

**American National Bankshare (AMNB)**

**Overview** 170MM market cap. Annual dividend yield is at 4.2%. P/B at 1.05,

The Co. was founded in 1984, and acquired American National Bank and Trust Co, which was founded in 1909.

The Co. formed a subsidiary, AMNB Statutory Trust I, which issued preferred securities and used the proceeds to acquire Community First Financial Corp. in April 2006. CFF operated 4 offices in Virginia.

In 2011, the Co. merged with MidCarolina Financial Corp, which operated 8 branches in North Carolina. In total, 25 offices and 2 loan centers. This implies, the Co. initially had 13 offices, and has doubled the offices through acquisitions, which we are not big fans of because the Co. pays for unnecessary goodwill, which is premiums paid out to the previous owners. The future cash flow from these 2 acquisitions must exceed the hurdle rate of the initial investment, which is difficult for a low growth community bank.

Total capital to risk weighted assets – 8% minimum. At least half of the capital must be Tier 1 capital, or common and preferred equity minus certain intangibles. Tier 2 capital is subordinated, hybrid debt.

The Co.'s Tier is 15.75% and total capital to risk weighted is 17%.

Looking at the current lending atmosphere, with the ultra low deposit rates, it seems almost impossible for a bank to lose money, other than a bloated SG&A and loss on portfolio. The large real estate portfolio is concerning, but is the real money maker for this Co. The net interest margin spread is 4.3%. Net interest income off a \$1.3BB portfolio is \$50MM. The Co. also generates \$10MM in non-interest income, and has \$40MM in non-interest expense, for a total \$15MM in NI. Op. cash flow is not too different from NI, and the Co. pays out \$6MM in dividends.

	Average Balance			Interest Income/Expense			Average Yield Rate		
	2012	2011	2010	2012	2011	2010	2012	2011	2010
<b>Loans:</b>									
Commercial	\$ 128,031	\$ 107,376	\$ 77,382	\$ 6,642	\$ 4,947	\$ 3,694	5.19%	4.61%	4.77%
Real estate	677,314	559,656	440,318	42,088	35,298	24,045	6.21	6.31	5.46
Consumer	8,359	7,734	6,774	605	575	541	7.24	7.43	7.99
<b>Total loans</b>	<b>813,704</b>	<b>674,766</b>	<b>524,474</b>	<b>49,335</b>	<b>40,820</b>	<b>28,280</b>	<b>6.06</b>	<b>6.05</b>	<b>5.39</b>
<b>Securities:</b>									
Federal agencies and GSE	36,066	36,247	59,960	545	946	1,917	1.51	2.61	3.20
Mortgage-backed and CMOs	94,183	75,902	50,178	1,906	2,148	1,957	2.02	2.83	3.90
State and municipal	182,959	151,254	86,439	7,829	6,872	4,478	4.28	4.54	5.18
Other	11,654	7,038	6,719	435	279	240	3.73	3.96	3.57
<b>Total securities</b>	<b>324,862</b>	<b>270,441</b>	<b>203,296</b>	<b>10,715</b>	<b>10,245</b>	<b>8,592</b>	<b>3.30</b>	<b>3.79</b>	<b>4.23</b>
Deposits in other banks	32,080	29,394	27,063	80	127	360	0.25	0.43	1.33
<b>Total interest earning assets</b>	<b>1,170,626</b>	<b>974,601</b>	<b>754,833</b>	<b>60,130</b>	<b>51,192</b>	<b>37,232</b>	<b>5.14</b>	<b>5.25</b>	<b>4.93</b>
Nonearning assets	132,455	102,493	72,589						
<b>Total assets</b>	<b>\$ 1,303,081</b>	<b>\$ 1,077,094</b>	<b>\$ 827,422</b>						
<b>Deposits:</b>									
Demand	\$ 142,296	\$ 137,211	\$ 94,236	190	290	76	0.13	0.21	0.08
Money market	174,027	132,906	73,268	521	572	371	0.30	0.43	0.51
Savings	78,358	68,038	63,484	111	98	88	0.14	0.14	0.14
Time	443,549	382,008	291,536	6,021	6,243	6,173	1.36	1.63	2.12
<b>Total deposits</b>	<b>838,230</b>	<b>720,163</b>	<b>522,614</b>	<b>6,843</b>	<b>7,203</b>	<b>6,708</b>	<b>0.82</b>	<b>1.00</b>	<b>1.28</b>
Customer repurchase agreements	46,939	46,411	59,270	148	325	382	0.32	0.70	0.64
Other short-term borrowings	496	66	87	2	-	-	0.42	0.00	0.00
Long-term borrowings	37,415	30,991	29,192	1,148	1,252	1,629	3.07	4.04	5.58
<b>Total interest bearing liabilities</b>	<b>923,080</b>	<b>797,631</b>	<b>611,163</b>	<b>8,141</b>	<b>8,780</b>	<b>8,719</b>	<b>0.88</b>	<b>1.10</b>	<b>1.43</b>
Noninterest bearing demand deposits	213,129	143,204	103,208						
Other liabilities	8,025	5,939	3,991						
Shareholders' equity	158,847	130,320	109,060						
<b>Total liabilities and shareholders' equity</b>	<b>\$ 1,303,081</b>	<b>\$ 1,077,094</b>	<b>\$ 827,422</b>						
Interest rate spread							4.26%	4.15%	3.59%
Net interest margin							4.41%	4.35%	3.78%

**Assessment** Historic results have been stable, and we like the shareholder equity growth. Currently, the net tangible book value plus 5 years of operating cash flow is \$120MM + 5 \* \$15MM, or \$195MM. That is not very attractive given today's market equity of \$170MM. So, we will pass on this stock.

**Buy**

<b>Name</b>	<b>Ticker</b>	<b>Market Price*</b>	<b>Entry Price</b>	<b>Date</b>	<b>Gain/(Loss)</b>
Premier Financial	PFBI	11.81	12.61	08/07/2013	-6.34%
Microfinancial	MFI	7.69	7.75	09/06/2013	-0.77%
EZCORP	EZPW	17.81	16.98	09/02/2013	4.89%

Average Total Return

-0.74%

**Follow**

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\*Intraday Market Price