TEXAS INSTRUMENTS INC
Form 4
March 23, 2015

FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL
OMB Number: 3235-0287
Expires: January 31, 2005
Estimated average burden hours per response... 0.5

(Print or Type Responses)

1. Name and Address of Reporting Person *
BLINN MARK A

(Last) (First) (Middle)

12500 TI BOULEVARD

(Street)

DALLAS, TX 75243

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
TEXAS INSTRUMENTS INC [TXN]

3. Date of Earliest Transaction (Month/Day/Year)
03/20/2015

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director _____ 10% Owner
_____ Officer (give title below) _____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock								6,121	D	
Common Stock								12,000 (1)	I	By Trust
Common Stock								3,000 (2)	I	By Trust

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

number.

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Pr Deriv Secu (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares	
Stock Units	$ 1 [3]	03/20/2015		A		121.02		[4]	[4]	Common Stock	121.02	$ 5

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
BLINN MARK A 12500 TI BOULEVARD DALLAS, TX 75243	X			

Signatures

/s/ Cynthia H. Grimm, Attorney In Fact	03/23/2015
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Shares held in Trust for the benefit of family member of which reporting person is a co-trustee. Beneficial ownership by reporting person disclaimed.

(2) Shares held in Trust for the benefit of family member; reporting person shares investment control. Beneficial ownership by reporting person disclaimed.

(3) Security converts to common stock on a one-for-one basis.

(4) Stock units credited under the Texas Instruments 2009 Director Compensation Plan, to be settled in common stock of the Issuer following the reporting person's termination of service as a director of the Issuer. End-of-period holdings include stock units acquired pursuant to the dividend reinvestment provision of the Plan.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
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MS
Total

MC
MS
Total

Net interest income
$
528

$
316

$
844

$
604

—

$
604

Core deposit amortization
(227
)
(73
)
(300
)

(236
)
—

(236
)
Total pretax income
$
301

$
243

Explanation of Responses:

$
544

$
368

—

$
368

Six Months Ended June 30,
2015

2014

MC
MS
Total

MC
MS
Total

Net interest income
$
938

$
1,019

$
1,957

$
1,500

—

$
1,500

Core deposit amortization
(453
)
(147
)
(600
)

(471
)
—

(471
)
Total pretax income
$
485

$
872

$
1,357

$
1,029

Explanation of Responses:

—

$
1,029

The MidCarolina acquisition was closed in July 2011. The MainStreet acquisition was closed in January 2015. Management expects that the fair value accounting financial impact of both acquisitions will continue to decline in subsequent quarters.

Impact of Inflation and Changing Prices

The majority of assets and liabilities of a financial institution are monetary in nature and therefore differ greatly from most commercial and industrial companies that have significant investments in fixed assets or inventories. The most significant effect of inflation is on noninterest expense, which tends to rise during periods of inflation. Changes in interest rates have a greater impact on a financial institution's profitability than do the effects of higher costs for goods and services. Through its balance sheet management practices, the Company has the ability to react to those changes and measure and monitor its interest rate and liquidity risk. During the reported periods, inflation and interest rates have been low.

CHANGES IN FINANCIAL POSITION

BALANCE SHEET ANALYSIS

Securities

The securities portfolio generates income, plays a major role in the management of interest rate sensitivity, provides a source of liquidity, is used to meet collateral requirements for public deposits, and facilitates commercial customers' repurchase agreements. The portfolio consists primarily of high credit quality, very liquid securities. Federal agency and U. S. government sponsored enterprises, mortgage-backed securities, state and municipal securities, and corporates comprise the portfolio.

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The available for sale securities portfolio was $355,595,000 at June 30, 2015, compared to $344,716,000 at December 31, 2014, an increase of $10,879,000 or 3.2%. The Company acquired $18,800,000 in securities in the MainStreet acquisition. However, the impact of that increase was mitigated by a combination of calls, sales, and maturities in the existing portfolio. At June 30, 2015, the available for sale portfolio had an amortized cost of $348,543,000, resulting in a net unrealized gain of $7,052,000. At December 31, 2014, the available for sale portfolio had an amortized cost of $335,723,000, resulting in a net unrealized gain of $8,993,000.

The Company is aware of the relatively low, acutely uncertain current interest rate environment and has elected to maintain an investment strategy of purchasing high quality taxable securities of relatively short duration and longer term high quality, tax exempt securities, whose market values are not as volatile in rising rate environments as similarly termed taxable investments. The Company manages its investment portfolio on an aggregate portfolio basis for purposes of monitoring average life and duration. Accordingly, some individual purchases may fall outside these overall guidelines. The Company will continue to deploy its cash to the maximum extent practical and prudent, consistent with its liquidity and asset liability strategy.

Loans

The loan portfolio consists primarily of commercial and residential real estate loans, commercial loans to small and medium-sized businesses, construction and land development loans, and home equity loans.

Total loans were $982,905,000 at June 30, 2015, compared to $840,925,000 at December 31, 2014, an increase of $141,980,000 or 16.9%. Of this increase, $108,326,000 or 63.8% relates directly to the merger with MainStreet. The remainder of the increase, $33,654,000, represents 2015 organic growth of 4.0%.

Loans held for sale totaled $2,720,000 at June 30, 2015 and $616,000 at December 31, 2014, an increase of $2,104,000 or 341.6%. This increase reflects an increased level of mortgage volume compared to year end. Secondary mortgage loan volume was up 17.5% for the six month period in 2015 compared to the same period last year.

Management of the loan portfolio is organized around segments. Each segment is comprised of various loan types that are reflective of operational and regulatory management and reporting requirements. The following table presents the Company's loan portfolio by segment as of June 30, 2015 and December 31, 2014 (dollars in thousands):

	June 30, 2015	December 31, 2014
Commercial	$159,015	$126,981
Commercial real estate:		
Construction and land development	66,543	50,863
Commercial real estate	432,315	391,472
Residential real estate:		
Residential	220,778	175,293
Home equity	97,866	91,075
Consumer	6,388	5,241
Total loans	$982,905	$840,925

Provision for Loan Losses

Provision for loan losses was $700,000 for the six month period ended June 30, 2015, compared to $150,000 for the same period ended June 30, 2014.

The need for additional provision expense was impacted by positive organic growth trends over the past several quarters, improving economic conditions, continuing strong asset quality metrics, and the regular quarterly review of cash flow expectations related to acquired loans with deteriorated credit quality.

Allowance for Loan Losses ("ALLL")

The purpose of the ALLL is to provide for probable losses inherent in the loan portfolio. The allowance is increased by the provision for loan losses and by recoveries of previously charged-off loans. Loan charge-offs decrease the allowance.

At June 30, 2015, the ALLL was $12,793,000 compared to $12,427,000 at December 31, 2014. The ALLL as a percentage of total loans was 1.30% and 1.48%, respectively. The decrease in the allowance as a percentage of loans was significantly

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impacted by the January 2015 merger with MainStreet. The acquired loan portfolio from MainStreet was marked to fair value and no allowance for loan losses was included in the merger transaction.

As part of the Company's methodology to evaluate the adequacy of its ALLL, the Company computes its ASC 450 loan balance by reducing total loans by acquired loans and loans that were evaluated for impairment individually or smaller balance nonaccrual loans evaluated for impairment in homogeneous pools. The ASC 450 loan loss reserve balance is the total ALLL reduced by allowances associated with these other pools of loans.

The general allowance, ASC 450 (FAS 5) reserves to FASB ASC 450 loans, was 1.47% at June 30, 2015, compared to 1.55% at December 31, 2014. On a dollar basis, the reserve was $11,832,000 at June 30, 2015, compared to $11,716,000 at December 31, 2014. The percentage of the reserve to total loans has declined due to improving local economic conditions, improving asset quality, and increased loan growth. This segment of the allowance represents by far the largest portion of the loan portfolio and the largest aggregate risk.

The specific allowance, ASC 310-40 (FAS 114) reserves to FASB ASC 310-40 loans, was 0.88% at June 30, 2015, compared to 3.64% at December 31, 2014. On a dollar basis, the reserve was $32,000 at June 30, 2015, compared to $165,000 at December 31, 2014. The decrease in the dollar amount of the reserve was related to changes in characteristics of loans reviewed individually for impairment. There is ongoing turnover in the composition of the impaired loan population, which decreased by a net $882,000 over December 31, 2014. During the second quarter of 2015, one nonaccrual credit in the amount of $1,136,000 was sold resulting in a $186,000 charge off. Newly evaluated impaired loans did not have an impact on the overall impairment allowance.

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The specific allowance does not include reserves related to acquired loans with deteriorated credit quality. This reserve was $929,000 at June 30, 2015 compared to $546,000 at December 31, 2014. This is the only portion of the reserve related to acquired loans. Cash flow expectations for these loans are reviewed on a quarterly basis and unfavorable changes in those estimates relative to the initial estimates can result in the need for loan loss provision. The increase in this impairment for the current period is related to the extended timing of expected cash flows, resulting from renewals, on some larger loans in this portfolio. The following table presents the Company's loan loss and recovery experience for the periods indicated (dollars in thousands):

Summary of Loan Loss Experience

	Six Months Ended June 30, 2015	Year Ended December 31, 2014
Balance at beginning of period	$12,427	$ 12,600
Charge-offs:		
Construction and land development	20	—
Commercial real estate	452	510
Residential real estate	7	121
Home equity	25	137
Total real estate	504	768
Commercial and industrial	—	101
Consumer	126	95
Total charge-offs	630	964
Recoveries:		
Construction and land development	72	28
Commercial real estate	32	38
Residential real estate	94	126
Home equity	9	65
Total real estate	207	257
Commercial and industrial	21	51
Consumer	68	83
Total recoveries	296	391
Net charge-offs	334	573
Provision for loan losses	700	400
Balance at end of period	$12,793	$ 12,427

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Asset Quality Indicators

The following table provides qualitative indicators relevant to the Company's loan portfolio for the six month period and year indicated below.

Asset Quality Ratios

	June 30, 2015		December 31, 2014	
Allowance to loans	1.30	%	1.48	%
FAS 5 (ASC 450) ALLL	1.47		1.55	
Net charge-offs (recoveries) to allowance (1)	5.22		4.61	
Net charge-offs (recoveries) to average loans (1)	0.07		0.07	
Nonperforming assets to total assets	0.39		0.46	
Nonperforming loans to loans	0.38		0.49	
Provision to net charge-offs (recoveries) (1)	209.58		69.81	
Provision to average loans (1)	0.07		0.05	
Allowance to nonperforming loans	339.16		302.21	

(1) - annualized.

The allowance to loans and the allowance to nonperforming loans were negatively impacted by the acquisition of $114,902,000 in acquired loans from the January 2015 MainStreet acquisition. These loans were marked to fair value at the merger date and their related allowance for loan loss was eliminated.

Nonperforming Assets (Loans and Other Real Estate Owned)

Nonperforming loans include loans on which interest is no longer accrued and accruing loans that are contractually past due 90 days or more. Nonperforming loans include loans originated and loans acquired.

Nonperforming loans to total loans were 0.38% at June 30, 2015 and 0.49% at December 31, 2014.

Nonperforming assets include nonperforming loans and OREO. Nonperforming assets represented 0.39% of total assets at June 30, 2015, down from 0.46% at December 31, 2014. This decrease was related to the decrease in nonperforming loans.

In most cases, it is the policy of the Company that any loan that becomes 90 days past due will automatically be placed on nonaccrual loan status, accrued interest reversed out of income, and further interest accrual ceased. Any payments received on such loans will be credited to principal. In some cases a loan in process of renewal may become 90 days past due. In these instances the loan may still be accruing because of a delayed renewal process in which the customer has not been billed. Loans will only be restored to full accrual status after nine consecutive months of payments that were each less than 30 days delinquent.

The $3,772,000 in nonaccrual loans shown on the following table includes: $1,537,000 in impaired loans individually evaluated for impairment; $794,000 in nonaccrual loan pools of smaller balance, homogenous loans, which were collectively evaluated for impairment (based on their collateral position and an improving payment history that still warrants nonaccrual status under internal policy guidelines, these loans were considered to have no dollar impairment); and $1,441,000 in loans with deteriorated credit quality acquired from both the MainStreet and MidCarolina mergers.

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The following table presents the Company's nonperforming assets as of June 30, 2015 and December 31, 2014 (dollars in thousands):

Nonperforming Assets

	June 30, 2015	December 31, 2014
Nonaccrual loans:		
Real estate	$3,506	$4,111
Commercial	254	—
Consumer	12	1
Total nonaccrual loans	3,772	4,112
Loans past due 90 days and accruing interest:	—	—
Total nonperforming loans	3,772	4,112
Other real estate owned	2,113	2,119
Total nonperforming assets	$5,885	$6,231

Impaired Loans

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. The following table shows loans that were considered impaired, exclusive of acquired impaired loans as of June 30, 2015 and December 31, 2014 (dollars in thousands):

Impaired Loans

	June 30, 2015	December 31, 2014
Accruing	$1,325	$989
Nonaccruing	2,330	3,548
Total impaired loans	$3,655	$4,537

Total impaired loans decreased $882,000 or 19.4% during the six months of 2015.

Included in the impaired loan totals were $2,048,000 in troubled debt restructured loans at June 30, 2015 and $2,862,000 at December 31, 2014.

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Other Real Estate Owned

Other real estate owned was $2,113,000 and $2,119,000 as of June 30, 2015 and December 31, 2014, respectively. Other real estate owned is initially recorded at fair value, less estimated costs to sell, at the date of foreclosure. Loan losses resulting from foreclosure are charged against the ALLL at that time. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of the new cost basis or fair value, less estimated costs to sell with any additional write-downs charged against earnings. For significant assets, these valuations are typically outside annual appraisals. The following table shows the Company's OREO as of June 30, 2015 and December 31, 2014 (dollars in thousands):

Other Real Estate Owned

	June 30, 2015	December 31, 2014
Construction and land development	$1,181	$1,577
1-4 family residential	181	382
Commercial real estate	751	160
	$2,113	$2,119

Deposits

The Company's deposits consist primarily of checking, money market, savings, and consumer time deposits. Total deposits were $1,234,018,000 at June 30, 2015 compared to $1,075,837,000 at December 31, 2014, an increase of $158,181,000 or 14.7%. Of the increase, $125,320,000 or 79.2% was directly related to the MainStreet merger.

The Company's primary focus on the liability side of the balance sheet is growing core deposits and their affiliated relationships. The challenge in this ongoing low rate environment is to fund the Bank in a cost effective and competitive manner. The Company's cost of deposits for the second quarter of 2015 was 0.50%, down from 0.57% for the second quarter of 2014.

Shareholders' Equity

The Company's capital management strategy is to be classified as "well capitalized" under regulatory capital ratios and provide as high as possible total return to shareholders.

Shareholders' equity was $194,883,000 at June 30, 2015 compared to $173,780,000 at December 31, 2014, an increase of $21,103,000 or 12.1%. In connection with the MainStreet merger, the Company issued 825,586 shares of common stock with a market value at January 1, 2015 of $20,483,000, accounting for 97.1% of the change in equity.

The Company paid cash dividends of $0.46 per share during the first six months of 2015 while the aggregate basic and diluted earnings per share for the same period was $0.73 per share.

In July 2013, the Board of Governors of the Federal Reserve System issued final rules that make technical changes to its capital rules to align them with the Basel III regulatory capital framework and meet certain requirements of the Dodd-Frank Act. The final rules maintain the general structure of the prompt corrective action framework in effect at such time while incorporating certain increased minimum requirements. Effective January 1, 2015, the final rules require the Company and the Bank to comply with the following minimum capital ratios: (i) a new common equity Tier 1 capital ratio of 4.5% of risk-weighted assets; (ii) a Tier 1 capital ratio of 6.0% of risk-weighted assets (increased from the prior requirement of 4.0%); (iii) a total capital ratio of 8.0% of risk-weighted assets (unchanged from the prior requirement); and (iv) a leverage ratio of 4.0% of total assets (unchanged from the prior requirement). These are the initial capital requirements, which will be phased in over a four-year period. When fully phased in on January 1, 2019, the rules will require the Company and the Bank to maintain such minimum ratios plus a 2.5% "capital conservation buffer" (other than for the leverage ratio). The capital conservation buffer requirement will be phased in beginning January 1, 2016, at 0.625% of risk-weighted assets, increasing by the same amount each year until fully implemented at 2.5% on January 1, 2019. Management believes the Company and the Bank will be compliant with the fully phased-in requirements when they become effective January 1, 2019.

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The following table provides information on the regulatory capital ratios for the Company and the Bank at June 30, 2015 and December 31, 2014. Management believes, as of June 30, 2015, that the Company and the Bank more than satisfy all capital adequacy requirements to which they are subject.

	Percentage At June 30, 2015		Percentage At December 31, 2014	
Risk-Based Capital Ratios:	Company	Bank	Company	Bank
Common equity tier 1 capital ratio	13.28	15.16	—	—
Tier 1 capital ratio	15.76	15.16	16.59	15.23
Total capital ratio	16.95	16.33	17.86	16.48
Leverage Capital Ratios:				
Tier 1 leverage ratio	11.85	11.39	12.16	11.15

Stock Repurchase Plan

In years prior to 2014 the Company had, in the normal course of business, operated certain stock repurchase programs. Authority to repurchase shares under these programs had been expired for some time. On April 17, 2014, the Company filed a Form 8-K with the SEC to announce the approval by its Board of Directors of a stock repurchase program. The plan authorizes the repurchase of up to 250,000 shares of the Company's common shares over a two year period. The share purchase limit was equal to approximately 3% of the 7,900,000 shares then outstanding at the time the Board approved the program.

In the six month period ended June 30, 2015, the Company repurchased 51,982 shares at an average cost of $22.61 per share, for a total cost of $1,175,000. During the same period in 2014, the Company repurchased 69,784 shares at an average cost of $21.49 per share, for a total cost of $1,500,000.

Liquidity

Liquidity is the ability of the Company to convert assets into cash or cash equivalents without significant loss and to raise additional funds by increasing liabilities in a timely manner. Liquidity management involves maintaining the Company's ability to meet the daily cash flow requirements of its customers, whether they are borrowers requiring funds or depositors desiring to withdraw funds. Additionally, the Company requires cash for various operating needs including dividends to shareholders, the servicing of debt, and the payment of general corporate expenses. The Company manages its exposure to fluctuations in interest rates through policies approved by the Asset Liability Committee ("ALCO") and Board of Directors, both of which receive periodic reports of the Company's interest rate risk and liquidity position. The Company uses a computer simulation model to assist in the management of the future liquidity needs of the Company.

Liquidity sources include on balance sheet and off balance sheet sources.

Balance sheet liquidity sources include cash, amounts due from banks, loan repayments, and increases in deposits. The Company also maintains a large, high quality, very liquid bond portfolio, which is generally 50% to 60% unpledged and would, accordingly, be available for sale if necessary.

Off balance sheet sources include lines of credit from the Federal Home Loan Bank of Atlanta ("FHLB"), federal funds lines of credit, and access to the Federal Reserve Bank of Richmond's discount window.

The Company has a line of credit with the FHLB, equal to 30% of the Bank's assets, subject to the amount of collateral pledged. Under the terms of its collateral agreement with the FHLB, the Company provides a blanket lien covering all of its residential first mortgage loans and home equity lines of credit. In addition, the Company pledges as collateral its capital stock in and deposits with the FHLB. At June 30, 2015, principal advance obligations to the FHLB consisted of $9,947,000 in fixed-rate, long-term advances compared to $9,935,000 in fixed-rate, long term advances at December 31, 2014. The Company also had outstanding $70,700,000 in letters of credit at June 30, 2015 and at December 31, 2014. The letters of credit provide the Bank with alternate collateral for securing public entity deposits above FDIC insurance levels, thereby providing less need for collateral pledging from the securities portfolio, and thereby maximizing on balance sheet liquidity.

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Short-term borrowings are discussed in Note 7 and long-term borrowings are discussed in Note 8 in the Consolidated Financial Statements included in this report.

The Company has federal funds lines of credit established with two correspondent banks in the amounts of $15,000,000 each, and has access to the Federal Reserve Bank's discount window. There were no amounts outstanding under these facilities at June 30, 2015.

The Company has a relationship with Promontory Network, the sponsoring entity for the Certificate of Deposit Account Registry Service® ("CDARS"). Through CDARS, the Company is able to provide deposit customers with access to aggregate FDIC insurance in amounts exceeding $250,000. This gives the Company the ability, as and when needed, to attract and retain large deposits from insurance conscious customers. CDARS are classified as brokered deposits, however they are generally derived from customers with whom the Company has or wishes to have a direct and ongoing relationship. As a result, management considers these deposits functionally, though not technically, core deposits. With CDARS, the Company has the option to keep deposits on balance sheet or sell them to other members of the network. Additionally, subject to certain limits, the Bank can use CDARS to purchase cost-effective funding without collateralization and in lieu of generating funds through traditional brokered CDs or the FHLB. In this manner, CDARS can provide the Company with another funding option. Thus, CDARS serves as a deposit-gathering tool and an additional liquidity management tool. Deposits through the CDARS program as of June 30, 2015 and December 31, 2014, were $24,505,000 and $22,255,000, respectively.

Management believes that these sources provide sufficient and timely liquidity, both on and off the balance sheet.

Off-Balance Sheet Activities

The Company enters into certain financial transactions in the ordinary course of performing traditional banking services that result in off-balance sheet transactions. Other than subsidiaries to issue trust preferred securities, the Company does not have any off-balance sheet subsidiaries. Off-balance sheet transactions at June 30, 2015 and at December 31, 2014 were as follows (dollars in thousands):

	June 30, 2015	December 31, 2014
Commitments to extend credit	$245,698	$190,413
Standby letters of credit	3,461	3,333
Mortgage loan rate-lock commitments	8,168	3,372

At the date of the merger with MainStreet, there were off-balance sheet transactions in the amount of $20,467,000 acquired.

Commitments to extend credit to customers represent legally binding agreements with fixed expiration dates or other termination clauses. Since many of the commitments are expected to expire without being funded, the total commitment amounts do not necessarily represent future funding requirements. Standby letters of credit are conditional commitments issued by the Company guaranteeing the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk Management

Effectively managing market risk is essential to achieving the Company's financial objectives. Market risk reflects the risk of economic loss resulting from changes in interest rates and market prices. The Company is generally not subject to currency exchange risk or commodity price risk. The Company's primary market risk exposure is interest rate risk; however, market risk also includes liquidity risk. Both are discussed in the following sections.

Interest Rate Risk Management

Interest rate risk and its impact on net interest income is a primary market risk exposure. The Company manages its exposure to fluctuations in interest rates through policies approved by its ALCO and Board of Directors, both of which receive and review periodic reports of the Company's interest rate risk position.

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The Company uses computer simulation analysis to measure the sensitivity of projected earnings to changes in interest rates. Simulation takes into account current balance sheet volumes and the scheduled repricing dates instrument level optionality, and maturities of assets and liabilities. It incorporates numerous assumptions including growth, changes in the mix of assets and liabilities, prepayments, and average rates earned and paid. Based on this information, management uses the model to project net interest income under multiple interest rate scenarios.

A balance sheet is considered asset sensitive when its earning assets (loans and securities) reprice faster or to a greater extent than its liabilities (deposits and borrowings). An asset sensitive balance sheet will produce relatively more net interest income when interest rates rise and less net interest income when they decline. Based on the Company's simulation analysis, management believes the Company's interest sensitivity position at June 30, 2015 is asset sensitive. Management has no expectation that market interest rates will materially decline in the near term, given the prevailing economy and apparent policy of the Board of Governors of the Federal Reserve System.

Earnings Simulation

The following tables shows the estimated impact of changes in interest rates on net interest income as of June 30, 2015 assuming instantaneous rate shocks, and consistent levels of assets and liabilities. Net interest income for the following twelve months is projected to increase when interest rates are higher than current rates (dollars in thousands):

Estimated Changes in Net Interest Income

	June 30, 2015	
	Change in Net Interest Income	
Change in interest rates	Amount	Percent
Up 4.00%	$6,862	14.0
Up 3.00%	5,209	10.7
Up 2.00%	3,457	7.1
Up 1.00%	1,672	3.4
Flat	—	—
Down 0.25%	(654)	(1.3)
Down 0.50%	(1,375)	(2.8)

Management cannot predict future interest rates or their exact effect on net interest income. Computations of future effects of hypothetical interest rate changes are based on numerous assumptions and should not be relied upon as indicative of actual results. Certain limitations are inherent in such computations. Assets and liabilities may react differently than projected to changes in market interest rates. The interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while rates on other types of assets and liabilities may lag changes in market interest rates. Interest rate shifts may not be parallel.

Changes in interest rates can cause substantial changes in the amount of prepayments of loans and mortgage-backed securities, which may in turn affect the Company's interest rate sensitivity position. Additionally, credit risk may rise if an interest rate increase adversely affects the ability of borrowers to service their debt.

Economic Value Simulation

Economic value simulation is used to calculate the estimated fair value of assets and liabilities over different interest rate environments. Economic values are calculated based on discounted cash flow analysis. The net economic value of equity is the economic value of all assets minus the economic value of all liabilities. The change in net economic value over different rate environments is an indication of the longer-term earnings capability of the balance sheet. The same assumptions are used in the economic value simulation as in the earnings simulation. The economic value simulation uses instantaneous rate shocks to the balance sheet.

Explanation of Responses:

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The following table reflects the estimated change in net economic value over different rate environments using economic value simulation for the balances at the period ended June 30, 2015 (dollars in thousands):
Estimated Changes in Economic Value of Equity

	June 30, 2015		
Change in interest rates	Amount	$ Change	% Change
Up 4.00%	$283,942	$51,811	22.3 %
Up 3.00%	282,358	50,227	21.6 %
Up 2.00%	275,887	43,756	18.8 %
Up 1.00%	261,158	29,027	12.5 %
Flat	232,131	—	— %
Down 0.25%	223,480	(8,651)	(3.7)%
Down 0.50%	214,357	(17,774)	(7.7)%

Increases in interest rates over the past two quarters have had a negative impact on the economic value of the Company's assets. However, this has been more than offset by the positive impact the rate increases have had on the economic value of the Company's liabilities.
Due to the current low interest rate environment, no measurement was considered necessary for a further decline in interest rates. There have been no material changes to market risk as disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2014. Refer to those disclosures for further information.

ITEM 4. CONTROLS AND PROCEDURES
Disclosure Controls and Procedures
The Company's management, including the Chief Executive Officer and Chief Financial Officer, evaluated the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), as of June 30, 2015. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective to ensure that the information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms. There were no significant changes in the Company's internal controls over financial reporting that occurred during the quarter ended June 30, 2015, that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The nature of the business of the Company ordinarily results in a certain amount of litigation. The Company is involved in various legal proceedings, all of which are considered incidental to the normal conduct of business. Management believes that these proceedings will not have a material adverse effect on the consolidated financial position or consolidated results of operations of the Company.

ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2014 filed with the SEC on March 9, 2015.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

On April 17, 2014, the Company's Board of Directors authorized a share repurchase program of up to 250,000 shares of the Company's outstanding common stock for a period of two years. Repurchases may be made through open market purchases or in privately negotiated transactions, and shares repurchased will be returned to the status of authorized and unissued shares of common stock. The actual timing, number, and value of shares repurchased under the program will be determined by management.

Shares of the Company's common stock were repurchased during the three months ended June 30, 2015, as detailed below. Under the share repurchase program, the Company has the remaining authority to repurchase up to 127,834 shares of the Company's common stock as of June 30, 2015.

Period Beginning on First Day of Month Ended	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under Plans or Programs
April 30, 2015	1,950	$ 22.25	1,950	177,866
May 31, 2015	34,164	22.50	34,164	143,702
June 30, 2015	15,868	22.88	15,868	127,834
Total	51,982	$ 22.61	51,982	

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable

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ITEM 5. OTHER INFORMATION
(a) Required 8-K disclosures
None
(b) Changes in Nominating Process
None

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ITEM 6. EXHIBITS

11.0 Refer to EPS calculation in the Notes to Financial Statements
31.1 Section 302 Certification of Jeffrey V. Haley, President and Chief Executive Officer
31.2 Section 302 Certification of William W. Traynham, Executive Vice President and Chief Financial Officer
32.1 Section 906 Certification of Jeffrey V. Haley, President and Chief Executive Officer
32.2 Section 906 Certification of William W. Traynham, Executive Vice President and Chief Financial Officer
101 Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Balance Sheets as of June 30, 2015, December 31, 2014, (ii) the Consolidated Statements of Income for the three and six months ended June 30, 2015 and June 30, 2014, (iii) the Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2015 and June 30, 2014, (iv) the Consolidated Statements of Changes in Shareholders' Equity for the six months ended June 30, 2015 and June 30, 2014, (v) the Consolidated Statements of Cash Flows for the six months ended June 30, 2015 and June 30, 2014 and (vi) the Notes to the Consolidated Financial Statements (furnished herewith).

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AMERICAN NATIONAL BANKSHARES INC.

	/s/ Jeffrey V. Haley Jeffrey V. Haley
Date - August 7, 2015	President and Chief Executive Officer
	/s/ William W. Traynham William W. Traynham Executive Vice President and
Date - August 7, 2015	Chief Financial Officer

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