

American National Bankshares Inc. and Subsidiaries
Consolidated Balance Sheets

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

Unaudited

| ASSETS | September 30 | |
|--|-------------------|-------------------|
| | 2010 | 2009 |
| Cash and due from banks | \$ 10,860 | \$ 17,451 |
| Interest-bearing deposits in other banks | 16,338 | 8,892 |
| Securities available for sale, at fair value | 209,434 | 177,591 |
| Securities held to maturity | 4,501 | 6,540 |
| Total securities | <u>213,935</u> | <u>184,131</u> |
| Restricted stock, at cost | 4,161 | 4,362 |
| Loans held for sale | 3,952 | 3,840 |
| Loans | 519,421 | 539,188 |
| Less allowance for loan losses | (8,542) | (8,260) |
| Net Loans | <u>510,879</u> | <u>530,928</u> |
| Premises and equipment, net | 20,142 | 19,390 |
| Other real estate owned, net | 3,987 | 4,558 |
| Goodwill | 22,468 | 22,468 |
| Core deposit intangibles, net | 1,415 | 1,792 |
| Accrued interest receivable and other assets | <u>16,080</u> | <u>12,534</u> |
| Total assets | <u>\$ 824,217</u> | <u>\$ 810,346</u> |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Liabilities: | | |
| Demand deposits -- noninterest-bearing | \$ 101,578 | \$ 105,100 |
| Demand deposits -- interest-bearing | 91,301 | 92,012 |
| Money market deposits | 53,388 | 71,424 |
| Savings deposits | 62,841 | 62,420 |
| Time deposits | 316,522 | 265,339 |
| Total deposits | <u>625,630</u> | <u>596,295</u> |
| Short-term borrowings: | | |
| Customer repurchase agreements | 54,285 | 71,339 |
| Other short-term borrowings | - | 4,000 |
| Long-term borrowings | 8,525 | 8,675 |
| Trust preferred capital notes | 20,619 | 20,619 |
| Accrued interest payable and other liabilities | 4,290 | 4,513 |
| Total liabilities | <u>713,349</u> | <u>705,441</u> |
| Shareholders' equity: | | |
| Common stock, \$1 par, 20,000,000 shares authorized, 6,126,374 shares outstanding at September 30, 2010 and 6,107,327 shares outstanding at September 30, 2009 | 6,126 | 6,107 |
| Capital in excess of par value | 27,200 | 26,900 |
| Retained earnings | 74,409 | 71,445 |
| Accumulated other comprehensive income (loss), net | 3,133 | 453 |
| Total shareholders' equity | <u>110,868</u> | <u>104,905</u> |
| Total liabilities and shareholders' equity | <u>\$ 824,217</u> | <u>\$ 810,346</u> |

American National Bankshares Inc. and Subsidiaries

Consolidated Statements of Income

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

Unaudited

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|--|------------------------------------|-----------------|-----------------------------------|-----------------|
| | 2010 | 2009 | 2010 | 2009 |
| Interest and Dividend Income: | | | | |
| Interest and fees on loans | \$ 6,994 | \$ 7,666 | \$ 21,220 | \$ 23,617 |
| Interest and dividends on securities: | | | | |
| Taxable | 1,253 | 1,241 | 3,844 | 3,594 |
| Tax-exempt | 621 | 434 | 1,641 | 1,236 |
| Dividends | 24 | 27 | 71 | 70 |
| Other interest income | 90 | 96 | 268 | 287 |
| Total interest and dividend income | <u>8,982</u> | <u>9,464</u> | <u>27,044</u> | <u>28,804</u> |
| Interest Expense: | | | | |
| Interest on deposits | 1,722 | 1,921 | 5,004 | 6,628 |
| Interest on short-term borrowings | 93 | 135 | 297 | 548 |
| Interest on long-term borrowings | 65 | 65 | 192 | 276 |
| Interest on trust preferred capital notes | 343 | 343 | 1,030 | 1,030 |
| Total interest expense | <u>2,223</u> | <u>2,464</u> | <u>6,523</u> | <u>8,482</u> |
| Net Interest Income | 6,759 | 7,000 | 20,521 | 20,322 |
| Provision for loan losses | <u>435</u> | <u>492</u> | <u>1,005</u> | <u>1,334</u> |
| Net Interest Income After Provision for Loan Losses | <u>6,324</u> | <u>6,508</u> | <u>19,516</u> | <u>18,988</u> |
| Noninterest Income: | | | | |
| Trust fees | 842 | 813 | 2,455 | 2,338 |
| Service charges on deposit accounts | 478 | 536 | 1,440 | 1,549 |
| Other fees and commissions | 290 | 257 | 856 | 750 |
| Mortgage banking income | 428 | 361 | 1,017 | 1,215 |
| Securities gains, net | 67 | 1 | 42 | 2 |
| Foreclosed real estate gains (losses), net | 5 | - | (279) | (1,222) |
| Other | 136 | 151 | 398 | 474 |
| Total noninterest income | <u>2,246</u> | <u>2,119</u> | <u>5,929</u> | <u>5,106</u> |
| Noninterest Expense: | | | | |
| Salaries | 2,596 | 2,471 | 7,590 | 7,734 |
| Employee benefits | 564 | 806 | 1,837 | 2,451 |
| Occupancy and equipment | 732 | 701 | 2,209 | 2,165 |
| FDIC assessment | 203 | 203 | 597 | 984 |
| Bank franchise tax | 168 | 160 | 503 | 483 |
| Core deposit intangible amortization | 94 | 94 | 283 | 283 |
| Other | 1,179 | 1,163 | 3,607 | 3,694 |
| Total noninterest expense | <u>5,536</u> | <u>5,598</u> | <u>16,626</u> | <u>17,794</u> |
| Income Before Income Taxes | 3,034 | 3,029 | 8,819 | 6,300 |
| Income Taxes | 806 | 862 | 2,392 | 1,659 |
| Net Income | <u>\$ 2,228</u> | <u>\$ 2,167</u> | <u>\$ 6,427</u> | <u>\$ 4,641</u> |
| Net Income Per Common Share: | | | | |
| Basic | \$ 0.36 | \$ 0.36 | \$ 1.05 | \$ 0.76 |
| Diluted | \$ 0.36 | \$ 0.35 | \$ 1.05 | \$ 0.76 |
| Average Common Shares Outstanding: | | | | |
| Basic | 6,125,359 | 6,104,505 | 6,122,876 | 6,094,261 |
| Diluted | 6,131,129 | 6,111,913 | 6,128,481 | 6,098,221 |

American National Bankshares Inc. and Subsidiaries
Financial Highlights

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

| | 3rd Qtr 2010 | 2nd Qtr 2010 | 3rd Qtr 2009 | YTD 2010 | YTD 2009 |
|---|-------------------------|-------------------------|-------------------------|---------------------|---------------------|
| EARNINGS | | | | | |
| Interest income | \$ 8,982 | \$ 9,011 | \$ 9,464 | \$ 27,044 | \$ 28,804 |
| Interest expense | 2,223 | 2,153 | 2,464 | 6,523 | 8,482 |
| Net interest income | 6,759 | 6,858 | 7,000 | 20,521 | 20,322 |
| Provision for loan losses | 435 | 285 | 492 | 1,005 | 1,334 |
| Noninterest income | 2,246 | 1,762 | 2,119 | 5,929 | 5,106 |
| Noninterest expense | 5,536 | 5,593 | 5,598 | 16,626 | 17,794 |
| Income taxes | 806 | 728 | 862 | 2,392 | 1,659 |
| Net income | 2,228 | 2,014 | 2,167 | 6,427 | 4,641 |
| PER COMMON SHARE | | | | | |
| Earnings per share - basic | \$ 0.36 | \$ 0.33 | \$ 0.36 | \$ 1.05 | \$ 0.76 |
| Earnings per share - diluted | 0.36 | 0.33 | 0.35 | 1.05 | 0.76 |
| Cash dividends declared | 0.23 | 0.23 | 0.23 | 0.69 | 0.69 |
| Book value per share | 18.10 | 17.76 | 17.18 | 18.10 | 17.18 |
| Book value per share - tangible (a) | 14.20 | 13.84 | 13.20 | 14.20 | 13.20 |
| Closing market price | 21.94 | 21.39 | 21.82 | 21.94 | 21.82 |
| FINANCIAL RATIOS | | | | | |
| Return on average assets | 1.07% | 0.98% | 1.07% | 1.04% | 0.77% |
| Return on average equity | 8.11 | 7.45 | 8.38 | 7.90 | 6.00 |
| Return on average tangible equity (b) | 10.69 | 9.91 | 11.30 | 10.47 | 8.22 |
| Average equity to average assets | 13.14 | 13.21 | 12.77 | 13.20 | 12.74 |
| Net interest margin, taxable equivalent | 3.74 | 3.85 | 3.91 | 3.82 | 3.79 |
| Efficiency ratio | 59.54 | 60.55 | 59.77 | 60.10 | 65.07 |
| Effective tax rate | 26.57 | 26.55 | 28.46 | 27.12 | 26.33 |
| PERIOD-END BALANCES | | | | | |
| Securities | \$ 218,096 | \$ 220,759 | \$ 188,493 | \$ 218,096 | \$ 188,493 |
| Loans held for sale | 3,952 | 2,879 | 3,840 | 3,952 | 3,840 |
| Loans, net of unearned income | 519,421 | 519,416 | 539,188 | 519,421 | 539,188 |
| Goodwill and other intangibles | 23,883 | 23,977 | 24,260 | 23,883 | 24,260 |
| Assets | 824,217 | 832,644 | 810,346 | 824,217 | 810,346 |
| Assets - tangible (a) | 800,334 | 808,667 | 786,086 | 800,334 | 786,086 |
| Deposits | 625,630 | 630,151 | 596,295 | 625,630 | 596,295 |
| Customer repurchase agreements | 54,285 | 61,665 | 71,339 | 54,285 | 71,339 |
| Other short-term borrowings | - | - | 4,000 | - | 4,000 |
| Long-term borrowings | 29,144 | 29,182 | 29,294 | 29,144 | 29,294 |
| Shareholders' equity | 110,868 | 108,760 | 104,905 | 110,868 | 104,905 |
| Shareholders' equity - tangible (a) | 86,985 | 84,783 | 80,645 | 86,985 | 80,645 |
| AVERAGE BALANCES | | | | | |
| Securities | \$ 214,532 | \$ 198,289 | \$ 159,314 | \$ 199,282 | \$ 148,415 |
| Loans held for sale | 4,991 | 3,529 | 6,540 | 3,664 | 5,788 |
| Loans, net of unearned income | 519,101 | 519,485 | 547,075 | 519,805 | 559,938 |
| Interest-earning assets | 762,742 | 746,879 | 741,194 | 749,505 | 740,399 |
| Goodwill and other intangibles | 23,935 | 24,029 | 24,314 | 24,029 | 24,408 |
| Assets | 836,033 | 818,740 | 810,064 | 821,861 | 808,761 |
| Assets - tangible (a) | 812,098 | 794,711 | 785,750 | 797,832 | 784,353 |
| Interest-bearing deposits | 530,191 | 514,963 | 503,793 | 517,543 | 509,470 |
| Deposits | 633,692 | 615,456 | 606,134 | 618,508 | 607,440 |
| Customer repurchase agreements | 59,126 | 62,072 | 65,341 | 61,698 | 60,790 |
| Other short-term borrowings | 92 | - | 460 | 31 | 1,355 |
| Long-term borrowings | 29,174 | 29,212 | 29,325 | 29,211 | 31,376 |
| Shareholders' equity | 109,885 | 108,127 | 103,411 | 108,512 | 103,060 |
| Shareholders' equity - tangible (a) | 85,950 | 84,098 | 79,097 | 84,483 | 78,652 |

| CAPITAL | | | | | |
|--------------------------------------|------------------|-----------|-----------|------------------|-----------|
| Average shares outstanding - basic | 6,125,359 | 6,123,790 | 6,104,505 | 6,122,876 | 6,094,261 |
| Average shares outstanding - diluted | 6,131,129 | 6,129,943 | 6,111,913 | 6,128,481 | 6,098,221 |
| Shares repurchased | - | - | - | - | 7,600 |
| Average price of shares repurchased | \$ - | \$ - | \$ - | \$ - | \$ 15.92 |

| ALLOWANCE FOR LOAN LOSSES | | | | | |
|----------------------------------|-----------------|----------|----------|-----------------|----------|
| Beginning balance | \$ 8,135 | \$ 8,112 | \$ 7,934 | \$ 8,166 | \$ 7,824 |
| Provision for loan losses | 435 | 285 | 492 | 1,005 | 1,334 |
| Charge-offs | (137) | (305) | (318) | (869) | (1,116) |
| Recoveries | 109 | 43 | 152 | 240 | 218 |
| Ending balance | \$ 8,542 | \$ 8,135 | \$ 8,260 | \$ 8,542 | \$ 8,260 |

| LOANS | | | | | |
|-----------------------------------|-------------------|------------|------------|-------------------|------------|
| Construction and land development | \$ 42,602 | \$ 40,039 | \$ 46,175 | \$ 42,602 | \$ 46,175 |
| Commercial real estate | 206,142 | 202,602 | 209,470 | 206,142 | 209,470 |
| Residential real estate | 118,554 | 119,410 | 126,392 | 118,554 | 126,392 |
| Home equity | 64,847 | 63,992 | 62,519 | 64,847 | 62,519 |
| Commercial and industrial | 80,818 | 86,924 | 87,226 | 80,818 | 87,226 |
| Consumer | 6,458 | 6,449 | 7,406 | 6,458 | 7,406 |
| Total | \$ 519,421 | \$ 519,416 | \$ 539,188 | \$ 519,421 | \$ 539,188 |

| NONPERFORMING ASSETS AT PERIOD-END | | | | | |
|---|-----------------|----------|----------|-----------------|----------|
| Nonperforming loans: | | | | | |
| 90 days past due | \$ - | \$ 8 | \$ - | \$ - | \$ - |
| Nonaccrual | 3,910 | 4,005 | 3,106 | 3,910 | 3,106 |
| Foreclosed real estate | 3,987 | 3,730 | 4,558 | 3,987 | 4,558 |
| Nonperforming assets | \$ 7,897 | \$ 7,743 | \$ 7,664 | \$ 7,897 | \$ 7,664 |

| ASSET QUALITY RATIOS | | | | | |
|--|---------------|--------|--------|---------------|--------|
| Annualized net chargeoffs to average loans | 0.02% | 0.20% | 0.12% | 0.16% | 0.21% |
| Nonperforming assets to total assets | 0.96 | 0.93 | 0.95 | 0.96 | 0.95 |
| Nonperforming loans to total loans | 0.75 | 0.77 | 0.58 | 0.75 | 0.58 |
| Allowance for loan losses to total loans | 1.64 | 1.57 | 1.53 | 1.64 | 1.53 |
| Allowance for loan losses to nonperforming loans | 218.47 | 202.72 | 265.94 | 218.47 | 265.94 |

| OTHER DATA | | | | | |
|---|-------------------|------------|------------|-------------------|------------|
| Fiduciary assets at period-end (c) | \$ 370,016 | \$ 342,519 | \$ 354,860 | \$ 370,016 | \$ 354,860 |
| Retail brokerage assets at period-end (c) | \$ 47,507 | \$ 45,912 | \$ 63,893 | \$ 47,507 | \$ 63,893 |
| Number full-time equivalent employees (d) | 242 | 242 | 246 | 242 | 246 |
| Number of full service offices | 18 | 18 | 19 | 18 | 19 |
| Number of loan production offices | 1 | 1 | 2 | 1 | 2 |
| Number of ATM's | 26 | 26 | 24 | 26 | 24 |

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
- N/A - Percentage change is not applicable or not meaningful

Net Interest Income Analysis
For the Three Months Ended September 30, 2010 and 2009
(in thousands, except rates)

| | Average Balance | | Interest Income/Expense | | Yield/Rate | |
|--|-------------------|-------------------|----------------------------|-----------------|--------------|--------------|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| Loans: | | | | | | |
| Commercial | \$ 76,618 | \$ 85,894 | \$ 934 | \$ 1,027 | 4.84% | 4.78% |
| Real estate | 441,069 | 460,253 | 5,968 | 6,508 | 5.41 | 5.66 |
| Consumer | 6,405 | 7,468 | 126 | 158 | 7.80 | 8.46 |
| Total loans | <u>524,092</u> | <u>553,615</u> | <u>7,028</u> | <u>7,693</u> | <u>5.36</u> | <u>5.56</u> |
| Securities: | | | | | | |
| Federal agencies | 60,079 | 56,706 | 459 | 538 | 3.06 | 3.80 |
| Mortgage-backed & CMO's | 53,839 | 37,609 | 493 | 506 | 3.66 | 5.38 |
| State and municipal | 94,419 | 56,665 | 1,217 | 798 | 5.16 | 5.63 |
| Other | 6,195 | 8,334 | 55 | 80 | 3.55 | 3.84 |
| Total securities | <u>214,532</u> | <u>159,314</u> | <u>2,224</u> | <u>1,922</u> | <u>4.15</u> | <u>4.83</u> |
| Deposits in other banks | <u>24,118</u> | <u>28,265</u> | <u>90</u> | <u>96</u> | <u>1.48</u> | <u>1.36</u> |
| Total interest-earning assets | <u>762,742</u> | <u>741,194</u> | <u>9,342</u> | <u>9,711</u> | <u>4.89</u> | <u>5.24</u> |
| Non-earning assets | <u>73,291</u> | <u>68,870</u> | | | | |
| Total assets | <u>\$ 836,033</u> | <u>\$ 810,064</u> | | | | |
| Deposits: | | | | | | |
| Demand | \$ 90,731 | \$ 94,869 | 16 | 31 | 0.07 | 0.13 |
| Money market | 70,011 | 76,416 | 94 | 107 | 0.53 | 0.56 |
| Savings | 63,562 | 62,985 | 22 | 38 | 0.14 | 0.24 |
| Time | 305,887 | 269,523 | 1,590 | 1,745 | 2.06 | 2.59 |
| Total deposits | <u>530,191</u> | <u>503,793</u> | <u>1,722</u> | <u>1,921</u> | <u>1.29</u> | <u>1.53</u> |
| Customer repurchase agreements | 59,126 | 65,341 | 93 | 134 | 0.62 | 0.82 |
| Other short-term borrowings | 92 | 460 | - | 1 | 0.43 | 0.87 |
| Long-term borrowings | <u>29,174</u> | <u>29,325</u> | <u>408</u> | <u>408</u> | <u>5.59</u> | <u>5.57</u> |
| Total interest-bearing liabilities | <u>618,583</u> | <u>598,919</u> | <u>2,223</u> | <u>2,464</u> | <u>1.43</u> | <u>1.65</u> |
| Noninterest bearing demand deposits | 103,501 | 102,341 | | | | |
| Other liabilities | 4,064 | 5,393 | | | | |
| Shareholders' equity | <u>109,885</u> | <u>103,411</u> | | | | |
| Total liabilities and shareholders' equity | <u>\$ 836,033</u> | <u>\$ 810,064</u> | | | | |
| Interest rate spread | | | | | <u>3.46%</u> | <u>3.59%</u> |
| Net interest margin | | | | | <u>3.74%</u> | <u>3.91%</u> |
| Net interest income (taxable equivalent basis) | | | 7,119 | 7,247 | | |
| Less: Taxable equivalent adjustment | | | 360 | 247 | | |
| Net interest income | | | <u>\$ 6,759</u> | <u>\$ 7,000</u> | | |

Net Interest Income Analysis
For the Nine Months Ended September 30, 2010 and 2009
(in thousands, except rates)

| | Average Balance | | Interest Income/Expense | | Yield/Rate | |
|--|-------------------|-------------------|----------------------------|------------------|--------------|--------------|
| | 2010 | 2009 | 2010 | 2009 | 2010 | 2009 |
| | | | | | | |
| Loans: | | | | | | |
| Commercial | \$ 78,180 | \$ 91,193 | \$ 2,826 | \$ 3,227 | 4.83% | 4.72% |
| Real estate | 438,736 | 466,787 | 18,096 | 19,956 | 5.50 | 5.70 |
| Consumer | 6,553 | 7,746 | 397 | 511 | 8.10 | 8.80 |
| Total loans | <u>523,469</u> | <u>565,726</u> | <u>21,319</u> | <u>23,694</u> | <u>5.43</u> | <u>5.58</u> |
| Securities: | | | | | | |
| Federal agencies | 63,929 | 49,606 | 1,535 | 1,584 | 3.20 | 4.26 |
| Mortgage-backed & CMO's | 47,795 | 41,158 | 1,473 | 1,618 | 4.11 | 5.24 |
| State and municipal | 80,625 | 50,439 | 3,223 | 2,133 | 5.33 | 5.64 |
| Other | 6,933 | 7,212 | 185 | 185 | 3.56 | 3.42 |
| Total securities | <u>199,282</u> | <u>148,415</u> | <u>6,416</u> | <u>5,520</u> | <u>4.29</u> | <u>4.96</u> |
| Deposits in other banks | <u>26,754</u> | <u>26,258</u> | <u>268</u> | <u>287</u> | <u>1.34</u> | <u>1.46</u> |
| Total interest-earning assets | <u>749,505</u> | <u>740,399</u> | <u>28,003</u> | <u>29,501</u> | <u>4.98</u> | <u>5.31</u> |
| Non-earning assets | <u>72,356</u> | <u>68,362</u> | | | | |
| Total assets | <u>\$ 821,861</u> | <u>\$ 808,761</u> | | | | |
| Deposits: | | | | | | |
| Demand | \$ 94,607 | \$ 99,860 | 58 | 263 | 0.08 | 0.35 |
| Money market | 77,691 | 73,112 | 285 | 453 | 0.49 | 0.83 |
| Savings | 63,644 | 62,284 | 66 | 115 | 0.14 | 0.25 |
| Time | 281,601 | 274,214 | 4,595 | 5,797 | 2.18 | 2.82 |
| Total deposits | <u>517,543</u> | <u>509,470</u> | <u>5,004</u> | <u>6,628</u> | <u>1.29</u> | <u>1.73</u> |
| Customer repurchase agreements | 61,698 | 60,790 | 297 | 543 | 0.64 | 1.19 |
| Other short-term borrowings | 31 | 1,355 | - | 5 | 0.43 | 0.49 |
| Long-term borrowings | 29,211 | 31,376 | 1,222 | 1,306 | 5.58 | 5.55 |
| Total interest-bearing liabilities | <u>608,483</u> | <u>602,991</u> | <u>6,523</u> | <u>8,482</u> | <u>1.43</u> | <u>1.88</u> |
| Noninterest bearing demand deposits | 100,965 | 97,970 | | | | |
| Other liabilities | 3,901 | 4,740 | | | | |
| Shareholders' equity | <u>108,512</u> | <u>103,060</u> | | | | |
| Total liabilities and shareholders' equity | <u>\$ 821,861</u> | <u>\$ 808,761</u> | | | | |
| Interest rate spread | | | | | <u>3.55%</u> | <u>3.43%</u> |
| Net interest margin | | | | | <u>3.82%</u> | <u>3.79%</u> |
| Net interest income (taxable equivalent basis) | | | 21,480 | 21,019 | | |
| Less: Taxable equivalent adjustment | | | 959 | 697 | | |
| Net interest income | | | <u>\$ 20,521</u> | <u>\$ 20,322</u> | | |