

NATIONAL BANKSHARES INC
Form 10-Q
November 05, 2015
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, 2015

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

54-1375874

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

101 Hubbard Street

P. O. Box 90002

Blacksburg, VA 24062-9002
(Address of principal executive offices) (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

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

<u>Class</u>	<u>Outstanding at October 30, 2015</u>
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Common Stock, \$1.25 Par Value	6,955,974
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(This report contains 60 pages)

NATIONAL BANKSHARES, INC. AND SUBSIDIARIES

Form 10-Q

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Part I**Item 1. Financial Statements Financial Information**

National Bankshares, Inc. and Subsidiaries

Consolidated Balance Sheets

	(Unaudited)	
	September 30, 2015	December 31, 2014
\$ in thousands, except per share data		
Assets		
Cash and due from banks	\$ 12,446	\$ 12,894
Interest-bearing deposits	90,295	102,548
Securities available for sale, at fair value	211,232	222,844
Securities held to maturity (fair value approximates \$159,443 at September 30, 2015 and \$167,703 at December 31, 2014)	154,644	161,452
Restricted stock, at cost	1,129	1,089
Loans held for sale	1,331	291
Loans:		
Loans, net of unearned income and deferred fees	625,755	605,466
Less allowance for loan losses	(8,117)	(8,263)
Loans, net	617,638	597,203
Premises and equipment, net	9,135	9,131
Accrued interest receivable	5,659	5,748
Other real estate owned, net	4,194	4,744
Intangible assets and goodwill	6,416	7,223
Bank-owned life insurance	22,248	21,797
Other assets	7,758	7,767
Total assets	\$ 1,144,125	\$ 1,154,731
Liabilities and Stockholders' Equity		
Noninterest-bearing demand deposits	\$ 163,877	\$ 150,744
Interest-bearing demand deposits	514,823	533,641
Savings deposits	86,659	81,297
Time deposits	197,171	216,746
Total deposits	962,530	982,428
Accrued interest payable	61	68
Other liabilities	7,142	5,932
Total liabilities	969,733	988,428
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 6,955,974 shares at September 30, 2015 and 6,950,474 at December 31, 2014	8,695	8,688
Retained earnings	171,996	163,287

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Accumulated other comprehensive loss, net	(6,299)	(5,672)
Total stockholders' equity	174,392		166,303	
Total liabilities and stockholders' equity	\$ 1,144,125		\$ 1,154,731	

See accompanying notes to consolidated financial statements.

National Bankshares, Inc. and Subsidiaries

Consolidated Statements of Income

Three Months Ended September 30, 2015 and 2014

(Unaudited)

	September 30, 2015	September 30, 2014
\$ in thousands, except per share data		
Interest Income		
Interest and fees on loans	\$7,676	\$7,729
Interest on interest-bearing deposits	54	64
Interest on securities – taxable	1,678	1,718
Interest on securities – nontaxable	1,352	1,436
Total interest income	10,760	10,947
Interest Expense		
Interest on time deposits	301	361
Interest on other deposits	708	786
Total interest expense	1,009	1,147
Net interest income	9,751	9,800
Provision for loan losses	178	356
Net interest income after provision for loan losses	9,573	9,444
Noninterest Income		
Service charges on deposit accounts	571	634
Other service charges and fees	45	42
Credit card fees	972	929
Trust income	314	296
BOLI income	151	153
Other income	234	200
Realized securities gains, net	2	4
Total noninterest income	2,289	2,258
Noninterest Expense		
Salaries and employee benefits	3,149	2,927
Occupancy and furniture and fixtures	436	403
Data processing and ATM	384	429
FDIC assessment	138	147
Credit card processing	701	673
Intangible assets amortization	269	269
Net costs of other real estate owned	52	98
Franchise taxes	329	307
Other operating expenses	864	862

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Total noninterest expense	6,322	6,115
Income before income taxes	5,540	5,587
Income tax expense	1,341	1,324
Net Income	\$4,199	\$4,263
Basic net income per common share	\$0.60	\$0.61
Fully diluted net income per common share	\$0.60	\$0.61
Weighted average number of common shares outstanding – basic	6,955,126	6,948,681
Weighted average number of common shares outstanding – diluted	6,959,168	6,956,777
Dividends declared per common share	\$---	\$---

See accompanying notes to consolidated financial statements.

National Bankshares, Inc. and Subsidiaries

Consolidated Statements of Comprehensive Income

Three Months Ended September 30, 2015 and 2014

(Unaudited)

\$ in thousands	September 30, 2015	September 30, 2014
Net Income	\$ 4,199	\$ 4,263
Other Comprehensive Income, Net of Tax		
Unrealized holding gains on available for sale securities net of tax of \$1,394 and \$919 for the periods ended September 30, 2015 and 2014, respectively	2,589	1,708
Reclassification adjustment for gains included in net income, net of tax of \$(1) and \$(1) for the periods ended September 30, 2015 and 2014, respectively	(1)	(3)
Other comprehensive income, net of tax of \$1,393 and \$918 for the periods ended September 30, 2015 and 2014, respectively	2,588	1,705
Total Comprehensive Income	\$ 6,787	\$ 5,968

See accompanying notes to consolidated financial statements.

National Bankshares, Inc. and Subsidiaries

Consolidated Statements of Income

Nine Months Ended September 30, 2015 and 2014

(Unaudited)

\$ in thousands, except per share data	September 30, 2015	September 30, 2014
Interest Income		
Interest and fees on loans	\$22,886	\$23,406
Interest on interest-bearing deposits	173	193
Interest on securities – taxable	5,124	5,068
Interest on securities – nontaxable	4,095	4,410
Total interest income	32,278	33,077
Interest Expense		
Interest on time deposits	943	1,133
Interest on other deposits	2,204	2,624
Total interest expense	3,147	3,757
Net interest income	29,131	29,320
Provision for loan losses	734	1,160
Net interest income after provision for loan losses	28,397	28,160
Noninterest Income		
Service charges on deposit accounts	1,676	1,833
Other service charges and fees	164	145
Credit card fees	2,843	2,687
Trust income	902	921
BOLI income	451	462
Other income	977	783
Realized securities gains, net	5	5
Total noninterest income	7,018	6,836
Noninterest Expense		
Salaries and employee benefits	9,433	8,890
Occupancy and furniture and fixtures	1,296	1,250
Data processing and ATM	1,230	1,189
FDIC assessment	408	411
Credit card processing	1,986	1,887
Intangible assets amortization	807	807
Net costs of other real estate owned	569	259
Franchise taxes	959	874
Other operating expenses	2,690	2,747

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Total noninterest expense	19,378	18,314
Income before income taxes	16,037	16,682
Income tax expense	3,762	3,906
Net Income	\$12,275	\$12,776
Basic net income per common share	\$1.77	\$1.84
Fully diluted net income per common share	\$1.76	\$1.84
Weighted average number of common shares outstanding – basic	6,952,716	6,948,212
Weighted average number of common shares outstanding – diluted	6,956,689	6,960,444
Dividends declared per common share	\$0.53	\$0.55

See accompanying notes to consolidated financial statements.

National Bankshares, Inc. and Subsidiaries

Consolidated Statements of Comprehensive Income

Nine Months Ended September 30, 2015 and 2014

(Unaudited)

\$ in thousands	September 30, 2015	September 30, 2014
Net Income	\$ 12,275	\$ 12,776
Other Comprehensive Income (Loss), Net of Tax		
Unrealized holding gains (losses) on available for sale securities net of tax of (\$334) and \$4,264 for the periods ended September 30, 2015 and 2014, respectively	(624)) 7,920
Reclassification adjustment for gains included in net income, net of tax of (\$2) and (\$2) for the periods ended September 30, 2015 and 2014, respectively	(3)) (3)
Other comprehensive income (loss), net of tax of (\$336) and \$4,263 for the periods ended September 30, 2015 and 2014, respectively	(627)) 7,917
Total Comprehensive Income	\$ 11,648	\$ 20,693

See accompanying notes to consolidated financial statements.

National Bankshares, Inc. and Subsidiaries

Consolidated Statements of Changes in Stockholders' Equity

Nine Months September 30, 2015 and 2014

(Unaudited)

\$ in thousands	Common Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balances at December 31, 2013	\$ 8,685	\$ 154,171	\$ (16,964) \$ 145,892
Net income	---	12,776	---	12,776
Dividends \$0.55 per share	---	(3,821)	---	(3,821)
Exercise of stock options	3	55	---	58
Other comprehensive income, net of tax of \$4,263	---	---	7,917	7,917
Balances at September 30, 2014	\$ 8,688	\$ 163,181	\$ (9,047) \$ 162,822
Balances at December 31, 2014	\$ 8,688	\$ 163,287	\$ (5,672) \$ 166,303
Net income	---	12,275	---	12,275
Dividends \$0.53 per share	---	(3,686)	---	(3,686)
Exercise of stock options	7	120	---	127
Other comprehensive loss, net of tax of (\$336)	---	---	(627) (627)
Balances at September 30, 2015	\$ 8,695	\$ 171,996	\$ (6,299) \$ 174,392

See accompanying notes to consolidated financial statements.

National Bankshares, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

Nine Months Ended September 30, 2015 and 2014

(Unaudited)

\$ in thousands	September 30, 2015	September 30, 2014
Cash Flows from Operating Activities		
Net income	\$ 12,275	\$ 12,776
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	734	1,160
Depreciation of bank premises and equipment	561	541
Amortization of intangibles	807	807
Amortization of premiums and accretion of discounts, net	89	109
Losses on disposal of premises and equipment	15	94
Gains on sales and calls of securities available for sale, net	(5)	(4)
Gains on calls of securities held to maturity, net	---	(1)
Losses and write-downs on other real estate owned, net	398	76
Increase in cash value of bank-owned life insurance	(451)	(462)
Originations of mortgage loans held for sale	(13,500)	(7,409)
Proceeds from sale of mortgage loans held for sale	12,654	8,074
Gains on sale of mortgage loans held for sale	(194)	(114)
Net change in:		
Accrued interest receivable	89	241
Other assets	345	(252)
Accrued interest payable	(7)	(25)
Other liabilities	1,210	(163)
Net cash provided by operating activities	15,020	15,448
Cash Flows from Investing Activities		
Net change interest-bearing deposits	12,253	10,445
Proceeds from calls, principal payments, sales and maturities of securities available for sale	51,620	8,774
Proceeds from calls, principal payments and maturities of securities held to maturity	6,709	7,808
Purchases of securities available for sale	(40,957)	(19,906)
Purchases of securities held to maturity	---	(6,381)
Net change in restricted stock	(40)	325
Purchases of loan participations	(402)	---
Collections of loan participations	1,964	1,513
Loan originations and principal collections, net	(23,473)	(4,030)
Proceeds from sale of other real estate owned	773	329
Recoveries on loans charged off	122	212
Proceeds from sale and purchases of premises and equipment, net	(580)	(129)
Net cash provided by (used in) investing activities	7,989	(1,040)

Cash Flows from Financing Activities

Net change in time deposits	(19,575)	(17,779)
Net change in other deposits	(323)	6,666
Cash dividends paid	(3,686)	(3,821)
Stock options exercised	127	58
Net cash used in financing activities	(23,457)	(14,876)
Net change in cash and due from banks	(448)	(468)
Cash and due from banks at beginning of period	12,894	13,283
Cash and due from banks at end of period	\$ 12,446	\$ 12,815

Supplemental Disclosures of Cash Flow Information

Interest paid on deposits and borrowed funds	\$ 3,154	\$ 3,782
Income taxes paid	3,380	3,892

Supplemental Disclosure of Noncash Activities

Loans charged against the allowance for loan losses	\$ 1,002	\$ 1,568
Loans transferred to other real estate owned	620	838
Unrealized net gains (losses) on securities available for sale	(963)	12,180

See accompanying notes to consolidated financial statements.

National Bankshares, Inc. and Subsidiaries**Notes to Consolidated Financial Statements****September 30, 2015****(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 three and nine month periods ended September 30, 2015 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 2014 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.

Note 2: Stock-Based Compensation

The Company’s 1999 Stock Option Plan 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, 2015	20,500	\$ 23.00		

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Exercised	(5,500)	23.00		
Forfeited or expired	---			
Outstanding September 30, 2015	15,000	\$ 23.00	0.107	\$ 122
Exercisable at September30, 2015	15,000	\$ 23.00	0.107	\$ 122

There were 5,500 shares with an intrinsic value of \$35 exercised during the nine months ended September 30, 2015. There were 2,500 shares with an intrinsic value of \$15 exercised during 2014.

Note 3: Loan Portfolio

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

	September 30, 2015	December 31, 2014
Real estate construction	\$ 44,886	\$ 45,562
Consumer real estate	144,990	147,039
Commercial real estate	315,008	310,762
Commercial non real estate	39,255	33,413
Public sector and IDA	52,330	41,361
Consumer non real estate	30,140	28,182
Gross loans	626,609	606,319
Less unearned income and deferred fees	(854)	(853)
Loans, net of unearned income and deferred fees	\$ 625,755	\$ 605,466

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 the 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 when due according to the loan's original terms. Generally, impaired loans are given risk ratings that indicate higher risk, such as "classified" or "other assets especially mentioned." Impaired loans are individually evaluated to determine appropriate reserves and are measured at the lower of the invested amount or the fair market value. Impaired loans that are not troubled debt restructures and for which fair value measurement indicates an impairment loss are designated nonaccrual. A restructured loan that maintains current status for at least six months may be in accrual status. Please refer to Note 1 of the Company's 2014 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 restructures impact the estimation of the appropriate level of the allowance for loan losses. If the restructuring included forgiveness of a portion of principal, 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

and any amount of book value that exceeds fair value is accrued in the allowance for loan losses. TDRs that experience a payment default are examined to determine whether the default indicates collateral dependency or a decline in estimates of cash flow used in the fair value measurement. TDRs that are determined to be collateral-dependent, as well as all impaired loans that are determined to be collateral dependent, are charged down to fair value net of estimated costs to dispose. Deficiencies indicated by impairment measurements for TDRs that are not collateral dependent may be accrued in the allowance for loan losses or charged off if deemed uncollectible.

The Company evaluated characteristics in the loan portfolio and determined major segments and smaller classes within each segment. These characteristics include collateral type, repayment sources, and (if applicable) the borrower's business model. The methodology for calculating reserves for collectively-evaluated loans is applied at the class level.

Portfolio Segments and Classes

The segments and classes used in determining the allowance for loan losses 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
Investor-owned residential real estate	Automobile
	Other consumer loans
Commercial Real Estate	
Multifamily real estate	
Commercial real estate, owner-occupied	
Commercial real estate, other	

Historical Loss Rates

The Company's allowance methodology for collectively-evaluated loans applies historical loss rates by class to current class balances as part of the process of determining required reserves. Class loss rates are calculated as the net charge-offs for the class as a percentage of average class balance. The loss rate for the current quarter is averaged with that of prior periods to obtain the historical loss rate. Two loss rates for each class are calculated: total net charge-offs for the class as a percentage of average class loan balance ("class loss rate"), and total net charge-offs for the class as a percentage of average classified loans in the class ("classified loss rate"). Classified loans are those with risk ratings of "substandard" or higher. Net charge-offs in both calculations include charge-offs and recoveries of classified and non-classified loans as well as those associated with impaired loans. Class historical loss rates are applied to non-classified loan balances at the reporting date, and classified historical loss rates are applied to classified balances at the reporting date.

Risk Factors

In addition to historical loss rates, risk factors pertinent to credit risk for each class are analyzed to estimate reserves for collectively-evaluated loans. Factors include changes in national and local economic and business conditions, the nature and volume of classes within the portfolio, loan quality, loan officers' experience, lending policies and the Company's loan review system.

The analysis of certain factors results in standard allocations to all segments and classes. These factors include loan officers' average years of experience, the risk from changes in lending policies, and the risk from changes in loan review. Factors analyzed for each class, with resultant allocations based upon the level of risk assessed for each class, include levels of past due loans, nonaccrual loans, current class balance as a percentage of total loans, and the

percentage of high risk loans (defined to be junior lien mortgages, high loan-to-value loans, and interest only loans) within the class. Additionally, factors specific to each segment are analyzed and result in allocations to the segment.

Real estate construction loans are subject to general risks from changing commercial building and housing market trends and economic conditions that may impact demand for completed properties and the costs of completion. These risks are measured by market-area unemployment rates, bankruptcy rates, housing and commercial building market trends, and interest rates.

The credit quality of consumer real estate is subject to risks associated with the borrower's repayment ability and collateral value, measured generally by analyzing local unemployment and bankruptcy trends, local housing market trends, and interest rates.

The commercial real estate segment includes loans secured by multifamily residential real estate, commercial real estate occupied by the owner/borrower, and commercial real estate leased to non-owners. Loans in the commercial real estate segment are impacted by economic risks from changing commercial real estate markets, rental markets for multi-family housing and commercial buildings, business bankruptcy rates, local unemployment and interest rate trends that would impact the businesses housed by the commercial real estate.

Commercial non real estate loans are secured by collateral other than real estate, or are unsecured. Credit risk for commercial non real estate loans is subject to economic conditions, generally monitored by local business bankruptcy trends, and interest rates. Public sector and IDA loans are extended to municipalities and related entities. Credit risk is based upon the entity's ability to repay and interest rate trends.

Consumer non real estate includes credit cards, automobile and other consumer loans. Credit cards and certain other consumer loans are unsecured, while collateral is obtained for automobile loans and other consumer loans. Credit risk stems primarily from the borrower's ability to repay, measured by average unemployment, average personal bankruptcy rates and interest rates.

Factor allocations applied to each class are increased for loans rated special mention and classified. The Company allocates additional reserves for "high risk" loans. High risk loans include junior liens, interest only and high loan to value 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 Nine Months Ended September 30, 2015

	Real Estate Construction	Consumer Real Estate	Commercial Real Estate	Commercial Non Real Estate	Public Sector and IDA	Consumer Non Real Estate	Unallocated	Total
Balance, December 31, 2014	\$ 612	\$ 1,662	3,537	\$ 1,475	\$ 327	\$ 602	\$ 48	\$8,263
Charge-offs	---	(201)	(155)	(453)	---	(193)	---	(1,002)
Recoveries	---	1	36	1	---	84	---	122
Provision for loan losses	(77)	332	420	(153)	170	21	21	734
Balance, September 30, 2015	\$ 535	\$ 1,794	\$ 3,838	\$ 870	\$ 497	\$ 514	\$ 69	\$8,117

Activity in the Allowance for Loan Losses for the Nine Months Ended September 30, 2014

	Real Estate Construction	Consumer Real Estate	Commercial Real Estate	Commercial Non Real Estate	Public Sector and IDA	Consumer Non Real Estate	Unallocated	Total
Balance, December 31, 2013	\$863	\$ 1,697	\$ 3,685	\$ 989	\$ 132	\$ 576	\$ 285	\$8,227
Charge-offs	(2)	(97)	(1,115)	(79)	---	(275)	---	(1,568)
Recoveries	---	---	33	132	---	47	---	212
Provision for loan losses	(277)	78	1,072	22	148	261	(144)	1,160
Balance, September 30, 2014	\$ 584	\$ 1,678	\$ 3,675	\$ 1,064	\$ 280	\$ 609	\$ 141	\$8,031

Activity in the Allowance for Loan Losses for the Year Ended December 31, 2014

	Real Estate Construction	Consumer Real Estate	Commercial Real Estate	Commercial Non Real Estate	Public Sector and IDA	Consumer Non Real Estate	Unallocated	Total
Balance, December 31, 2013	\$863	\$ 1,697	\$ 3,685	\$ 989	\$ 132	\$ 576	\$ 285	\$8,227
Charge-offs	(2)	(222)	(1,201)	(89)	---	(346)	---	(1,860)
Recoveries	---	---	50	132	---	73	---	255

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Provision for loan losses	(249)	187	1,003	443	195	299	(237)	1,641
Balance, December 31, 2014	\$612	\$ 1,662	\$ 3,537	\$ 1,475	\$ 327	\$ 602	\$ 48	\$8,263

Allowance for Loan Losses as of September 30, 2015

	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	\$---	\$ 25	\$ 119	\$ ---	\$ ---	\$ ---	\$ ---	\$ 144
Collectively evaluated for impairment	535	1,769	3,719	870	497	514	69	7,973
Total	\$535	\$ 1,794	\$ 3,838	\$ 870	\$ 497	\$ 514	\$ 69	\$8,117

Allowance for Loan Losses as of December 31, 2014

	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	\$---	\$ 14	\$ 258	\$ 10	\$ ---	\$ ---	\$ ---	\$ 282
Collectively evaluated for impairment	612	1,648	3,279	1,465	327	602	48	7,981
Total	\$612	\$ 1,662	\$ 3,537	\$ 1,475	\$ 327	\$ 602	\$ 48	\$8,263

Loans as of September 30, 2015

	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	\$---	\$ 973	\$ 13,042	\$ 997	\$---	\$---	\$---	\$ 15,012
Collectively evaluated for impairment	44,886	144,017	301,966	38,258	52,330	30,140	---	611,597
Total loans	\$44,886	\$ 144,990	\$ 315,008	\$ 39,255	\$ 52,330	\$ 30,140	\$---	\$ 626,609

Loans as of December 31, 2014

	Real Estate Construction	Consumer Real Estate	Commercial Real Estate	Commercial Non Real Estate	Public Sector and IDA	Consumer Non Real Estate	Unallocated	Total
	\$---	\$ 819	\$ 13,624	\$ 678	\$---	\$---	\$---	\$ 15,121

Individually evaluated for impairment								
Collectively evaluated for impairment	45,562	146,220	297,138	32,735	41,361	28,182	---	591,198
Total	\$45,562	\$147,039	\$310,762	\$33,413	\$41,361	\$28,182	\$---	\$606,319

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

	As of the		For the	
	Nine Months		Year	
	Ended		Ended	
	September	December	September	December
	30,	31,	30,	31,
	2015	2014	2015	2014
Ratio of allowance for loan losses to the end of period loans, net of unearned income and deferred fees	1.30 %	1.35 %	1.36	%
Ratio of net charge-offs to average loans, net of unearned income and deferred fees ⁽¹⁾	0.19 %	0.31 %	0.27	%

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

A summary of nonperforming assets follows.

	September 30,		December	
	2015		31,	
	2014		2014	
Nonperforming assets:				
Nonaccrual loans	\$3,207	\$5,366	\$3,999	
Restructured loans in nonaccrual	5,781	2,360	5,288	
Total nonperforming loans	8,988	7,726	9,287	
Other real estate owned, net	4,194	5,145	4,744	
Total nonperforming assets	\$13,182	\$12,871	\$14,031	
Ratio of nonperforming assets to loans, net of unearned income and deferred fees, plus other real estate owned	2.09 %	2.14 %	2.30	%
Ratio of allowance for loan losses to nonperforming loans ⁽¹⁾	90.31 %	103.95 %	88.97	%

(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,	
	2015	2014	2014	
Loans past due 90 days or more and still accruing	\$47	\$485	\$207	
Ratio of loans past due 90 days or more and still accruing to loans, net of unearned income and deferred fees	0.01 %	0.08 %	0.03 %	
Accruing restructured loans	\$6,080	\$5,947	\$6,040	
Impaired loans:				
Impaired loans with no valuation allowance	\$12,548	\$9,223	\$7,615	
Impaired loans with a valuation allowance	2,464	5,964	7,506	
Total impaired loans	\$15,012	\$15,187	\$15,121	
Valuation allowance	(144)	(296)	(282)	
Impaired loans, net of allowance	\$14,868	\$14,891	\$14,839	
Average recorded investment in impaired loans ⁽¹⁾	\$15,902	\$15,974	\$16,311	
Interest income recognized on impaired loans, after designation as impaired	\$267	\$384	\$473	
Amount of income recognized on a cash basis	\$---	\$---	\$---	

⁽¹⁾ Recorded investment is net of charge-offs and interest paid while a loan is in nonaccrual status.

Nonaccrual loans that meet the Company's balance threshold of \$250 and all TDRs are designated as impaired. No interest income was recognized on nonaccrual loans for the nine months ended September 30, 2015 or September 30, 2014 or for the year ended December 31, 2014.

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, 2015					
	(A)		Recorded Investment ⁽¹⁾	Recorded Investment ⁽¹⁾	Related Allowance
Principal Balance	Total Recorded Investment ⁽¹⁾		in (A) for Which There is No Related Allowance	in (A) for Which There is a Related Allowance	
Consumer Real Estate⁽²⁾					
Residential closed-end first liens	\$ 718	\$ 675	\$ 306	\$ 369	\$ 14
Residential closed-end junior liens	223	223	---	223	7
Investor-owned residential real estate	75	75	---	75	4
Commercial Real Estate⁽²⁾					
Multifamily real estate	2,900	2,665	868	1,797	119
Commercial real estate, owner-occupied	4,555	4,489	4,489	---	---
Commercial real estate, other	6,013	5,888	5,888	---	---
Commercial Non Real Estate⁽²⁾					
Commercial and Industrial	1,005	997	997	---	---
Total	\$15,489	\$ 15,012	\$ 12,548	\$ 2,464	\$ 144

(1) Recorded investment is net of charge-offs and interest paid while a loan is in nonaccrual status.

(2) Only classes with impaired loans are shown.

Impaired Loans as of December 31, 2014					
	(A)		Recorded Investment ⁽¹⁾	Recorded Investment ⁽¹⁾	Related Allowance
Principal Balance	Total Recorded Investment ⁽¹⁾		in (A) for Which There is No Related Allowance	in (A) for Which There is a Related Allowance	

Consumer Real Estate⁽²⁾

Residential closed-end first liens	\$ 530	\$ 503	\$ 311	\$ 192	\$ 2
Residential closed-end junior liens	239	239	---	239	8
Investor-owned residential real estate	77	77	---	77	4

Commercial Real Estate⁽²⁾

Multifamily real estate	2,911	2,735	868	1,866	170
Commercial real estate, owner occupied	4,919	4,821	3,314	1,508	74
Commercial real estate, other	6,080	6,068	3,072	2,996	14

Commercial Non Real Estate⁽²⁾

Commercial and Industrial	678	678	50	628	10
Total	\$ 15,434	\$ 15,121	\$ 7,615	\$ 7,506	\$ 282

(1) Recorded investment is net of charge-offs and interest paid while a loan is in nonaccrual status.

(2) Only classes with impaired loans are shown.

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

	For the Nine Months Ended	
	September 30, 2015	
	Average Recorded Investment⁽¹⁾	Interest Income Recognized
Consumer Real Estate⁽²⁾		
Residential closed-end first liens	\$ 685	\$ 33
Residential closed-end junior liens	231	11
Investor-owned residential real estate	76	4
Commercial Real Estate⁽²⁾		
Multifamily real estate	2,670	---
Commercial real estate, owner occupied	5,302	86
Commercial real estate, other	5,924	128
Commercial Non Real Estate⁽²⁾		
Commercial and Industrial	1,014	5
Total	\$15,902	\$ 267

(1) Recorded investment is net of charge-offs and interest paid while a loan is in nonaccrual status.

(2) Only classes with impaired loans are shown.

	For the Nine Months Ended	
	September 30, 2014	
	Average Recorded Investment⁽¹⁾	Interest Income Recognized
Consumer Real Estate⁽²⁾		
Residential closed-end first liens	\$ 385	\$ 19
Residential closed-end junior liens	251	12
Investor-owned residential real estate	78	4
Commercial Real Estate⁽²⁾		
Multifamily real estate	2,807	---
Commercial real estate, owner occupied	5,606	153
Commercial real estate, other	6,134	164
Commercial Non Real Estate⁽²⁾		

Commercial and Industrial	713	32
Consumer Non Real Estate⁽²⁾		
Automobile	---	---
Total	\$15,974	\$ 384

(1) Recorded investment is net of charge-offs and interest paid while a loan is in nonaccrual status.

(2) Only classes with impaired loans are shown.

For the Year Ended**December 31, 2014****Average Interest
Recorded Income
Investment⁽¹⁾ Recognized****Consumer Real Estate⁽²⁾**

Residential closed-end first liens	555	31
Residential closed-end junior liens	249	16
Investor-owned residential real estate	77	5

Commercial Real Estate⁽²⁾

Multifamily real estate	2,773	---
Commercial real estate, owner occupied	5,836	203
Commercial real estate, other	6,114	175

Commercial Non Real Estate⁽²⁾

Commercial and Industrial	707	43
Total	\$16,311	\$ 473

(1) Recorded investment is net of charge-offs and interest paid while a loan is in nonaccrual status.

(2) Only classes with impaired loans are shown.

The Company reviews nonaccrual loans on an individual loan basis to determine whether future payments are reasonably assured. To satisfy this criteria, the Company's evaluation must determine that the underlying cause of the original delinquency or weakness that indicated nonaccrual status has been resolved, such as receipt of new guarantees, increased cash flows that cover the debt service or other resolution. Nonaccrual loans that demonstrate reasonable assurance of future payments and that have made at least six consecutive payments in accordance with repayment terms and timeframes may be returned to accrual status.

A restructured loan for which impairment measurement does not indicate a loss and that maintains current status for at least six months may be returned to accrual status.

An analysis of past due and nonaccrual loans follows.

September 30, 2015

	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⁽¹⁾				
Construction, other	\$27	\$---	\$ ---	\$ ---
Consumer Real Estate⁽¹⁾				
Equity lines	63	---	---	---
Residential closed-end first liens	1,305	46	46	3
Residential closed-end junior liens	64	---	---	
Investor-owned residential real estate	---	---	---	12
Commercial Real Estate⁽¹⁾				
Multifamily real estate	547	2,665	---	2,665
Commercial real estate, owner-occupied	269	1,519	---	2,542
Commercial real estate, other	59	---	---	2,883
Commercial Non Real Estate⁽¹⁾				
Commercial and Industrial	71	883	---	883
Consumer Non Real Estate⁽¹⁾				
Credit cards	9	1	1	---
Automobile	175	---	---	---
Other consumer loans	63	---	---	---
Total	\$2,652	\$5,114	\$ 47	\$ 8,988

December 31, 2014

	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⁽¹⁾				
Construction, other	28	---	---	---
Consumer Real Estate⁽¹⁾				
Equity Lines	25	---	---	---
Residential closed-end first liens	719	185	80	105
Residential closed-end junior liens	74	1	1	---
Investor-owned residential real estate	336	45	---	59
Commercial Real Estate⁽¹⁾				

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Multifamily real estate	850	868	---	2,735
Commercial real estate, owner occupied	---	1,066	102	2,573
Commercial real estate, other	---	70	---	3,066
Commercial Non Real Estate⁽¹⁾				
Commercial and Industrial	153	43	---	749
Consumer Non Real Estate⁽¹⁾				
Credit cards	3	4	4	---
Automobile	205	20	20	---
Other consumer loans	54	---	---	---
Total	\$2,447	\$2,302	\$ 207	\$ 9,287

(1) Only classes with past-due or nonaccrual loans are shown.

The estimate of credit risk for non-impaired loans is obtained by applying allocations for internal and external factors. The allocations are increased for loans that exhibit greater credit quality risk.

Credit quality indicators, which the Company terms risk grades, are assigned through the Company's credit review function for larger loans and selective review of loans that fall below credit review thresholds. Loans that do not indicate heightened risk are graded as "pass." Loans that appear to have elevated credit risk because of frequent or persistent past due status, which is less than 75 days, or that show weakness in the borrower's financial condition are risk graded "special mention." Loans with frequent or persistent delinquency exceeding 75 days or that have a higher level of weakness in the borrower's financial condition are graded "classified." Classified loans have regulatory risk ratings of "substandard" and "doubtful." Allocations are increased by 50% and by 100% for loans with grades of "special mention" and "classified," respectively.

Determination of risk grades was completed for the portfolio as of September 30, 2015 and December 31, 2014.

The following displays collectively-evaluated loans by credit quality indicator.

September 30, 2015

	Pass	Special Mention	Classified (Excluding Impaired)
Real Estate Construction			
Construction, 1-4 family residential	\$10,532	\$3,768	\$---
Construction, other	30,586	---	---
Consumer Real Estate			
Equity lines	15,715	17	78
Closed-end first liens	78,380	464	830
Closed-end junior liens	4,653	55	63
Investor-owned residential real estate	42,283	611	868
Commercial Real Estate			
Multifamily residential real estate	75,085	1,345	1,815
Commercial real estate owner-occupied	124,459	1,278	1,316
Commercial real estate, other	95,149	1,519	---
Commercial Non Real Estate			
Commercial and Industrial	37,217	357	684
Public Sector and IDA			
States and political subdivisions	52,330	---	---
Consumer Non Real Estate			
Credit cards	5,981	---	---
Automobile	12,134	123	39
Other consumer	11,819	31	13
Total	\$		