

**American National Bankshares Inc. and Subsidiaries**  
**Consolidated Balance Sheets**  
*(Dollars in thousands, except share data)*  
Unaudited

ASSETS	June 30	
	2008	2007
Cash and due from banks	\$ 20,082	\$ 21,735
Interest-bearing deposits in other banks	8,265	17,053
Securities available for sale, at fair value	136,632	121,083
Securities held to maturity	9,828	13,148
Total securities	<u>146,460</u>	<u>134,231</u>
Loans held for sale	2,200	2,306
Loans, net of unearned income	568,830	551,744
Less allowance for loan losses	(7,932)	(7,493)
Net Loans	<u>560,898</u>	<u>544,251</u>
Premises and equipment, net	13,659	12,899
Goodwill	22,468	22,468
Core deposit intangibles, net	2,264	2,641
Accrued interest receivable and other assets	14,399	13,553
Total assets	<u>\$ 790,695</u>	<u>\$ 771,137</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Liabilities:		
Demand deposits -- noninterest-bearing	\$ 98,005	\$ 107,206
Demand deposits -- interest-bearing	105,809	110,482
Money market deposits	52,772	50,749
Savings deposits	61,469	66,948
Time deposits	251,189	260,359
Total deposits	<u>569,244</u>	<u>595,744</u>
Repurchase agreements	57,973	43,615
FHLB borrowings	37,488	10,012
Trust preferred capital notes	20,619	20,619
Accrued interest payable and other liabilities	3,475	3,898
Total liabilities	<u>688,799</u>	<u>673,888</u>
Shareholders' equity:		
Common stock, \$1 par, 10,000,000 shares authorized, 6,097,862 shares outstanding at June 30, 2008 and 6,145,617 shares outstanding at June 30, 2007	6,098	6,146
Capital in excess of par value	26,463	26,422
Retained earnings	70,233	67,122
Accumulated other comprehensive income (loss), net	(898)	(2,441)
Total shareholders' equity	<u>101,896</u>	<u>97,249</u>
Total liabilities and shareholders' equity	<u>\$ 790,695</u>	<u>\$ 771,137</u>

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

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

Unaudited

	Three Months Ended June 30		Six Months Ended June 30	
	2008	2007	2008	2007
<b>Interest and Dividend Income:</b>				
Interest and fees on loans	\$ 8,987	\$ 10,408	\$ 18,431	\$ 20,487
Interest and dividends on securities:				
Taxable	1,234	1,028	2,465	2,164
Tax-exempt	420	420	852	843
Dividends	73	82	150	171
Other interest income	74	168	150	339
Total interest and dividend income	<u>10,788</u>	<u>12,106</u>	<u>22,048</u>	<u>24,004</u>
<b>Interest Expense:</b>				
Interest on deposits	3,116	3,860	6,698	7,643
Interest on repurchase agreements	339	449	790	875
Interest on other borrowings	259	170	418	376
Interest on trust preferred capital notes	344	344	687	687
Total interest expense	<u>4,058</u>	<u>4,823</u>	<u>8,593</u>	<u>9,581</u>
<b>Net Interest Income</b>	6,730	7,283	13,455	14,423
Provision for loan losses	600	-	740	303
<b>Net Interest Income After Provision for Loan Losses</b>	<u>6,130</u>	<u>7,283</u>	<u>12,715</u>	<u>14,120</u>
<b>Noninterest Income:</b>				
Trust fees	916	924	1,796	1,803
Service charges on deposit accounts	601	625	1,166	1,247
Other fees and commissions	226	198	429	398
Mortgage banking income	200	329	395	519
Brokerage fees	101	159	244	248
Securities gains (losses), net	(138)	64	(108)	89
Impairment of securities	(255)	-	(255)	-
Other	190	132	309	339
Total noninterest income	<u>1,841</u>	<u>2,431</u>	<u>3,976</u>	<u>4,643</u>
<b>Noninterest Expense:</b>				
Salaries	2,481	2,514	4,950	4,904
Employee benefits	777	737	1,524	1,385
Occupancy and equipment	928	850	1,894	1,679
Bank franchise tax	173	165	350	333
Core deposit intangible amortization	95	95	189	189
Other	1,189	1,087	2,185	2,128
Total noninterest expense	<u>5,643</u>	<u>5,448</u>	<u>11,092</u>	<u>10,618</u>
Income Before Income Taxes	2,328	4,266	5,599	8,145
Income Taxes	519	1,235	1,485	2,410
<b>Net Income</b>	<u>\$ 1,809</u>	<u>\$ 3,031</u>	<u>\$ 4,114</u>	<u>\$ 5,735</u>
<b>Net Income Per Common Share:</b>				
Basic	\$ 0.30	\$ 0.49	\$ 0.67	\$ 0.93
Diluted	\$ 0.30	\$ 0.49	\$ 0.67	\$ 0.93
<b>Average Common Shares Outstanding:</b>				
Basic	6,098,184	6,150,216	6,103,008	6,153,496
Diluted	6,108,536	6,177,165	6,114,911	6,181,107

**Financial Highlights**  
**American National Bankshares Inc. and Subsidiaries**  
(Dollars in thousands, except share data, unaudited)

	2nd Qtr 2008	1st Qtr 2008	2nd Qtr 2007	YTD 2008	YTD 2007
<b>EARNINGS</b>					
Interest income	\$ 10,788	\$ 11,260	\$ 12,106	\$ 22,048	\$ 24,004
Interest expense	4,058	4,535	4,823	8,593	9,581
Net interest income	6,730	6,725	7,283	13,455	14,423
Provision for loan losses	600	140	-	740	303
Noninterest income	1,841	2,135	2,431	3,976	4,643
Noninterest expense	5,643	5,449	5,448	11,092	10,618
Income taxes	519	966	1,235	1,485	2,410
Net income	1,809	2,305	3,031	4,114	5,735
<b>PER COMMON SHARE</b>					
Earnings per share - basic	\$ 0.30	\$ 0.38	\$ 0.49	\$ 0.67	\$ 0.93
Earnings per share - diluted	0.30	0.38	0.49	0.67	0.93
Cash dividends declared	0.23	0.23	0.23	0.46	0.45
Book value per share	16.71	16.86	15.82	16.71	15.82
Book value per share - tangible (a)	12.65	12.79	11.74	12.65	11.74
Closing market price	18.25	21.26	22.50	18.25	22.50
<b>FINANCIAL RATIOS</b>					
Return on average assets	0.92 %	1.18 %	1.57 %	1.05 %	1.48 %
Return on average equity	7.06	9.01	12.47	8.03	11.89
Return on average tangible equity (b)	9.69	12.24	17.20	10.96	16.47
Average equity to average assets	12.99	13.12	12.61	13.05	12.45
Net interest margin, taxable equivalent	3.83	3.88	4.26	3.86	4.19
Efficiency ratio	61.40	60.09	55.18	60.75	54.65
Effective tax rate	22.29	29.53	28.95	26.52	29.59
<b>PERIOD END BALANCES</b>					
Securities	\$ 146,460	\$ 160,675	\$ 134,231	\$ 146,460	\$ 134,231
Loans held for sale	2,200	1,681	2,306	2,200	2,306
Loans, net of unearned income	568,830	554,667	551,744	568,830	551,744
Goodwill and other intangibles	24,732	24,826	25,109	24,732	25,109
Assets	790,695	785,049	771,137	790,695	771,137
Assets - tangible (a)	765,963	760,223	746,028	765,963	746,028
Deposits	569,244	581,539	595,744	569,244	595,744
Repurchase agreements	57,973	58,179	43,615	57,973	43,615
Borrowings	58,107	36,744	30,631	58,107	30,631
Shareholders' equity	101,896	102,873	97,249	101,896	97,249
Shareholders' equity - tangible (a)	77,164	78,047	72,140	77,164	72,140
<b>AVERAGE BALANCES</b>					
Securities	\$ 150,247	\$ 151,699	\$ 143,106	\$ 150,973	\$ 150,004
Loans held for sale	2,206	1,614	2,890	1,910	2,113
Loans, net of unearned income	564,769	553,971	547,420	559,370	545,140
Interest-earning assets	725,789	717,508	706,285	721,741	710,321
Goodwill and other intangibles	24,785	24,864	25,146	24,825	25,193
Assets	789,412	780,204	770,710	784,772	774,667
Assets - tangible (a)	764,627	755,340	745,564	759,947	749,474
Interest-bearing deposits	476,207	486,198	487,322	481,203	490,546
Deposits	576,167	583,410	588,346	579,789	591,723
Repurchase agreements	53,535	54,624	46,032	54,079	46,142
Borrowings	52,012	33,870	33,884	42,941	35,294
Shareholders' equity	102,511	102,342	97,183	102,410	96,434
Shareholders' equity - tangible (a)	77,726	77,478	72,037	77,585	71,241
<b>CAPITAL</b>					
Average shares outstanding - basic	6,098,184	6,107,832	6,150,216	6,103,008	6,153,496
Average shares outstanding - diluted	6,108,536	6,121,285	6,177,165	6,114,911	6,181,107
Shares repurchased	2,400	28,800	12,700	31,200	24,300
Average price of shares repurchased	\$ 21.43	\$ 20.80	\$ 22.66	\$ 20.85	\$ 22.89

**Financial Highlights**  
**American National Bankshares Inc. and Subsidiaries**  
(Dollars in thousands, except per share data, unaudited)

	2nd Qtr 2008	1st Qtr 2008	2nd Qtr 2007	YTD 2008	YTD 2007
<b>LOANS</b>					
Construction and land development	\$ 66,740	\$ 72,001	\$ 73,596	\$ 66,740	\$ 73,596
Commercial real estate	201,102	198,698	196,426	201,102	196,426
Residential real estate	140,024	138,384	129,032	140,024	129,032
Home equity	52,773	48,958	48,136	52,773	48,136
Commercial and industrial	99,603	87,199	93,763	99,603	93,763
Consumer	8,588	9,427	10,791	8,588	10,791
Total	\$ 568,830	\$ 554,667	\$ 551,744	\$ 568,830	\$ 551,744

<b>ALLOWANCE FOR LOAN LOSSES</b>					
Beginning balance	\$ 7,425	\$ 7,395	\$ 7,590	\$ 7,395	\$ 7,264
Provision for loan losses	600	140	-	740	303
Charge-offs	(203)	(170)	(155)	(373)	(204)
Recoveries	110	60	58	170	130
Ending balance	\$ 7,932	\$ 7,425	\$ 7,493	\$ 7,932	\$ 7,493

<b>NONPERFORMING ASSETS AT PERIOD-END</b>					
Nonperforming loans:					
90 days past due	\$ 172	\$ -	\$ -	\$ 172	\$ -
Nonaccrual	6,216	2,772	3,192	6,216	3,192
Foreclosed real estate	558	550	85	558	85
Nonperforming assets	\$ 6,946	\$ 3,322	\$ 3,277	\$ 6,946	\$ 3,277

<b>ASSET QUALITY RATIOS</b>					
Net chargeoffs (recoveries) to average loans	0.07 %	0.08 %	0.07 %	0.07 %	0.03%
Nonperforming assets to total assets (c)	0.88	0.42	0.42	0.88	0.42
Nonperforming loans to total loans (c)	1.12	0.50	0.58	1.12	0.58
Allowance for loan losses to total loans (c)	1.39	1.34	1.36	1.39	1.36
Allowance for loan losses to nonperforming loans (c)	1.24 X	2.68 X	2.35 X	1.24 X	2.35 X

<b>OTHER DATA</b>					
Fiduciary assets at period-end (d)	\$ 377,008	\$ 386,375	\$ 406,135	\$ 377,008	\$ 406,135
Retail brokerage assets at period-end (d)	\$ 94,472	\$ 89,927	\$ 89,684	\$ 94,472	\$ 89,684
Number full time-time equivalent employees	261	258	257	261	257
Number of full service offices	20	19	19	20	19
Number of loan production offices	1	1	1	1	1
Number of ATM's	23	23	23	23	23

<b>Notes:</b>					
(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					
(d) - Market value					

**Net Interest Income Analysis**  
For the Three Months Ended June 30, 2008 and 2007  
(in thousands, except rates)

	Average Balance		Interest Income/Expense		Yield/Rate	
	2008	2007	2008	2007	2008	2007
<b>Loans:</b>						
Commercial	\$ 90,648	\$ 91,852	\$ 1,342	\$ 1,819	5.92%	7.92%
Real estate	467,424	448,024	7,468	8,364	6.39	7.47
Consumer	8,903	10,434	197	247	8.85	9.47
Total loans	<u>566,975</u>	<u>550,310</u>	<u>9,007</u>	<u>10,430</u>	<u>6.35</u>	<u>7.58</u>
<b>Securities:</b>						
Federal agencies	45,708	68,991	551	748	4.82	4.34
Mortgage-backed & CMO's	50,357	20,501	642	247	5.10	4.82
State and municipal	47,201	45,623	652	628	5.53	5.51
Other	6,981	7,991	90	116	5.16	5.81
Total securities	<u>150,247</u>	<u>143,106</u>	<u>1,935</u>	<u>1,739</u>	<u>5.15</u>	<u>4.86</u>
Deposits in other banks	<u>8,567</u>	<u>12,869</u>	<u>74</u>	<u>168</u>	<u>3.46</u>	<u>5.22</u>
Total interest-earning assets	<u>725,789</u>	<u>706,285</u>	<u>11,016</u>	<u>12,337</u>	<u>6.07</u>	<u>6.99</u>
Non-earning assets	<u>63,623</u>	<u>64,425</u>				
Total assets	<u>\$ 789,412</u>	<u>\$ 770,710</u>				
<b>Deposits:</b>						
Demand	\$ 107,154	\$ 111,064	160	416	0.60	1.50
Money market	51,124	52,279	239	356	1.87	2.72
Savings	62,648	67,716	84	230	0.54	1.36
Time	255,281	256,263	2,633	2,858	4.13	4.46
Total deposits	<u>476,207</u>	<u>487,322</u>	<u>3,116</u>	<u>3,860</u>	<u>2.62</u>	<u>3.17</u>
Repurchase agreements	53,535	46,032	339	449	2.53	3.90
Other borrowings	52,012	33,884	603	514	4.64	6.07
Total interest-bearing liabilities	<u>581,754</u>	<u>567,238</u>	<u>4,058</u>	<u>4,823</u>	<u>2.79</u>	<u>3.40</u>
Noninterest bearing demand deposits	99,960	101,024				
Other liabilities	5,187	5,265				
Shareholders' equity	<u>102,511</u>	<u>97,183</u>				
Total liabilities and shareholders' equity	<u>\$ 789,412</u>	<u>\$ 770,710</u>				
Interest rate spread					<u>3.28%</u>	<u>3.59%</u>
Net interest margin					<u>3.83%</u>	<u>4.26%</u>
Net interest income (taxable equivalent basis)			6,958	7,514		
Less: Taxable equivalent adjustment			228	231		
Net interest income			<u>\$ 6,730</u>	<u>\$ 7,283</u>		

**Net Interest Income Analysis**  
For the Six Months Ended June 30, 2008 and 2007  
(in thousands, except rates)

	Average Balance		Interest Income/Expense		Yield/Rate	
	2008	2007	2008	2007	2008	2007
<b>Loans:</b>						
Commercial	\$ 88,140	\$ 90,415	\$ 2,796	\$ 3,512	6.34%	7.77%
Real estate	463,927	446,448	15,257	16,529	6.58	7.40
Consumer	9,213	10,390	414	489	8.99	9.41
Total loans	<u>561,280</u>	<u>547,253</u>	<u>18,467</u>	<u>20,530</u>	<u>6.58</u>	<u>7.50</u>
<b>Securities:</b>						
Federal agencies	47,886	75,587	1,148	1,605	4.79	4.25
Mortgage-backed & CMO's	48,881	20,253	1,245	488	5.09	4.82
State and municipal	47,524	45,792	1,308	1,262	5.50	5.51
Other	6,682	8,372	189	245	5.66	5.85
Total securities	<u>150,973</u>	<u>150,004</u>	<u>3,890</u>	<u>3,600</u>	<u>5.15</u>	<u>4.80</u>
Deposits in other banks	<u>9,488</u>	<u>13,064</u>	<u>150</u>	<u>339</u>	<u>3.16</u>	<u>5.19</u>
Total interest-earning assets	<u>721,741</u>	<u>710,321</u>	<u>22,507</u>	<u>24,469</u>	<u>6.24</u>	<u>6.89</u>
Non-earning assets	<u>63,031</u>	<u>64,346</u>				
Total assets	<u>\$ 784,772</u>	<u>\$ 774,667</u>				
<b>Deposits:</b>						
Demand	\$ 107,574	\$ 110,592	385	840	0.72	1.52
Money market	51,222	52,210	533	705	2.08	2.70
Savings	62,916	68,318	200	465	0.64	1.36
Time	259,491	259,426	5,580	5,633	4.30	4.34
Total deposits	<u>481,203</u>	<u>490,546</u>	<u>6,698</u>	<u>7,643</u>	<u>2.78</u>	<u>3.12</u>
Repurchase agreements	54,079	46,142	790	875	2.92	3.79
Other borrowings	42,941	35,294	1,105	1,063	5.15	6.02
Total interest-bearing liabilities	<u>578,223</u>	<u>571,982</u>	<u>8,593</u>	<u>9,581</u>	<u>2.97</u>	<u>3.35</u>
Noninterest bearing demand deposits	98,586	101,177				
Other liabilities	5,553	5,074				
Shareholders' equity	<u>102,410</u>	<u>96,434</u>				
Total liabilities and shareholders' equity	<u>\$ 784,772</u>	<u>\$ 774,667</u>				
Interest rate spread					<u>3.27%</u>	<u>3.54%</u>
Net interest margin					<u>3.86%</u>	<u>4.19%</u>
Net interest income (taxable equivalent basis)			13,914	14,888		
Less: Taxable equivalent adjustment			459	465		
Net interest income			<u>\$ 13,455</u>	<u>\$ 14,423</u>		