OSSOWSKI JAMES L
Form 4
February 13, 2019

FORM 4

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

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

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

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

OMB APPROVAL
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(Print or Type Responses)

1. Name and Address of Reporting Person *
OSSOWSKI JAMES L
(Last) (First) (Middle)
3350 PEACHTREE ROAD NORTHEAST, SUITE 150
(Street)
ATLANTA, GA 30326
(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
PULTEGROUP INC/MI/ [PHM]

3. Date of Earliest Transaction (Month/Day/Year)
02/11/2019

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

5. Relationship of Reporting Person(s) to Issuer
(Check all applicable)
_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
Senior Vice President Finance

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

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

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	02/11/2019		F		5,086 (1)	D	$ 26.61	38,710	D	
Common Stock								36,659	I	Via Michelle L Ossowski Liv Trust

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

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SEC 1474 (9-02)

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

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Own Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
OSSOWSKI JAMES L 3350 PEACHTREE ROAD NORTHEAST SUITE 150 ATLANTA, GA 30326			Senior Vice President Finance	

Signatures

/s/ Todd N. Sheldon, Attorney-in-Fact	02/13/2019
**Signature of Reporting Person	Date

Explanation of Responses:

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

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

(1) These shares were surrendered to issuer to cover tax obligations on common shares on which the restrictions have lapsed.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. ont style="DISPLAY: inline; FONT-SIZE: 10pt; FONT-FAMILY: times new roman"> $18,062

Interest expense

3,687 - 687 (74) 4,300

Noninterest income

2,006 1,656 21 - 3,683

Operating income before income taxes

5,447 1,080 (742) - 5,785

Net income

3,976 713 (490) 4,199

Depreciation and amortization

	817	8	0	-	825
Total assets	831,971	-	673	-	832,644
Capital expenditures	1,098	1	-	-	1,099

Note 14 – 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, the fair value of a financial 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 financial 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 recent 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 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). Federal Reserve Bank of Richmond and Federal Home Loan Bank stocks are carried at cost since no ready market exists and there is no quoted market value. The Company is required to own stock in these entities as long as it is a member. Therefore, they have been excluded from the table below.

The following table presents the balances of financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2011 (in thousands):

		Fair Value Measurements at June 30, 2011 Using		
Description	Balance as of June 30, 2011	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 GSE	$29,015	$-	$29,015	$ -
Mortgage-backed and CMO's	55,629	-	55,629	-
State and municipal	144,640	-	144,640	-
Corporate	2,109	-	2,109	-
Total	231,393	$-	231,393	$ -

		Fair Value Measurements at December 31, 2010 Using		
Description	Balance as of December 31, 2010	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 GSE	$58,077	$-	$58,077	$ -
Mortgage-backed and CMO's	62,982	-	62,594	388
State and municipal	105,098	-	105,098	-
Corporate	2,138	-	2,138	-
Total	$228,295	$-	$227,907	$ 388

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

Total Realized / Unrealized Gains

	Balances as of January 1, 2011	(Losses) Included in Net Income	Other Comprehensive Income	Purchases, Sales, Issuances and Settlements, Net	Transfer In (Out) of Level 3	Balances as of June 30, 2011
Securities available for sale						
Private label Collateralized Mortgage Obligation (ARM)	$388	$(46)	$ 177	$(519)	$-	$-
Total assets	$388	$(46)	$ 177	$(519)	$-	$-

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.

25

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 estimated 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 year ended June 30, 2011. Gains and losses on the sale of loans are recorded within income from mortgage banking 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 agreement will not be collected. The measurement of loss associated with impaired loans can be based on either the observable market price of the loan or the fair value of the collateral or the present value of future cash flows. Fair value is measured based on the value of the collateral securing the loans. Collateral may be in the form of real estate or business assets including equipment, inventory, and accounts receivable. The vast majority of the collateral is real estate. The value of real estate collateral is determined utilizing an income or market valuation approach based on an appraisal conducted by an independent, licensed appraiser outside of the Company 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 real estate property is over two years old, then the fair value is considered Level 3. The value of business equipment is based upon an outside appraisal 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 receivables 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.

Other real estate owned: Certain assets such as other real estate owned ("OREO") are measured at fair value less cost to sell. OREO is measured at fair value using an income or market valuation approach based on an appraisal conducted by an independent, licensed appraiser outside of the Company using market date (Level 2). However, if an appraisal of the real estate property is over two years old, then the fair value is considered to be Level 3. We believe that the fair value component in our valuation of OREO follows the provisions of accounting standards.

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

		Fair Value Measurements at June 30, 2011 Using		
Description	Balance as of June 30, 2011	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Assets				
Loans held for sale	$2,087	-	$2,087	-
Impaired loans, net of valuation allowance	649	-	649	-

Other real estate owned	3,513	-	3,513	-

		Fair Value Measurements at December 31, 2010 Using		
Description	Balance as of December 31, 2010	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Assets				
Loans held for sale	$3,135	-	$3,135	-
Impaired loans, net of valuation allowance	560	-	560	-
Other real estate owned	3,716	-	3,716	-

26

The estimated fair values, and related carrying or notional amounts, of the Company's financial instruments are as follows:

	June 30, 2011		December 31, 2010	
		Estimated		Estimated
	Carrying	Fair	Carrying	Fair
(in thousands)	Amount	Value	Amount	Value
Financial assets:				
Cash and due from banks	$39,183	$39,183	$18,514	$18,514
Securities available for sale	231,393	231,393	228,295	228,295
Securities held to maturity	2,381	2,458	3,334	3,440
Loans held for sale	2,087	2,087	3,135	3,135
Loans, net of allowance	505,337	503,336	512,361	519,338
Accrued interest receivable	3,564	3,564	3,704	3,704
Financial liabilities:				
Deposits	$658,950	$661,776	$640,098	$642,705
Repurchase agreements	50,329	50,329	47,084	47,084
Other borrowings	413	418	14,598	14,600
Trust preferred capital notes	20,619	20,515	20,619	20,531
Accrued interest payable	675	675	831	831

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.

Loans held for sale. The carrying amount is a reasonable estimate of fair value.

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 analyses, 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 analyses or underlying collateral values, where applicable.

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 borrowings. The fair values of long-term borrowings are estimated using discounted cash flow analyses based on the interest rates for similar types of borrowing arrangements.

Trust preferred capital notes. 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 June 30, 2011 and December 31, 2010, 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 15 – Supplemental Cash Flow Information

	Six Months Ended June 30,			
		2011		2010
Supplemental Schedule of Cash and Cash Equivalents:				
Cash and due from banks	$	15,873	$	11,398
Interest-bearing deposits in other banks		23,310		22,705
	$	39,183	$	34,103
Supplemental Disclosure of Cash Flow Information:				
Cash paid for:				
Interest on deposits and borrowed funds	$	4,183	$	4,358
Income taxes		1,141		2,285
Noncash investing and financing activities:				
Transfer of loans to other real estate owned		674		722
Unrealized gain on securities available for sale		4,173		1,238

Note 16 – Completed Merger

On July 1, 2011, American National Bankshares Inc. ("American National") completed its merger with MidCarolina Financial Corporation ("MidCarolina") pursuant to the Agreement and Plan of Reorganization, dated December 15, 2010, between American National and MidCarolina (the "merger agreement"). MidCarolina was headquartered in Burlington, North Carolina, and engaged in banking operations through its subsidiary bank, MidCarolina Bank. The transaction has expanded the Company's footprint in North Carolina, adding eight branches in Alamance and Guilford Counties.

Pursuant to the terms of the merger agreement, as a result of the merger, the holders of shares of MidCarolina common stock received 0.33 shares of American National common stock for each share of MidCarolina common stock held immediately prior to the effective date of the merger. Each share of American National common stock outstanding immediately prior to the merger has continued to be outstanding after the merger. Each option to purchase a share of MidCarolina common stock outstanding immediately prior to the effective date of the merger was converted into an option to purchase shares of American National common stock, adjusted for the 0.33 exchange ratio. Additionally, the holders of shares of noncumulative perpetual Series A preferred stock of MidCarolina received one share of a newly authorized noncumulative perpetual Series A preferred stock of American National for each MidCarolina preferred share held immediately before the merger. The American Series A preferred stock has terms, preferences, rights and limitations that are identical in all material respects to the MidCarolina Series A preferred stock.

American National issued 1,626,157 shares of additional common stock in connection with the MidCarolina merger. This represents 20.9% of the now outstanding shares of the Company.

In connection with the transaction, MidCarolina Bank was merged with and into American National Bank and Trust Company. The former offices of MidCarolina Bank are expected to operate under the name “MidCarolina Bank, a division of American National Bank and Trust Company” until early 2012.

28

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. and its wholly owned subsidiary, American National Bank and Trust Company (the “Bank”, and collectively with American National Bankshares Inc., the “Company”). 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 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
- The potential for negative financial or operational impact of the recent merger with MidCarolina Financial Corporation.

Reclassification

In certain circumstances, reclassifications have been made to prior period information to conform to the 2011 presentation.

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 and (2) goodwill impairment. A summary of the Company’s significant accounting policies is set forth in Note 1 to the Consolidated

Financial Statements in the Company's 2010 Annual Report on Form 10-K.

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.

29

Allowance for Loan Losses and Reserve for Unfunded Loan Commitments

The allowance for loan losses is an estimate of the losses inherent in the loan portfolio at the balance sheet date. The allowance is based on two basic principles of accounting: Financial Accounting Standards Board ("FASB") Topic 450-25 Contingencies - Recognition which requires that losses be accrued when they are probable of occurring and estimable and FASB Topic 310-10 Receivables – Overall – Subsequent Measurement which requires that losses on impaired loans be accrued based on the differences between the value of collateral, present value of future cash flows, or values observable in the secondary market, and the loan balance.

The Company's allowance for loan losses has two basic components: the formula allowance and the specific allowance. Each of these components is determined based upon estimates. With regard to commercial loans, 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, and portfolio concentrations. In the formula allowance, the migrated historical loss rate is combined with the qualitative factors, resulting in an adjusted loss factor for each risk-grade category of loans. With regard to consumer loans, the allowance calculations 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 period-end balances for each loan risk-grade category are multiplied by the adjusted loss factor. The formula allowance is calculated for a range of outcomes. The specific allowance uses various techniques to arrive at an estimate of loss for specifically identified impaired loans. The use of these computed values is inherently subjective and actual losses could be greater or less than the estimates.

The reserve for unfunded loan commitments is an estimate of the losses inherent in off-balance-sheet loan commitments at the balance sheet date. It is calculated by multiplying an estimated loss factor by an estimated probability of funding, and then by the period-end amounts for unfunded commitments. The reserve for unfunded loan commitments is included in other liabilities.

Goodwill Impairment

The Company tests goodwill on an annual basis or more frequently if events or circumstances indicate that there may have been impairment. If the carrying amount of goodwill exceeds its implied fair value, the Company would recognize an impairment loss in an amount equal to that excess. The goodwill impairment test requires management to make judgments in determining the assumptions used in the calculations. The goodwill impairment testing conducted by the Company in the third quarter of 2010 indicated that goodwill is not impaired and is properly recorded in the financial statements. No events or circumstances since December 31, 2010 have occurred that would question the impairment of goodwill.

Non-GAAP Presentations

The analysis of net interest income in this document is performed on a taxable equivalent basis to facilitate performance comparisons among various taxable and tax-exempt assets.

Internet Access to Corporate Documents

The Company provides access to its Securities and Exchange Commission ("SEC") filings through a link on the Investors Relations page of the Company's web site at www.amnb.com. Reports available include the annual report 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.

RESULTS OF OPERATIONS

Earnings Performance

Three months ended June 30, 2011 and 2010

For the quarter ended June 30, 2011, the Company reported net income of $1,012,000 compared to $2,014,000 for the comparable quarter in 2010. The $1,002,000 or 49.8% decrease in earnings was primarily due to:

- a $259,000 decrease in net interest income, related to a declining net interest margin, and
- a $1,154,000 increase in noninterest expenses, primarily related to $835,000 in one-time, merger expenses charged during the quarter.

SUMMARY INCOME STATEMENT
(Dollars in thousands)

For the three months ended June 30,		2011			2010			$ Change		% Change
Interest income	$	8,570		$	9,011		$	(441	)	-4.9 %
Interest expense		(1,971	)		(2,153	)		182		-8.5 %
Net interest income		6,599			6,858			(259	)	-3.8 %
Provision for loan losses		(336	)		(285	)		(51	)	17.9 %
Noninterest income		1,988			2,043			(55	)	-2.7 %
Noninterest expense		(7,028	)		(5,874	)		(1,154	)	19.6 %
Income tax expense		(211	)		(728	)		517		-71.0 %
Net income	$	1,012		$	2,014		$	(1,002	)	-49.8 %

Six months ended June 30, 2011 and 2010

For the six month period ended June 30, 2011, the Company reported net income of $2,790,000 compared to $4,199,000 for the comparable quarter in 2010. The $1,409,000 or 33.6% decrease in earnings was primarily due to:

- a $558,000 decrease in net interest income, related to declining net interest margin resulting from lower yields on earning assets,
- a $103,000 increase in provision for loan losses, and
- a $1,433,000 increase in noninterest expense, primarily related to $1,144,000 in one-time, merger expenses charged during the period.

31

Explanation of Responses:

SUMMARY INCOME STATEMENT
(Dollars in thousands)

For the six months ended June 30,	2011	2010	$ Change	% Change
Interest income	$ 17,231	$ 18,062	$ (831)	-4.6 %
Interest expense	(4,027)	(4,300)	273	-6.3 %
Net interest income	13,204	13,762	(558)	-4.1 %
Provision for loan losses	(673)	(570)	(103)	18.1 %
Noninterest income	3,959	3,967	(8)	-0.2 %
Noninterest expense	(12,807)	(11,374)	(1,433)	12.6 %
Income tax expense	(893)	(1,586)	693	-43.7 %
Net income	$ 2,790	$ 4,199	$ (1,409)	-33.6 %

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 June 30, 2011 and 2010

Net interest income on a taxable equivalent basis decreased $131,000 or 1.8%, for the second quarter of 2011 compared to the same quarter of 2010. Decreases in the yield on earning assets and shifts in the volumes of those earning assets were the primary drivers of the decline in net interest income, as indicated by the Rate/Volume Analysis shown later in this section.

For the second quarter of 2011 and 2010, the Company’s yield on earnings assets was 4.67% compared to 5.00%. The cost of interest bearing liabilities was 1.28% compared to 1.42%. The interest rate spread was 3.39% compared to 3.58% for the comparable 2010 quarter. The net interest margin, on a fully taxable equivalent basis, was 3.65% compared to 3.85%. Yields and rates generally fell between periods.

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 June 30, 2011 and 2010. 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.

32

Net Interest Income Analysis
For the Three Months Ended June 30, 2011 and 2010
(in thousands, except rates)

	Average Balance		Interest Income/Expense		Yield/Rate	
	2011	2010	2011	2010	2011	2010
Loans:						
Commercial	$ 79,595	$ 78,673	$ 909	$ 939	4.58 %	4.77 %
Real estate	430,872	437,856	5,620	6,033	5.22	5.51
Consumer	6,678	6,485	120	137	7.21	8.45
Total loans	517,145	523,014	6,649	7,109	5.15	5.44
Securities:						
Federal agencies	35,919	66,019	256	525	2.85	3.18
Mortgage-backed & CMOs	56,133	45,651	466	479	3.32	4.20
State and municipal	137,843	79,622	1,585	1,079	4.60	5.42
Other	5,830	6,997	57	61	3.91	3.49
Total securities	235,725	198,289	2,364	2,144	4.01	4.33
Deposits in other banks	20,880	25,576	14	87	0.27	1.36
Total interest-earning assets	773,750	746,879	9,027	9,340	4.67	5.00
Non-earning assets	75,033	71,861				
Total assets	$ 848,783	$ 818,740				
Deposits:						
Demand	$ 98,224	$ 96,098	17	21	0.07	0.09
Money market	61,714	82,372	67	101	0.44	0.49
Savings	63,716	64,561	22	22	0.14	0.14
Time	325,743	271,932	1,481	1,503	1.82	2.22
Total deposits	549,397	514,963	1,587	1,647	1.16	1.28
Customer repurchase agreements	47,220	62,072	82	99	0.70	0.64
Long-term borrowings	21,062	29,212	302	407	5.74	5.57
Total interest-bearing liabilities	617,679	606,247	1,971	2,153	1.28	1.42

Noninterest bearing demand deposits	116,928	100,493				
Other liabilities	3,317	3,873				
Shareholders' equity	110,859	108,127				
Total liabilities and shareholders' equity	$ 848,783	$ 818,740				
Interest rate spread					3.39 %	3.58 %
Net interest margin					3.65 %	3.85 %
Net interest income (taxable equivalent basis)			7,056	7,187		
Less: Taxable equivalent adjustment			457	329		
Net interest income			$ 6,599	$ 6,858		

33

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

	Three Months Ended June 30 2011 vs. 2010		
	Interest	Change Attributable to	
Interest income	Increase (Decrease)	Rate	Volume
Loans:			
Commercial	$ (30)	$ (41)	$ 11
Real Estate	(413)	(318)	(95)
Consumer	(17)	(21)	4
Total loans	(460)	(380)	(80)
Securities:			
Federal agencies	(269)	(50)	(219)
Mortgage-backed	(13)	(111)	98
State and municipal	506	(184)	690
Other securities	(4)	7	(11)
Total securities	220	(338)	558
Deposits in other banks	(73)	(59)	(14)
Total interest income	(313)	(777)	464
Interest expense			
Deposits:			
Demand	(4)	(4)	-
Money market	(34)	(11)	(23)
Savings	-	-	-
Time	(22)	(292)	270
Total deposits	(60)	(307)	247
Customer repurchase agreements	(17)	8	(25)
Other borrowings	(105)	12	(117)
Total interest expense	(182)	(287)	105
Net interest income	$ (131)	$ (490)	$ 359

Six months ended June 30, 2011 and 2010

Net interest income on a taxable equivalent basis decreased $301,000 or 2.1%, for the six months ended June 30, 2011 compared to the comparable period in 2010. Decreases in the yield on earning assets and shifts in the volumes of those earning assets were the primary drivers of the decline in net interest income, as indicated by the Rate/Volume Analysis shown later in this section.

For the first six months of 2011 and 2010, the Company's yield on earnings assets was 4.71% compared to 5.03%. The cost of interest bearing liabilities was 1.32% compared to 1.43%. The interest rate spread was 3.39% compared to 3.60%. The net interest margin, on a fully taxable equivalent basis, was 3.65% compared to 3.86%. Yields and rates generally fell between periods.

The following presentation is an analysis of net interest income and related yields and rates, on a taxable equivalent basis, for the six months ended June 30, 2011 and 2010. 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.

34

Net Interest Income Analysis
For the Six Months Ended June 30, 2011 and 2010
(in thousands, except rates)

	Average Balance		Interest Income/Expense		Yield/Rate	
	2011	2010	2011	2010	2011	2010
Loans:						
Commercial	$ 78,765	$ 78,974	$ 1,789	$ 1,892	4.58 %	4.79 %
Real estate	431,775	437,550	11,315	12,128	5.24	5.54
Consumer	7,089	6,628	256	271	7.28	8.18
Total loans	517,629	523,152	13,360	14,291	5.17	5.46
Securities:						
Federal agencies	39,612	65,886	579	1,076	2.92	3.27
Mortgage-backed & CMOs	57,706	44,722	956	980	3.31	4.38
State and municipal	127,934	73,614	2,993	2,006	4.68	5.45
Other	5,933	7,308	115	130	3.88	3.56
Total securities	231,185	191,530	4,643	4,192	4.02	4.38
Deposits in other banks	20,730	28,094	84	178	0.82	1.27
Total interest-earning assets	769,544	742,776	18,087	18,661	4.71	5.02
Non-earning assets	73,338	72,882				
Total assets	$ 842,882	$ 815,658				
Deposits:						
Demand	$ 97,465	$ 96,578	35	42	0.07	0.09
Money market	62,416	81,595	150	191	0.48	0.47
Savings	63,114	63,686	43	44	0.14	0.14
Time	322,776	269,256	2,939	3,005	1.84	2.23
Total deposits	545,771	511,115	3,167	3,282	1.17	1.28
Customer repurchase agreements	45,500	63,005	162	204	0.72	0.65
Other short-term borrowings	68	-	-	-	0.47	-
Long-term borrowings	24,439	29,230	698	814	5.71	6.00

Total interest-bearing liabilities	615,778	603,350	4,027	4,300	1.32	1.43
Noninterest bearing demand deposits	113,890	99,676				
Other liabilities	3,168	3,818				
Shareholders' equity	110,046	107,814				
Total liabilities and shareholders' equity	$ 842,882	$ 814,658				
Interest rate spread					3.39 %	3.59 %
Net interest margin					3.65 %	3.87 %
Net interest income (taxable equivalent basis)			14,060	14,361		
Less: Taxable equivalent adjustment			856	599		
Net interest income			$ 13,204	$ 13,762		

35

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

	Six Months Ended June 30 2011 vs. 2010		
	Interest Increase	Change Attributable to	
Interest income	(Decrease)	Rate	Volume
Loans:			
Commercial	$ (103)	$ (98)	$ (5)
Real Estate	(813)	(655)	(158)
Consumer	(15)	(33)	18
Total loans	(931)	(786)	(145)
Securities:			
Federal agencies	(497)	(104)	(393)
Mortgage-backed	(24)	(271)	247
State and municipal	987	(318)	1,305
Other securities	(15)	11	(26)
Total securities	451	(682)	1,133
Deposits in other banks	(94)	(54)	(40)
Total interest income	(574)	(1,522)	948
Interest expense			
Deposits:			
Demand	(7)	(7)	-
Money market	(41)	5	(46)
Savings	(1)	(1)	-
Time	(66)	(606)	540
Total deposits	(115)	(609)	494
Repurchase agreements	(42)	19	(61)
Other borrowings	(116)	18	(134)
Total interest expense	(273)	(572)	299
Net interest income	$ (301)	$ (950)	$ 649

Noninterest Income

All comparisons discussed below are between the second quarter 2011 and the second quarter of 2010, unless otherwise noted.

Noninterest income was $1,988,000 in 2011 compared to $2,043,000 in 2010, a $55,000 or 2.7% decline. The major factors impacting that change are discussed below.

Fees from the management of trusts, estates, and asset management accounts were $878,000 in 2011 compared to $801,000 in 2010, an increase of $77,000 or 9.6%. A substantial portion of trust fees are earned based on account market values, so changes in the equity markets may have a large and potentially volatile impact on revenue.

Service charges on deposit accounts were $400,000 in 2011 compared to $483,000 in 2010, a decline of $83,000 or 17.2%. This reduction was primarily the result of lower deposit account returned check fee volume.

Other fees and commissions were $338,000 in 2011 compared to $288,000 in 2010, an increase of $50,000 or 17.4%, resulting from multiple small factors.

Mortgage banking income was $271,000 in 2011 compared to $343,000 in 2010, a decline of $72,000 or 21.0%. Volume has decreased in 2011 with the continued slowdown in the real estate market.

Securities losses were $19,000 for 2011 compared to a $4,000 gain in 2010. This change was mostly related to losses incurred on the sale of a private-label mortgage-backed security that had previously been designated as other than temporarily impaired.

Other noninterest income decreased to $120,000 compared to $124,000 in 2010, a decline of $4,000 or 3.2%.

Noninterest income for the six months ended June 30, 2011 was $3,959,000 compared to $3,967,000 for the same period in 2010, a decrease of $8,000.

Noninterest Expense

All comparisons discussed below are between the second quarter 2011 and the second quarter of 2010, unless otherwise noted.

Noninterest expense was $7,028,000 in 2011 compared to $5,874,000 in 2010, an increase of $1,154,000 or 19.6%. Over 70% of this increase was related to one-time merger expenses. The other major factors impacting that change are discussed below.

Salaries were $2,546,000 in 2011 compared to $2,596,000 in 2010, a $50,000 or 1.9% decrease.

Employee benefits were $624,000 in 2011 compared to $633,000 in 2010, a $9,000 or 1.4% decrease.

Foreclosed real estate losses were $413,000 in 2011 compared to $281,000 in 2010. The major driver in this increased loss in the second quarter of 2011 was a $349,000 charge adjusting the appraised value of certain foreclosed real estate. That same property was written down $253,000 in 2010. The remaining value of that asset is $1,463,000 and represents 42% of other real estate owned at June 30, 2011.

Merger related expenses were $825,000 in 2011 resulting from the acquisition of MidCarolina Financial Corporation (“MidCarolina”). There were no such expenses in first half of 2010.

Other noninterest expense was $1,446,000 in 2011 compared to $1,204,000 in 2010, an increase of $242,000 or 20.1%. This increase was the result of a multitude of small factors.

Noninterest expense for the six months ended June 30, 2011 was $12,807,000 compared to $11,374,000 for the same period in 2010, an increase of $1,433,000 or 12.6%. Of this increase, $1,143,000 or 79.8% was related to one-time, merger expenses for the MidCarolina acquisition. This remainder of the increase was the result of the same factors discussed above for the quarter.

Income Taxes

The effective tax rate for the second quarter of 2011 was 17.3% compared to 26.5% for the second quarter of 2010. Interest income on tax exempt municipal securities was $273,000 or 49.2% higher in the 2011 quarter than the 2010 quarter.

The effective tax rate for the six months ended June 30, 2011 was 24.2% compared to 27.4% for the same period of 2010.

The effective tax rate is lower than the statutory rate primarily due to income that is not taxable for Federal income tax purposes. The primary non-taxable income is that of state and municipal securities and industrial revenue bonds or loans.

Impact of Inflation and Changing Prices

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

CHANGES IN FINANCIAL POSITION

BALANCE SHEET ANALYSIS

Securities

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

The available for sale securities portfolio was $231,393,000 at June 30, 2011 compared to $228,295,000 at December 31, 2010, a $3,098,000 or 1.4% increase. The held to maturity securities portfolio was $2,381,000 at June 30, 2011 compared to $3,334,000 at December 31, 2010, a $953,000 or 28.6% decrease.

At June 30, 2011, the available for sale portfolio had an estimated fair value of $231,393,000 and an amortized cost of $225,256,000, resulting in a net unrealized gain of $6,137,000. At the same dates, the held to maturity portfolio had an estimated fair value of $2,458,000 and an amortized cost of $2,381,000, resulting in a net unrealized gain of $77,000.

At June 30, 2011, mortgage-backed securities consisted almost exclusively of obligations of U.S. government sponsored enterprises. During the quarter, three private label CMOs were sold, one of which was previously classified as other than temporarily impaired and sold for a loss of $46,000. There are no other securities in the portfolio consider other than temporarily impaired.

The Company is aware of the continued historically low current interest rate environment and has elected to maintain an investment strategy of purchasing high quality taxable securities of relatively short duration and longer term tax exempt securities, whose market values are not as volatile in rising rate environments as similar termed taxable investments.

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. Average loans decreased $2,729,000, or 0.5% between first quarter 2011 and the first quarter 2010.

Loans were $514,081,000 at June 30, 2011 compared to $520,781,000 at December 31, 2010, a $6,700,000 or 1.3% decrease. Approximately $3.5 million of the decline represented a loan participation with MidCarolina Bank, in Burlington, North Carolina, the subsidiary bank of MidCarolina, which the Company acquired on July 1, 2011.

Loans held for sale totaled $2,087,000 at June 30, 2011, and $3,135,000 at December 31, 2010, a $1,048,000 or 33.4% decrease. The bank has continued to experience declining demand for secondary market mortgage loans.

Management of the loan portfolio is organized around portfolio segments. Each segment is comprised of a various loan types that are reflective of operational and regulatory management and reporting requirements. The following table presents the Company's loan portfolio by segment as of June 30, 2011 and December 31, 2010.

38

(in thousands)		June 30, 2011		December 31, 2010
Commercial	$	87,449	$	85,051
Commercial real estate:				
Construction and land development		35,756		37,168
Commercial real estate		208,685		210,393
Residential real estate:				
Residential		114,510		119,398
Home equity		61,218		61,064
Consumer		6,463		7,707
Total loans	$	514,081	$	520,781

Allowance and Provision for Loan Losses

The purpose of the allowance for loan losses is to provide for probable losses 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 Company uses certain practices to manage its credit risk. These practices include (a) appropriate lending limits for loan officers, (b) a loan approval process, (c) careful underwriting of loan requests, including analysis of borrowers, collateral, and market risks, (d) regular monitoring of the portfolio, including diversification by type and geography, (e) review of loans by the Loan Review department, which operates independently of loan production, (f) regular meetings of the Credit Committee to discuss portfolio and policy changes and make decisions on large or unusual loan requests, and (g) regular meetings of the Asset Quality Committee which reviews the status of individual loans.

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

Calculations of the allowance for loan losses are prepared quarterly by the Loan Review department. The Company's Credit Committee, Audit Committee, and Board of Directors review the allowance for adequacy. In determining the adequacy of the allowance, factors which are considered include, but are not limited to, historical loss experience, the size and composition of the loan portfolio, loan risk ratings, nonperforming loans, impaired loans, other problem credits, the value and adequacy of collateral and guarantors, and national, regional and local economic conditions and trends.

The Company's allowance for loan losses has two basic components: the formula allowance and the specific allowance. Each of these components is determined based upon estimates. With regard to commercial loans, 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, and portfolio concentrations. In the formula allowance, the migrated historical loss rate is combined with the qualitative

factors, resulting in an adjusted loss factor for each risk-grade category of loans. With regard to consumer loans, the allowance calculations for 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 period-end balances for each loan risk-grade category are multiplied by the adjusted loss factor. The formula allowance is calculated for a range of outcomes. The specific allowance uses various techniques to arrive at an estimate of loss for specifically identified impaired loans. 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 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. Furthermore, management cannot provide assurance that in any particular period the Company will not have sizeable credit losses in relation to the amount reserved. Management may find it necessary to significantly adjust the allowance, considering current factors at the time, including economic conditions, industry trends, and ongoing internal and external examination processes. The allowance is also subject to regular regulatory examinations and determinations as to adequacy, which may take into account such factors as the methodology used to calculate the allowance and the size of the allowance in comparison to peer banks.

At June 30, 2011, the allowance for loan losses was $8,744,000, compared to $8,420,000 at December 31, 2010. The allowance for loan losses as a percentage of loans at each of those dates was 1.70% and 1.62%. During the first six months of 2011, the allowance for loan losses increased by $324,000 or 3.8% and the loan portfolio contracted by $6,700,000 or 1.3%. Management believes that the allowance is appropriate in light of the continued economic slowdown in our primary market areas.

The provision for loan losses for the six-month period was $673,000 and the provision for the year-ended 2010 was $1,490,000.

Net loans charge-offs totaled $349,000 for the six-month period in 2011 and $1,236,000 in 2010. Annualized net charge offs to average loans for the first six months of 2011 totaled 0.14% and 0.24% for the year 2010.

The following table presents the Company's loan loss and recovery experience for the periods indicated.

Summary of Loan Loss Experience
(in thousands)

	Six Months June 30, 2011	Year December 31, 2010
Balance at beginning of period	$ 8,420	$ 8,166
Charge-offs:		
Construction and land development	384	-
Commercial real estate	-	666
Residential real estate	107	310
Home equity	33	135
Total real estate	524	1,111
Commercial and industrial	132	306
Consumer	49	114
Total charge-offs	705	1,531
Recoveries:		
Construction and land development	-	147
Commercial real estate	8	9
Residential real estate	25	29

Home equity		5		2
Total real estate		38		187
Commercial and industrial		279		32
Consumer		39		76
Total recoveries		356		295
Net charge-offs		349		1,236
Provision for loan losses		673		1,490
Balance at end of period	$	8,744	$	8,420

40

Asset Quality Indicators

The following table provides qualitative indicators relevant to the Company's loan portfolio.

Asset Quality Ratios

	June 30, 2011		December 31, 2010	
Allowance to loans*	1.70	%	1.62	%
Net charge-offs to year-end allowance#	7.98		14.68	
Net charge-offs to average loans#	0.14		0.24	
Nonperforming assets to total assets*	0.82		0.76	
Nonperforming loans to loans*	0.67		0.50	
Provision to net charge-offs	192.84		120.52	
Provision to average loans#	0.26		0.29	
Allowance to nonperforming loans*	252.42		324.22	

* - at quarter or year-end
# - annualized

Nonperforming Assets (Loans and Other Real Estate Owned)

Nonperforming loans include loans on which interest is no longer accrued, accruing loans that are contractually past due 90 days or more as to principal and interest payments, and any loans classified as troubled debt restructurings. Nonperforming loans to total loans were 0.67% at June 30, 2011 compared to 0.50% at December 31, 2010.

Nonperforming assets include nonperforming loans and other real estate. Nonperforming assets represented 0.82% of total assets at June 30, 2011, up from 0.76% at December 31, 2010. Included in nonperforming assets, there were $649,000 in troubled debt restructurings at June 30, 2011 and $0 at December 31, 2010.

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. Loans will only be restored to full accrual status after six consecutive months of payments that were each less than 30 days delinquent. The $3,464,000 in nonperforming loans shown on the following table includes $649,000 in impaired loans which were also on nonaccrual status. The remainder represent loans which were not deemed impaired. Based on the performance of these loans and existing circumstances, management did not believe loss was probable and did not classify these loans as impaired.

41

Explanation of Responses:

The following table presents the Company's nonperforming asset.

Nonperforming Assets
(in thousands)

	June 30, 2011	December 31, 2010
Nonaccrual loans:		
Real estate	$ 2,532	$ 2,181
Commercial	160	401
Agricultural	-	-
Consumer	123	15
Total nonaccrual loans	2,815	2,597
Restructured loans		-
Real estate	649	-
Commercial	-	-
Agricultural	-	-
Consumer	-	-
Total restructured loans	649	-
Total nonperforming loans	3,464	2,597
Foreclosed real estate	3,513	3,716
Total nonperforming assets	$ 6,977	$ 6,313

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.

Impaired Loans
(in thousands)

	June 30, 2011	December 31, 2010
Accruing	$ -	$ -
Nonaccruing	649	560
Total impaired loans	$ 649	$ 560

Included in the impaired loan totals were $649,000 in troubled debt restructured loans at June 30, 2011 and $0 at December 31, 2010.

42

Other Real Estate Owned (Foreclosed Assets)

Other real estate owned was carried on the consolidated balance sheets at $3,513,000 at June 30, 2011 and $3,716,000 at December 31, 2010. Other real estate owned is initially recorded at fair value, less estimated costs to sell, at the date of foreclosure. Loan losses resulting from foreclosure are charged against the allowance for loan losses 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. For significant amounts, these valuations are usually provided by outside annual appraisals.

The following table shows the Company’s Other Real Estate Owned.

Other Real Estate Owned
(in thousands)

	June 30, 2011	December 31, 2010
Construction and land development	$ 1,955	$ 2,293
Farmland	-	-
1-4 family residential	850	1,078
Multifamily (5 or more) residential	-	-
Commercial real estate	708	345
	$ 3,513	$ 3,716

Deposits

The Company’s deposits consist primarily of checking, money market, savings, and consumer time deposits. Total deposits were $658,950,000 at June 30, 2011 compared to $640,098,000 at December 31, 2010, an $18,852,000 or 2.9% increase. Growth has been most apparent in transaction and money market accounts during 2011. Core deposit growth continues to be an ongoing strategic goal and challenge for the Company and the community banking industry in general.

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 our shareholders.

Shareholders’ equity was $111,190,000 at June 30, 2011 compared to $108,087,000 at December 31, 2010, an increase of $3,103,000 or 2.9%.

The Company paid cash dividends of $0.23 per share during the second quarter of 2011 while the basic and diluted earnings per share for the same period was $0.16. The Company paid cash dividends of $0.46 per share for the first half of 2011 while the basic and diluted earnings per share were $0.45. The aggregate Company's current capital position provided the Board of Directors with the strategic flexibility to temporarily pay a cash dividend disproportionately high relative to current earnings.

Banking regulators have defined minimum regulatory capital ratios that the Company and its banking subsidiary are required to maintain. These ratios take into account risk factors identified by those regulatory authorities associated with the assets and off-balance sheet activities of financial institutions. The guidelines require percentages, or "risk weights," be applied to those assets and off-balance sheet assets in relation to their perceived risk. Under the guidelines, capital strength is measured in two tiers. Tier I capital consists primarily of shareholders' equity and trust preferred capital notes, while Tier II capital consists of qualifying allowance for loan losses. "Total" capital is the combination of Tier I and Tier II capital. Another regulatory indicator of capital adequacy is the leverage ratio, which is computed by dividing Tier I capital by average quarterly assets less intangible assets.

The regulatory guidelines require that minimum total capital (Tier I plus Tier II) of 8% be held against total risk-adjusted assets, at least half of which (4%) must be Tier I capital. At June 30, 2011, the Company's Tier I and total capital ratios were 18.72% and 19.98%, respectively. At December 31, 2010, these ratios were 18.38% and 19.64%, respectively. The ratios for both periods were in excess of the regulatory requirements. The Company's leverage ratio was 12.74% and 12.74% at June 30, 2011 and December 31, 2010, respectively. The leverage ratio has a regulatory minimum of 4%, with most institutions required to maintain a ratio of 4-5%, depending upon risk profiles and other factors.

As mandated by bank regulations, the following five capital categories are identified for insured depository institutions: "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized," and "critically undercapitalized." These regulations require the federal banking regulators to take prompt corrective action with respect to insured depository institutions that do not meet minimum capital requirements. Under the regulations, well capitalized institutions must have Tier I risk-based capital ratios of at least 6%, total risk-based capital ratios of at least 10%, and leverage ratios of at least 5%, and not be subject to capital directive orders. Management believes, as of June 30, 2011, that the Company met the requirements to be considered "well capitalized."

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 AMNB Statutory Trust I, formed in 2006 to issue trust preferred securities, the Company does not have any off-balance sheet subsidiaries. Off-balance sheet transactions were as follows (in thousands):

	June 30, 2011	December 31, 2010
Commitments to extend credit	$ 139,780	$ 134,435
Standby letters of credit	2,306	1,588
Mortgage loan rate-lock commitments	1,851	4,235

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 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 below.

Interest Rate Risk Management

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

The Company uses 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 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 than its liabilities (deposits and borrowings). An asset sensitive balance sheet will produce more net interest income when interest rates rise and less net interest income when they decline. Based on the Company's simulation analysis, management believes the Company's interest sensitivity position is asset sensitive. The simulation projects that if rates increase over a 12 month period by one percent, net interest income is expected to increase by 3.2%. Management has no expectation that market rates will decline in the near term, given the prevailing economy.

Liquidity Risk Management

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. Liquidity management involves maintaining the Company's ability to meet the daily cash flow requirements of its customers, whether they are borrowers requiring funds to meet their credit needs or depositors desiring to withdraw funds. Additionally, the parent company requires cash for various operating needs including dividends to shareholders, stock repurchases, 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 ALCO and Board of Directors, both of which receive periodic reports of the Company's interest rate risk position. The Company uses a simulation and budget model to manage the future liquidity needs of the Company.

Liquidity sources include cash and amounts due from banks, deposits in other banks, loan repayments, increases in deposits, lines of credit from the Federal Home Loan Bank of Atlanta ("FHLB") and the Federal Reserve Bank's discount window, federal funds lines of credit from two correspondent banks, and maturities and sales of securities. Management believes that these sources provide sufficient and timely liquidity.

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. Under the terms of its collateral agreement with the FHLB, the Company provides a blanket lien covering all of its residential first mortgage loans and home equity lines of credit. In addition, the Company pledges

as collateral its capital stock in and deposits with the FHLB. At June 30, 2011, principal advance obligations to the FHLB consisted of $413,000 in fixed-rate, long-term advances compared to $8,488,000 in long-term advances and $6,110,000 in short-term advances at December 31, 2010. The Company also had outstanding $40 million in letters of credit at June 30, 2011 and $20 million in letters of credit at December 31, 2010. The letters of credit provide the Bank with alternate collateral for securing public entity deposits above Federal Deposit Insurance Corporation insurance levels, thereby providing less need for collateral pledging from the securities portfolio.

45

The Company had fixed-rate term advance borrowing contracts with the FHLB as of June 30, 2011, with the following final maturities:

Amount	Maturity Date
$ 413,000	March 2014
$ 413,000	

The Company has federal funds lines of credit established with two correspondent banks in the amounts of $15,000,000 and $10,000,000, and has access to the Federal Reserve Bank's discount window. There were no amounts outstanding under these facilities at June 30, 2011.

There have been no material changes to market risk as disclosed in the Company's 2010 Annual Report on Form 10-K. Refer to those disclosures for further information.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The Company's management, including the Chief Executive Officer and Chief Financial Officer, evaluated the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934), as amended (the "Exchange Act") as of June 30, 2011. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective to ensure that the information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms. There were no significant changes in the Company's internal controls over financial reporting that occurred during the quarter ended June 30, 2011 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.

1A. Risk Factors

There have been no material changes to the risk factors disclosed in the Company's 2010 Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 11, 2011.

2. Unregistered Sales of Equity Securities and Use of Proceeds

None

3. Defaults Upon Senior Securities

None

4. (Removed and Reserved)

5. Other Information

(a) Required 8-K disclosures

None

(b) Changes in Nominating Process

None

6. Exhibits

2.1 Agreement and Plan of Reorganization, dated December 15, 2010, by and between American National Bankshares Inc. and MidCarolina Financial Corporation (incorporated by reference to Exhibit 2.1 to American National Bankshares Inc.'s Current Report on Form 8-K filed on December 17, 2010).

3.1 Articles of Incorporation of American National Bankshares Inc., as amended July 1, 2011 (incorporated by reference to Exhibit 3.1 to American National Bankshares Inc.'s Current Report on Form 8-K filed on July 5, 2011).

3.2 Bylaws of American National Bankshares Inc., as amended July 1, 2011 (incorporated by reference to Exhibit 3.2 to American National Bankshares Inc.'s Current Report on Form 8-K filed on July 5, 2011).

11.0 Refer to EPS calculation in the Notes to Financial Statements

31.1 Section 302 Certification of Charles H. Majors, President and Chief Executive Officer

31.2 Section 302 Certification of William W. Traynham, Senior Vice President and Chief Financial Officer

32.1	Section 906 Certification of Charles H. Majors, President and Chief Executive Officer
32.2	Section 906 Certification of William W. Traynham, Senior Vice President and Chief Financial Officer
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Presentation Linkbase Document

47

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/ Charles H. Majors Charles H. Majors
Date – August 5, 2011	President and Chief Executive Officer
	/s/ William W. Traynham William W. Traynham Senior Vice President and
Date – August 5, 2011	Chief Financial Officer