

American National Bankshares Inc. and Subsidiary
Consolidated Balance Sheets

June 30, 2007 and 2006

(Dollars in thousands, except share data)

(Unaudited)

| | 2007 | 2006 |
|--|------------|------------|
| ASSETS | | |
| Cash and due from banks | \$ 21,735 | \$ 19,352 |
| Interest bearing deposits in other banks | 17,053 | 16,425 |
| Securities available for sale, at fair value | 121,083 | 157,636 |
| Securities held to maturity | 13,148 | 15,501 |
| Total securities | 134,231 | 173,137 |
| Loans held for sale | 2,306 | 1,005 |
| Loans, net of unearned income | 551,744 | 551,434 |
| Less allowance for loan losses | (7,493) | (8,208) |
| Net loans | 544,251 | 543,226 |
| Bank premises and equipment, net | 12,899 | 12,640 |
| Goodwill | 22,468 | 22,517 |
| Core deposit intangibles, net | 2,641 | 3,071 |
| Accrued interest receivable and other assets | 13,553 | 19,195 |
| Total assets | \$ 771,137 | \$ 810,568 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Liabilities: | | |
| Demand deposits -- noninterest bearing | \$ 107,206 | \$ 109,161 |
| Demand deposits -- interest bearing | 110,482 | 119,767 |
| Money market deposits | 50,749 | 48,111 |
| Savings deposits | 66,948 | 81,078 |
| Time deposits | 260,359 | 274,505 |
| Total deposits | 595,744 | 632,622 |
| Repurchase agreements | 43,615 | 43,667 |
| FHLB borrowings | 10,012 | 17,163 |
| Trust preferred capital notes | 20,619 | 20,619 |
| Accrued interest payable and other liabilities | 3,898 | 4,666 |
| Total liabilities | 673,888 | 718,737 |
| Shareholders' equity: | | |
| Common stock, \$1 par, 10,000,000 shares authorized, 6,145,617 shares outstanding at June 30, 2007 and 6,162,490 shares outstanding at June 30, 2006 | 6,146 | 6,162 |
| Capital in excess of par value | 26,422 | 26,353 |
| Retained earnings | 67,122 | 61,423 |
| Accumulated other comprehensive income (loss), net | (2,441) | (2,107) |
| Total shareholders' equity | 97,249 | 91,831 |
| Total liabilities and shareholders' equity | \$ 771,137 | \$ 810,568 |

American National Bankshares Inc. and Subsidiary

Consolidated Statements of Income

(Dollars in thousands, except share and per share data)

(Unaudited)

| | Three Months Ended | | Six Months Ended | |
|--|--------------------|-----------------|------------------|-----------------|
| | June 30 | | June 30 | |
| | 2007 | 2006 | 2007 | 2006 |
| Interest Income: | | | | |
| Interest and fees on loans | \$ 10,408 | \$ 10,089 | \$ 20,487 | \$ 17,045 |
| Interest and dividends on securities: | | | | |
| Taxable | 1,028 | 1,358 | 2,164 | 2,510 |
| Tax-exempt | 420 | 430 | 843 | 881 |
| Dividends | 82 | 78 | 171 | 135 |
| Other interest income | 168 | 191 | 339 | 423 |
| Total interest income | <u>12,106</u> | <u>12,146</u> | <u>24,004</u> | <u>20,994</u> |
| Interest Expense: | | | | |
| Interest on deposits | 3,860 | 3,538 | 7,643 | 5,845 |
| Interest on repurchase agreements | 449 | 335 | 875 | 644 |
| Interest on trust preferred capital notes | 344 | 320 | 687 | 320 |
| Interest on other borrowings | 170 | 242 | 376 | 455 |
| Total interest expense | <u>4,823</u> | <u>4,435</u> | <u>9,581</u> | <u>7,264</u> |
| Net Interest Income | <u>7,283</u> | <u>7,711</u> | <u>14,423</u> | <u>13,730</u> |
| Provision for loan losses | - | 354 | 303 | 480 |
| Net Interest Income After Provision for Loan Losses | <u>7,283</u> | <u>7,357</u> | <u>14,120</u> | <u>13,250</u> |
| Noninterest Income: | | | | |
| Trust fees | 924 | 885 | 1,803 | 1,640 |
| Service charges on deposit accounts | 625 | 737 | 1,247 | 1,308 |
| Mortgage banking income | 329 | 203 | 519 | 336 |
| Brokerage fees | 159 | 109 | 248 | 234 |
| Other fees and commissions | 198 | 183 | 398 | 367 |
| Securities gains, net | 64 | 17 | 89 | 38 |
| Other | 132 | 133 | 339 | 245 |
| Total noninterest income | <u>2,431</u> | <u>2,267</u> | <u>4,643</u> | <u>4,168</u> |
| Noninterest Expense: | | | | |
| Salaries | 2,514 | 2,527 | 4,904 | 4,511 |
| Employee benefits | 737 | 673 | 1,385 | 1,322 |
| Occupancy and equipment | 850 | 744 | 1,679 | 1,390 |
| Bank franchise tax | 165 | 170 | 333 | 310 |
| Core deposit intangible amortization | 95 | 134 | 189 | 173 |
| Other | 1,087 | 1,108 | 2,128 | 2,033 |
| Total noninterest expense | <u>5,448</u> | <u>5,356</u> | <u>10,618</u> | <u>9,739</u> |
| Income Before Income Tax Provision | 4,266 | 4,268 | 8,145 | 7,679 |
| Income Tax Provision | 1,235 | 1,266 | 2,410 | 2,271 |
| Net Income | <u>\$ 3,031</u> | <u>\$ 3,002</u> | <u>\$ 5,735</u> | <u>\$ 5,408</u> |
| Net Income Per Common Share: | | | | |
| Basic | \$ 0.49 | \$ 0.49 | \$ 0.93 | \$ 0.93 |
| Diluted | \$ 0.49 | \$ 0.48 | \$ 0.93 | \$ 0.93 |
| Average Common Shares Outstanding: | | | | |
| Basic | 6,150,216 | 6,172,522 | 6,153,496 | 5,805,287 |
| Diluted | 6,177,165 | 6,207,543 | 6,181,107 | 5,840,871 |

Financial Highlights
American National Bankshares Inc. and Subsidiary
(Dollars in thousands, except share and per share data)
(Unaudited)

| | As of and for the Three Months Ended June 30 | | | As of and for the Six Months Ended June 30 | | |
|---------------------------------------|---|------------|---------|---|------------|---------|
| | 2007 | 2006 | Change | 2007 | 2006 | Change |
| EARNINGS | | | | | | |
| Interest income | \$ 12,106 | \$ 12,146 | (0.3)% | \$ 24,004 | \$ 20,994 | 14.3% |
| Interest expense | 4,823 | 4,435 | 8.7 | 9,581 | 7,264 | 31.9 |
| Net interest income | 7,283 | 7,711 | (5.6) | 14,423 | 13,730 | 5.0 |
| Provision for loan losses | - | 354 | (100.0) | 303 | 480 | (36.9) |
| Noninterest income | 2,431 | 2,267 | 7.2 | 4,643 | 4,168 | 11.4 |
| Noninterest expense | 5,448 | 5,356 | 1.7 | 10,618 | 9,739 | 9.0 |
| Income taxes | 1,235 | 1,266 | (2.4) | 2,410 | 2,271 | 6.1 |
| Net income | 3,031 | 3,002 | 1.0 | 5,735 | 5,408 | 6.0 |
| PER COMMON SHARE | | | | | | |
| Earnings per share - basic | \$ 0.49 | \$ 0.49 | 0.0 % | \$ 0.93 | \$ 0.93 | 0.0% |
| Earnings per share - diluted | 0.49 | 0.48 | 2.1 | 0.93 | 0.93 | 0.0 |
| Cash dividends declared | 0.23 | 0.22 | 4.5 | 0.45 | 0.43 | 4.7 |
| Book value per share | 15.82 | 14.90 | 6.2 | 15.82 | 14.90 | 6.2 |
| Book value per share - tangible (a) | 11.74 | 10.75 | 9.2 | 11.74 | 10.75 | 9.2 |
| Closing market price | 22.50 | 23.13 | (2.7) | 22.50 | 23.13 | (2.7) |
| FINANCIAL RATIOS | | | | | | |
| Return on average assets | 1.57% | 1.48% | 9 bp | 1.48% | 1.50% | (2bp) |
| Return on average equity | 12.47 | 13.38 | (91) | 11.89 | 13.32 | (143) |
| Return on average tangible equity (b) | 17.20 | 19.52 | (232) | 16.47 | 16.28 | 19 |
| Average equity to average assets | 12.61 | 11.07 | 154 | 12.45 | 11.25 | 120 |
| Net interest margin (FTE) | 4.26 | 4.24 | 2 | 4.19 | 4.19 | 0 |
| Efficiency ratio | 56.68 | 54.01 | 267 | 56.20 | 53.96 | 224 |
| PERIOD END BALANCES | | | | | | |
| Securities | \$ 134,231 | \$ 173,137 | (22.5)% | \$ 134,231 | \$ 173,137 | (22.5)% |
| Loans held for sale | 2,306 | 1,005 | 129.5 | 2,306 | 1,005 | 129.5 |
| Loans, net of unearned income | 551,744 | 551,434 | 0.1 | 551,744 | 551,434 | 0.1 |
| Goodwill and other intangibles | 25,109 | 25,588 | (1.9) | 25,109 | 25,588 | (1.9) |
| Assets | 771,137 | 810,568 | (4.9) | 771,137 | 810,568 | (4.9) |
| Assets - tangible (a) | 746,028 | 784,980 | (5.0) | 746,028 | 784,980 | (5.0) |
| Deposits | 595,744 | 632,622 | (5.8) | 595,744 | 632,622 | (5.8) |
| Repurchase agreements | 43,615 | 43,667 | (0.1) | 43,615 | 43,667 | (0.1) |
| FHLB borrowings | 10,012 | 17,163 | (41.7) | 10,012 | 17,163 | (41.7) |
| Trust preferred capital notes | 20,619 | 20,619 | 0.0 | 20,619 | 20,619 | 0.0 |
| Shareholders' equity | 97,249 | 91,831 | 5.9 | 97,249 | 91,831 | 5.9 |
| Shareholders' equity - tangible (a) | 72,140 | 66,243 | 8.9 | 72,140 | 66,243 | 8.9 |
| AVERAGE BALANCES | | | | | | |
| Securities | \$ 143,106 | \$ 183,393 | (22.0)% | \$ 150,004 | \$ 177,796 | (15.6)% |
| Total loans | 550,310 | 550,706 | (0.1) | 547,253 | 481,818 | 13.6 |
| Interest earning assets | 706,285 | 749,709 | (5.8) | 710,321 | 678,053 | 4.8 |
| Goodwill and other intangibles | 25,146 | 26,268 | (4.3) | 25,193 | 13,260 | 90.0 |
| Assets | 770,710 | 810,627 | (4.9) | 774,667 | 721,685 | 7.3 |
| Assets - tangible (a) | 745,564 | 784,359 | (4.9) | 749,474 | 708,425 | 5.8 |
| Interest bearing deposits | 487,322 | 525,889 | (7.3) | 490,546 | 469,624 | 4.5 |
| Deposits | 588,346 | 638,020 | (7.8) | 591,723 | 570,098 | 3.8 |
| Repurchase agreements | 46,032 | 41,594 | 10.7 | 46,142 | 40,772 | 13.2 |
| Other borrowings | 33,884 | 37,878 | (10.5) | 35,294 | 27,070 | 30.4 |
| Shareholders' equity | 97,183 | 89,729 | 8.3 | 96,434 | 81,194 | 18.8 |
| Shareholders' equity - tangible (a) | 72,037 | 63,461 | 13.5 | 71,241 | 67,934 | 4.9 |
| CAPITAL | | | | | | |
| Average shares outstanding - basic | 6,150,216 | 6,172,522 | (0.4)% | 6,153,496 | 5,805,287 | 6.0% |
| Average shares outstanding - diluted | 6,177,165 | 6,207,543 | (0.5) | 6,181,107 | 5,840,871 | 5.8 |
| Shares repurchased | 12,700 | 17,300 | (26.6) | 24,300 | 31,200 | (22.1) |
| Average price of shares repurchased | \$ 22.66 | \$ 23.25 | (2.5) | \$ 22.89 | \$ 23.28 | (1.7) |

ALLOWANCE FOR LOAN LOSSES

| | | | | | | |
|------------------------------|-----------------|-----------------|--------------|-----------------|-----------------|--------------|
| Beginning balance | \$ 7,590 | \$ 6,164 | 23.1 % | \$ 7,264 | \$ 6,109 | 18.9% |
| Allowance acquired in merger | - | 1,598 | (100.0) | - | 1,598 | (100.0) |
| Provision for loan losses | - | 354 | (100.0) | 303 | 480 | (36.9) |
| Charge-offs | (155) | (75) | 106.7 | (204) | (226) | (9.7) |
| Recoveries | 58 | 167 | (65.3) | 130 | 247 | (47.4) |
| Ending balance | <u>\$ 7,493</u> | <u>\$ 8,208</u> | <u>(8.7)</u> | <u>\$ 7,493</u> | <u>\$ 8,208</u> | <u>(8.7)</u> |

NONPERFORMING ASSETS

Nonperforming loans:

| | | | | | | |
|------------------------|-----------------|-----------------|---------------|-----------------|-----------------|---------------|
| 90 days past due | \$ - | \$ 226 | (100.0)% | \$ - | \$ 226 | (100.0)% |
| Nonaccrual | 3,192 | 4,297 | (25.7) | 3,192 | 4,297 | (25.7) |
| Foreclosed real estate | 85 | 435 | (80.5) | 85 | 435 | (80.5) |
| Nonperforming assets | <u>\$ 3,277</u> | <u>\$ 4,958</u> | <u>(33.9)</u> | <u>\$ 3,277</u> | <u>\$ 4,958</u> | <u>(33.9)</u> |

ASSET QUALITY RATIOS

| | | | | | | |
|--|-------|---------|------|-------|---------|------|
| Net chargeoffs (recoveries) to average loans | 0.07% | (0.07)% | 14bp | 0.03% | (0.01)% | 4bp |
| Nonperforming assets to total assets (c) | 0.42 | 0.61 | (19) | 0.42 | 0.61 | (19) |
| Nonperforming loans to total loans (c) | 0.58 | 0.82 | (24) | 0.58 | 0.82 | (24) |
| Allowance for loan losses to total loans (c) | 1.36 | 1.49 | (13) | 1.36 | 1.49 | (13) |
| Allowance for loan losses to nonperforming loans (c) | 2.35X | 1.81X | 54 | 2.35X | 1.81X | 54 |

Notes:

(a) - Excludes goodwill and other intangible assets

(b) - Excludes amortization expense, net of tax, of intangible assets

(c) - Balance sheet amounts used in calculations are based on period end balances

bp - Change is measured in basis points

FTE - Fully taxable equivalent basis

Net Interest Income Analysis
For the Three Months Ended June 30, 2007 and 2006
(in thousands, except yields and rates)
(Unaudited)

| | Average Balance | | Interest Income/Expense | | Yield/Rate | |
|--|-------------------|-------------------|-------------------------|-----------------|--------------|--------------|
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| Loans: | | | | | | |
| Commercial | \$ 91,852 | \$ 94,281 | \$ 1,819 | \$ 1,796 | 7.92% | 7.62% |
| Real estate | 448,024 | 442,307 | 8,364 | 7,967 | 7.47 | 7.20 |
| Consumer | 10,434 | 14,118 | 247 | 345 | 9.47 | 9.77 |
| Total loans | <u>550,310</u> | <u>550,706</u> | <u>10,430</u> | <u>10,108</u> | <u>7.58</u> | <u>7.34</u> |
| Securities: | | | | | | |
| Federal agencies | 68,991 | 104,464 | 748 | 1,035 | 4.34 | 3.96 |
| Mortgage-backed & CMO's | 20,501 | 21,333 | 247 | 245 | 4.82 | 4.59 |
| State and municipal | 45,623 | 46,296 | 628 | 640 | 5.51 | 5.53 |
| Other | 7,991 | 11,300 | 116 | 167 | 5.81 | 5.91 |
| Total securities | <u>143,106</u> | <u>183,393</u> | <u>1,739</u> | <u>2,087</u> | <u>4.86</u> | <u>4.55</u> |
| Deposits in other banks | <u>12,869</u> | <u>15,610</u> | <u>168</u> | <u>183</u> | <u>5.22</u> | <u>4.69</u> |
| Total interest earning assets | 706,285 | 749,709 | <u>12,337</u> | <u>12,378</u> | <u>6.99</u> | <u>6.60</u> |
| Nonearning assets | 64,425 | 60,918 | | | | |
| Total assets | <u>\$ 770,710</u> | <u>\$ 810,627</u> | | | | |
| Deposits: | | | | | | |
| Demand | \$ 111,064 | \$ 111,817 | 416 | 400 | 1.50 | 1.43 |
| Money market | 52,279 | 50,240 | 356 | 292 | 2.72 | 2.32 |
| Savings | 67,716 | 82,119 | 230 | 258 | 1.36 | 1.26 |
| Time | 256,263 | 281,713 | 2,858 | 2,588 | 4.46 | 3.67 |
| Total deposits | <u>487,322</u> | <u>525,889</u> | <u>3,860</u> | <u>3,538</u> | <u>3.17</u> | <u>2.69</u> |
| Repurchase agreements | 46,032 | 41,594 | 449 | 335 | 3.90 | 3.22 |
| Other borrowings | 33,884 | 37,878 | 514 | 562 | 6.07 | 5.93 |
| Total interest bearing liabilities | <u>567,238</u> | <u>605,361</u> | <u>4,823</u> | <u>4,435</u> | <u>3.40</u> | <u>2.93</u> |
| Noninterest bearing demand deposits | 101,024 | 112,131 | | | | |
| Other liabilities | 5,265 | 3,406 | | | | |
| Shareholders' equity | <u>97,183</u> | <u>89,729</u> | | | | |
| Total liabilities and shareholders' equity | <u>\$ 770,710</u> | <u>\$ 810,627</u> | | | | |
| Interest rate spread | | | | | <u>3.59%</u> | <u>3.67%</u> |
| Net interest margin | | | | | <u>4.26%</u> | <u>4.24%</u> |
| Net interest income (taxable equivalent basis) | | | 7,514 | 7,943 | | |
| Less: Taxable equivalent adjustment | | | 231 | 232 | | |
| Net interest income | | | <u>\$ 7,283</u> | <u>\$ 7,711</u> | | |

Net Interest Income Analysis
For the Six Months Ended June 30, 2007 and 2006
(in thousands, except yields and rates)
(Unaudited)

| | Average Balance | | Interest Income/Expense | | Yield/Rate | |
|--|-------------------|-------------------|-------------------------|------------------|--------------|--------------|
| | 2007 | 2006 | 2007 | 2006 | 2007 | 2006 |
| Loans: | | | | | | |
| Commercial | \$ 90,415 | \$ 82,496 | \$ 3,512 | \$ 3,034 | 7.77% | 7.36% |
| Real estate | 446,448 | 387,129 | 16,529 | 13,475 | 7.40 | 6.96 |
| Consumer | 10,390 | 12,193 | 489 | 574 | 9.41 | 9.42 |
| Total loans | <u>547,253</u> | <u>481,818</u> | <u>20,530</u> | <u>17,083</u> | <u>7.50</u> | <u>7.09</u> |
| Securities: | | | | | | |
| Federal agencies | 75,587 | 97,342 | 1,605 | 1,842 | 4.25 | 3.78 |
| Mortgage-backed & CMO's | 20,253 | 21,478 | 488 | 490 | 4.82 | 4.56 |
| State and municipal | 45,792 | 46,854 | 1,262 | 1,313 | 5.51 | 5.60 |
| Other | 8,372 | 12,122 | 245 | 313 | 5.85 | 5.16 |
| Total securities | <u>150,004</u> | <u>177,796</u> | <u>3,600</u> | <u>3,958</u> | <u>4.80</u> | <u>4.45</u> |
| Deposits in other banks | <u>13,064</u> | <u>18,439</u> | <u>339</u> | <u>423</u> | <u>5.19</u> | <u>4.59</u> |
| Total interest earning assets | 710,321 | 678,053 | <u>24,469</u> | <u>21,464</u> | <u>6.89</u> | <u>6.33</u> |
| Nonearning assets | <u>64,346</u> | <u>43,632</u> | | | | |
| Total assets | <u>\$ 774,667</u> | <u>\$ 721,685</u> | | | | |
| Deposits: | | | | | | |
| Demand | \$ 110,592 | \$ 104,474 | 840 | 703 | 1.52 | 1.35 |
| Money market | 52,210 | 45,852 | 705 | 513 | 2.70 | 2.24 |
| Savings | 68,318 | 80,198 | 465 | 445 | 1.36 | 1.11 |
| Time | 259,426 | 239,100 | 5,633 | 4,184 | 4.34 | 3.50 |
| Total deposits | <u>490,546</u> | <u>469,624</u> | <u>7,643</u> | <u>5,845</u> | <u>3.12</u> | <u>2.49</u> |
| Repurchase agreements | 46,142 | 40,772 | 875 | 644 | 3.79 | 3.16 |
| Other borrowings | <u>35,294</u> | <u>27,070</u> | <u>1,063</u> | <u>775</u> | <u>6.02</u> | <u>5.73</u> |
| Total interest bearing liabilities | <u>571,982</u> | <u>537,466</u> | <u>9,581</u> | <u>7,264</u> | <u>3.35</u> | <u>2.70</u> |
| Noninterest bearing demand deposits | 101,177 | 100,474 | | | | |
| Other liabilities | 5,074 | 2,551 | | | | |
| Shareholders' equity | <u>96,434</u> | <u>81,194</u> | | | | |
| Total liabilities and shareholder's equity | <u>\$ 774,667</u> | <u>\$ 721,685</u> | | | | |
| Interest rate spread | | | | | <u>3.54%</u> | <u>3.63%</u> |
| Net interest margin | | | | | <u>4.19%</u> | <u>4.19%</u> |
| Net interest income (taxable equivalent basis) | | | 14,888 | 14,200 | | |
| Less: Taxable equivalent adjustment | | | 465 | 470 | | |
| Net interest income | | | <u>\$ 14,423</u> | <u>\$ 13,730</u> | | |