

American National Bankshares Inc. and Subsidiaries
Consolidated Balance Sheets

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

Unaudited

| | June 30 | |
|--|------------|------------|
| | 2011 | 2010 |
| ASSETS | | |
| Cash and due from banks | \$ 15,873 | \$ 11,398 |
| Interest-bearing deposits in other banks | 23,310 | 22,705 |
| Securities available for sale, at fair value | 231,393 | 211,574 |
| Securities held to maturity | 2,381 | 4,823 |
| Total securities | 233,774 | 216,397 |
| Restricted stock, at cost | 3,666 | 4,362 |
| Loans held for sale | 2,087 | 2,879 |
| Loans | 514,081 | 519,416 |
| Less allowance for loan losses | (8,744) | (8,135) |
| Net Loans | 505,337 | 511,281 |
| Premises and equipment, net | 19,129 | 19,658 |
| Other real estate owned, net | 3,513 | 3,730 |
| Goodwill | 22,468 | 22,468 |
| Core deposit intangibles, net | 1,132 | 1,509 |
| Accrued interest receivable and other assets | 15,727 | 16,257 |
| Total assets | \$ 846,016 | \$ 832,644 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Liabilities: | | |
| Demand deposits -- noninterest-bearing | \$ 115,329 | \$ 100,099 |
| Demand deposits -- interest-bearing | 95,453 | 92,771 |
| Money market deposits | 67,273 | 81,247 |
| Savings deposits | 63,632 | 64,425 |
| Time deposits | 317,263 | 291,609 |
| Total deposits | 658,950 | 630,151 |
| Customer repurchase agreements | 50,329 | 61,665 |
| Long-term borrowings | 413 | 8,563 |
| Trust preferred capital notes | 20,619 | 20,619 |
| Accrued interest payable and other liabilities | 4,515 | 2,886 |
| Total liabilities | 734,826 | 723,884 |
| Shareholders' equity: | | |
| Common stock, \$1 par, 20,000,000 shares authorized, 6,156,563 shares outstanding at June 30, 2011 and 6,124,892 shares outstanding at June 30, 2010 and | 6,157 | 6,125 |
| Capital in excess of par value | 27,670 | 27,131 |
| Retained earnings | 74,810 | 73,590 |
| Accumulated other comprehensive income, net | 2,553 | 1,914 |
| Total shareholders' equity | 111,190 | 108,760 |
| Total liabilities and shareholders' equity | \$ 846,016 | \$ 832,644 |

American National Bankshares Inc. and Subsidiaries

Consolidated Statements of Income

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

Unaudited

| | Three Months Ended June 30 | | Six Months Ended June 30 | |
|--|-------------------------------|-----------------|-----------------------------|-----------------|
| | 2011 | 2010 | 2011 | 2010 |
| Interest and Dividend Income: | | | | |
| Interest and fees on loans | \$ 6,618 | \$ 7,071 | \$ 13,297 | \$ 14,226 |
| Interest and dividends on securities: | | | | |
| Taxable | 1,085 | 1,275 | 2,254 | 2,591 |
| Tax-exempt | 827 | 554 | 1,543 | 1,020 |
| Dividends | 26 | 24 | 53 | 47 |
| Other interest income | 14 | 87 | 84 | 178 |
| Total interest and dividend income | <u>8,570</u> | <u>9,011</u> | <u>17,231</u> | <u>18,062</u> |
| Interest Expense: | | | | |
| Interest on deposits | 1,587 | 1,647 | 3,167 | 3,282 |
| Interest on short-term borrowings | 82 | 99 | 162 | 204 |
| Interest on long-term borrowings | 5 | 63 | 58 | 127 |
| Interest on trust preferred capital notes | 297 | 344 | 640 | 687 |
| Total interest expense | <u>1,971</u> | <u>2,153</u> | <u>4,027</u> | <u>4,300</u> |
| Net Interest Income | 6,599 | 6,858 | 13,204 | 13,762 |
| Provision for loan losses | <u>336</u> | <u>285</u> | <u>673</u> | <u>570</u> |
| Net Interest Income After Provision for Loan Losses | <u>6,263</u> | <u>6,573</u> | <u>12,531</u> | <u>13,192</u> |
| Noninterest Income: | | | | |
| Trust fees | 878 | 801 | 1,806 | 1,613 |
| Service charges on deposit accounts | 400 | 483 | 821 | 962 |
| Other fees and commissions | 338 | 288 | 654 | 566 |
| Mortgage banking income | 271 | 343 | 418 | 589 |
| Securities gains (losses), net | (19) | 4 | (18) | (25) |
| Other | 120 | 124 | 278 | 262 |
| Total noninterest income | <u>1,988</u> | <u>2,043</u> | <u>3,959</u> | <u>3,967</u> |
| Noninterest Expense: | | | | |
| Salaries | 2,546 | 2,596 | 5,031 | 4,994 |
| Employee benefits | 624 | 633 | 1,165 | 1,273 |
| Occupancy and equipment | 696 | 698 | 1,395 | 1,477 |
| FDIC assessment | 197 | 199 | 402 | 394 |
| Bank franchise tax | 176 | 168 | 351 | 335 |
| Core deposit intangible amortization | 95 | 95 | 189 | 189 |
| Foreclosed real estate, net | 413 | 281 | 435 | 284 |
| Other | 2,281 | 1,204 | 3,839 | 2,428 |
| Total noninterest expense | <u>7,028</u> | <u>5,874</u> | <u>12,807</u> | <u>11,374</u> |
| Income Before Income Taxes | 1,223 | 2,742 | 3,683 | 5,785 |
| Income Taxes | <u>211</u> | <u>728</u> | <u>893</u> | <u>1,586</u> |
| Net Income | <u>\$ 1,012</u> | <u>\$ 2,014</u> | <u>\$ 2,790</u> | <u>\$ 4,199</u> |
| Net Income Per Common Share: | | | | |
| Basic | \$ 0.16 | \$ 0.33 | \$ 0.45 | \$ 0.69 |
| Diluted | \$ 0.16 | \$ 0.33 | \$ 0.45 | \$ 0.69 |
| Average Common Shares Outstanding: | | | | |
| Basic | 6,154,396 | 6,123,790 | 6,149,029 | 6,121,615 |
| Diluted | 6,161,265 | 6,129,943 | 6,157,032 | 6,127,137 |

American National Bankshares Inc. and Subsidiaries

Financial Highlights

(In thousands, except share, ratio and nonfinancial data, unaudited)

| | 2nd Qtr 2011 | 1st Qtr 2011 | 2nd Qtr 2010 | YTD 2011 | YTD 2010 |
|---|-----------------|-----------------|-----------------|-------------|-------------|
| EARNINGS | | | | | |
| Interest income | \$ 8,570 | \$ 8,661 | \$ 9,011 | \$ 17,231 | \$ 18,062 |
| Interest expense | 1,971 | 2,056 | 2,153 | 4,027 | 4,300 |
| Net interest income | 6,599 | 6,605 | 6,858 | 13,204 | 13,762 |
| Provision for loan losses | 336 | 337 | 285 | 673 | 570 |
| Noninterest income | 1,988 | 1,971 | 2,043 | 3,959 | 3,967 |
| Noninterest expense | 7,028 | 5,779 | 5,874 | 12,807 | 11,374 |
| Income taxes | 211 | 682 | 728 | 893 | 1,586 |
| Net income | 1,012 | 1,778 | 2,014 | 2,790 | 4,199 |
| PER COMMON SHARE | | | | | |
| Earnings per share - basic | \$ 0.16 | \$ 0.29 | \$ 0.33 | \$ 0.45 | \$ 0.69 |
| Earnings per share - diluted | 0.16 | 0.29 | 0.33 | 0.45 | 0.69 |
| Cash dividends declared | 0.23 | 0.23 | 0.23 | 0.46 | 0.46 |
| Book value per share | 18.06 | 17.77 | 17.76 | 18.06 | 17.76 |
| Book value per share - tangible (a) | 14.23 | 13.92 | 13.84 | 14.23 | 13.84 |
| Closing market price | 18.39 | 22.51 | 21.39 | 18.39 | 21.39 |
| FINANCIAL RATIOS | | | | | |
| Return on average assets | 0.48% | 0.85% | 0.98% | 0.66% | 1.03% |
| Return on average equity | 3.65 | 6.51 | 7.45 | 5.07 | 7.79 |
| Return on average tangible equity (b) | 5.00 | 8.64 | 9.91 | 6.79 | 10.36 |
| Average equity to average assets | 13.06 | 13.03 | 13.21 | 13.06 | 13.23 |
| Net interest margin, taxable equivalent | 3.65 | 3.66 | 3.85 | 3.65 | 3.86 |
| Efficiency ratio | 73.00 | 64.16 | 60.55 | 68.59 | 60.39 |
| Effective tax rate | 17.25 | 27.72 | 26.55 | 24.25 | 27.42 |
| PERIOD-END BALANCES | | | | | |
| Securities | \$ 237,440 | \$ 233,379 | \$ 220,759 | \$ 237,440 | \$ 220,759 |
| Loans held for sale | 2,087 | 1,309 | 2,879 | 2,087 | 2,879 |
| Loans, net of unearned income | 514,081 | 516,629 | 519,416 | 514,081 | 519,416 |
| Goodwill and other intangibles | 23,600 | 23,694 | 23,977 | 23,600 | 23,977 |
| Assets | 846,016 | 845,238 | 832,644 | 846,016 | 832,644 |
| Assets - tangible (a) | 822,416 | 821,544 | 808,667 | 822,416 | 808,667 |
| Deposits | 658,950 | 663,483 | 630,151 | 658,950 | 630,151 |
| Customer repurchase agreements | 50,329 | 43,871 | 61,665 | 50,329 | 61,665 |
| Other short-term borrowings | - | - | - | - | - |
| Long-term borrowings | 21,032 | 25,069 | 29,182 | 21,032 | 29,182 |
| Shareholders' equity | 111,190 | 109,372 | 108,760 | 111,190 | 108,760 |
| Shareholders' equity - tangible (a) | 87,590 | 85,678 | 84,783 | 87,590 | 84,783 |
| AVERAGE BALANCES | | | | | |
| Securities | \$ 235,725 | \$ 226,595 | \$ 198,289 | \$ 231,185 | \$ 191,530 |
| Loans held for sale | 1,984 | 1,508 | 3,529 | 1,747 | 2,990 |
| Loans, net of unearned income | 515,161 | 516,610 | 519,485 | 515,882 | 520,162 |
| Interest-earning assets | 773,750 | 765,291 | 746,879 | 769,544 | 742,776 |
| Goodwill and other intangibles | 23,651 | 23,750 | 24,029 | 23,700 | 24,077 |
| Assets | 848,783 | 838,151 | 818,740 | 842,882 | 814,658 |
| Assets - tangible (a) | 825,132 | 814,401 | 794,711 | 819,182 | 790,581 |
| Interest-bearing deposits | 549,397 | 542,104 | 514,963 | 545,771 | 511,115 |
| Deposits | 666,325 | 652,922 | 615,456 | 659,661 | 610,791 |
| Customer repurchase agreements | 47,220 | 43,762 | 62,072 | 45,500 | 63,005 |
| Other short-term borrowings | - | 136 | - | - | - |
| Long-term borrowings | 21,062 | 27,855 | 29,212 | 24,439 | 29,230 |
| Shareholders' equity | 110,859 | 109,224 | 108,127 | 110,046 | 107,814 |
| Shareholders' equity - tangible (a) | 87,208 | 85,474 | 84,098 | 86,346 | 83,737 |

American National Bankshares Inc. and Subsidiaries
Financial Highlights

(In thousands, except share, ratio and nonfinancial data, unaudited)

| | 2nd Qtr 2011 | 1st Qtr 2011 | 2nd Qtr 2010 | YTD 2011 | YTD 2010 |
|--|-----------------|-----------------|-----------------|-------------|-------------|
| CAPITAL | | | | | |
| Average shares outstanding - basic | 6,154,396 | 6,143,602 | 6,123,790 | 6,149,029 | 6,121,615 |
| Average shares outstanding - diluted | 6,161,265 | 6,152,738 | 6,129,943 | 6,157,032 | 6,127,137 |
| Shares repurchased | - | - | - | - | - |
| Average price of shares repurchased | \$ - | \$ - | \$ - | \$ - | \$ - |
| ALLOWANCE FOR LOAN LOSSES | | | | | |
| Beginning balance | \$ 8,257 | \$ 8,420 | \$ 8,112 | \$ 8,420 | \$ 8,166 |
| Provision for loan losses | 336 | 337 | 285 | 673 | 570 |
| Charge-offs | (134) | (571) | (305) | (705) | (732) |
| Recoveries | 285 | 71 | 43 | 356 | 131 |
| Ending balance | \$ 8,744 | \$ 8,257 | \$ 8,135 | \$ 8,744 | \$ 8,135 |
| LOANS | | | | | |
| Construction and land development | \$ 35,756 | \$ 36,516 | \$ 40,039 | \$ 35,756 | \$ 40,039 |
| Commercial real estate | 208,685 | 207,502 | 202,602 | 208,685 | 202,602 |
| Residential real estate | 114,510 | 118,603 | 119,410 | 114,510 | 119,410 |
| Home equity | 61,218 | 61,674 | 63,992 | 61,218 | 63,992 |
| Commercial and industrial | 87,449 | 84,702 | 86,924 | 87,449 | 86,924 |
| Consumer | 6,463 | 7,632 | 6,449 | 6,463 | 6,449 |
| Total | \$ 514,081 | \$ 516,629 | \$ 519,416 | \$ 514,081 | \$ 519,416 |
| NONPERFORMING ASSETS AT PERIOD-END | | | | | |
| Nonperforming loans: | | | | | |
| 90 days past due | \$ - | \$ - | \$ 8 | \$ - | \$ 8 |
| Nonaccrual | 3,464 | 3,417 | 4,005 | 3,464 | 4,005 |
| Foreclosed real estate | 3,513 | 3,532 | 3,730 | 3,513 | 3,730 |
| Nonperforming assets | \$ 6,977 | \$ 6,949 | \$ 7,743 | \$ 6,977 | \$ 7,743 |
| ASSET QUALITY RATIOS | | | | | |
| Annualized net chargeoffs to average loans | (0.12) % | 0.39% | 0.20% | 0.14% | 0.23% |
| Nonperforming assets to total assets | 0.82 | 0.82 | 0.93 | 0.82 | 0.93 |
| Nonperforming loans to total loans | 0.67 | 0.66 | 0.77 | 0.67 | 0.77 |
| Allowance for loan losses to total loans | 1.70 | 1.60 | 1.57 | 1.70 | 1.57 |
| Allowance for loan losses to nonperforming loans | 252.42 | 241.64 | 202.72 | 252.42 | 202.72 |
| OTHER DATA | | | | | |
| Fiduciary assets at period-end (c) | \$ 368,579 | \$ 380,259 | \$ 342,519 | \$ 368,579 | \$ 342,519 |
| Retail brokerage assets at period-end (c) | \$ 49,636 | \$ 50,175 | \$ 45,912 | \$ 49,636 | \$ 45,912 |
| Number full-time equivalent employees (d) | 244 | 242 | 242 | 244 | 242 |
| Number of full service offices | 18 | 18 | 18 | 18 | 18 |
| Number of loan production offices | 1 | 1 | 1 | 1 | 1 |
| Number of ATM's | 26 | 26 | 26 | 26 | 26 |

Notes:

- (a) - Excludes goodwill and other intangible assets
- (b) - Excludes amortization expense, net of tax, of intangible assets
- (c) - Market value
- (d) - Average for quarter

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% | 4.79% |
| Real estate | 430,872 | 437,856 | 5,620 | 6,033 | 5.22 | 5.51 |
| Consumer | 6,678 | 6,485 | 120 | 137 | 7.21 | 8.47 |
| 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 & CMO's | 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 |
| Other short-term borrowings | - | - | - | - | - | - |
| 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 | | |

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% | 4.83% |
| Real estate | 431,775 | 437,550 | 11,315 | 12,128 | 5.24 | 5.54 |
| Consumer | 7,089 | 6,628 | 256 | 271 | 7.28 | 8.25 |
| Total loans | 517,629 | 523,152 | 13,360 | 14,291 | 5.17 | 5.47 |
| Securities: | | | | | | |
| Federal agencies | 39,612 | 65,886 | 579 | 1,076 | 2.92 | 3.27 |
| Mortgage-backed & CMO's | 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 | 1.28 |
| Total interest-earning assets | 769,544 | 742,776 | 18,087 | 18,661 | 4.71 | 5.03 |
| 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 | 2.25 |
| Total deposits | 545,771 | 511,115 | 3,167 | 3,282 | 1.17 | 1.29 |
| 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 | 5.57 |
| 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% | 3.60% |
| Net interest margin | | | | | 3.65% | 3.86% |
| Net interest income (taxable equivalent basis) | | | 14,060 | 14,361 | | |
| Less: Taxable equivalent adjustment | | | 856 | 599 | | |
| Net interest income | | | \$ 13,204 | \$ 13,762 | | |