — | 1,136,961 | 1,136,961 |
| Bank owned life insurance | 18,163 | — | 18,163 | — | 18,163 |
| Accrued interest receivable | 5,083 | — | 5,083 | — | 5,083 |
| | | | | | |
| Financial Liabilities: | | | | | |
| Deposits | $1,370,640 | $— | $ 991,785 | $ 374,774 | $1,366,559 |
| Repurchase agreements | 39,166 | — | 39,166 | — | 39,166 |
| Other short-term borrowings | 20,000 | — | 20,000 | — | 20,000 |
| Long-term borrowings | 9,980 | — | — | 10,156 | 10,156 |
| Junior subordinated debt | 27,724 | — | — | 24,932 | 24,932 |
| Accrued interest payable | 623 | — | 623 | — | 623 |

The following methods and assumptions were used by the Company in estimating fair value disclosures for financial instruments:

Cash and cash equivalents. The carrying amount is a reasonable estimate of fair value.

Securities. Fair values are based on quoted market prices or dealer quotes.

Restricted stock. The carrying value of restricted stock approximates fair value based on the redemption provisions of the respective entity.

Loans held for sale. The carrying amount is at fair value. Fair value is based on the price secondary markets are currently offering for similar loans using observable market data which is not materially different than cost due to the short duration between origination and sale

Loans. For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. Fair values for fixed-rate loans are estimated based upon discounted cash flow analysis, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Fair values for nonperforming loans are estimated using discounted cash flow analysis or underlying collateral values, where applicable.

Bank owned life insurance. Bank owned life insurance represents insurance policies on officers, directors, and past directors of the Company. The cash values of the policies are estimates using information provided by insurance carriers. These policies are carried at their cash surrender value, which approximates the fair value.

Accrued interest receivable. The carrying amount is a reasonable estimate of fair value.

Deposits. The fair value of demand deposits, savings deposits, and money market deposits equals the carrying value. The fair value of fixed-rate certificates of deposit is estimated by discounting the future cash flows using the current rates at which similar deposit instruments would be offered to depositors for the same remaining maturities.

Repurchase agreements.  The carrying amount is a reasonable estimate of fair value.
Other short-term borrowings.  The carrying amount is a reasonable estimate of fair value.

Long-term borrowings. The fair values of long-term borrowings are estimated using discounted cash flow analysis based on the interest rates for similar types of borrowing arrangements.
Junior subordinated debt. Fair value is calculated by discounting the future cash flows using the estimated current interest rates at which similar securities would be issued.
Accrued interest payable. The carrying amount is a reasonable estimate of fair value.
Off-balance sheet instruments. The fair value of letters of credit is based on fees currently charged for similar agreements or on the estimated cost to terminate them or otherwise settle the obligations with the counterparties at the reporting date. At June 30, 2017 and December 31, 2016, the fair value of off-balance sheet instruments was deemed immaterial, and therefore was not included in the previous table.
The Company assumes interest rate risk (the risk that interest rates will change) in its normal operations. As a result, the fair values of the Company's financial instruments will change when interest rates change and that change may be either favorable or unfavorable to the Company.
Note 13 – Segment and Related Information
The Company has two reportable segments, community banking and trust and investment services.
Community banking involves making loans to and generating deposits from individuals and businesses. All assets and liabilities of the Company are allocated to community banking. Investment income from securities is also allocated to the community banking segment. Loan fee income, service charges from deposit accounts, and non-deposit fees such as automated teller machine fees and insurance commissions generate additional income for the community banking segment.
Trust and investment services include estate planning, trust account administration, investment management, and retail brokerage. Investment management services include purchasing equity, fixed income, and mutual fund investments for customer accounts. The trust and investment services segment receives fees for investment and administrative services.
Amounts shown in the "Other" column includes activities of the Company which are primarily debt service on trust preferred securities and corporate items.
Segment information as of and for the three and six months ended June 30, 2017 and 2016 (unaudited), is shown in the following tables (dollars in thousands):

| | Three Months Ended June 30, 2017 | | | | |
|---|---|---|---|---|---|
| | Community Banking | Trust and Investment Services | Other | Intersegment Eliminations | Total |
| Interest income | $15,518 | $ — | $ 85 | $ — | $ 15,603 |
| Interest expense | 1,447 | — | 244 | — | 1,691 |
| Noninterest income | 2,242 | 1,100 | 6 | — | 3,348 |
| Income (loss) before income taxes | 6,129 | 518 | (448) | — | 6,199 |
| Net income (loss) | 4,217 | 358 | (296) | — | 4,279 |
| Depreciation and amortization | 669 | 3 | — | — | 672 |
| Total assets | 1,755,185 | — | 234,913 | (225,625) | 1,764,473 |
| Goodwill | 43,872 | — | — | — | 43,872 |
| Capital expenditures | 1,071 | 5 | — | — | 1,076 |

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Three Months Ended June 30, 2016

| | Community Banking | Trust and Investment Services | Other | Intersegment Eliminations | Total |
|---|---|---|---|---|---|
| Interest income | $13,754 | $ — | $ 15 | $ — | $ 13,769 |
| Interest expense | 1,396 | — | 213 | — | 1,609 |
| Noninterest income | 2,177 | 1,184 | 6 | — | 3,367 |
| Income (loss) before income taxes | 5,566 | 679 | (424 ) | — | 5,821 |
| Net income (loss) | 3,891 | 477 | (280 ) | — | 4,088 |
| Depreciation and amortization | 759 | 3 | — | — | 762 |
| Total assets | 1,597,722 | — | 230,456 | (226,527) | 1,601,651 |
| Goodwill | 43,872 | — | — | — | 43,872 |
| Capital expenditures | 120 | — | — | — | 120 |

Six Months Ended June 30, 2017

| | Community Banking | Trust and Investment Services | Other | Intersegment Eliminations | Total |
|---|---|---|---|---|---|
| Interest income | $30,114 | $ — | $ 170 | $ — | $ 30,284 |
| Interest expense | 2,755 | — | 483 | — | 3,238 |
| Noninterest income | 4,403 | 2,204 | 12 | — | 6,619 |
| Income (loss) before income taxes | 11,586 | 1,059 | (782 ) | — | 11,863 |
| Net income (loss) | 8,113 | 746 | (517 ) | — | 8,342 |
| Depreciation and amortization | 1,275 | 6 | — | — | 1,281 |
| Total assets | 1,755,185 | — | 234,913 | (225,625) | 1,764,473 |
| Goodwill | 43,872 | — | — | — | 43,872 |
| Capital expenditures | 1,728 | 11 | — | — | 1,739 |

Six Months Ended June 30, 2016

| | Community Banking | Trust and Investment Services | Other | Intersegment Eliminations | Total |
|---|---|---|---|---|---|
| Interest income | $27,910 | $ — | $30 | $ — | $27,940 |
| Interest expense | 2,775 | — | 421 | — | 3,196 |
| Noninterest income | 4,335 | 2,318 | 11 | — | 6,664 |
| Income (loss) before income taxes | 11,182 | 1,334 | (782) | — | 11,734 |
| Net income (loss) | | | | | |