CHINA EASTERN AIRLINES CORP LTD
Form 6-K
July 23, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16

under the Securities Exchange Act of 1934

For the month of July 2015

Commission File Number: 001-14550

China Eastern Airlines Corporation Limited

(Translation of Registrant's name into English)

Board Secretariat's Office

Kong Gang San Lu, Number 88

Shanghai, China 200335

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F: x Form 20-F   ¨ Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): ¨

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): ¨

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934: ¨ Yes   x No

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): n/a

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.

	China Eastern Airlines Corporation Limited
	(Registrant)
Date July 23, 2015	**By** **/s/** Wang Jian
	Name: Wang Jian
	Title: Joint Company Secretary

Certain statements contained in this announcement may be regarded as "forward-looking statements" within the meaning of the U.S. Securities Exchange Act of 1934, as amended. Such forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the actual performance, financial condition or results of operations of the Company to be materially different from any future performance, financial condition or results of operations implied by such forward-looking statements. Further information regarding these risks, uncertainties and other factors is included in the Company's filings with the U.S. Securities and Exchange Commission. The forward-looking statements included in this announcement represent the Company's views as of the date of this announcement. While the Company anticipates that subsequent events and developments may cause the Company's views to change, the Company specifically disclaims any obligation to update these forward-looking statements, unless required by applicable laws. These forward-looking statements should not be relied upon as representing the Company's views as of any date subsequent to the date of this announcement.

TRADING HALT

At the request of China Eastern Airlines Corporation Limited (the "**Company**"), trading in the H shares of the Company and debt securities of the Company (stock codes: 85926 and 85953) on The Stock Exchange of Hong Kong Limited is halted with effect from 9:00 a.m. on Thursday, 23 July 2015 pending the release of an announcement in relation to inside information of the Company.

By order of the Board

CHINA EASTERN AIRLINES CORPORATION LIMITED Wang Jian

Joint Company Secretary

Shanghai, the People's Republic of China

23 July 2015

As at the date of this announcement, the directors of the Company include Liu Shaoyong (Chairman), Ma Xulun (Vice Chairman, President), Xu Zhao (Director), Gu Jiadan (Director),Li Yangmin (Director, Vice President), Tang Bing (Director, Vice President), Tian Liuwen (Director, Vice President), Ji Weidong (Independent non-executive Director), Li Ruoshan (Independent non-executive Director), Ma Weihua (Independent non-executive Director) and Shao Ruiqing (Independent non-executive Director).

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4,988

1,131,308

Acquired impaired loans
416

12,570

15,667

16

28,669

Total
$
208,717

$
625,218

$
325,855

$
5,031

$
1,164,821

The allowance for loan losses is allocated to loan segments based upon historical loss factors, risk grades on individual loans, portfolio analysis of smaller balance homogenous loans, and qualitative factors. Qualitative factors include trends in delinquencies, nonaccrual loans, and loss rates; trends in volume and terms of loans, effects of changes in risk selection, underwriting standards, and lending policies; experience of lending officers, other lending staff and loan review; national, regional, and local economic trends and conditions; legal, regulatory and collateral factors; and concentrations of credit.

Note 5 – Goodwill and Other Intangible Assets

The Company records as goodwill the excess of the purchase price over the fair value of the identifiable net assets acquired. Impairment testing is performed annually, as well as when an event triggering impairment may have occurred. The Company performs its annual analysis as of June 30 each fiscal year. Accounting guidance permits preliminary assessment of qualitative factors to determine whether more substantial impairment testing is required. The Company chose to bypass the preliminary assessment and utilized a two-step process for impairment testing of goodwill. The first step tests for impairment, while the second step, if necessary, measures the impairment. No indicators of impairment were identified as of June 30, 2017.

Core deposit intangibles resulting from the acquisition of MidCarolina Financial Corporation ("MidCarolina") in July 2011 were $6,556,000 and are being amortized on an accelerated basis over 108 months. Core deposit intangibles resulting from the acquisition of MainStreet BankShares, Inc. ("MainStreet") in January 2015 were $1,839,000 and are being amortized on an accelerated basis over 120 months.

The changes in the carrying amount of goodwill and intangibles for the nine months ended September 30, 2017, are as follows (dollars in thousands):

	Goodwill	Intangibles
Balance at December 31, 2016	$ 43,872	$ 1,719
Additions	—	—
Amortization	—	(448)
Impairment	—	—
Balance at September 30, 2017	$ 43,872	$ 1,271

Note 6 – Short-term Borrowings

Short-term borrowings consist of customer repurchase agreements, overnight borrowings from the FHLB, and Federal Funds purchased. The Company has federal funds lines of credit established with two correspondent banks in the amounts of $15,000,000, each, and, additionally, has access to the FRB's discount window. Customer repurchase agreements are collateralized by securities of the U.S. Government or its agencies or GSEs. They mature daily. The interest rates may be changed at the discretion of the Company. The securities underlying these agreements remain under the Company's control. FHLB overnight borrowings contain floating interest rates that may change daily at the discretion of the FHLB. Federal funds purchased are unsecured overnight borrowings from other financial institutions. Short-term borrowings consisted of the following at September 30, 2017 and December 31, 2016 (dollars in thousands):

	September 30, 2017	December 31, 2016
Customer repurchase agreements	$ 43,240	$ 39,166
Other short-term borrowings	—	20,000
	$ 43,240	$ 59,166

Note 7 – Long-term Borrowings

Under the terms of its collateral agreement with the FHLB, the Company provides a blanket lien covering all of its residential first mortgage loans, second mortgage loans, home equity lines of credit, and commercial real estate loans. In addition, the Company pledges as collateral its capital stock in the FHLB and deposits with the FHLB. The Company has a line of credit with the FHLB equal to 30% of the Company's assets, subject to the amount of collateral pledged. As of September 30, 2017, $508,165,000 in eligible collateral was pledged under the blanket floating lien agreement which covers both short-term and long-term borrowings.

Long-term borrowings consisted of the following fixed rate, long-term advances as of September 30, 2017 and December 31, 2016 (dollars in thousands):

September 30, 2017			December 31, 2016		
Due by	Advance Amount	Weighted Average Rate	Due by	Advance Amount	Weighted Average Rate
November 30, 2017	$ 9,996	2.98 %	November 30, 2017	$ 9,980	2.98 %

The advance due in November 2017 is net of a fair value discount of $4,000. The original discount recorded on July 1, 2011, was a result of the merger with MidCarolina. The adjustment to the face value is being amortized into interest expense over the life of the borrowing. There were no long-term borrowings acquired in the MainStreet acquisition and no borrowings were incurred to fund the acquisition.

In the regular course of conducting its business, the Company takes deposits from political subdivisions of the states of Virginia and North Carolina. At September 30, 2017, the Bank's public deposits totaled $221,018,000. The Company is required to provide collateral to secure the deposits that exceed the insurance coverage provided by the Federal Deposit Insurance Corporation. This collateral can be provided in the form of certain types of government or agency bonds or letters of credit from the FHLB. At September 30, 2017, the Company had $190,700,000 in letters of credit with the FHLB outstanding, as well as $68,756,000 in agency, state, and municipal securities pledged to provide collateral for such deposits.

Note 8 – Junior Subordinated Debt

On April 7, 2006, AMNB Statutory Trust I, a Delaware statutory trust and a wholly owned unconsolidated subsidiary of the Company, issued $20,000,000 of preferred securities (the "Trust Preferred Securities") in a private placement pursuant to an applicable exemption from registration. The Trust Preferred Securities mature on June 30, 2036, but may be redeemed at the Company's option beginning on September 30, 2011. Distributions are cumulative and will accrue from the date of original issuance, but may be deferred by the Company from time to time for up to 20 consecutive quarterly periods. The Company has guaranteed the payment of all required distributions on the Trust Preferred Securities. The proceeds of the Trust Preferred Securities received by the trust, along with proceeds of $619,000 received by the trust from the issuance of common securities by the trust to the Company, were used to purchase $20,619,000 of the Company's junior subordinated debt securities (the "Junior Subordinated Debt"), issued pursuant to junior subordinated debentures entered into between the Company and Wilmington Trust Company, as trustee. The proceeds of the Junior Subordinated Debt were used to fund the cash portion of the merger consideration to the former shareholders of Community First Financial Corporation in connection with the Company's acquisition of that company in 2006, and for general corporate purposes.

On July 1, 2011, in connection with the MidCarolina merger, the Company assumed $8,764,000 in junior subordinated debt to MidCarolina Trust I and MidCarolina Trust II, two separate Delaware statutory trusts (the "MidCarolina Trusts"), to fully and unconditionally guarantee the preferred securities issued by the MidCarolina Trusts. These long-term obligations, which currently qualify as Tier 1 capital, constitute a full and unconditional guarantee by the Company of the MidCarolina Trusts' obligations. The MidCarolina Trusts were not consolidated in the Company's financial statements.

In accordance with ASC 810-10-15-14, "Consolidation - Overall - Scope and Scope Exceptions," the Company did not eliminate through consolidation the Company's $619,000 equity investment in AMNB Statutory Trust I or the $264,000 equity investment in the MidCarolina Trusts. Instead, the Company reflected this equity investment in the "Accrued interest receivable and other assets" line item in the consolidated balance sheets.

A description of the junior subordinated debt securities outstanding payable to the trusts is shown below as of September 30, 2017 and December 31, 2016 (dollars in thousands):

Issuing Entity	Date Issued	Interest Rate	Maturity Date	Principal Amount September 30, 2017	Principal Amount December 31, 2016
AMNB Trust I	4/7/2006	Libor plus 1.35%	6/30/2036	$20,619	$ 20,619
MidCarolina Trust I	10/29/2002	Libor plus 3.45%	11/7/2032	4,307	4,265
MidCarolina Trust II	12/3/2003	Libor plus 2.95%	10/7/2033	2,874	2,840
				$27,800	$ 27,724

The principal amounts reflected above for the MidCarolina Trusts are net of fair value adjustments of $1,583,000 and $1,659,000 at September 30, 2017 and December 31, 2016, respectively. The original fair value adjustments of $1,197,000 and $1,021,000 were recorded as a result of the acquisition of MidCarolina on July 1, 2011, and are being amortized into interest expense over the remaining lives of the respective borrowings.

Note 9 – Stock Based Compensation

The Company's 2008 Stock Incentive Plan ("2008 Plan") was adopted by the Board of Directors of the Company on February 19, 2008, and approved by shareholders on April 22, 2008, at the Company's 2008 Annual Meeting of Shareholders. The 2008 Plan provides for the granting of restricted stock awards and incentive and non-statutory options to employees and directors on a periodic basis, at the discretion of the Board of Directors or a Board designated committee. The 2008 Plan authorizes the issuance of up to 500,000 shares of common stock. The 2008 Plan replaced the Company's stock option plan that was approved by the shareholders at the 1997 Annual Meeting, which expired in 2006.

Stock Options

Accounting guidance requires that compensation cost relating to share-based payment transactions be recognized in the financial statements with measurement based upon the fair value of the equity or liability instruments issued.

A summary of stock option transactions for the nine months ended September 30, 2017 is as follows:

	Option Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value ($000)
Outstanding at December 31, 2016	58,411	$ 24.37		
Acquired in acquisition	—	—		
Granted	—	—		
Exercised	(4,950)	22.93		
Forfeited	(578)	23.33		
Expired	(1,320)	41.67		
Outstanding at September 30, 2017	51,563	$ 24.08	1.04 years	$ 883
Exercisable at September 30, 2017	51,563	$ 24.08	1.04 years	$ 883

The fair value of options is estimated at the date of grant using the Black-Scholes option pricing model and expensed over the options' vesting period. No stock options have been granted since 2009. As of September 30, 2017, there were no unrecognized compensation expenses related to nonvested stock option grants.

Restricted Stock

The Company from time-to-time grants shares of restricted stock to key employees and non-employee directors. These awards help align the interests of these employees and directors with the interests of the shareholders of the Company by providing economic value directly related to increases in the value of the Company's common stock. The value of the stock awarded is established as the fair value of the stock at the time of the grant. The Company recognizes expense, equal to the total value of such awards, ratably over the vesting period of the stock grants. The majority of the restricted stock granted in 2016 and 2017 cliff vests at the end of a 36 month period beginning on the date of the grant. The remainder vests a third each year beginning on the date of the grant. Nonvested restricted stock activity for the nine months ended September 30, 2017 is summarized in the following table.

Restricted Stock	Shares	Weighted Average Grant Date Value
Nonvested at December 31, 2016	50,822	$ 23.21
Granted	14,453	34.74
Vested	(17,744)	24.31
Forfeited	—	—
Nonvested at September 30, 2017	47,531	$ 26.31

As of September 30, 2017 and December 31, 2016, there was $651,000 and $568,000, respectively, in unrecognized compensation cost related to nonvested restricted stock granted under the 2008 Plan. The weighted average period over which this cost is expected to be recognized is 1.33 years. The share based compensation expense for nonvested restricted stock was $418,000 and $342,000 during the first nine months of 2017 and 2016, respectively.

Starting in 2010, the Company began offering its outside directors alternatives with respect to director compensation. The regular quarterly board retainer can be received in the form of either (a) $5,800 in cash or (b) shares of immediately vested, but restricted stock with a market value of $6,250. Monthly meeting fees can also be received as $725 per meeting in cash or $900 in immediately vested, but restricted stock. For 2017, all 12 outside directors have elected to receive stock in lieu of cash for either all or part of their monthly retainer board fees. Only outside directors receive board fees. The Company issued 9,891 and 10,588 shares and recognized share based compensation expense of $357,000 and $281,000 during the first nine months of 2017 and 2016, respectively.

Note 10 – Earnings Per Common Share

The following shows the weighted average number of shares used in computing earnings per common share and the effect on weighted average number of shares of potentially dilutive common stock. Potentially dilutive common stock had no effect on income available to common shareholders. Nonvested restricted shares are included in the computation of basic earnings per share as the holder is entitled to full shareholder benefits during the vesting period including voting rights and sharing in nonforfeitable dividends. The following table presents basic and diluted earnings per share for the three and nine month periods ended September 30, 2017 and 2016.

	Three Months Ended September 30,			
	2017		2016	
	Shares	Per Share Amount	Shares	Per Share Amount
Basic earnings per share	8,644,310	$ 0.55	8,608,323	$ 0.46
Effect of dilutive securities - stock options	18,936	—	10,012	—
Diluted earnings per share	8,663,246	$ 0.55	8,618,335	$ 0.46

	Nine Months Ended September 30,			
	2017		2016	
	Shares	Per Share Amount	Shares	Per Share Amount
Basic earnings per share	8,639,433	$ 1.52	8,610,100	$ 1.41
Effect of dilutive securities - stock options	18,458	—	8,286	—
Diluted earnings per share	8,657,891	$ 1.52	8,618,386	$ 1.41

Outstanding stock options on common stock that were not included in computing diluted earnings per share for the nine month periods ended September 30, 2017 and 2016 because their effects were anti-dilutive, averaged 440 and 14,205 shares, respectively.

Note 11 – Employee Benefit Plans

The following information for the nine months ended September 30, 2017 and 2016 pertains to the Company's non-contributory defined benefit pension plan which was frozen in 2009. If lump sum payments exceed the service cost plus interest cost, an additional settlement charge will apply (dollars in thousands):

Components of Net Periodic Benefit Cost	Nine Months Ended September 30,	
	2017	2016
Service cost	$—	$—
Interest cost	178	201
Expected return on plan assets	(264)	(288)
Recognized loss due to settlement	104	—
Recognized net actuarial loss	163	389
Net periodic cost	$181	$302

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Note 12 – Fair Value of Financial Instruments

Determination of Fair Value

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with the fair value measurements and disclosures topic of FASB ASC 820, the fair value of an instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company's various instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

The fair value guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

Fair Value Hierarchy

In accordance with this guidance, the Company groups its financial assets and financial liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

Level 1 –	Valuation is based on quoted prices in active markets for identical assets and liabilities.
Level 2 –	Valuation is based on observable inputs including quoted prices in active markets for similar assets and liabilities, quoted prices for identical or similar assets and liabilities in less active markets, and model-based valuation techniques for which significant assumptions can be derived primarily from or corroborated by observable data in the market.
Level 3 –	Valuation is based on model-based techniques that use one or more significant inputs or assumptions that are unobservable in the market.

The following describes the valuation techniques used by the Company to measure certain financial assets and financial liabilities recorded at fair value on a recurring basis in the financial statements:

Securities available for sale: Securities available for sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted market prices, when available (Level 1). If quoted market prices are not available, fair values are measured utilizing independent valuation techniques of identical or similar securities for which significant assumptions are derived primarily from or corroborated by observable market data. Third party vendors compile prices from various sources and may determine the fair value of identical or similar securities by using pricing models that consider observable market data (Level 2). If no observable market data is available, valuations are based upon third party model based techniques (Level 3). There were no securities recorded with a Level 3 valuation at September 30, 2017 or December 31, 2016.

The following table presents the balances of financial assets measured at fair value on a recurring basis at the dates indicated (dollars in thousands):

	Fair Value Measurements at September 30, 2017 Using			
Description	Balance at September 30, 2017	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Assets:				
Securities available for sale:				
Federal agencies and GSEs	$86,923	$ —	$ 86,923	$ —
Mortgage-backed and CMOs	79,896	—	79,896	—
State and municipal	94,783	—	94,783	—
Corporate	8,344	—	8,344	—
Equity securities	2,259	—	2,259	—
Total	$272,205	$ —	$ 272,205	$ —

	Fair Value Measurements at December 31, 2016 Using			
Description	Balance at December 31, 2016	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Assets:				
Securities available for sale:				
Federal agencies and GSEs	$104,054	$ —	$ 104,054	$ —
Mortgage-backed and CMOs	79,493	—	79,493	—
State and municipal	147,515	—	147,515	—
Corporate	13,492	—	13,492	—
Equity securities	1,948	—	1,498	—
Total	$346,502	$ —	$ 346,052	$ —

Certain assets are measured at fair value on a nonrecurring basis in accordance with GAAP. Adjustments to the fair value of these assets usually result from the application of lower-of-cost-or-market accounting or write-downs of individual assets.

The following describes the valuation techniques used by the Company to measure certain assets recorded at fair value on a nonrecurring basis in the financial statements:

Loans held for sale: Loans held for sale are carried at fair value. These loans currently consist of one-to-four family residential loans originated for sale in the secondary market. Fair value is based on the price secondary markets are currently offering for similar loans using observable market data which is not materially different than cost due to the short duration between origination and sale (Level 2). As such, the Company records any fair value adjustments on a nonrecurring basis. No nonrecurring fair value adjustments were recorded on loans held for sale during the nine month period ended September 30, 2017 or the year ended December 31, 2016. Gains and losses on the sale of loans are recorded within mortgage banking income on the Consolidated Statements of Income.

Impaired loans: Loans are designated as impaired when, in the judgment of management based on current information and events, it is probable that all amounts due according to the contractual terms of the loan agreements will not be collected when due. The measurement of the loss associated with impaired loans can be based on either the observable market price of the loan or the fair value of the collateral. Collateral may be in the form of real estate or business assets including equipment, inventory, and accounts receivable. The vast majority of the Company's collateral is real estate. The value of real estate collateral is determined utilizing a market valuation approach based on an appraisal, of one year or less, conducted by an independent, licensed appraiser using observable market data (Level 2). However, if the collateral is a house or building in the process of construction or if an appraisal of the property is more than one year old and not solely based on observable market comparables or management determines the fair value of the collateral is further impaired below the appraised value, then a Level 3 valuation is considered to measure the fair value. The value of business equipment is based upon an outside appraisal, of one year or less, if deemed significant, or the net book value on the applicable business's financial statements if not considered significant using observable market data. Likewise, values for inventory and accounts receivable collateral are based on financial statement balances or aging reports (Level 3). Impaired loans allocated to the allowance for loan losses are measured at fair value on a nonrecurring basis. Any fair value adjustments are recorded in the period incurred as provision for loan losses on the Consolidated Statements of Income.

OREO: Measurement for fair values for OREO are the same as impaired loans. Any fair value adjustments are recorded in the period incurred as a valuation allowance against other real estate owned with the associated expense included in other real estate owned expense, net on the Consolidated Statements of Income.

The following table summarizes the Company's assets that were measured at fair value on a nonrecurring basis at the dates indicated (dollars in thousands):

	Fair Value Measurements at September 30, 2017 Using			
	Balance at September 30,	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
Description	2017	Level 1	Level 2	Level 3
Assets:				
Loans held for sale	$3,386	$ —	$ 3,386	$ —
Impaired loans, net of valuation allowance	1,311	—	—	1,311
Other real estate owned, net	2,101	—	—	2,101

	Fair Value Measurements at December 31, 2016 Using			
	Balance at December 31,	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
Description	2016	Level 1	Level 2	Level 3
Assets:				
Loans held for sale	$5,996	$ —	$ 5,996	$ —
Impaired loans, net of valuation allowance	2,151	—	—	2,151
Other real estate owned, net	1,328	—	—	1,328

The following tables summarize the Company's quantitative information about Level 3 fair value measurements at the dates indicated:

Quantitative Information About Level 3 Fair Value Measurements at September 30, 2017

Assets	Valuation Technique	Unobservable Input	Weighted Rate
Impaired loans	Discounted appraised value	Selling cost	8 %
Other real estate owned, net	Discounted appraised value	Selling cost	8 %

Quantitative Information About Level 3 Fair Value Measurements at December 31, 2016

Assets	Valuation Technique	Unobservable Input	Weighted Rate
Impaired loans	Discounted appraised value	Selling cost	8 %
Other real estate owned, net	Discounted appraised value	Selling cost	6 %

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ASC 825, "Financial Instruments," requires disclosure about fair value of financial instruments for interim periods and excludes certain financial instruments and all non-financial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Company. The carrying values and estimated fair values of the Company's financial instruments at September 30, 2017 are as follows (dollars in thousands):

	Fair Value Measurements at September 30, 2017 Using				
		Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs	Fair Value
	Carrying Value	Level 1	Level 2	Level 3	Balance
Financial Assets:					
Cash and cash equivalents	$103,220	$103,220	$—	$ —	$103,220
Securities available for sale	272,205	—	272,205	—	272,205
Restricted stock	5,509	—	5,509	—	5,509
Loans held for sale	3,386	—	3,386	—	3,386
Loans, net of allowance	1,281,296	—	—	1,283,535	1,283,535
Bank owned life insurance	18,491	—	18,491	—	18,491
Accrued interest receivable	4,784	—	4,784	—	4,784
Financial Liabilities:					
Deposits	$1,480,205	$—	$1,088,156	$ 388,203	$1,476,359
Repurchase agreements	43,240	—	43,240	—	43,240
Long-term borrowings	9,996	—	—	10,017	10,017
Junior subordinated debt	27,800	—	—	27,771	27,771
Accrued interest payable	662	—	662	—	662

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The carrying values and estimated fair values of the Company's financial instruments at December 31, 2016 are as follows (dollars in thousands):

	Fair Value Measurements at December 31, 2016 Using				
		Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs	Fair Value
	Carrying Value	Level 1	Level 2	Level 3	Balance
Financial Assets:					
Cash and cash equivalents	$53,207	$53,207	$ —	$ —	$53,207
Securities available for sale	346,502	—	346,502	—	346,502
Restricted stock	6,224	—	6,224	—	6,224
Loans held for sale	5,996	—	5,996	—	5,996
Loans, net of allowance	1,152,020	—	—	1,136,961	1,136,961
Bank owned life insurance	18,163	—	18,163	—	18,163
Accrued interest receivable	5,083	—	5,083	—	5,083
Financial Liabilities:					
Deposits	$1,370,640	$—	$ 991,785	$ 374,774	$1,366,559
Repurchase agreements	39,166	—	39,166	—	39,166
Other short-term borrowings	20,000	—	20,000	—	20,000
Long-term borrowings	9,980	—	—	10,156	10,156
Junior subordinated debt	27,724	—	—	24,932	24,932
Accrued interest payable	623	—	623	—	623

The following methods and assumptions were used by the Company in estimating fair value disclosures for financial instruments:

Cash and cash equivalents. The carrying amount is a reasonable estimate of fair value.

Securities. Fair values are based on quoted market prices or dealer quotes.

Restricted stock. The carrying value of restricted stock approximates fair value based on the redemption provisions of the respective entity.

Loans held for sale. The carrying amount is at fair value. Fair value is based on the price secondary markets are currently offering for similar loans using observable market data which is not materially different than cost due to the short duration between origination and sale

Loans. For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. Fair values for fixed-rate loans are estimated based upon discounted cash flow analysis, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Fair values for nonperforming loans are estimated using discounted cash flow analysis or underlying collateral values, where applicable.

Bank owned life insurance. Bank owned life insurance represents insurance policies on officers, directors, and past directors of the Company. The cash values of the policies are estimates using information provided by insurance carriers. These policies are carried at their cash surrender value, which approximates the fair value.

Accrued interest receivable. The carrying amount is a reasonable estimate of fair value.

Deposits. The fair value of demand deposits, savings deposits, and money market deposits equals the carrying value. The fair value of fixed-rate certificates of deposit is estimated by discounting the future cash flows using the current rates at which similar deposit instruments would be offered to depositors for the same remaining maturities.

Repurchase agreements. The carrying amount is a reasonable estimate of fair value.
Other short-term borrowings. The carrying amount is a reasonable estimate of fair value.

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Long-term borrowings. The fair values of long-term borrowings are estimated using discounted cash flow analysis based on the interest rates for similar types of borrowing arrangements.
Junior subordinated debt. Fair value is calculated by discounting the future cash flows using the estimated current interest rates at which similar securities would be issued.
Accrued interest payable. The carrying amount is a reasonable estimate of fair value.
Off-balance sheet instruments. The fair value of letters of credit is based on fees currently charged for similar agreements or on the estimated cost to terminate them or otherwise settle the obligations with the counterparties at the reporting date. At September 30, 2017 and December 31, 2016, the fair value of off-balance sheet instruments was deemed immaterial, and therefore was not included in the previous table.
The Company assumes interest rate risk (the risk that interest rates will change) in its normal operations. As a result, the fair values of the Company's financial instruments will change when interest rates change and that change may be either favorable or unfavorable to the Company.
Note 13 – Segment and Related Information
The Company has two reportable segments, community banking and trust and investment services.
Community banking involves making loans to and generating deposits from individuals and businesses. All assets and liabilities of the Company are allocated to community banking. Investment income from securities is also allocated to the community banking segment. Loan fee income, service charges from deposit accounts, and non-deposit fees such as automated teller machine fees and insurance commissions generate additional income for the community banking segment.
Trust and investment services include estate planning, trust account administration, investment management, and retail brokerage. Investment management services include purchasing equity, fixed income, and mutual fund investments for customer accounts. The trust and investment services segment receives fees for investment and administrative services.
Amounts shown in the "Other" column includes activities of the Company which are primarily debt service on trust preferred securities and corporate items.
Segment information as of and for the three and nine months ended September 30, 2017 and 2016 (unaudited), is shown in the following tables (dollars in thousands):

	Three Months Ended September 30, 2017				
	Community Banking	Trust and Investment Services	Other	Intersegment Eliminations	Total
Interest income	$16,188	$ —	$ 86	$ —	$ 16,274
Interest expense	1,663	—	273	—	1,936
Noninterest income	2,479	1,318	7	—	3,804
Income (loss) before income taxes	6,554	794	(356)	—	6,992
Net income (loss)	4,478	544	(235)	—	4,787
Depreciation and amortization	558	3	—	—	561
Total assets	1,771,165	—	238,111	(228,735)	1,780,541
Goodwill	43,872	—	—	—	43,872
Capital expenditures	449	—	—	—	449

	Three Months Ended September 30, 2016				
	Community Banking	Trust and Investment Services	Other	Intersegment Eliminations	Total
Interest income	$ 14,040	$ —	$ 23	$ —	$ 14,063
Interest expense	1,376	—	223	—	1,599
Noninterest income	1,967	1,147	6	—	3,120
Income (loss) before income taxes	5,356	672	(411)	—	5,617
Net income (loss)	3,760	474	(271)	—	3,963
Depreciation and amortization	671	2	—	—	673
Total assets	1,611,624	—	231,496	(227,586)	1,615,534
Goodwill	43,872	—	—	—	43,872
Capital expenditures	267	—	—	—	267

	Nine Months Ended September 30, 2017				
	Community Banking	Trust and Investment Services	Other	Intersegment Eliminations	Total
Interest income	$ 46,302	$ —	$ 256	$ —	$ 46,558
Interest expense	4,418	—	756	—	5,174
Noninterest income	6,882	3,522	19	—	10,423
Income (loss) before income taxes	18,140	1,853	(1,138)	—	18,855
Net income (loss)	12,591	1,290	(752)	—	13,129
Depreciation and amortization	1,833	9	—	—	1,842
Total assets	1,771,165	—	238,111	(228,735)	1,780,541
Goodwill	43,872	—	—	—	43,872
Capital expenditures	2,177	11	—	—	2,188

	Nine Months Ended September 30, 2016				
	Community Banking	Trust and Investment Services	Other	Intersegment Eliminations	Total
Interest income	$ 41,950	$ —	$ 53	$ —	$ 42,003
Interest expense	4,151	—	644	—	4,795
Noninterest income	6,302	3,465	17	—	9,784
Income (loss) before income taxes	16,538	2,006	(1,193)	—	17,351
Net income (loss)	11,558	1,408	(787)	—	12,179
Depreciation and amortization	2,190	8	—	—	2,198
Total assets	1,611,624	—	231,496	(227,586)	1,615,534
Goodwill	43,872	—	—	—	43,872
Capital expenditures	536	—	—	—	536

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Note 14 – Supplemental Cash Flow Information

	Nine Months Ended September 30,	
	2017	2016
Supplemental Schedule of Cash and Cash Equivalents:		
Cash and due from banks	$26,949	$37,679
Interest-bearing deposits in other banks	76,271	35,138
Cash and Cash Equivalents	$103,220	$72,817
Supplemental Disclosure of Cash Flow Information:		
Cash paid for:		
Interest on deposits and borrowed funds	$5,135	$4,813
Income taxes	5,465	5,440
Noncash investing and financing activities:		
Transfer of loans to other real estate owned	1,233	97
Unrealized gains on securities available for sale	1,596	720

Note 15 – Accumulated Other Comprehensive Income

Changes in each component of accumulated other comprehensive income ("AOCI") for the three and nine months ended September 30, 2017 and 2016 (unaudited) were as follows (dollars in thousands):

For the Three Months Ended	Net Unrealized Gains on Securities	Adjustments Related to Pension Benefits	Accumulated Other Comprehensive Income (Loss)
Balance at June 30, 2016	$ 5,563	$ (1,832)	$ 3,731
Net unrealized losses on securities available for sale, net of tax, $(499)	(925)	—	(925)
Reclassification adjustment for realized gains on securities, net of tax, $(25)	(48)	—	(48)
Balance at September 30, 2016	$ 4,590	$ (1,832)	$ 2,758
Balance at June 30, 2017	$ 696	$ (1,724)	$ (1,028)
Net unrealized gains on securities available for sale, net of tax, $104	192	—	192
Reclassification adjustment for realized gains on securities, net of tax, $(0)	—	—	—
Balance at September 30, 2017	$ 888	$ (1,724)	$ (836)

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For the Nine Months Ended	Net Unrealized Gains (Losses) on Securities	Adjustments Related to Pension Benefits	Accumulated Other Comprehensive Income (Loss)
Balance at December 31, 2015	$ 4,122	$ (1,832)	$ 2,290
Net unrealized gains on securities available for sale, net of tax, $483	898	—	898
Reclassification adjustment for realized gains on securities, net of tax, $(231)	(430)	—	(430)
Balance at September 30, 2016	$ 4,590	$ (1,832)	$ 2,758
Balance at December 31, 2016	$ (150)	$ (1,724)	$ (1,874)
Net unrealized gains on securities available for sale, net of tax, $765	1,421	—	1,421
Reclassification adjustment for gains on sales of securities, net of tax, $(207)	(383)	—	(383)
Balance at September 30, 2017	$ 888	$ (1,724)	$ (836)

Reclassifications Out of Accumulated Other Comprehensive Income
For the three and nine months ended September 30, 2017 and 2016
(dollars in thousands)

For the Three Months Ended September 30, 2017	Amount Reclassified from AOCI	Affected Line Item in the Statement of Where Net Income is Presented
Details about AOCI Components		
Available for sale securities:		
Realized gain on sale of securities	$ —	Securities gains, net
	—	Income taxes
Total reclassifications	$ —	Net of tax

For the Three Months Ended September 30, 2016	Amount Reclassified from AOCI	Affected Line Item in the Statement of Where Net Income is Presented
Details about AOCI Components		
Available for sale securities:		
Realized gain on sale of securities	$ 73	Securities gains, net
	(25)	Income taxes
Total reclassifications	$ 48	Net of tax

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For the Nine Months Ended September 30, 2017	Amount Reclassified from AOCI	Affected Line Item in the Statement of Where Net Income is Presented
Details about AOCI Components		
Available for sale securities:		
Realized gain on sale of securities	$ 590	Securities gains, net
	(207)	Income taxes
Total reclassifications	$ 383	Net of tax

For the Nine Months Ended September 30, 2016	Amount Reclassified from AOCI	Affected Line Item in the Statement of Where Net Income is Presented
Details about AOCI Components		
Available for sale securities:		
Realized gain on sale of securities	$ 661	Securities gains, net
	(231)	Income taxes
Total reclassifications	$ 430	Net of tax

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The purpose of this discussion is to focus on important factors affecting the financial condition and results of operations of the Company. The discussion and analysis should be read in conjunction with the Consolidated Financial Statements.

Forward-Looking Statements

This report contains forward-looking statements with respect to the financial condition, results of operations and business of American National Bankshares Inc. (the "Company") and its wholly owned subsidiary, American National Bank and Trust Company (the "Bank"). These forward-looking statements involve risks and uncertainties and are based on the beliefs and assumptions of management of the Company and on information available to management at the time these statements and disclosures were prepared. Forward-looking statements are subject to numerous assumptions, estimates, risks, and uncertainties that could cause actual conditions, events, or results to differ materially from those stated or implied by such forward-looking statements.

A variety of factors, some of which are discussed in more detail in Item 1A – Risk Factors of the Company's Annual Report on Form 10-K for the year ended December 31, 2016, may affect the operations, performance, business strategy, and results of the Company. Those factors include, but are not limited to, the following:

- Financial market volatility, including the level of interest rates, could affect the values of financial instruments and the amount of net interest income earned;
- General economic or business conditions, either nationally or in the market areas in which the Company does business, may be less favorable than expected, resulting in deteriorating credit quality, reduced demand for credit, or a weakened ability to generate deposits;
- Competition among financial institutions may increase, and competitors may have greater financial resources and develop products and technology that enable those competitors to compete more successfully than the Company;
- Businesses that the Company is engaged in may be adversely affected by legislative or regulatory changes, including changes in accounting standards;
- The ability to retain key personnel;
- The failure of assumptions underlying the allowance for loan losses; and
- Risks associated with mergers and acquisitions and other expansion activities.

Reclassification

In certain circumstances, reclassifications have been made to prior period information to conform to the 2017 presentation. There were no material reclassifications.

CRITICAL ACCOUNTING POLICIES

The accounting and reporting policies followed by the Company conform with U.S. generally accepted accounting principles ("GAAP") and they conform to general practices within the banking industry. The Company's critical accounting policies, which are summarized below, relate to (1) the allowance for loan losses, (2) mergers and acquisitions, (3) acquired loans with specific credit-related deterioration (4) goodwill and intangible assets, (5) other real estate owned, (6) deferred tax assets and liabilities, (7) other-than-temporary impairment of securities and (8) the unfunded pension liability. A summary of the Company's significant accounting policies is set forth in Note 1 to the Consolidated Financial Statements contained in the Form 10-K for the year ended December 31, 2016.

The financial information contained within the Company's financial statements is, to a significant extent, financial information that is based on measures of the financial effects of transactions and events that have already occurred. A variety of factors could affect the ultimate value that is obtained when earning income, recognizing an expense, recovering an asset, or relieving a liability. In addition, GAAP itself may change from one previously acceptable method to another method.

Allowance for Loan Losses

The purpose of the allowance for loan losses ("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.

The goal of the Company is to maintain an appropriate, systematic, and consistently applied process to determine the amounts of the ALLL and the provision for loan loss expense.

The Company uses certain practices to manage its credit risk. These practices include (1) appropriate lending limits for loan officers, (2) a loan approval process, (3) careful underwriting of loan requests, including analysis of borrowers, cash flows, collateral, and market risks, (4) regular monitoring of the portfolio, including diversification by type and geography, (5) review of loans by the Loan Review department, which operates independently of loan production, (6) regular meetings of the Credit Committee to discuss portfolio and policy changes and make decisions on large or unusual loan requests, and (7) regular meetings of the Asset Quality Committee which reviews the status of individual loans.

Risk grades are assigned as part of the loan origination process. From time to time, risk grades may be modified as warranted by the facts and circumstances surrounding the credit.

Calculation and analysis of the ALLL is prepared quarterly by the Finance Department. The Company's Credit Committee, Risk and Compliance Committee, Audit Committee, and the Board of Directors review the allowance for adequacy.

The Company's ALLL has two basic components: the formula allowance and the specific allowance. Each of these components is determined based upon estimates and judgments.

The formula allowance uses historical loss experience as an indicator of future losses, along with various qualitative factors, including levels and trends in delinquencies, nonaccrual loans, charge-offs and recoveries, trends in volume and terms of loans, effects of changes in underwriting standards, experience of lending staff, economic conditions, portfolio concentrations, regulatory, legal, competition, quality of loan review system, and value of underlying collateral. In the formula allowance for commercial and commercial real estate loans, the historical loss rate is combined with the qualitative factors, resulting in an adjusted loss factor for each risk-grade category of loans. The period-end balances for each loan risk-grade category are multiplied by the adjusted loss factor. Allowance calculations for residential real estate and consumer loans are calculated based on historical losses for each product category without regard to risk grade. This loss rate is combined with qualitative factors resulting in an adjusted loss factor for each product category.

The specific allowance uses various techniques to arrive at an estimate of loss for specifically identified impaired loans. These include:

- The present value of expected future cash flows discounted at the loan's effective interest rate. The effective interest rate on a loan is the rate of return implicit in the loan (that is, the contractual interest rate adjusted for any net deferred loan fees or costs and any premium or discount existing at the origination or acquisition of the loan);
- The loan's observable market price, or

- The fair value of the collateral, net of estimated costs to dispose, if the loan is collateral dependent. The use of these computed values is inherently subjective and actual losses could be greater or less than the estimates.

No single statistic, formula, or measurement determines the adequacy of the allowance. Management makes subjective and complex judgments about matters that are inherently uncertain, and different amounts would be reported under different

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conditions or using different assumptions. For analytical purposes, management allocates a portion of the allowance to specific loan categories and specific loans. However, the entire allowance is used to absorb credit losses inherent in the loan portfolio, including identified and unidentified losses.

The relationships and ratios used in calculating the allowance, including the qualitative factors, may change from period to period as facts and circumstances evolve. Furthermore, management cannot provide assurance that in any particular period the Bank will not have sizable credit losses in relation to the amount reserved. Management may find it necessary to significantly adjust the allowance, considering current factors at the time.

Mergers and Acquisitions

Business combinations are accounted for under the Financial Accounting Standards Board (the "FASB") Accounting Standards Codification ("ASC") 805, Business Combinations, using the acquisition method of accounting. The acquisition method of accounting requires an acquirer to recognize the assets acquired and the liabilities assumed at the acquisition date measured at their fair values as of that date. To determine the fair values, the Company will rely on third party valuations, such as appraisals, or internal valuations based on discounted cash flow analysis or other valuation techniques. Under the acquisition method of accounting, the Company will identify the acquirer and the closing date and apply applicable recognition principles and conditions.

Acquisition-related costs are costs the Company incurs to effect a business combination. Those costs include advisory, legal, accounting, valuation, and other professional or consulting fees. Some other examples of costs to the Company include systems conversions, integration planning consultants and advertising costs. The Company will account for acquisition-related costs as expenses in the periods in which the costs are incurred and the services are received, with one exception. The costs to issue debt or equity securities will be recognized in accordance with other applicable GAAP. These acquisition-related costs have been and will be included within the Consolidated Statements of Income classified within the noninterest expense caption.

Acquired Loans with Specific Credit-Related Deterioration

Acquired loans with specific credit deterioration are accounted for by the Company in accordance with FASB ASC 310-30, Receivables - Loans and Debt Securities Acquired with Deteriorated Credit Quality. Certain acquired loans, those for which specific credit-related deterioration, since origination, is identified, are recorded at fair value reflecting the present value of the amounts expected to be collected. Income recognition on these loans is based on a reasonable expectation about the timing and amount of cash flows to be collected. Acquired loans deemed impaired and considered collateral dependent, with the timing of the sale of loan collateral indeterminate, remain on non-accrual status and have no accretable yield.

Goodwill and Intangible Assets

The Company performs its annual analysis as of June 30 each fiscal year. Accounting guidance permits preliminary assessment of qualitative factors to determine whether more substantial impairment testing is required. The Company chose to bypass the preliminary assessment and utilized a two-step process for impairment testing of goodwill. The first step tests for impairment, while the second step, if necessary, measures the impairment. No indicators of impairment were identified during the nine months ended September 30, 2017 or 2016.

Other Real Estate Owned

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less costs to sell at the date of foreclosure. Subsequent to foreclosure, management periodically performs valuations of the foreclosed assets based on updated appraisals, general market conditions, recent sales of similar properties, length of time the properties have been held, and our ability and intention with regard to continued ownership of the properties. The Company may incur additional write-downs of foreclosed assets to fair value less costs to sell if valuations indicate a further deterioration in market conditions.

Deferred Tax Assets and Liabilities

The realization of deferred income tax assets is assessed and a valuation allowance is recorded if it is "more likely than not" that all or a portion of the deferred tax asset will not be realized. "More likely than not" is defined as greater than a 50% chance. Management considers all available evidence, both positive and negative, to determine whether, based on the weight of that evidence, a valuation allowance is needed.

Other-than-temporary Impairment of Securities

Impairment of securities occurs when the fair value of a security is less than its amortized cost. For debt securities, impairment is considered other-than-temporary and recognized in its entirety in net income if either (1) the Company intends to sell the security or (2) it is more-likely-than-not that the Company will be required to sell the security before recovery of its amortized cost basis. If, however, the Company does not intend to sell the security and it is not more-likely-than-not that it will be required to sell the security before recovery, the Company must determine what portion of the impairment is attributable to a credit loss, which occurs when the amortized cost basis of the security exceeds the present value of the cash flows expected to be collected from the security. If there is no credit loss, there is no other-than-temporary impairment. If there is a credit loss, other-than-temporary impairment exists, and the credit loss must be recognized in net income and the remaining portion of impairment must be recognized in other comprehensive income. For equity securities, impairment is considered to be other-than-temporary based on the Company's ability and intent to hold the investment until a recovery of fair value. Other-than-temporary impairment of an equity security results in a write-down that must be included in net income. The Company regularly reviews each investment security for other-than-temporary impairment based on criteria that includes the extent to which cost exceeds market price, the duration of that market decline, the financial health of and specific prospects for the issuer, the Company's best estimate of the present value of cash flows expected to be collected from debt securities, the Company's intention with regard to holding the security to maturity and the likelihood that the Company would be required to sell the security before recovery.

Unfunded Pension Liability

The Company previously maintained a non-contributory, defined benefit pension plan for eligible full-time employees as specified by the plan. The Company froze its pension plan to new participants and converted its pension plan to a cash balance plan effective December 31, 2009. Plan assets, which consist primarily of mutual funds invested in marketable equity securities and corporate and government fixed income securities, are valued using market quotations. The Company's actuary determines plan obligations and annual pension expense using a number of key assumptions. Key assumptions may include the discount rate, the interest crediting rate, the estimated future return on plan assets and the anticipated rate of future salary increases. Changes in these assumptions in the future, if any, or in the method under which benefits are calculated may impact pension assets, liabilities or expense.

Non-GAAP Presentations

Non-GAAP presentations are provided because the Company believes these may be valuable to investors. These include (1) the analysis of net interest income presented on a taxable equivalent basis to facilitate performance comparisons among various taxable and tax-exempt assets and (2) the calculation of the efficiency ratio.

Internet Access to Corporate Documents

The Company provides access to its Securities and Exchange Commission ("SEC") filings through a link on the Investor Relations page of the Company's web site at www.amnb.com. Reports available include annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports as soon as reasonably practicable after the reports are filed electronically with the SEC. The information on the Company's website is not incorporated into this report or any other filing the Company makes with the SEC. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at www.sec.gov.

STRATEGIC EVENT

The Company announced in September 2016 its plan to form a de novo branch in each of Roanoke, Virginia, and Winston-Salem, North Carolina. Current staffing for Roanoke includes 16 full-time equivalent employees, of which eight are lenders. Current staffing for Winston-Salem includes six full-time equivalent employees, of which three are lenders. The operations of these new branches impacted earning assets, deposits and operating results for the nine months of 2017.

It is expected that the de novo offices will have a continued material and positive impact to the Company's balance sheet and earnings, however, at a somewhat reduced pace as compared to the first three quarters of 2017.

RESULTS OF OPERATIONS
Earnings Performance
Three months ended September 30, 2017 and 2016
For the quarter ended September 30, 2017, the Company reported net income of $4,787,000 compared to $3,963,000 for the comparable quarter in 2016. The $824,000 or 20.8% increase was driven primarily by growth in loans.
SUMMARY INCOME STATEMENT
(Dollars in thousands)

Three Months Ended September 30,	2017	2016	$ Change	% Change
Interest income	$16,274	$14,063	$2,211	15.7 %
Interest expense	(1,936)	(1,599)	(337)	21.1
Net interest income	14,338	12,464	1,874	15.0
Provision for loan losses	(440)	(100)	(340)	340.0
Noninterest income	3,804	3,120	684	21.9
Noninterest expense	(10,710)	(9,867)	(843)	8.5
Income tax expense	(2,205)	(1,654)	(551)	33.3
Net income	$4,787	$3,963	$824	20.8

Nine months Ended September 30, 2017 and 2016
For the nine month period ended September 30, 2017, the Company reported net income of $13,129,000 compared to $12,179,000 for the comparable period in 2016. The $950,000 or 7.8% increase was driven primarily by growth in loans.
SUMMARY INCOME STATEMENT
(Dollars in thousands)

Nine Months Ended September 30,	2017	2016	$ Change	% Change
Interest income	$46,558	$42,003	$4,555	10.8 %
Interest expense	(5,174)	(4,795)	(379)	7.9
Net interest income	41,384	37,208	4,176	11.2
Provision for loan losses	(1,090)	(200)	(890)	445.0
Noninterest income	10,423	9,784	639	6.5
Noninterest expense	(31,862)	(29,441)	(2,421)	8.2
Income tax expense	(5,726)	(5,172)	(554)	10.7
Net income	$13,129	$12,179	$950	7.8

Net Interest Income
Net interest income is the difference between interest income on earning assets, primarily loans and securities, and interest expense on interest bearing liabilities, primarily deposits and other funding sources. Fluctuations in interest rates as well as volume and mix changes in earning assets and interest bearing liabilities can materially impact net interest income. The following discussion of net interest income is presented on a taxable equivalent basis to facilitate performance comparisons among various taxable and tax-exempt assets, such as certain state and municipal securities. A tax rate of 35% was used in adjusting interest on tax-exempt assets to a fully taxable equivalent basis. Net interest income divided by average earning assets is referred to as the net interest margin. The net interest spread represents the difference between the average rate earned on earning assets and the average rate paid on interest-bearing liabilities.

Three months ended September 30, 2017 and 2016
Net interest income on a taxable equivalent basis increased $1,734,000 or 13.4%, for the third quarter of 2017 compared to the same quarter of 2016. The increase was driven by growth in loans, three prime rate increases, and $333,000 in additional cash basis accretion income, which is unpredictable and non-recurring in nature.

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For the third quarter of 2017, the Company's yield on interest-earning assets was 4.03%, compared to 3.93% for the third quarter of 2016. The cost of interest-bearing liabilities was 0.67% compared to 0.60%, primarily related to a four basis point (0.04%) increase in the cost of deposits. The interest rate spread was 3.36% compared to 3.33%. The net interest margin, on a fully taxable equivalent basis, was 3.56% compared to 3.50%, an increase of six basis points (0.06%). The increase in net interest margin was driven by larger volumes in earning assets, fueled primarily by a $73.3 million or 22.3% increase in average non-interest bearing deposits.

The following presentation is an analysis of net interest income and related yields and rates, on a taxable equivalent basis, for the three months ended September 30, 2017 and 2016. Nonaccrual loans are included in average balances. Interest income on nonaccrual loans, if recognized, is recorded on a cash basis or when the loan returns to accrual status.

Net Interest Income Analysis (dollars in thousands)
Three Months Ended September 30,

	Average Balance		Income/Expense		Yield/Rate	
	2017	2016	2017	2016	2017	2016
Loans:						
Commercial	$233,455	$200,448	$2,282	$2,022	3.88%	4.01 %
Real estate	1,057,326	862,740	12,102	9,939	4.58	4.61
Consumer	4,648	5,179	92	136	7.85	10.45
Total loans	1,295,429	1,068,367	14,476	12,097	4.46	4.52
Securities:						
Federal agencies and GSEs	92,822	99,375	445	428	1.92	1.72
Mortgage-backed and CMOs	77,663	81,945	399	411	2.06	2.01
State and municipal	95,861	158,010	862	1,370	3.60	3.47
Other securities	14,900	15,450	170	132	4.56	3.42
Total securities	281,246	354,780	1,876	2,341	2.67	2.64
Deposits in other banks	69,566	54,061	235	78	1.34	0.57
Total interest-earning assets	1,646,241	1,477,208	16,587	14,516	4.03	3.93
Non-earning assets	127,395	128,179				
Total assets	$1,773,636	$1,605,387				
Deposits:						
Demand	$215,486	$200,469	11	10	0.02	0.02
Money market	336,501	253,269	463	118	0.55	0.19
Savings	124,949	117,737	9	9	0.03	0.03
Time	389,891	401,956	1,046	1,154	1.06	1.14
Total deposits	1,066,827	973,431	1,529	1,291	0.57	0.53
Customer repurchase agreements	48,461	50,013	53	1	0.43	0.01
Other short-term borrowings	—	1,521	—	3	—	0.79
Long-term borrowings	37,780	37,655	354	304	3.75	3.23
Total interest-bearing liabilities	1,153,068	1,062,620	1,936	1,599	0.67	0.60

Noninterest bearing demand deposits	401,696	328,443				
Other liabilities	9,846	10,873				
Shareholders' equity	209,026	203,451				
Total liabilities and shareholders' equity	$1,773,636	$1,605,387				
Interest rate spread					3.36%	3.33 %
Net interest margin					3.56%	3.50 %
Net interest income (taxable equivalent basis)			14,651	12,917		
Less: Taxable equivalent adjustment			313	453		
Net interest income			$14,338	$12,464		

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Changes in Net Interest Income (Rate/Volume Analysis)
(in thousands)

	Three Months Ended September 30, 2017 vs. 2016		
	Increase	Change Attributable to	
Interest income	(Decrease)	Rate	Volume
Loans:			
Commercial	$260	$(64)	$324
Real estate	2,163	(65)	2,228
Consumer	(44)	(31)	(13)
Total loans	2,379	(160)	2,539
Securities:			
Federal agencies and GSEs	17	46	(29)
Mortgage-backed and CMOs	(12)	10	(22)
State and municipal	(508)	49	(557)
Other securities	38	43	(5)
Total securities	(465)	148	(613)
Deposits in other banks	157	129	28
Total interest income	2,071	117	1,954
Interest expense			
Deposits:			
Demand	1	—	1
Money market	345	295	50
Savings	—	(1)	1
Time	(108)	(74)	(34)
Total deposits	238	220	18
Customer repurchase agreements	52	52	—
Other short-term borrowings	(3)	3	(6)
Long-term borrowings	50	49	1
Total interest expense	337	324	13
Net interest income (taxable equivalent basis)	$1,734	$(207)	$1,941

Nine months ended September 30, 2017 and 2016

Net interest income on a taxable equivalent basis increased $3,804,000 or 9.8%, for the nine months ended September 30, 2017 compared to the same period of 2016. The increase was driven by growth in loans, three prime rate increases, and additional cash basis accretion income, which is unpredictable and non-recurring in nature.

For the first nine months of 2017, the Company's yield on interest-earning assets was 3.94%, compared to 3.98% for the same period of 2016. The cost of interest-bearing liabilities was 0.61% for each of the nine month periods ended September 30, 2017 and 2016. The interest rate spread was 3.33% compared to 3.37%. The net interest margin, on a fully taxable equivalent basis, was 3.51% compared to 3.54%, a decrease of three basis points (0.03%). The decrease in net interest margin was driven by lower yields on earning assets and reduced levels of accretion income.

The following presentation is an analysis of net interest income and related yields and rates, on a taxable equivalent basis, for the nine months ended September 30, 2017 and 2016. Nonaccrual loans are included in average balances. Interest income on nonaccrual loans, if recognized, is recorded on a cash basis or when the loan returns to accrual status.

Net Interest Income Analysis (dollars in thousands)
Nine Months Ended September 30,

	Average Balance		Income/Expense		Yield/Rate	
	2017	2016	2017	2016	2017	2016
Loans:						
Commercial	$227,739	$196,256	$6,577	$5,852	3.86%	3.98 %
Real estate	1,019,185	844,276	34,228	29,620	4.48	4.68
Consumer	4,825	5,283	272	507	7.54	12.82
Total loans	1,251,749	1,045,815	41,077	35,979	4.38	4.59
Securities:						
Federal agencies and GSEs	95,360	95,967	1,340	1,252	1.87	1.74
Mortgage-backed and CMOs	78,572	79,746	1,224	1,235	2.08	2.06
State and municipal	110,328	162,885	2,952	4,336	3.57	3.55
Other securities	16,147	15,689	536	410	4.43	3.48
Total securities	300,407	354,287	6,052	7,233	2.69	2.72
Deposits in other banks	58,385	55,454	469	203	1.07	0.49
Total interest-earning assets	1,610,541	1,455,556	47,598	43,415	3.94	3.98
Non-earning assets	126,414	127,450				
Total assets	$1,736,955	$1,583,006				
Deposits:						
Demand	$217,052	$220,419	32	90	0.02	0.05
Money market	321,738	226,780	1,046	284	0.43	0.17
Savings	124,780	117,599	28	37	0.03	0.04
Time	381,852	400,593	2,975	3,491	1.04	1.16
Total deposits	1,045,422	965,391	4,081	3,902	0.52	0.54
Customer repurchase agreements	47,614	47,353	68	3	0.19	0.01
Other short-term borrowings	3,902	512	27	3	0.92	0.78
Long-term borrowings	37,748	37,624	998	887	3.53	3.14
Total interest-bearing liabilities	1,134,686	1,050,880	5,174	4,795	0.61	0.61
Noninterest bearing demand deposits	386,355	320,643				
Other liabilities	9,474	9,923				
Shareholders' equity	206,440	201,560				
Total liabilities and shareholders' equity	$1,736,955	$1,583,006				

Interest rate spread			3.33%	3.37 %
Net interest margin			3.51%	3.54 %
Net interest income (taxable equivalent basis)	42,424	38,620		
Less: Taxable equivalent adjustment	1,040	1,412		
Net interest income	$41,384	$37,208		

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Changes in Net Interest Income (Rate/Volume Analysis)
(in thousands)

	Nine Months Ended September 30, 2017 vs. 2016		
		Change Attributable to	
Interest income	Increase (Decrease)	Rate	Volume
Loans:			
Commercial	$725	$(189)	$914
Real estate	4,608	(1,311)	5,919
Consumer	(235)	(194)	(41)
Total loans	5,098	(1,694)	6,792
Securities:			
Federal agencies and GSEs	88	96	(8)
Mortgage-backed and CMOs	(11)	7	(18)
State and municipal	(1,384)	22	(1,406)
Other securities	126	114	12
Total securities	(1,181)	239	(1,420)
Deposits in other banks	266	255	11
Total interest income	4,183	(1,200)	5,383
Interest expense			
Deposits:			
Demand	(58)	(57)	(1)
Money market	762	604	158
Savings	(9)	(11)	2
Time	(516)	(358)	(158)
Total deposits	179	178	1
Customer repurchase agreements	65	65	—
Other short-term borrowings	24	1	23
Long-term borrowings	111	108	3
Total interest expense	379	352	27
Net interest income (taxable equivalent basis)	$3,804	$(1,552)	$5,356

Noninterest Income, three months ended September 30, 2017 and 2016

For the quarter ended September 30, 2017, noninterest income increased $684,000 or 21.9% compared to the comparable 2016 quarter. Details of individual accounts are shown in the table below.

	Three Months Ended September 30, (Dollars in thousands)			
	2017	2016	$ Change	% Change
Noninterest income:				
Trust fees	$1,098	$938	$ 160	17.1 %
Service charges on deposit accounts	513	514	(1)	(0.2)
Other fees and commissions	727	663	64	9.7
Mortgage banking income	612	512	100	19.5
Securities gains, net	—	73	(73)	(100.0)
Brokerage fees	219	209	10	4.8
Income from SBICs	86	—	86	NM
Gains (losses) on premises and equipment, net	337	(1)	338	33,800.0
Other	212	212	—	—
Total noninterest income	$3,804	$3,120	$ 684	21.9

Trust fees increased $160,000 in the 2017 quarter compared to the same quarter in 2016, driven mostly by nonrecurring revenue sources. Other fees and commissions were positively impacted by higher levels of debit card transaction volume. Mortgage banking income increased $100,000 in the 2017 quarter compared to the 2016 quarter as a result of increases in the volume of originations. Also, the Bank added new mortgage originators in the Roanoke market in the fourth quarter of 2016 and the second quarter of 2017. Net securities gains decreased $73,000 in the 2017 quarter. Securities sales are used as needed for liquidity purposes and to facilitate asset liability strategy. Income from SBICs reflected an $86,000 increase compared to the 2016 quarter; this category of income is highly unpredictable. Net gains (losses) on premises and equipment increased $338,000 compared to the same quarter of 2016 primarily due to a $337,000 gain from the sale of a bank owned commercial lot acquired in the MidCarolina acquisition.

Noninterest Income, nine months ended September 30, 2017 and 2016

For the nine months ended September 30, 2017, noninterest income increased $639,000 or 6.5% compared to the comparable 2016 period. Details of individual accounts are shown in the table below.

	Nine Months Ended September 30, (Dollars in thousands)			
	2017	2016	$ Change	% Change
Noninterest income:				
Trust fees	$2,918	$2,829	$ 89	3.1 %
Service charges on deposit accounts	1,498	1,520	(22)	(1.4)
Other fees and commissions	2,172	1,991	181	9.1
Mortgage banking income	1,603	1,169	434	37.1
Securities gains, net	590	661	(71)	(10.7)
Brokerage fees	603	636	(33)	(5.2)
Income from SBICs	118	238	(120)	(50.4)
Gains (losses) on premises and equipment, net	337	(9)	346	3,844.4
Other	584	749	(165)	(22.0)
Total noninterest income	$10,423	$9,784	$ 639	6.5

Trust fees increased $89,000 for the nine months ended September 30, 2017 compared to the same period in 2016, driven mostly by nonrecurring revenue sources. Other fees and commissions were positively impacted by higher levels of debit card transaction volume. Mortgage banking income increased $434,000 in the 2017 period compared to the 2016 period

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as a result of increases in the volume of originations. Also, the Bank added new mortgage originators in the Roanoke market in the fourth quarter of 2016 and the second quarter of 2017. Net securities gains decreased $71,000 in the 2017 period. Securities sales are used as needed for liquidity purposes and to facilitate asset liability strategy. Income from SBICs reflected a $120,000 decrease compared to the 2016 period; this category of income is highly unpredictable. Net gains (losses) on premises and equipment increased $346,000 compared to the same period last year primarily due to a $337,000 gain from the sale of a bank owned commercial lot acquired in the MidCarolina acquisition. Other income decreased $165,000 primarily due to additional income from investments in limited partnerships during the nine months ended September 30, 2016.

Noninterest Expense, three months ended September 30, 2017 and 2016

For the three months ended September 30, 2017, noninterest expense increased $843,000 or 8.5%. Details of individual accounts are shown in the table below.

	Three Months Ended September 30, (Dollars in thousands)			
	2017	2016	$ Change	% Change
Noninterest Expense				
Salaries	$5,072	$4,626	$ 446	9.6 %
Employee benefits	1,112	1,034	78	7.5
Occupancy and equipment	1,151	1,004	147	14.6
FDIC assessment	138	138	—	—
Bank franchise tax	276	257	19	7.4
Core deposit intangible amortization	80	213	(133)	(62.4)
Data processing	475	437	38	8.7
Software	303	301	2	0.7
Other real estate owned, net	62	105	(43)	(41.0)
Other	2,041	1,752	289	16.5
Total noninterest expense	$10,710	$9,867	$ 843	8.5

Salaries expense and employee benefits expense increased in the 2017 quarter as compared to the 2016 quarter primarily as a result of additional compensation expenses related to our entry into two new markets in the fourth quarter of 2016. In addition, we have added personnel expense related to bank wide growth objectives and advance planning for key position, near term succession issues. Full-time equivalent employees at the end of the 2017 quarter were 335, up from 309 at the end of the prior year quarter. Core deposit intangible amortization decreased in the 2017 quarter compared to 2016 as the amortization expense relating to the Company's acquisition of MidCarolina Financial Corporation ("MidCarolina") in July 2011 was an accelerated method and will be fully amortized in 2020. The increase of $289,000 in other expenses over the same quarter of 2016 is primarily due to increased marketing and printing expenses related to the de novo offices and marketing campaigns in 2017.

Noninterest Expense, nine months ended September 30, 2017 and 2016

For the nine months ended September 30, 2017, noninterest expense increased $2,421,000 or 8.2%. Details of individual accounts are shown in the table below.

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	Nine months Ended September 30, (Dollars in thousands)			
	2017	2016	$ Change	% Change
Noninterest Expense				
Salaries	$14,604	$12,872	$1,732	13.5 %
Employee benefits	3,425	3,203	222	6.9
Occupancy and equipment	3,367	3,162	205	6.5
FDIC assessment	401	519	(118)	(22.7)
Bank franchise tax	795	769	26	3.4
Core deposit intangible amortization	448	789	(341)	(43.2)
Data processing	1,464	1,340	124	9.3
Software	853	872	(19)	(2.2)
Other real estate owned, net	173	314	(141)	(44.9)
Other	6,332	5,601	731	13.1
Total noninterest expense	$31,862	$29,441	$2,421	8.2

Salaries expense and employee benefits expense increased in the 2017 period as compared to the 2016 period primarily as a result of additional compensation expenses related to our entry into two new markets in the fourth quarter of 2016. In addition, we have added personnel expense related to bank wide growth objectives and advance planning for key position, near term succession issues. Full-time equivalent employees at the end of the 2017 period were 335, up from 309 at the end of the prior year quarter. The expense for Federal Deposit Insurance Corporation (the "FDIC") assessment decreased in the 2017 period as compared to the 2016 period due to the reduction in FDIC assessment rates effective the third quarter of 2016. Core deposit intangible amortization decreased in the 2017 period compared to 2016 as the amortization expense relating to the Company's acquisition of MidCarolina in July 2011 was an accelerated method and will be fully amortized in 2020. The decrease of $141,000 in other real estate owned ("OREO") was primarily related to a loss on sale of OREO in the 2016 period. The increase of $731,000 in other expenses compared to the same period of 2016 is primarily due to increased marketing and printing for marketing campaigns and the de novo branch openings in 2017.

Non-GAAP Financial Measures

The efficiency ratio is calculated by dividing noninterest expense excluding gains or losses on the sale of OREO by net interest income including tax equivalent income on nontaxable loans and securities and noninterest income and excluding (1) gains or losses on securities and (2) gains or losses on sale of premises and equipment. The efficiency ratio for the 2017 quarter was 59.14% compared to 61.25% for the 2016 quarter. The Company expects improvement in this ratio in coming quarters. This is a non-GAAP financial measure that the Company believes provides investors with important information regarding operational efficiency. Such information is not prepared in accordance with GAAP and should not be construed as such. Management believes, however, such financial information is meaningful to the reader in understanding operating performance, but cautions that such information not be viewed as a substitute for GAAP. The Company, in referring to its net income, is referring to income under GAAP. The components of the efficiency ratio calculation are summarized in the following table (dollars in thousands):

	Three Months Ended September 30,	
	2017	2016
Efficiency Ratio		
Noninterest expense	$10,710	$9,867
Add loss/subtract gain on sale OREO	5	(88)
	$10,715	$9,779
Net interest income	$14,338	$12,464
Tax equivalent adjustment	313	453
Noninterest income	3,804	3,120
Subtract gain on securities	—	(73)
Add loss/subtract gain on sale of fixed assets	(337)	1
	$18,118	$15,965
Efficiency ratio	59.14 %	61.25 %

Net interest margin is calculated by dividing tax equivalent net interest income by total average earning assets. Because a portion of interest income earned by the Company is nontaxable, the tax equivalent net interest income is considered in the calculation of this ratio. Tax equivalent net interest income is calculated by adding the tax benefit realized from interest income that is nontaxable to total interest income then subtracting total interest expense. The tax rate utilized in calculating the tax benefit for both the 2017 and 2016 quarters is 35%. The reconciliation of tax equivalent net interest income, which is not a measurement under GAAP, to net interest income, is reflected in the table below (in thousands):

	Three Months Ended September 30,					
	2017			2016		
Reconciliation of Net Interest Income to Tax-Equivalent Net Interest Income						
Non-GAAP measures:						
Interest income - loans	$	14,476		$	12,097	
Interest income - investments and other	2,111			2,419		
Interest expense - deposits	(1,529		)	(1,291		)
Interest expense - customer repurchase agreements	(53		)	(1		)
Interest expense - other short-term borrowings	—			(3		)
Interest expense - long-term borrowings	(354		)	(304		)
Total net interest income	$	14,651		$	12,917	
Less non-GAAP measures:						
Tax benefit realized on non-taxable interest income - loans	$	(82	)	$	(64	)
Tax benefit realized on non-taxable interest income - municipal securities	(231		)	(389		)
GAAP measures	$	14,338		$	12,464	

Income Taxes

The effective tax rate for the third quarter of 2017 was 31.54% compared to 29.45% for the third quarter of 2016. The effective tax rate is lower than the statutory rate of 35% due to income that is not taxable for federal income tax purposes in both years.

The effective tax rate for the first nine months of 2017 was 30.37% compared to 29.81% for the same period of 2016. The increase in the effective tax rate for the quarter and first nine-month period is primarily related to a lower level of tax exempt municipal securities volume and income.

Fair Value Impact to Net Income

The following table presents the impact for the three and nine month periods ended September 30, 2017 of the accretable and amortizable fair value adjustments attributable to the July 2011 acquisition of MidCarolina and the January 2015 acquisition of MainStreet BankShares, Inc. ("MainStreet") on net interest income and pretax income (dollars in thousands):

			September 30, 2017		
	Income Statement Effect	Premium (Discount) Balance on December 31, 2016	Accretion (Amortization)Three Months Ended	Accretion (Amortization)Nine Months Ended	Remaining Premium (Discount) Balance
Interest income/(expense):					
Acquired performing loans	Income	$ (1,976)	$ 125	$ 567	$ (1,409)
Purchase impaired loans	Income	(5,709)	463	1,112	(4,597)
FHLB advances	Expense	20	(6)	(17)	3
Junior subordinated debt	Expense	1,659	(25)	(76)	1,583
Net interest income			557	1,586	
Noninterest (expense):					
Amortization of core deposit intangible	Expense	$ 1,719	(80)	(448)	$ 1,271
Change in pretax income			$ 477	$ 1,138	

During the third quarter of 2017, the Company received $333,000 in cash basis accretion income related to the early payoff of several acquired loans. During the second quarter of 2017, the Company received a substantial payoff and a pay-down of two purchased credit impaired loans that resulted in $220,000 in cash-basis accretion income.

The following table presents the impact for the three and nine month periods ended September 30, 2016 of the accretable and amortizable fair value adjustments attributable to the two acquisitions mentioned above on net interest income and pretax income (dollars in thousands):

			September 30, 2016		
	Income Statement Effect	Premium (Discount) Balance on December 31, 2015	Accretion (Amortization)Three Months Ended	Accretion (Amortization)Nine Months Ended	Remaining Premium (Discount) Balance
Interest income/(expense):					
Acquired performing loans	Income	$ (3,061)	$ 250	$ 723	$ (2,338)
Purchase impaired loans	Income	(7,066)	137	1,079	(5,987)
FHLB Advances	Expense	42	(6)	(17)	25
Junior subordinated debt	Expense	1,761	(25)	(76)	1,685
Net interest income			356	1,709	
Noninterest (expense):					
Amortization of core deposit intangible	Expense	$ 2,683	(213)	(789)	$ 1,894
Change in pretax income			$ 143	$ 920	

Generally accepted accounting principles for business combinations require the acquired balance sheet to be valued at fair value at the time of the merger. In the context of acquiring a commercial bank, most of the balance sheet is interest rate sensitive and this can generate significant discounts or premiums to contractual values. These discounts or premiums will have a potentially significant impact to net interest income and to net income.

The table below summarizes the impact of the fair value acquisition related accounting adjustments on net interest income and total pretax income of the MidCarolina ("MC" for the table below only) and MainStreet ("MS" for the table below only) acquisitions for the three and nine month periods indicated (dollars in thousands):

Three Months Ended September 30,	2017			2016		
	MC	MS	Total	MC	MS	Total
Net interest income	$432	$125	$557	$192	$164	$356
Core deposit amortization	(28)	(52)	(80)	(151)	(62)	(213)
Total pretax income	$404	$73	$477	$41	$102	$143

Nine Months Ended September 30,	2017			2016		
	MC	MS	Total	MC	MS	Total
Net interest income	$1,047	$539	$1,586	$1,061	$648	$1,709
Core deposit amortization	(292)	(156)	(448)	(604)	(185)	(789)
Total pretax income	$755	$383	$1,138	$457	$463	$920

The MidCarolina acquisition was effective July 1, 2011 and the MainStreet acquisition was effective January 1, 2015. Management expects that the acquisition accounting financial impact of these acquisitions will continue to decline in future 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, and is used to meet collateral requirements. The securities portfolio consists primarily of high credit quality investments, mostly federal agency, mortgage-backed, and state and municipal securities.

The available for sale securities portfolio was $272,205,000 at September 30, 2017, compared to $346,502,000 at December 31, 2016, a decrease of $74,297,000 or 21.44%. At September 30, 2017, the available for sale portfolio had an amortized cost of $270,839,000 resulting in a net unrealized gain of $1,366,000. At December 31, 2016, the available for sale portfolio had an amortized cost of $346,733,000, resulting in a net unrealized loss of $231,000.

The Company is cognizant of the continuing historically low and recently volatile interest rate environment and has elected to maintain a defensive asset liability strategy of purchasing high quality taxable securities of relatively short duration. The Company is aware that possible changes in corporate tax rates could have a negative impact on its municipal portfolio valuation.

The Company has experienced relatively high growth rates for earning assets and somewhat less growth on deposits. Consequently, management has elected to selectively reduce portions of its securities portfolio in an effort to mitigate actual and anticipated liquidity challenges. During the nine months ended September 30, 2017, the Company sold $53.9 million in par value bonds and realized a net gain of $590,000. This compares to the nine months ended September 30, 2016, when the Company sold $8.8 million in par value bonds and realized a net gain of $661,000.

The Company manages its investment portfolio on an aggregate portfolio basis for purposes of monitoring and controlling average life and duration. Accordingly, some individual purchases may fall outside these overall guidelines. The Company

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will continue to purchase high quality bonds to the maximum extent practical and prudent, consistent with its liquidity and asset liability strategies, and regulatory requirements.

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 $1,295,154,000 at September 30, 2017, compared to $1,164,821,000 at December 31, 2016, an increase of $130,333,000 or 11.19%. The increase is the result of organic growth and the de novo branch start-ups in Roanoke, Virginia and Winston-Salem, North Carolina.

Loans held for sale totaled $3,386,000 at September 30, 2017 and $5,996,000 at December 31, 2016. Loan production volume was $63,627,000 for the nine month period ending September 30, 2017 and $78,330,000 for the year ended December 31, 2016. These loans were approximately 60% purchase and 40% refinancing.

Management of the loan portfolio is organized around portfolio segments. Each segment is comprised of various loan types that are reflective of operational and regulatory reporting requirements. The following table presents the Company's loan portfolio by segment as of September 30, 2017 and December 31, 2016 (dollars in thousands):

	September 30, 2017	December 31, 2016
Commercial	$230,484	$208,717
Commercial real estate:		
Construction and land development	137,869	114,258
Commercial real estate	602,434	510,960
Residential real estate:		
Residential	209,201	215,104
Home equity	110,926	110,751
Consumer	4,240	5,031
Total loans	$1,295,154	$1,164,821

Provision for Loan Losses

Provision for loan losses was $1,090,000 for the nine month period ended September 30, 2017, compared to $200,000 for the same period ended September 30, 2016. The additional provision in the nine month period ended September 30, 2017 resulted primarily from increased loan volume. The increase was mitigated by continued strong asset quality metrics and improving local and national economic indicators.

Allowance for Loan Losses

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 September 30, 2017, the ALLL was $13,858,000 compared to $12,801,000 at December 31, 2016. The ALLL as a percentage of total loans was 1.07% and 1.10%, respectively.

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 FASB 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 1.10% at September 30, 2017, compared to 1.17% at December 31, 2016. On a dollar basis, the reserve was $13,319,000 at September 30, 2017, compared to $12,429,000 at December 31, 2016. The percentage of the reserve to total loans has declined due to improving local and national economic conditions and continued strong asset quality metrics. 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 4.52% at September 30, 2017, compared to 0.47% at December 31, 2016. On a dollar basis, the reserve was $165,000 at September 30, 2017, compared to $23,000 at December 31, 2016. There is ongoing turnover in the composition of the impaired loan population, which decreased

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by a net $1,203,000 over December 31, 2016. The overall impairment allowance for the 2017 period significantly increased due to newly evaluated impaired loans and an enhanced analysis methodology.

The specific allowance does not include reserves related to acquired loans with deteriorated credit quality. This reserve was $374,000 at September 30, 2017 compared to $349,000 at December 31, 2016. This is the only portion of the reserve related to acquired impaired 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 additional loan loss provision. The following table presents the Company's loan loss and recovery experience for the periods indicated (dollars in thousands):

Summary of Loan Loss Experience

	Nine Months Ended September 30, 2017	Year Ended December 31, 2016
Balance at beginning of period	$ 12,801	$ 12,601
Charge-offs:		
Construction and land development	35	—
Commercial real estate	—	10
Residential real estate	80	21
Home equity	13	66
Total real estate	128	97
Commercial and industrial	166	40
Consumer	117	189
Total charge-offs	411	326
Recoveries:		
Construction and land development	8	11
Commercial real estate	16	21
Residential real estate	38	53
Home equity	11	15
Total real estate	73	100
Commercial and industrial	219	40
Consumer	86	136
Total recoveries	378	276
Net charge-offs (recoveries)	33	50
Provision for loan losses	1,090	250
Balance at end of period	$ 13,858	$ 12,801

Asset Quality Indicators

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

Asset Quality Ratios

	September 30, 2017	December 31, 2016
Allowance to loans	1.07 %	1.10 %
ASC 450 (FAS 5) ALLL	1.10	1.17
Net charge-offs (recoveries) to allowance [(1)]	0.32	0.39
Net charge-offs (recoveries) to average loans [(1)]	0.00	0.00
Nonperforming assets to total assets	0.29	0.29
Nonperforming loans to loans	0.23	0.30
Provision to net charge-offs (recoveries) [(1)]	3,303.03	500.00
Provision to average loans [(1)]	0.12	0.02
Allowance to nonperforming loans	456.46	360.39

(1) - Annualized.

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 0.23% at September 30, 2017 and 0.30% at December 31, 2016.

Nonperforming assets include nonperforming loans and OREO. Nonperforming assets represented 0.29% of total assets at both September 30, 2017 and December 31, 2016.

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. In accounting for acquired impaired loans, such loans are not classified as nonaccrual when they become 90 days past due. They are considered to be accruing because their interest income relates to the accretable yield and not to contractual interest payments.

Loans will only be restored to full accrual status after six consecutive months of payments that were each less than 30 days delinquent. The Company strictly adheres with this policy before restoring a loan to normal accrual status.

The following table presents the Company's nonperforming assets as of September 30, 2017 and December 31, 2016 (dollars in thousands):

Nonperforming Assets

	September 30, 2017	December 31, 2016
Nonaccrual loans:		
Real estate	$ 2,354	$ 2,928
Commercial	143	19
Consumer	1	18
Total nonaccrual loans	2,498	2,965
Loans past due 90 days and accruing interest:		
Real estate	538	587
Total past due 90 days and accruing interest	538	587
Total nonperforming loans	3,036	3,552
Other real estate owned	2,101	1,328
Total nonperforming assets	$ 5,137	$ 4,880

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 September 30, 2017 and December 31, 2016 (dollars in thousands):

Impaired Loans

	September 30, 2017	December 31, 2016
Accruing	$ 1,137	$ 2,059
Nonaccruing	2,504	2,785
Total impaired loans	$ 3,641	$ 4,844

Troubled Debt Restructurings ("TDRs")

TDRs exist whenever the Company makes a concession to a customer based on the customer's financial distress that would not have otherwise been made in the normal course of business.

There were $1,747,000 in TDRs at September 30, 2017 compared to $2,670,000 at December 31, 2016. These loans are included in the impaired loan table above.

Other Real Estate Owned

Other real estate owned was $2,101,000 and $1,328,000 as of September 30, 2017 and December 31, 2016, respectively. OREO 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 September 30, 2017 and December 31, 2016 (dollars in thousands):

Other Real Estate Owned

	September 30, 2017	December 31, 2016
Construction and land development	$ 351	$ 139
1-4 family residential	1,377	653
Commercial real estate	373	536
	$ 2,101	$ 1,328

Deposits

The Company's deposits consist primarily of checking, money market, savings, and consumer and commercial time deposits. Total deposits were $1,480,205,000 at September 30, 2017 compared to $1,370,640,000 at December 31, 2016, an increase of $109,565,000 or 7.99%. This growth is mostly in non-maturity, core deposits, the heart of our balance sheet.

The Company's primary focus on the liability side of the balance sheet is growing core deposits and their affiliated relationships. The continuing 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 third quarter of 2017 was 0.57%, up from 0.53% for the third quarter of 2016.

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 $210,214,000 at September 30, 2017 compared to $201,380,000 at December 31, 2016, an increase of $8,834,000 or 4.39%.

The Company paid cash dividends of $0.72 per share during the first nine months of 2017 while the aggregate basic and diluted earnings per share for the same period was $1.52.

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 phase in of the capital conservation buffer began on 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.

The following table provides information on the regulatory capital ratios for the Company and the Bank at September 30, 2017 and December 31, 2016. Management believes, as of September 30, 2017, that the Company and the Bank more than satisfy all capital adequacy requirements to which they are subject.

	Percentage At September 30, 2017		Percentage At December 31, 2016	
Risk-Based Capital Ratios:	Company	Bank	Company	Bank
Common equity tier 1 capital ratio	11.79%	12.96%	11.77%	12.92%
Tier 1 capital ratio	13.77	12.96	13.83	12.92
Total capital ratio	14.79	13.96	14.81	13.89
Leverage Capital Ratio:				
Tier 1 leverage ratio	11.21	10.55	11.67	10.88

Stock Repurchase Plan

On November 19, 2015, 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 300,000 shares of the Company's common shares over a two year period. The share purchase limit was established at such number to equal to approximately 3.5% of the 8,622,000 shares then outstanding at the time the Board approved the program.

In the nine month period ended September 30, 2017, the Company did not repurchase any shares. During the same period in 2016, the Company repurchased 51,384 shares at an average cost of $25.14 per share, for a total cost of $1,292,000.

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, second mortgage loans, home equity lines of credit, and commercial real estate loans. In addition, the Company pledges as collateral its capital stock in and deposits with the FHLB. At September 30, 2017, principal advance obligations to the FHLB, net of acquisition related fair value adjustments, consisted of $9,996,000 in fixed-rate, long-term advances compared to $9,980,000 in fixed-rate, long-term advances at December 31, 2016. The Company also had outstanding $190,700,000 in letters of credit at September 30, 2017 compared to $130,700,000 at December 31, 2016. 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.
Short-term borrowings are discussed in Note 6 and long-term borrowings are discussed in Note 7 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.

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 September 30, 2017 and December 31, 2016, were $27,428,000 and $23,445,000, 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 September 30, 2017 and at December 31, 2016 were as follows (dollars in thousands):

	September 30, 2017	December 31, 2016
Commitments to extend credit	$ 358,042	$ 345,803
Standby letters of credit	10,884	4,088
Mortgage loan rate-lock commitments	11,997	12,839

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 the ALCO and Board of Directors, both of which receive and review periodic reports of the Company's interest rate risk position.

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,

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management believes the Company's interest sensitivity position at September 30, 2017 is asset sensitive. Management expects that the general direction of market interest rates will be gradually up over the remainder of 2017 and into 2018.

Earnings Simulation

The following table shows the estimated impact of changes in interest rates on net interest income as of September 30, 2017 (dollars in thousands), assuming gradual and parallel changes in interest rates, 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.

Estimated Changes in Net Interest Income

	September 30, 2017 Change in Net Interest Income	
Change in interest rates	Amount	Percent
Up 4.00%	$10,249	18.3 %
Up 3.00%	7,983	14.3
Up 2.00%	5,580	10.0
Up 1.00%	2,920	5.2
Flat	—	—
Down 0.25%	(917)	(1.6)
Down 0.50%	(2,156)	(3.9)

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.

The following table reflects the estimated change in net economic value over different rate environments using economic value simulation for the balances at the quarterly period ended September 30, 2017 (dollars in thousands):

Estimated Changes in Economic Value of Equity

	September 30, 2017		
Change in interest rates	Amount	$ Change	% Change
Up 4.00%	$305,459	$56,058	22.5 %
Up 3.00%	301,607	52,206	20.9
Up 2.00%	292,997	43,596	17.5
Up 1.00%	276,826	27,425	11.0
Flat	249,401	—	—

Down 0.25%	238,080	(11,321)	(4.5)
Down 0.50%	226,082	(23,319)	(9.4)

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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, 2016. 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 September 30, 2017. 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 September 30, 2017, that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

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, 2016 filed with the SEC on March 16, 2017.

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

On November 19, 2015, the Company's Board of Directors authorized a share repurchase program of up to 300,000 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.

No shares of the Company's common stock were repurchased during the three months ended September 30, 2017. Under the share repurchase program, the Company has the remaining authority to repurchase up to 234,915 shares of the Company's common stock as of September 30, 2017.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable

ITEM 5. OTHER INFORMATION

(a) Required 8-K disclosures

None

(b) Changes in Nominating Process

None

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 September 30, 2017 and December 31, 2016, (ii) the Consolidated Statements of Income for the three and nine months ended September 30, 2017 and September 30, 2016, (iii) the Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2017 and September 30, 2016, (iv) the Consolidated Statements of Changes in Shareholders' Equity for the nine months ended September 30, 2017 and September 30, 2016, (v) the Consolidated Statements of Cash Flows for the nine months ended September 30, 2017 and September 30, 2016, and (vi) the Notes to the Consolidated Financial Statements (furnished herewith).

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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 President and Chief Executive Officer
Date - November 6, 2017	(principal executive officer)
	/s/ William W. Traynham William W. Traynham Executive Vice President and Chief Financial Officer
Date - November 6, 2017	(principal financial officer)
	/s/ Cathy W. Liles Cathy W. Liles Senior Vice President and Chief Accounting Officer
Date - November 6, 2017	(principal accounting officer)

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