

**American National Bankshares Inc. and Subsidiary**

**Consolidated Balance Sheets**

*(Dollars in thousands, except share data)*

Unaudited

ASSETS	September 30	
	2007	2006
Cash and due from banks	\$ 20,016	\$ 24,390
Interest bearing deposits in other banks	24	467
Securities available for sale, at fair value	136,270	155,468
Securities held to maturity	12,009	14,201
Total securities	<u>148,279</u>	<u>169,669</u>
Loans held for sale	375	1,158
Loans, net of unearned income	554,002	549,229
Less allowance for loan losses	(7,334)	(8,170)
Net Loans	<u>546,668</u>	<u>541,059</u>
Bank premises and equipment, net	13,197	12,310
Goodwill	22,468	22,489
Core deposit intangibles, net	2,546	2,937
Accrued interest receivable and other assets	<u>13,981</u>	<u>18,155</u>
Total assets	<u>\$ 767,554</u>	<u>\$ 792,634</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Liabilities:		
Demand deposits -- noninterest bearing	\$ 105,014	\$ 104,403
Demand deposits -- interest bearing	105,004	103,923
Money market deposits	52,271	51,401
Savings deposits	63,565	75,473
Time deposits	260,300	267,990
Total deposits	<u>586,154</u>	<u>603,190</u>
Repurchase agreements	48,665	37,152
FHLB borrowings	8,975	32,500
Trust preferred capital notes	20,619	20,619
Accrued interest payable and other liabilities	3,807	4,285
Total liabilities	<u>668,220</u>	<u>697,746</u>
Shareholders' equity:		
Common stock, \$1 par, 10,000,000 shares authorized, 6,121,325 shares outstanding at September 30, 2007 and 6,166,050 shares outstanding at September 30, 2006	6,121	6,166
Capital in excess of par value	26,364	26,426
Retained earnings	68,188	63,112
Accumulated other comprehensive income (loss), net	(1,339)	(816)
Total shareholders' equity	<u>99,334</u>	<u>94,888</u>
Total liabilities and shareholders' equity	<u>\$ 767,554</u>	<u>\$ 792,634</u>

**American National Bankshares Inc. and Subsidiary**  
**Consolidated Statements of Income**

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

Unaudited

	Three Months Ended September 30		Nine Months Ended September 30	
	2007	2006	2007	2006
<b>Interest Income:</b>				
Interest and fees on loans	\$ 10,506	\$ 10,210	\$ 30,993	\$ 27,255
Interest and dividends on securities:				
Taxable	1,060	1,314	3,224	3,824
Tax-exempt	416	432	1,259	1,313
Dividends	75	84	246	219
Other interest income	236	111	575	534
Total interest income	<u>12,293</u>	<u>12,151</u>	<u>36,297</u>	<u>33,145</u>
<b>Interest Expense:</b>				
Interest on deposits	4,004	3,699	11,647	9,544
Interest on repurchase agreements	478	376	1,353	1,020
Interest on trust preferred capital notes	343	344	1,030	664
Interest on other borrowings	122	226	498	681
Total interest expense	<u>4,947</u>	<u>4,645</u>	<u>14,528</u>	<u>11,909</u>
<b>Net Interest Income</b>	<u>7,346</u>	<u>7,506</u>	<u>21,769</u>	<u>21,236</u>
Provision for loan losses	-	125	303	605
<b>Net Interest Income After Provision for Loan Losses</b>	<u>7,346</u>	<u>7,381</u>	<u>21,466</u>	<u>20,631</u>
<b>Noninterest Income:</b>				
Trust fees	861	843	2,664	2,483
Service charges on deposit accounts	631	696	1,878	2,004
Other fees and commissions	193	194	591	561
Mortgage banking income	240	172	759	508
Brokerage fees	191	93	439	327
Securities gains, net	45	9	134	47
Other	115	131	454	376
Total noninterest income	<u>2,276</u>	<u>2,138</u>	<u>6,919</u>	<u>6,306</u>
<b>Noninterest Expense:</b>				
Salaries	2,380	2,355	7,284	6,866
Employee benefits	779	649	2,164	1,971
Occupancy and equipment	881	775	2,560	2,165
Bank franchise tax	165	171	498	481
Core deposit intangible amortization	94	134	283	307
Other	1,080	1,033	3,208	3,066
Total noninterest expense	<u>5,379</u>	<u>5,117</u>	<u>15,997</u>	<u>14,856</u>
Income Before Income Tax Provision	4,243	4,402	12,388	12,081
Income Tax Provision	1,309	1,301	3,719	3,572
<b>Net Income</b>	<u>\$ 2,934</u>	<u>\$ 3,101</u>	<u>\$ 8,669</u>	<u>\$ 8,509</u>
<b>Net Income Per Common Share:</b>				
Basic	\$ 0.48	\$ 0.50	\$ 1.41	\$ 1.44
Diluted	\$ 0.48	\$ 0.50	\$ 1.40	\$ 1.43
<b>Average Common Shares Outstanding:</b>				
Basic	6,132,288	6,165,268	6,146,349	5,926,599
Diluted	6,151,750	6,195,972	6,171,243	5,960,556

**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 September 30			As of and for the Nine Months Ended September 30		
	2007	2006	Change	2007	2006	Change
<b>EARNINGS</b>						
Interest income	\$ 12,293	\$ 12,151	1.2%	\$ 36,297	\$ 33,145	9.5%
Interest expense	4,947	4,645	6.5	14,528	11,909	22.0
Net interest income	7,346	7,506	(2.1)	21,769	21,236	2.5
Provision for loan losses	-	125	(100.0)	303	605	(49.9)
Noninterest income	2,276	2,138	6.5	6,919	6,306	9.7
Noninterest expense	5,379	5,117	5.1	15,997	14,856	7.7
Income taxes	1,309	1,301	0.6	3,719	3,572	4.1
Net income	2,934	3,101	(5.4)	8,669	8,509	1.9
<b>PER COMMON SHARE</b>						
Earnings per share - basic	\$ 0.48	\$ 0.50	(4.0)%	\$ 1.41	\$ 1.44	(2.1)%
Earnings per share - diluted	0.48	0.50	(4.0)	1.40	1.43	(2.1)
Cash dividends declared	0.23	0.22	4.5	0.68	0.65	4.6
Book value per share	16.23	15.39	5.5	16.23	15.39	5.5
Book value per share - tangible (a)	12.14	11.27	7.7	12.14	11.27	7.7
Closing market price	22.22	23.68	(6.2)	22.22	23.68	(6.2)
<b>FINANCIAL RATIOS</b>						
Return on average assets	1.52%	1.56%	(4)bp	1.49%	1.50%	(1)bp
Return on average equity	11.98	13.24	(126)	11.92	12.67	(75)
Return on average tangible equity (b)	16.46	18.75	(229)	16.46	16.12	34
Average equity to average assets	12.68	11.76	92	12.53	11.85	68
Net interest margin (FTE)	4.27	4.26	1	4.22	4.17	5
Efficiency ratio	56.42	53.35	307	56.27	53.74	253
<b>PERIOD END BALANCES</b>						
Securities	\$ 148,279	\$ 169,669	(12.6)	\$ 148,279	\$ 169,669	(12.6)%
Loans held for sale	375	1,158	(67.6)	375	1,158	(67.6)
Loans, net of unearned income	554,002	549,229	0.9	554,002	549,229	0.9
Goodwill and other intangibles	25,014	25,426	(1.6)	25,014	25,426	(1.6)
Assets	767,554	792,634	(3.2)	767,554	792,634	(3.2)
Assets - tangible (a)	742,540	767,208	(3.2)	742,540	767,208	(3.2)
Deposits	586,154	603,190	(2.8)	586,154	603,190	(2.8)
Repurchase agreements	48,665	37,152	31.0	48,665	37,152	31.0
FHLB borrowings	8,975	32,500	(72.4)	8,975	32,500	(72.4)
Trust preferred capital notes	20,619	20,619	N/A	20,619	20,619	N/A
Shareholders' equity	99,334	94,888	4.7	99,334	94,888	4.7
Shareholders' equity - tangible (a)	74,320	69,462	7.0	74,320	69,462	7.0
<b>AVERAGE BALANCES</b>						
Securities	\$ 141,296	\$ 175,050	(19.3)%	\$ 147,069	\$ 177,927	(17.3)%
Total loans	549,405	545,991	0.6	547,978	509,866	7.5
Interest earning assets	708,794	729,551	(2.8)	709,807	702,881	1.0
Goodwill and other intangibles	25,052	25,505	(1.8)	25,146	17,382	44.7
Assets	772,060	796,446	(3.1)	773,784	755,301	2.4
Assets - tangible (a)	747,008	770,941	(3.1)	748,638	737,919	1.5
Interest bearing deposits	487,427	509,483	(4.3)	489,496	486,706	0.6
Deposits	590,904	616,547	(4.2)	591,445	588,883	0.4
Repurchase agreements	48,427	42,670	13.5	46,912	41,683	12.5
Other borrowings	29,932	38,114	(21.5)	33,487	31,476	6.4
Shareholders' equity	97,927	93,647	4.6	96,961	89,531	8.3
Shareholders' equity - tangible (a)	72,875	68,142	6.9	71,815	72,149	(0.5)
<b>CAPITAL</b>						
Average shares outstanding - basic	6,132,288	6,165,268	(0.5)%	6,146,349	5,926,599	3.7%
Average shares outstanding - diluted	6,151,750	6,195,972	(0.7)	6,171,243	5,960,556	3.5
Shares repurchased	28,900	3,000	863.3	53,200	34,200	55.6
Average price of shares repurchased	\$ 21.19	\$ 23.35	(9.3)	\$ 21.97	\$ 23.29	(5.7)
<b>ALLOWANCE FOR LOAN LOSSES</b>						
Beginning balance	\$ 7,493	\$ 8,208	(8.7)%	\$ 7,264	\$ 6,109	18.9%

Allowance acquired in merger	-	-	-	-	1,598	N/A
Provision for loan losses	-	125	(100.0)	303	605	(49.9)
Charge-offs	(227)	(239)	(5.0)	(431)	(465)	(7.3)
Recoveries	68	76	(10.5)	198	323	(38.7)
Ending balance	\$ 7,334	\$ 8,170	(10.2)	\$ 7,334	\$ 8,170	(10.2)

#### NONPERFORMING ASSETS

##### Nonperforming loans:

90 days past due	\$ 157	\$ 1,276	(87.7)	\$ 157	\$ 1,276	(87.7)%
Nonaccrual	2,454	4,345	(43.5)	2,454	4,345	(43.5)
Foreclosed real estate	632	312	102.6	632	312	102.6
Nonperforming assets	\$ 3,243	\$ 5,933	(45.3)	\$ 3,243	\$ 5,933	(45.3)

#### ASSET QUALITY RATIOS

Net chargeoffs (recoveries) to average loans	0.12%	0.12%	0 bp	0.06%	0.04%	2bp
Nonperforming assets to total assets (c)	0.42	0.75	(33)	0.42	0.75	(33)
Nonperforming loans to total loans (c)	0.47	1.02	(55)	0.47	1.02	(55)
Allowance for loan losses to total loans (c)	1.32	1.49	(17)	1.32	1.49	(17)
Allowance for loan losses to nonperforming loans (c)	2.81X	1.45X	136	2.81X	1.45X	136

#### 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 September 30, 2007 and 2006  
(in thousands, except yields and rates)  
(Unaudited)

	Average Balance		Interest Income/Expense		Yield/Rate	
	2007	2006	2007	2006	2007	2006
<b>Loans:</b>						
Commercial	\$ 89,531	\$ 86,944	\$ 1,774	\$ 1,715	7.93%	7.89%
Real estate	449,172	445,943	8,496	8,221	7.57	7.37
Consumer	10,702	13,104	253	297	9.46	9.07
Total loans	549,405	545,991	10,523	10,233	7.66	7.50
<b>Securities:</b>						
Federal agencies	64,738	96,205	732	990	4.52	4.12
Mortgage-backed	24,489	21,426	304	252	4.97	4.70
State and municipal	45,414	46,749	624	667	5.50	5.71
Other	6,655	10,670	97	160	5.83	6.00
Total securities	141,296	175,050	1,757	2,069	4.97	4.73
Deposits in other banks	18,093	8,510	236	112	5.22	5.26
Total interest earning assets	708,794	729,551	12,516	12,414	7.06	6.81
Nonearning assets	63,266	66,895				
Total assets	\$ 772,060	\$ 796,446				
<b>Deposits:</b>						
Demand	\$ 107,259	\$ 109,868	405	445	1.51	1.62
Money market	54,203	49,211	379	321	2.80	2.61
Savings	65,162	77,597	220	267	1.35	1.38
Time	260,803	272,807	3,000	2,666	4.60	3.91
Total deposits	487,427	509,483	4,004	3,699	3.29	2.90
Repurchase agreements	48,427	42,670	478	376	3.95	3.52
Other borrowings	29,932	38,114	465	570	6.21	5.98
Total interest bearing liabilities	565,786	590,267	4,947	4,645	3.50	3.15
Noninterest bearing demand deposits	103,477	107,064				
Other liabilities	4,870	5,468				
Shareholders' equity	97,927	93,647				
Total liabilities and shareholders' equity	\$ 772,060	\$ 796,446				
Interest rate spread					3.56%	3.66%
Net interest margin					4.27%	4.26%
Net interest income (taxable equivalent basis)			7,569	7,769		
Less: Taxable equivalent adjustment			223	263		
Net interest income			\$ 7,346	\$ 7,506		

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

	Average Balance		Interest Income/Expense		Yield/Rate	
	2007	2006	2007	2006	2007	2006
<b>Loans:</b>						
Commercial	\$ 90,117	\$ 86,946	\$ 5,286	\$ 4,749	7.82%	7.28%
Real estate	447,366	410,231	25,025	21,696	7.46	7.05
Consumer	10,495	12,689	742	871	9.43	9.15
Total loans	<u>547,978</u>	<u>509,866</u>	<u>31,053</u>	<u>27,316</u>	<u>7.56</u>	<u>7.14</u>
<b>Securities:</b>						
Federal agencies	71,931	97,630	2,337	2,832	4.33	3.87
Mortgage-backed	21,680	21,614	792	742	4.87	4.58
State and municipal	45,664	47,160	1,886	1,980	5.51	5.60
Other	7,794	11,523	342	473	5.85	5.47
Total securities	<u>147,069</u>	<u>177,927</u>	<u>5,357</u>	<u>6,027</u>	<u>4.86</u>	<u>4.52</u>
Deposits in other banks	<u>14,760</u>	<u>15,088</u>	<u>575</u>	<u>535</u>	<u>5.19</u>	<u>4.73</u>
Total interest earning assets	709,807	702,881	36,985	33,878	6.95	6.43
Nonearning assets	<u>63,977</u>	<u>52,420</u>				
Total assets	<u>\$ 773,784</u>	<u>\$ 755,301</u>				
<b>Deposits:</b>						
Demand	\$ 109,469	\$ 107,051	1,245	1,148	1.52	1.43
Money market	52,881	47,361	1,084	834	2.73	2.35
Savings	67,255	79,874	685	712	1.36	1.19
Time	259,891	252,420	8,633	6,850	4.43	3.62
Total deposits	<u>489,496</u>	<u>486,706</u>	<u>11,647</u>	<u>9,544</u>	<u>3.17</u>	<u>2.61</u>
Repurchase agreements	46,912	41,683	1,353	1,020	3.85	3.26
Other borrowings	33,487	31,476	1,528	1,345	6.08	5.70
Total interest bearing liabilities	<u>569,895</u>	<u>559,865</u>	<u>14,528</u>	<u>11,909</u>	<u>3.40</u>	<u>2.84</u>
Noninterest bearing demand deposits	101,949	102,177				
Other liabilities	4,979	3,728				
Shareholders' equity	<u>96,961</u>	<u>89,531</u>				
Total liabilities and shareholders' equity	<u>\$ 773,784</u>	<u>\$ 755,301</u>				
Interest rate spread					<u>3.55%</u>	<u>3.59%</u>
Net interest margin					<u>4.22%</u>	<u>4.17%</u>
Net interest income (taxable equivalent basis)			22,457	21,969		
Less: Taxable equivalent adjustment			688	733		
Net interest income			<u>\$ 21,769</u>	<u>\$ 21,236</u>		