

AMERICAN NATIONAL BANKSHARES INC

Form S-4/A

April 29, 2011

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As filed with the Securities and Exchange Commission on April 29, 2011

Registration No. 333-172140

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**AMENDMENT NO. 2
TO
FORM S-4
REGISTRATION STATEMENT**

Under

THE SECURITIES ACT OF 1933

AMERICAN NATIONAL BANKSHARES INC.

(Exact name of registrant as specified in its charter)

Virginia
(State or other jurisdiction of
incorporation or organization)

6021
(Primary Standard Industrial
Classification Code Number)

54-1284688
(I.R.S. Employer
Identification No.)

628 Main Street
Danville, Virginia 24541
(434) 792-5111

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Charles H. Majors
President and Chief Executive Officer
American National Bankshares Inc.

628 Main Street
Danville, Virginia 24541
(434) 792-5111

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies of all correspondence to:

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Richmond, Virginia 23219

(804) 783-2003

Approximate date of commencement of proposed sale of the securities to the public: As soon as practicable after this Registration Statement becomes effective and all other conditions to the proposed merger described herein have been satisfied or waived.

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. "

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer " Accelerated filer b

Non-accelerated filer " (Do not check if a smaller reporting company) Smaller reporting company "

If applicable, place an X in the box to designate the appropriate rule provision relied upon in conducting this transaction:

Exchange Act Rule 13e-4(i) (Cross-Border Issuer Tender Offer) "

Exchange Act Rule 14d-1(d) (Cross-Border Third-Party Tender Offer) "

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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The information contained herein is subject to completion or amendment. A registration statement relating to these securities has been filed with the Securities and Exchange Commission. These securities may not be sold nor may offers to buy be accepted prior to the time the registration statement becomes effective. This proxy statement/prospectus does not constitute an offer to sell these securities, nor a solicitation of any offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale is not permitted.

PRELIMINARY SUBJECT TO COMPLETION DATED APRIL 29, 2011

PROPOSED MERGER YOUR VOTE IS VERY IMPORTANT

Dear Fellow Shareholders:

We are pleased to report that the board of directors of American National Bankshares Inc. has approved a strategic merger agreement pursuant to which American will acquire MidCarolina Financial Corporation. We are sending you this document to ask you, as an American shareholder, to vote in favor of certain merger-related matters.

After the merger, American will have assets of over \$1.3 billion, a strong capital base and 24 banking offices with a significant presence in the south-central Virginia and north-central North Carolina markets. We believe the combined company will be well positioned to achieve strong financial performance and increase shareholder value through a balanced business mix, greater scale and enhanced efficiencies and competitiveness. In the proposed merger, MidCarolina will merge with and into a newly-formed subsidiary of American, and MidCarolina Bank, the wholly-owned subsidiary bank of MidCarolina, will merge with and into American National Bank and Trust Company, the wholly-owned subsidiary bank of American.

Upon completion of the proposed merger, we estimate that the current American shareholders will own approximately 79% of our common stock and the MidCarolina common shareholders will own approximately 21% of our common stock. In the merger, the MidCarolina common shareholders will receive 0.33 shares of American common stock for each share of MidCarolina common stock that they own. In addition, each share of MidCarolina's Series A noncumulative perpetual preferred stock will be converted into one share of American's to-be-established Series A noncumulative perpetual preferred stock. As of the date of this proxy statement/prospectus, we expect to issue approximately [] shares of American common stock and approximately 5,000 shares of American Series A preferred stock in the merger. American shareholders will continue to own their existing shares, which will not be affected by the merger.

The 0.33 common stock exchange ratio is fixed and will not be adjusted to reflect stock price changes prior to the closing of the merger. American's common stock trades on the NASDAQ Global Select Market under the symbol AMNB. MidCarolina's common stock trades on the OTC Bulletin Board under the symbol MCFI. Based on the closing sale price for American common stock on December 15, 2010 (\$23.80), the last trading day before public announcement of the merger, the 0.33 exchange ratio represented approximately \$7.85 in value for each share of MidCarolina common stock. The closing sale price for MidCarolina common stock on the OTC Bulletin Board on December 15, 2010 was \$2.85. The most recent reported closing sale price for American common stock on [], 2011 was \$[]. The most recent reported closing sale price for MidCarolina common stock on [], 2011 was \$[]. We urge you to obtain current market quotations for the shares of American and MidCarolina.

Your vote is important. We are holding a special meeting of our shareholders to obtain approval of the issuance of up to approximately 1,750,000 shares of our common stock in the merger. We urge you to read carefully this entire proxy statement/prospectus, which includes important information about the merger. **You should also carefully consider the information in the Risk Factors section beginning on page 25.**

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Whether or not you plan to attend the special meeting, it is important that your shares be represented at the meeting and your vote recorded. Please take the time to vote by completing and mailing the enclosed proxy card. Even if you return the proxy card, you may attend the special meeting and vote your shares in person.

The American board of directors unanimously recommends that you vote FOR the proposal to issue shares of American common stock to MidCarolina shareholders in the merger.

Thank you for your support.

Charles H. Majors
President and Chief Executive Officer

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the securities to be issued in connection with the merger or determined if this proxy statement/prospectus is accurate or complete. Any representation to the contrary is a criminal offense.

The securities to be issued in the merger are not savings or deposit accounts and are not insured by the Federal Deposit Insurance Corporation or any other governmental agency.

This proxy statement/prospectus is dated [], 2011 and is first being mailed to American shareholders on or about [], 2011.

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PROPOSED MERGER YOUR VOTE IS VERY IMPORTANT

Dear Fellow Shareholders:

The board of directors of MidCarolina Financial Corporation has unanimously approved a strategic merger that will combine MidCarolina Financial Corporation with American National Bankshares Inc. We are sending this document to holders of MidCarolina common stock and Series A noncumulative perpetual preferred stock, and we are asking holders of MidCarolina common stock to vote in favor of the merger agreement at the special meeting of MidCarolina shareholders that has been called to vote on the merger.

In the merger, holders of MidCarolina common stock will receive 0.33 shares of American common stock for each share of MidCarolina common stock they own. In addition, holders of MidCarolina's Series A noncumulative perpetual preferred stock will receive one share of American's to-be-established Series A noncumulative perpetual preferred stock for each share of MidCarolina Series A preferred stock they own. Upon completion of the proposed merger, we estimate that the current MidCarolina common shareholders will own approximately 21% of American's common stock. As of the date of this proxy statement/prospectus, it is expected that American will issue approximately [] shares of American common stock and approximately 5,000 shares of American Series A preferred stock in the merger.

The 0.33 common stock exchange ratio is fixed and will not be adjusted to reflect stock price changes prior to the closing of the merger. American's common stock trades on the NASDAQ Global Select Market under the symbol AMNB. MidCarolina's common stock trades on the OTC Bulletin Board under the symbol MCFI. Based on the closing sale price for American common stock on December 15, 2010 (\$23.80), the last trading day before public announcement of the merger, the 0.33 exchange ratio represented approximately \$7.85 in value for each share of MidCarolina common stock. The closing sale price for MidCarolina common stock on the OTC Bulletin Board on December 15, 2010 was \$2.85. The most recent reported closing sale price for American common stock on [], 2011 was \$[]. The most recent reported closing sale price for MidCarolina common stock on [], 2011 was \$[]. We urge you to obtain current market quotations for the shares of American and MidCarolina.

Your vote is very important. We are holding a special meeting of our shareholders to obtain approval of the merger agreement. We urge you to read carefully this entire proxy statement/prospectus, which includes important information about the merger. **You should also carefully consider the information in the Risk Factors section beginning on page 25.**

Under North Carolina law, you have the right to assert dissenters' rights with respect to the merger. In order to exercise and perfect your dissenters' rights, you must provide to MidCarolina before the vote on the merger agreement at the special meeting a written notice of your intent to demand payment for your shares if the merger is completed. If you are a holder of MidCarolina common stock, you also must either vote against the merger agreement or abstain from voting, or not submit a proxy at all. If the merger is approved, there are additional steps that you must take to exercise and perfect your dissenters' rights under North Carolina law. A more detailed description of the procedures to exercise and perfect dissenters' rights is included in the proxy statement/prospectus in the Summary section under MidCarolina's Shareholders Have Dissenters Rights in the Merger beginning on page 16 and under The Merger Dissenters and Appraisal Rights beginning on page 71.

Whether or not you plan to attend the special meeting, it is important that your shares be represented at the meeting and your vote recorded. Please take the time to vote by completing and mailing the enclosed proxy card. Even if you return the proxy card, you may attend the special meeting and vote your shares in person.

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The MidCarolina board of directors unanimously recommends that you vote FOR approval of the merger agreement.

Thank you for your support.

Charles T. Canaday, Jr.
President and Chief Executive Officer

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the securities to be issued in connection with the merger or determined if this proxy statement/prospectus is accurate or complete. Any representation to the contrary is a criminal offense.

The securities to be issued in the merger are not savings or deposit accounts and are not insured by the Federal Deposit Insurance Corporation or any other governmental agency.

This proxy statement/prospectus is dated [], 2011 and is first being mailed to MidCarolina shareholders on or about [], 2011.

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AMERICAN NATIONAL BANKSHARES INC.

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS

To be held on June 14, 2011

A special meeting of shareholders of American National Bankshares Inc. (American) will be held at The Wednesday Club, located at 1002 Main Street, Danville, Virginia, at 1:00 p.m. local time, on June 14, 2011 for the following purposes:

1. To consider and vote on a proposal to approve the issuance of up to approximately 1,750,000 shares of American common stock to the shareholders of common stock of MidCarolina Financial Corporation (MidCarolina) in accordance with the Agreement and Plan of Reorganization, dated as of December 15, 2010, between American and MidCarolina, and a related Plan of Merger (together, the merger agreement), whereby MidCarolina will merge with and into a newly-formed subsidiary of American upon the terms and subject to the conditions set forth in the merger agreement, as more fully described in the accompanying proxy statement/prospectus. A copy of the merger agreement is attached as Appendix A to the accompanying proxy statement/prospectus.
2. To consider and vote on a proposal to adjourn or postpone the meeting to a later date or dates, if necessary, to permit further solicitation of proxies in the event there are not sufficient votes at the time of the meeting to approve the issuance of shares of American common stock to the shareholders of common stock of MidCarolina.
3. To transact such other business as may properly come before the meeting or any adjournments or postponements thereof.

All holders of record of American common stock at the close of business on April 27, 2011, are entitled to notice of and to vote at the meeting and any adjournments thereof.

By Order of the Board of Directors,

William W. Traynham
*Senior Vice President, Chief Financial Officer
and Corporate Secretary*

[], 2011

The American board of directors unanimously recommends that you vote FOR approval of the issuance of common stock to MidCarolina shareholders in the merger and FOR approval to adjourn or postpone the special meeting, if necessary.

Please promptly complete and return the enclosed proxy card, whether or not you plan to attend the special meeting. If you attend the meeting in person, you may withdraw your proxy card and vote your own shares.

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MIDCAROLINA FINANCIAL CORPORATION

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS

To be held on June 14, 2011

A special meeting of shareholders of MidCarolina Financial Corporation (MidCarolina) will be held at the Best Western Burlington Inn, located at 700 Huffman Mill Road, Burlington, North Carolina, at 4:00 p.m. local time, on June 14, 2011 for the following purposes:

1. To consider and vote on a proposal to approve the Agreement and Plan of Reorganization, dated as of December 15, 2010, between American National Bankshares Inc. (American) and MidCarolina, and a related Plan of Merger (together, the merger agreement), whereby MidCarolina will merge with and into a newly-formed subsidiary of American (the merger) upon the terms and subject to the conditions set forth in the merger agreement, as more fully described in the accompanying proxy statement/prospectus. A copy of the merger agreement is attached as Appendix A to the accompanying proxy statement/prospectus.
2. To consider and vote on a proposal to adjourn or postpone the meeting to a later date or dates, if necessary, to permit further solicitation of proxies in the event there are not sufficient votes at the time of the meeting to approve the merger agreement.

3. To transact such other business as may properly come before the meeting or any adjournments or postponements thereof. All holders of record of MidCarolina common stock at the close of business on April 26, 2011, are entitled to notice of and to vote at the meeting and any adjournments thereof. You may cast one vote for each share of MidCarolina common stock held on such date. Holders of MidCarolina s Series A noncumulative perpetual preferred stock are not entitled to vote at the meeting.

By Order of the Board of Directors,

Charles T. Canaday, Jr.
President and Chief Executive Officer

[], 2011

The MidCarolina board of directors unanimously recommends that you vote FOR the approval of the merger agreement and FOR the approval to adjourn or postpone the MidCarolina special meeting, if necessary.

If the merger agreement is approved and the merger is completed, holders of both MidCarolina common stock and MidCarolina Series A preferred stock will have the right to dissent and demand payment of the fair value of their shares. Your right to dissent is conditioned on your strict compliance with the requirements of Article 13 of Chapter 55 of the North Carolina General Statutes. The full text of that statute is attached as Appendix D to the proxy statement/prospectus which accompanies this notice.

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Please promptly complete and return the enclosed proxy card, whether or not you plan to attend the special meeting. If you attend the meeting in person, you may withdraw your proxy card and vote your own shares.

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ADDITIONAL INFORMATION

This proxy statement/prospectus incorporates by reference important business and financial information about American from other documents that are not included in or delivered with this proxy statement/prospectus. For a listing of the documents incorporated by reference, see *Where You Can Find More Information* on page 165. This information is available to you without charge upon your written or oral request. You can obtain the documents incorporated by reference into this proxy statement/prospectus through the website of the Securities and Exchange Commission (the SEC) at <http://www.sec.gov>, through the website of American at <http://www.amnb.com> or by requesting them in writing or by telephone at the contact information set forth below:

American National Bankshares Inc.

628 Main Street

Danville, Virginia 24541

Telephone: (434) 792-5111

Attention: Carolyn Compton

Assistant Corporate Secretary

Information contained on the website of American does not constitute part of this proxy statement/prospectus and is not incorporated into other filings that American makes with the SEC.

MidCarolina shareholders may also obtain documents incorporated by reference into this proxy statement/prospectus by requesting them in writing or by telephone from Morrow & Co., LLC, MidCarolina's proxy solicitor, at the following address and telephone number:

470 West Avenue 3rd Floor

Stamford, Connecticut 06902

1-800-662-5200

To receive timely delivery of the documents in advance of the special meetings, please make your request no later than June 7, 2011.

In this proxy statement/prospectus, American National Bankshares Inc. is referred to as American, the newly-formed subsidiary of American formed to facilitate the transaction, ANB Merger Subsidiary, Inc., is referred to as the merger subsidiary, American National Bank and Trust Company, the wholly-owned bank subsidiary of American, is referred to as American National Bank and MidCarolina Financial Corporation is referred to as MidCarolina. The merger of MidCarolina with and into the merger subsidiary is referred to as the merger, and the Agreement and Plan of Reorganization, dated as of December 15, 2010, between American National Bankshares Inc. and MidCarolina Financial Corporation, including the related Plan of Merger between MidCarolina and the merger subsidiary, is referred to collectively as the merger agreement. The special meeting of shareholders of American and the special meeting of shareholders of MidCarolina are sometimes referred to herein collectively as the special meetings.

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QUESTIONS AND ANSWERS ABOUT THE MERGER AND THE SPECIAL MEETINGS

The following questions and answers briefly address some commonly asked questions about the special meetings and the merger. They may not include all the information that is important to American and MidCarolina shareholders. We urge shareholders to read carefully this entire proxy statement/prospectus, including the appendices and the other documents referred to herein.

Q: What is the transaction?

A: American and MidCarolina have entered into a merger agreement whereby MidCarolina will merge with and into a newly-formed merger subsidiary of American, and MidCarolina shareholders will receive American stock in exchange for their MidCarolina stock.

Q: Why am I receiving these materials?

A: We are sending you these materials to solicit your proxy and help you decide how to vote your shares of American common stock and MidCarolina common stock. These materials are intended to help American shareholders decide how to vote their shares with respect to the proposal to approve the issuance of common stock to MidCarolina shareholders in the merger and to help holders of MidCarolina common stock decide how to vote their shares with respect to the proposal to approve the merger agreement.

Each of American and MidCarolina is holding a special meeting of shareholders to vote on the proposals necessary to complete the merger. Information about the special meetings, the merger and the other business to be considered by American and MidCarolina shareholders is contained in this proxy statement/prospectus.

Q: Why did American and MidCarolina enter into the merger agreement?

A: The boards of directors of American and MidCarolina believe that the proposed merger is in the best interest of American and MidCarolina. The boards believe that combining MidCarolina with American is the best way to increase shareholder value in the long run for both American and MidCarolina shareholders and will position the combined company to be a stronger competitor in the competitive market for financial institutions. To review the background and reasons for the merger in more detail, see pages 40 through 53.

Q: What will MidCarolina shareholders receive in the merger?

A: In the proposed merger, holders of MidCarolina's common stock will receive 0.33 shares of common stock of American for each of their shares of MidCarolina common stock. This exchange ratio is fixed and will not be adjusted to reflect stock price changes prior to the closing of the merger. In addition, each share of MidCarolina's Series A Noncumulative Perpetual Preferred Stock (the "MidCarolina Series A preferred stock") will be converted into one share of American's to-be-established Series A Noncumulative Perpetual Preferred Stock (the "American Series A preferred stock"), which will have substantially identical terms, preferences and rights as the MidCarolina Series A preferred stock. American shareholders will continue to own their existing shares, which will not be affected by the merger. It is expected that existing shareholders of MidCarolina common stock will own approximately 21% of American's outstanding common stock, on a fully diluted basis, after the merger. The American Series A preferred stock to be issued in exchange for the

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MidCarolina Series A preferred stock will not be convertible into shares of American common stock, and therefore has no effect on the common stock ownership of American after the merger.

Q: Will American continue to pay dividends on its common stock after the merger?

A: Since the second quarter of 2007, American has paid a quarterly dividend on shares of its common stock at a rate of \$0.23 per share. American has no current intention to change its dividend strategy of paying a relatively high cash dividend, but has and will continue to evaluate that decision based a quarterly review of earnings, growth, capital and such other factors that the American board of directors considers relevant to the dividend decision process. MidCarolina has never paid a cash dividend on its common stock.

Q: Will any of the directors and executive officers of MidCarolina participate in the management of American following the merger?

A: After the merger, American will be governed by a board of directors comprised of 14 directors, of which 11 are current directors of American and three are current directors of MidCarolina. The three current directors of MidCarolina, F. D. Hornaday III, John H. Love and Robert A. Ward, were chosen by MidCarolina's board of directors, and approved by American's board of directors, to become directors of American and American National Bank following the merger. Additionally, though he will not serve as a voting director of American, MidCarolina's chairman, James R. Copland III, will serve as a director emeritus of American following the merger. Certain directors of MidCarolina and MidCarolina Bank selected by American will also be invited to join the North Carolina Advisory Board of Directors of American National Bank. Current MidCarolina president and chief executive officer, Charles T. Canaday, Jr., will serve as a senior vice president of American and an executive vice president of American National Bank, as well as president of North Carolina Banking for American National Bank.

Q: When do American and MidCarolina expect to complete the merger?

A: American and MidCarolina expect to complete the merger after all conditions to the merger in the merger agreement are satisfied or waived, including after shareholder approvals are received at the special meetings, and all required regulatory approvals are received. We currently expect to complete the merger in early July 2011. However, it is possible that factors outside of our control could require us to complete the merger at a later time or not to complete it at all.

Q: How does the American board of directors recommend that American shareholders vote?

A: The American board of directors unanimously recommends that American shareholders vote FOR the proposal to issue shares of common stock to MidCarolina shareholders in the merger and FOR the proposal to adjourn the American special meeting to a later date or dates, if necessary, to permit further solicitation of proxies if there are not sufficient votes at the time of the American special meeting to approve the issuance of shares of American common stock to MidCarolina shareholders.

Q: How does the MidCarolina board of directors recommend that MidCarolina shareholders vote?

A: The MidCarolina board of directors unanimously recommends that holders of MidCarolina common stock vote FOR the proposal to approve the merger agreement and the transactions

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contemplated thereby, and FOR the proposal to adjourn the MidCarolina special meeting to a later date or dates, if necessary, to permit further solicitation of proxies if there are not sufficient votes at the time of the MidCarolina special meeting to approve the merger agreement.

Q: What do I need to do now to vote my shares?

A: After carefully reading and considering the information contained in this proxy statement/prospectus, please vote your shares as soon as possible so that your shares will be represented at the American or MidCarolina special meeting. Please follow the instructions set forth on the proxy card or on the voting instruction form provided by the record holder if your shares are held in the name of your broker or other nominee.

Q: How do I vote?

A: You may vote before the American or MidCarolina special meeting by completing, signing, dating and returning the enclosed proxy card in the enclosed postage-paid envelope.

If you are a record holder of MidCarolina common stock, you can also appoint the proxies to vote your shares for you by going to the Internet website www.midcarolinabank.com/proxy. When you are prompted for your control number, enter the number printed just above your name on the enclosed proxy card, and then follow the instructions provided. You may vote by Internet only until 5:00 p.m. Eastern Daylight Time on June 13, 2011, which is the day before the MidCarolina special meeting date. If you vote by Internet, you need not sign and return a proxy card. Under North Carolina law, you will be appointing the proxies to vote your shares on the same terms and with the same authority as if you completed, signed and returned a proxy card. The authority you will be giving the proxies is described in the proxy card.

You may also cast your vote in person at the respective company's special meeting. If your shares are held in street name, through a broker, bank or other nominee, that institution will send you separate instructions describing the procedure for voting your shares. Street name shareholders who wish to vote in person at the special meetings will need to present a proxy from the institution that holds their shares.

Q: If my shares are held in street name by a broker or other nominee, will my broker or nominee vote my shares for me?

A: Your broker or other nominee does not have authority to vote on the proposals described in this proxy statement/prospectus if you do not provide instructions to it on how to vote. Your broker or other nominee will vote your shares held by it in street name with respect to these matters ONLY if you provide instructions to it on how to vote. You should follow the directions your broker or other nominee provides.

Q: When and where is the American special meeting of shareholders?

A: The special meeting of American shareholders will be held at 1:00 p.m., local time, on June 14, 2011 at The Wednesday Club, located at 1002 Main Street, Danville, Virginia. All holders of American common stock as of the record date for the American meeting, or their duly appointed proxies, may attend the American special meeting.

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Q: When and where is the MidCarolina special meeting of shareholders?

A: The special meeting of MidCarolina shareholders will be held at 4:00 p.m., local time, on June 14, 2011 at the Best Western Burlington Inn, located at 700 Huffman Mill Road, Burlington, North Carolina. All holders of MidCarolina common stock as of the record date for the MidCarolina meeting, or their duly appointed proxies, may attend the MidCarolina special meeting.

Q: What vote is required to approve each proposal at the American special meeting?

A: The proposal to issue up to approximately 1,750,000 shares of common stock to MidCarolina shareholders requires the affirmative vote of a majority of the total votes cast on the proposal.

Approval of a motion to adjourn or postpone the American special meeting to permit further solicitation of proxies to approve the issuance of shares of American common stock to MidCarolina shareholders requires the affirmative vote of at least a majority of the shares voted at the special meeting, whether or not a quorum is present.

Q: What vote is required to approve each proposal at the MidCarolina special meeting?

A: The proposal to approve the merger agreement requires the affirmative vote of a majority of the outstanding shares of MidCarolina common stock.

Approval of a motion to adjourn or postpone the MidCarolina special meeting to permit further solicitation of proxies to approve the merger agreement requires the affirmative vote of at least a majority of the shares voted at the special meeting, whether or not a quorum is present.

Q: What if I do not vote on the matters relating to the merger?

A: If you are an American shareholder: With respect to the proposal to issue shares of American common stock to MidCarolina shareholders, if you fail to vote, fail to instruct your broker or other nominee how to vote, or respond with an abstain vote, you will not be considered to have cast a vote, and your shares will be disregarded for purposes of determining whether a majority of the total votes cast have approved the proposal. If you do not hold your shares in street name and you sign and return your proxy card but do not indicate how you want to vote on the proposal to issue shares of American common stock to MidCarolina shareholders, your proxy will be counted as a vote in favor of the proposal.

If you are a MidCarolina shareholder: With respect to the proposal to approve the merger agreement, if you fail to vote or fail to instruct your broker or other nominee how to vote, your failure to vote will have the same effect as a vote against the merger. If you respond with an abstain vote, your proxy will have the same effect as a vote against the merger. If you do not hold your shares in street name and you sign and return your proxy card but do not indicate how you want to vote on the proposal to approve the merger, your proxy will be counted as a vote in favor of the proposal.

Q: What if I hold shares in both American and MidCarolina?

A: If you are a shareholder of both American and MidCarolina, you will receive two separate packages of proxy materials. A vote as an American shareholder will not constitute a vote as a MidCarolina shareholder for the merger-related proposals, or vice versa. Therefore, please sign,

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date, and return all proxy cards that you receive from American and MidCarolina.

Q: May I change my vote after I have delivered my proxy or voting instruction card?

A: Yes. You may change your vote at any time before your proxy is voted at the special meetings. You may do this in one of three ways:

by sending a notice of revocation to either the American corporate secretary or the MidCarolina corporate secretary, as the case may be;

by sending a completed proxy card bearing a later date than your original proxy card; or

by attending the American or MidCarolina special meeting and voting in person; your attendance alone will not revoke any proxy. If you choose either of the first two methods, your notice or new proxy card must be actually received before the voting takes place at the respective special meeting.

If your shares are held in an account at a broker or other nominee, you should contact your broker or other nominee to change your vote.

Q: What are the material federal income tax consequences of the merger to MidCarolina shareholders?

A: American and MidCarolina intend for the merger to qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986 (the Internal Revenue Code) for United States federal income tax purposes. Assuming the merger qualifies for such treatment, a holder of MidCarolina stock generally will not recognize any gain or loss for U.S. federal income tax purposes as a result of the exchange of the holder's shares of MidCarolina stock for shares of American stock pursuant to the merger. MidCarolina shareholders may, however, recognize gain or loss in connection with the receipt of cash for fractional shares or as dissenting shareholders in the merger. For greater detail, see The Merger Material Federal Income Tax Consequences beginning on page 82.

Q: Do I have dissenters or appraisal rights?

A: Shareholders of MidCarolina stock are entitled to dissenters' rights in connection with the merger. For information on how to exercise and perfect your dissenters' rights, please see The Merger Dissenters and Appraisal Rights beginning on page 71. Shareholders of American common stock are not entitled to exercise any dissenters' or appraisal rights in connection with the merger.

Q: Should I send in my MidCarolina stock certificates now?

A: No. Please do not send your stock certificates with your proxy card. If you are a holder of MidCarolina stock, you will receive written instructions from the exchange agent after the merger is completed on how to exchange your MidCarolina stock certificates for American stock certificates and receive your check in lieu of any fractional shares.

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Q: What happens if I transfer my MidCarolina common shares after the record date for the MidCarolina special meeting?

A: The record date for the MidCarolina special meeting is earlier than the expected date of completion of the merger. Therefore, if you transfer your shares of MidCarolina common stock after the record date for the MidCarolina special meeting, but prior to the merger, you will retain the right to vote at the special meeting, but the right to receive the merger consideration will transfer with the shares of MidCarolina common stock.

Q: Who should I contact if I have any questions about the proxy materials or voting?

A: If you have any questions about the merger or if you need assistance in submitting your proxy or voting your shares or need additional copies of the proxy statement/prospectus or the enclosed proxy card:

if you are an American shareholder, you should contact American's Investor Relations department by calling (434) 792-5111 or by writing to American National Bankshares, Inc., 628 Main Street, Danville, Virginia 24541, Attention: Investor Relations.

if you are a MidCarolina shareholder, you should contact MidCarolina's Corporate Secretary by calling (336) 538-1600 or by writing to MidCarolina Financial Corporation, 3101 South Church Street, Burlington, North Carolina 27216, Attention: Corporate Secretary. You may also obtain more information about the merger and the proxy materials by contacting Morrow & Co., LLC, MidCarolina's proxy solicitor, at 1-800-662-5200.

If your shares are held in a stock brokerage account or by a bank or other nominee, you should call your broker or other nominee for additional information.

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SUMMARY

*This summary highlights selected information from this proxy statement/prospectus. It does not contain all of the information that is important to you. We urge you to read carefully the entire proxy statement/prospectus and the other documents to which this proxy statement/prospectus refers to understand fully the merger and the other matters to be considered at the special meetings. See *Where You Can Find More Information* beginning on page 165. Each item in this summary includes a page reference directing you to a more complete description of that item.*

The Parties (pages 92 and 93)

American National Bankshares Inc.

628 Main Street

Danville, Virginia 24541

Telephone: (434) 792-5111

American National Bankshares Inc. is a bank holding company headquartered in Danville, Virginia providing a full range of financial services through its subsidiary community bank, American National Bank and Trust Company. American National Bank serves southern and central Virginia and the northern portion of North Carolina with 18 banking offices. The common stock of American is traded on the NASDAQ Global Select Market under the symbol AMNB.

As of December 31, 2010, American had total assets of approximately \$833.7 million, total net loans of approximately \$512.3 million, total deposits of approximately \$640.1 million and total shareholders' equity of approximately \$108.1 million. American National Bank also manages an additional \$417.0 million of assets in its trust and investment services division.

MidCarolina Financial Corporation

3101 South Church Street

Burlington, North Carolina 27216

Telephone: (336) 538-1600

MidCarolina Financial Corporation is a bank holding company headquartered in Burlington, North Carolina providing financial services through its subsidiary community bank, MidCarolina Bank. MidCarolina Bank has six full-service banking offices and two limited-service offices located in the cities of Burlington, Graham, Greensboro and Mebane, North Carolina. MidCarolina provides a complete line of banking services to individuals and businesses and also provides access to personalized full brokerage services through a third-party registered broker dealer. The common stock of MidCarolina is traded on the OTC Bulletin Board under the symbol MCFI.

As of December 31, 2010, MidCarolina had total assets of approximately \$531.2 million, total net loans of approximately \$390.6 million, total deposits of approximately \$465.9 million and total shareholders' equity of approximately \$40.4 million.

The Merger (page 39)

American and MidCarolina are proposing a combination of our companies through a merger of MidCarolina with and into a newly-formed merger subsidiary of American. After the merger, it is expected that the merger subsidiary will merge with and into American and MidCarolina Bank will merge with and into American National Bank. The parties expect to complete the merger in early July 2011.

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The merger agreement is attached to this proxy statement/prospectus as Appendix A. We encourage you to read the merger agreement because it is the legal document that governs the merger.

Consideration to be Received in the Merger by MidCarolina Shareholders (page 69)

In the proposed merger, holders of MidCarolina common stock will receive 0.33 shares of American common stock for each of their shares of MidCarolina common stock outstanding on the effective date of the merger and cash in lieu of any fractional shares (except for shares held by MidCarolina's shareholders who dissent). The number of shares of American common stock delivered for each share of MidCarolina common stock in the merger is referred to as the exchange ratio. This exchange ratio is fixed and will not be adjusted to reflect stock price changes prior to the closing of the merger. In addition, each share of MidCarolina Series A preferred stock will be converted into one share of American Series A preferred stock (except for shares held by MidCarolina's shareholders who dissent), which will have substantially identical terms, preferences and rights as the MidCarolina Series A preferred stock.

It is expected that existing holders of MidCarolina common stock will own approximately 21% of American's outstanding common stock, on a fully diluted basis, after the merger. The American Series A preferred stock to be issued in exchange for the MidCarolina Series A preferred stock will not be convertible into shares of American common stock, and therefore has no effect on the common stock ownership of American after the merger.

Shares of American common stock held by American shareholders will remain unchanged in the merger.

Treatment of MidCarolina Stock Options (page 70)

In the merger, all outstanding MidCarolina stock options will be converted into stock options of American, entitling them to receive common stock of American on the same terms and conditions as were in effect immediately prior to the completion of the merger, subject to any accelerated vesting as a result of the merger to the extent provided by the terms of the applicable MidCarolina equity compensation plans or agreements under such plans. The number of shares issuable under those options and the exercise prices for those options will be adjusted based on the exchange ratio.

Dividend Information (pages 90 and 156)

Since the second quarter of 2007, American has paid a quarterly dividend on shares of its common stock at a rate of \$0.23 per share per quarter. American has no current intention to change its dividend strategy of paying a relatively high cash dividend, but has and will continue to evaluate that decision based a quarterly review of earnings, growth, capital and such other factors that the American board of directors considers relevant to the dividend decision process. MidCarolina has never paid a cash dividend on its common stock.

Material Federal Income Tax Consequences (page 82)

Assuming the merger qualifies as a tax-free reorganization, MidCarolina shareholders generally will not recognize any gain or loss for United States federal income tax purposes as a result of the exchange of MidCarolina stock for shares of American stock. MidCarolina shareholders may, however, recognize gain or loss in connection with cash received for any fractional shares or as dissenting shareholders in the merger. This tax treatment may not apply to all shareholders. You should consult your own tax advisor for a full understanding of the merger's tax consequences that are particular to you.

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You will not be obligated to exchange your shares of MidCarolina stock unless we receive a legal opinion that the merger will be treated for federal income tax purposes as a reorganization within the meaning of Section 368 of the Internal Revenue Code.

The tax consequences of the merger to you may depend on your own situation. In addition, you may be subject to state, local or foreign tax laws and consequences that are not addressed in this proxy statement/prospectus. You are urged to consult with your own tax advisor for a full understanding of the tax consequences of the merger to you.

Recommendation of the American Board of Directors (page 31)

The American board of directors unanimously recommends that American shareholders vote FOR the proposal to issue shares of common stock to MidCarolina shareholders in the merger and FOR the proposal to adjourn or postpone the American special meeting to a later date or dates, if necessary.

Recommendation of the MidCarolina Board of Directors (page 35)

The MidCarolina board of directors unanimously recommends that holders of MidCarolina common stock vote FOR the proposal to approve the merger agreement and the transactions contemplated thereby, and FOR the proposal to adjourn or postpone the MidCarolina special meeting to a later date or dates, if necessary.

Opinion of American's Financial Advisor (page 53)

American engaged the firm of Keefe, Bruyette & Woods, Inc. (KBW) to review the proposed merger and provide a fairness opinion. KBW has given its opinion to the American board that, as of December 15, 2010, the exchange ratio provided for in the merger agreement was fair from a financial point of view to American. A copy of the fairness opinion, setting forth the information reviewed, assumptions made, and matters considered by KBW, is attached to this proxy statement/prospectus as Appendix B. We encourage you to read carefully the entire opinion of KBW. The opinion of KBW has not been updated prior to the date of this proxy statement/prospectus and does not reflect any change in circumstances after December 15, 2010.

KBW's opinion as to the fairness, from a financial point of view, of the exchange ratio to American was provided to the American board of directors in connection with its evaluation of the exchange ratio from a financial point of view, does not address any other aspect of the merger and does not constitute a recommendation to any shareholder as to how to vote or act with respect to the merger.

Opinion of MidCarolina's Financial Advisor (page 60)

MidCarolina engaged the firm of Stifel, Nicolaus & Company, Incorporated (Stifel) to review the proposed merger and provide a fairness opinion. Stifel has given its opinion to the MidCarolina board that, as of December 15, 2010, the per share merger consideration to be received by the holders of shares of MidCarolina common stock (other than dissenting shares, shares subject to a voting agreement and shares held by MidCarolina, American or any of their respective subsidiaries) from American in the merger is fair, from a financial point of view, to the holders of MidCarolina common stock. A copy of the fairness opinion, setting forth the information reviewed, assumptions made, and matters considered by Stifel, is attached to this proxy statement/prospectus as Appendix C. We encourage you to read carefully the entire opinion of Stifel. The opinion of Stifel has not been updated prior to the date of this proxy statement/prospectus and does not reflect any change in circumstances after December 15, 2010.

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Stifel's opinion as to the fairness, from a financial point of view, of the per share merger consideration to the holders of MidCarolina common stock was provided to the MidCarolina board of directors in connection with its evaluation of the per share merger consideration from a financial point of view, does not address any other aspect of the merger and does not constitute a recommendation to any shareholder as to how to vote or act with respect to the merger.

Regulatory Approvals (page 76)

American and MidCarolina cannot complete the merger without prior approval from the Board of Governors of the Federal Reserve System (the Federal Reserve), the Virginia State Corporation Commission and the North Carolina Commissioner of Banks. On February 17, 2011, the North Carolina Commissioner of Banks approved American's application subject to the publication of a public notice of the merger, which notice has since been published. On March 16, 2011, the Virginia State Corporation Commission approved the notice filed by American and on March 21, 2011, American received approval of its Federal Reserve application. Accordingly, all regulatory approvals required for the merger have been obtained. Further, as of the date of this proxy statement/prospectus, American and MidCarolina have not received any communication from any of the regulatory agencies indicating that the required approvals do not remain in effect.

Conditions to Completion of the Merger (page 75)

American's and MidCarolina's respective obligations to complete the merger are subject to the fulfillment or waiver of certain conditions, including the following:

approval of the merger agreement by holders of MidCarolina common stock;

approval of the issuance of American common stock to the MidCarolina shareholders in the merger by the American shareholders;

approval of the merger by the necessary federal and state regulatory authorities;

approval from the NASDAQ Stock Market for the listing on the NASDAQ Global Select Market of the shares of common stock of American to be issued in the merger;

the absence of any order, decree or injunction of a court or regulatory agency that enjoins or prohibits the completion of the merger;

accuracy of each party's representations and warranties in the merger agreement, including its representation that no material adverse change has occurred;

the other party's compliance with its obligations under the merger agreement; and

the receipt by each party from LeClairRyan, A Professional Corporation, legal counsel to American, of a written legal opinion relating to the U.S. federal income tax treatment of the merger.

Where the merger agreement and/or law permits, American and MidCarolina could choose to waive a condition to its obligation to complete the merger even if that condition has not been satisfied. We cannot be certain when, or if, the conditions to the merger will be satisfied or waived or that the merger will be completed.

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Timing of the Merger (page 69)

American and MidCarolina expect to complete the merger after all conditions to the merger in the merger agreement are satisfied or waived, including after shareholder approvals are received at the special meetings of American and MidCarolina and all required regulatory approvals are received. We currently expect to complete the merger in early July 2011. However, it is possible that factors outside of either party's control could require us to complete the merger at a later time or not to complete it at all.

Interests of Certain Persons in the Merger (page 85)

When considering the recommendation of the MidCarolina board, you should be aware that some MidCarolina directors and officers have interests in the merger that differ from, or are in addition to, the interests of other MidCarolina shareholders. The MidCarolina board was aware of these interests and considered them before approving and adopting the merger agreement.

Indemnification and Insurance. American has agreed to indemnify the officers and directors of MidCarolina against certain liabilities arising before the effective date of the merger. American has also agreed to provide liability insurance for the current officers and directors of MidCarolina for six years after the merger, subject to a cap on the annual premium payments equal to 150% of MidCarolina's current annual premium.

Director Appointments. Three current directors of MidCarolina, F. D. Hornaday III, John H. Love and Robert A. Ward, have been chosen by MidCarolina's board of directors, and approved by American's board of directors, to become directors of American and American National Bank following the merger. Additionally, though he will not serve as a voting director of American, MidCarolina's chairman, James R. Copland III, will serve as a director emeritus of American following the merger. Certain directors of MidCarolina and MidCarolina Bank selected by American will also be invited to join the North Carolina Advisory Board of Directors of American National Bank.

Executive Officer Position. Current MidCarolina president and chief executive officer, Charles T. Canaday, Jr., will serve as a senior vice president of American and an executive vice president of American National Bank, as well as president of North Carolina Banking for American National Bank. American, American National Bank and Mr. Canaday have entered into employment and executive severance agreements with respect to his employment by American National Bank after the merger.

Employment and Change in Control Agreements. In connection with entering into the merger agreement, American National Bank has entered into an employment agreement with Charles T. Canaday, Jr. that is effective upon the consummation of the merger. Under the terms of the agreement, Mr. Canaday will serve as a senior vice president of American and an executive vice president of American National Bank, as well as president of North Carolina Banking for American National Bank. The employment agreement provides Mr. Canaday with an annual base salary that will be no less than \$190,000. In addition, after consummation of the merger, American National Bank will pay Mr. Canaday \$550,000 as a retention bonus for his agreeing to serve as an officer of American National Bank after the merger. American National Bank and Mr. Canaday will also enter into an arrangement at the time of the merger under which American National Bank will fund a deferred compensation account for Mr. Canaday with a lump sum payment of \$205,100. The deferred compensation account will vest and become payable, provided Mr. Canaday remains in full-time employment with American National Bank on such vesting date, in three annual installments beginning on June 30, 2012 and ending on June 30, 2014. The employment agreement for Mr. Canaday terminates upon a change in control of American or American National Bank, at which time the executive severance agreement entered into by American, American

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National Bank and Mr. Canaday will become effective and any termination benefits will be determined and paid solely pursuant to the executive severance agreement.

Potential Payments Under Employment and Salary Continuation Agreements. MidCarolina has employment and salary continuation agreements with the following executive officers: Charles T. Canaday, Jr., president and chief executive officer of MidCarolina, Christopher B. Redcay, senior vice president and chief financial officer of MidCarolina, and R. Craig Patterson, senior vice president and chief credit officer of MidCarolina. Under the terms of each employment agreement, if, within two years following a change in control of MidCarolina, the officer's employment is terminated without cause or the officer terminates his employment with good reason, he will be entitled to receive certain severance payments. Assuming a termination under such circumstances at December 31, 2010, following a change in control of MidCarolina, the approximate payments to each officer under the employment agreements would have been: Mr. Canaday, \$755,000; Mr. Redcay, \$330,533; and Mr. Patterson, \$313,833. Mr. Canaday has entered into the above-described employment agreement and executive severance agreement with American National Bank that will be effective upon consummation of the merger and will supersede and terminate his existing employment agreement with MidCarolina and any severance payments due thereunder in connection with the merger.

MidCarolina also has salary continuation agreements with Messrs. Canaday, Redcay and Patterson. Under the terms of each salary continuation agreement, if, within one year following a change in control of MidCarolina, the officer's employment is terminated without cause or the officer terminates his employment with good reason, he will be entitled to receive a lump sum severance payment in an amount equal to his projected accrual balance at age 65, without discount for the time-value of money. Assuming a termination under such circumstances at December 31, 2010, following a change in control of MidCarolina, the approximate payments to each officer under the salary continuation agreement would have been \$723,065. American has agreed to assume all obligations under the salary continuation agreements.

Stock Options. MidCarolina has awarded certain employees, officers and directors stock options pursuant to its equity compensation plans. To the extent the options have not been exercised, upon consummation of the merger the options will be converted into stock options of American. The vesting of certain of these options will accelerate as a result of the merger and will become immediately exercisable stock options of American.

Employee Benefit Plans. As soon as administratively practicable following the merger, employees of MidCarolina who continue on as employees of American will be entitled to participate in the American health and welfare benefit and similar plans on the same terms and conditions as employees of American. These employees will receive credit for their years of service to MidCarolina for participation, vesting and benefit accrual purposes.

No Solicitation (page 78)

MidCarolina has agreed that it will not directly or indirectly:

initiate, solicit or encourage any inquiries or proposals with respect to any acquisition transaction (as defined in the merger agreement); or

engage or participate in any negotiations or discussions concerning, or provide any confidential or nonpublic information relating to, an acquisition transaction.

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The merger agreement does not, however, prohibit MidCarolina from considering a bona fide acquisition proposal from a third party if certain specified conditions are met.

Termination of the Merger Agreement (page 80)

The merger agreement may be terminated, and the merger abandoned, by American and MidCarolina at any time before the merger is completed if the boards of directors of both parties vote to do so. In addition, the merger agreement may be terminated, and the merger abandoned, by either party's board of directors if:

the merger has not been completed by December 31, 2011, unless the failure to complete the merger by such time was caused by a failure to perform an obligation under the merger agreement by the terminating party; or

if any event or condition occurs which renders impossible the satisfaction of a condition to the obligations of the terminating party to effect the merger, and which cannot be or has not been cured within 30 days after giving written notice to the other party, provided that the impossibility of satisfying a condition is not due to the terminating party's breach of any of its obligations under the merger agreement.

In addition, American may terminate the merger agreement at any time before the MidCarolina special meeting if the board of directors of MidCarolina fails to recommend, or withdraws or modifies its recommendation to the MidCarolina shareholders that the merger agreement be approved in any way that is adverse to American, or MidCarolina materially breaches its covenants requiring the calling and holding of a meeting of shareholders to consider the merger agreement or its covenant prohibiting the solicitation of other offers. American may terminate the merger agreement if MidCarolina enters into an agreement with another party with respect to a business combination transaction or with respect to an acquisition directly from MidCarolina of securities representing 10% or more of the voting power of MidCarolina. American also may terminate the merger agreement if a third party commences a tender offer or exchange offer for 20% or more of the outstanding shares of MidCarolina common stock, and the board of directors of MidCarolina recommends that MidCarolina shareholders tender their shares in the offer or otherwise fails to recommend that they reject the offer within a specified period.

MidCarolina may terminate the merger agreement at any time before the American special meeting if the board of directors of American fails to recommend, or withdraws or modifies its recommendation to the American shareholders that the issuance of American common stock in the merger be approved in any way that is adverse to MidCarolina, or American materially breaches its covenants requiring the calling and holding of a meeting of shareholders to consider the issuance of American common stock.

MidCarolina may terminate the merger agreement at any time before the MidCarolina special meeting to enter into an acquisition agreement or similar agreement with respect to an unsolicited superior proposal, as defined in the merger agreement, which has been received and considered by MidCarolina in compliance with the applicable terms of the merger agreement, provided that MidCarolina has notified American at least five business days in advance of any such termination and given American the opportunity during such period to make an offer at least as favorable as the superior proposal, as determined by the MidCarolina board of directors.

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Termination Fee (page 81)

MidCarolina must pay American a termination fee of \$1,700,000 if the merger agreement is terminated by American or MidCarolina under certain specified circumstances. The termination and payment circumstances are more fully described elsewhere in this proxy statement/prospectus. See The Merger Termination Fee on page 81 and in Article 7 of the merger agreement.

Expenses (page 82)

In general, whether or not the merger is consummated, American and MidCarolina will each pay its respective expenses incident to preparing, entering into and carrying out the terms of the merger agreement. The parties will share the costs of printing this proxy statement/prospectus.

However, if the merger agreement is terminated by either party because of a material breach by the other party of any representation, warranty, covenant, agreement, undertaking or restriction contained in the merger agreement, the breaching party will reimburse the terminating party for all reasonable out-of-pocket fees and expenses up to \$250,000, provided the terminating party is not itself in material breach of any terms of the merger agreement.

The American Special Meeting (page 31)

The American special meeting will be held on June 14, 2011 at 1:00 p.m. local time, at The Wednesday Club, 1002 Main Street, Danville, Virginia.

At the special meeting, the shareholders of American will be asked:

to approve the issuance of up to approximately 1,750,000 shares of American common stock to MidCarolina shareholders in the merger; and

to approve a proposal to adjourn or postpone the meeting to a later date or dates, if necessary, to permit further solicitation of proxies in the event there are not sufficient votes at the time of the meeting to approve the issuance of shares of American common stock to MidCarolina shareholders.

The MidCarolina Special Meeting (page 35)

The MidCarolina special meeting will be held on June 14, 2011 at 4:00 p.m. local time, at the Best Western Burlington Inn, 700 Huffman Mill Road, Burlington, North Carolina.

At the special meeting, the holders of MidCarolina common stock will be asked:

to approve the merger agreement and the transactions contemplated thereby; and

to approve a proposal to adjourn or postpone the meeting to a later date or dates, if necessary, to permit further solicitation of proxies in the event there are not sufficient votes at the time of the meeting to approve the merger agreement.

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Record Date and Votes Required American Special Meeting (pages 31 and 32)

You can vote at the American special meeting of shareholders if you owned American common stock at the close of business on April 27, 2011. On that date, American had 5,889,635 shares of common stock outstanding and entitled to vote. For each proposal presented at the American special meeting, a shareholder can cast one vote for each share of American common stock owned on the record date.

The votes required to approve the proposals at the American special meeting are as follows:

approval to issue additional shares of common stock to MidCarolina shareholders requires the affirmative vote of a majority of the total votes cast on the proposal.

approval of a motion to adjourn or postpone the American special meeting to permit further solicitation of proxies to approve the issuance of shares of American common stock to MidCarolina shareholders requires the affirmative vote of a majority of the shares voted at the special meeting, whether or not a quorum is present.

Record Date and Votes Required MidCarolina Special Meeting (pages 35 and 36)

You can vote at the MidCarolina special meeting of shareholders if you owned MidCarolina common stock at the close of business on April 26, 2011. On that date, MidCarolina had 4,929,747 shares of common stock outstanding and entitled to vote. Holders of shares of MidCarolina Series A preferred stock are not entitled to vote at the special meeting. For each proposal presented at the MidCarolina special meeting, a shareholder can cast one vote for each share of MidCarolina common stock owned on the record date.

The votes required to approve the proposals at the MidCarolina special meeting are as follows:

approval of the merger agreement requires the affirmative vote of a majority of the outstanding shares of MidCarolina common stock.

approval of a motion to adjourn or postpone the MidCarolina special meeting to permit further solicitation of proxies to approve the merger agreement requires the affirmative vote of a majority of the shares voted at the special meeting, whether or not a quorum is present.

Voting by American Directors and Executive Officers (page 33)

As of April 27, 2011, the record date for the American special meeting, directors and executive officers of American and their affiliates owned and are entitled to vote 437,058 shares of American common stock, or approximately 7.4% of the total voting power of the shares of American common stock outstanding on that date.

Voting Agreement with Directors and Executive Officers of MidCarolina (pages 36 and 88)

The directors and executive officers of MidCarolina have entered into an agreement with American pursuant to which each has agreed to vote all shares owned in favor of the merger agreement, except that certain shares they hold in a fiduciary capacity or for which they have no voting or dispositive power are not covered by the agreement. As of April 26, 2011, the record date for the MidCarolina special meeting, the directors and executive officers and their affiliates beneficially owned and were

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entitled to vote shares representing approximately 18.6% of the voting power of MidCarolina common stock entitled to vote at the MidCarolina special meeting.

MidCarolina's Shareholders Have Dissenters' Rights in the Merger (page 71)

If the merger is completed, North Carolina law gives holders of MidCarolina common stock and MidCarolina Series A preferred stock the right to dissent and to receive the fair value of their shares in cash. Holders of American common stock do not have the right to dissent.

Having dissenters' rights means that a MidCarolina shareholder may dissent and receive the fair value of his or her MidCarolina stock in cash instead of accepting the consideration offered in the merger. For a MidCarolina shareholder to dissent, the shareholder must, among other things:

give to MidCarolina, before the vote on the merger agreement is taken at the MidCarolina special meeting, timely written notice of the shareholder's intent to dissent and demand payment for his or her shares if the merger is completed;

not vote in favor of the merger agreement;

demand payment and deposit his or her share certificates by the date set forth in, and in accordance with the terms and conditions of, a dissenters' notice that will be sent to the shareholder by MidCarolina; and

otherwise satisfy the requirements of the North Carolina statutes which are attached as Appendix D to this proxy statement/prospectus.

To dissent, a MidCarolina shareholder must follow carefully the requirements of the North Carolina statutes, including giving the required written notice before the vote on the merger agreement is taken at the MidCarolina special meeting. Those requirements are described under "The Merger - Dissenters' and Appraisal Rights" and in Article 13 of the North Carolina Business Corporation Act (the "North Carolina BCA"). A copy of Article 13 of the North Carolina BCA is attached as Appendix D to this proxy statement/prospectus. The written notice must include the shareholder's name and a statement that the shareholder intends to dissent and demand payment for his or her shares if the merger is completed. If you intend to dissent, the notice should be mailed or delivered to MidCarolina's President and Chief Executive Officer, Charles T. Canaday, Jr., at MidCarolina's corporate office at 3101 South Church Street, Burlington, North Carolina 27216, so that it is received before the special meeting, or it may be hand delivered to him at the MidCarolina special meeting before the voting begins. **Any failure to follow the specific requirements set forth in Article 13 of the North Carolina BCA may result in a MidCarolina shareholder losing the right to claim fair value as described above.**

If a MidCarolina shareholder returns a signed proxy card, or appoints the proxies to vote his shares by Internet, but fails to provide instructions as to how his shares are to be voted, he will be considered to have voted FOR each of the proposals to be considered at the special meeting and will not be able to assert dissenters' rights.

Shareholders of American and MidCarolina Have Different Rights (page 88)

The rights of MidCarolina's and American's shareholders under their respective business corporation laws are different. Upon consummation of the merger, the shareholders of MidCarolina will receive shares of American stock in exchange for their shares of MidCarolina stock. As a result, the

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MidCarolina shareholders will become shareholders of American and their rights as shareholders of American will be governed by American's articles of incorporation and bylaws, each as amended, and the Virginia Stock Corporation Act. The rights of shareholders of American differ in certain respects from the rights of shareholders of MidCarolina.

The Merger Will Be Accounted for Under the Acquisition Method of Accounting (page 82)

American will use the acquisition method of accounting to account for the merger.

Listing of American Common Stock (page 90)

American will list the shares of common stock to be issued in the merger on the NASDAQ Global Select Market.

Market Prices and Share Information (page 90)

American common stock is listed on the NASDAQ Global Select Market under the symbol AMNB. MidCarolina common stock is traded on the OTC Bulletin Board under the symbol MCFI. The following table sets forth the closing sale prices per share of American common stock as reported on the NASDAQ Global Select Market and MidCarolina common stock as reported on the OTC Bulletin Board on December 15, 2010, the last trading day before we announced the signing of the merger agreement, and on [], 2011, the last trading day before the date of this proxy statement/prospectus.

	American Common Stock	MidCarolina Common Stock
December 15, 2010	\$ 23.80	\$ 2.85
[], 2011	\$ []	\$ []

American cannot assure MidCarolina shareholders that its stock price will continue to trade at or above the prices shown above. You should obtain current stock price quotations for American common stock from a newspaper, via the Internet or by calling your broker.

Recent Financial Developments

American. For the three months ended March 31, 2011, net income available to common shareholders for American was \$1.8 million or \$0.29 per common share, assuming dilution, compared to \$2.2 million or \$0.36 per common share, assuming dilution, for the same period in 2010. At March 31, 2011, American had total assets of \$841.2 million, an increase of 3.8% over the \$810.7 million in total assets at March 31, 2010. Total net loans at March 31, 2011 were \$508.4 million, up 0.2% from the \$507.3 million in total net loans at March 31, 2010. Total deposits at March 31, 2011 increased to \$659.5 million, up from \$609.6 million at March 31, 2010.

MidCarolina. For the three months ended March 31, 2011, net income available to common shareholders for MidCarolina was \$242,000 or \$0.05 per common share, assuming dilution, compared to a loss of \$338,000 or \$0.07 per common share, assuming dilution, for the same period in 2010. At March 31, 2011, MidCarolina had total assets of \$532.1 million, which was a decrease of 5.8% from the \$565.1 million in total assets at March 31, 2010. Total net loans at March 31, 2011 were \$377.2 million, down 11.1% from the \$424.4 million in total net loans at March 31, 2010. Total deposits at March 31, 2011 decreased to \$471.8 million, down from \$494.2 million at March 31, 2010.

Table of Contents**SELECTED HISTORICAL FINANCIAL DATA OF AMERICAN**

The following table sets forth certain of American's consolidated financial data as of the end of and for each of the years in the five-year period ended December 31, 2010. The historical consolidated financial information as of the end of and for each of the years in the five-year period ended December 31, 2010, is derived from American's audited consolidated financial statements, which are incorporated by reference into this proxy statement/prospectus.

The selected historical financial data below is only a summary and should be read in conjunction with the American consolidated financial statements and their accompanying notes that are incorporated by reference into this proxy statement/prospectus.

	2010	2009	December 31, 2008	2007	2006
	(Amounts in thousands, except per share information)				
Results of Operations:					
Interest income	\$ 35,933	\$ 38,061	\$ 42,872	\$ 48,597	\$ 45,070
Interest expense	8,719	10,789	15,839	19,370	16,661
Net interest income	27,214	27,272	27,033	29,227	28,409
Provision for loan losses	1,490	1,662	1,620	403	58
Net interest income after provision for loan losses	25,724	25,610	25,413	28,824	28,351
Noninterest income	9,114	7,043	7,913	8,822	8,458
Noninterest expense	23,379	23,318	22,124	21,326	20,264
Income before income taxes	11,459	9,335	11,202	16,320	16,545
Income tax expense	3,181	2,525	3,181	4,876	5,119
Net income	\$ 8,278	\$ 6,810	\$ 8,021	\$ 11,444	\$ 11,426
Dividends on preferred stock preferred stock					
Net income available to common shareholders	\$ 8,278	\$ 6,810	\$ 8,021	\$ 11,444	\$ 11,426
Financial Condition:					
Total assets	\$ 833,664	\$ 808,973	\$ 789,184	\$ 772,288	\$ 777,720
Loans, net of unearned income	520,781	527,991	571,110	551,391	542,228
Securities	235,691	199,686	140,816	157,149	162,621
Deposits	640,098	604,273	589,138	581,221	608,528
Shareholders' equity	108,087	106,389	102,300	101,511	94,992
Shareholders' equity, tangible	84,299	82,223	77,757	76,591	69,695
Per Share Data:					
Earnings per share, basic	\$ 1.35	\$ 1.12	\$ 1.32	\$ 1.86	\$ 1.91
Earnings per share, diluted	1.35	1.12	1.31	1.86	1.90
Cash dividends paid	0.92	0.92	0.92	0.91	0.87
Book value	17.64	17.41	16.81	16.59	15.42
Book value, tangible	13.76	13.46	12.78	12.52	11.31
Weighted average shares outstanding, basic	6,123,870	6,097,810	6,096,649	6,139,095	5,986,262
Weighted average shares outstanding, diluted	6,131,650	6,102,895	6,105,154	6,161,825	6,020,071

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	2010	2009	December 31, 2008	2007	2006
	(Amounts in thousands, except per share information)				
Selected Ratios:					
Return on average assets	1.00%	0.84%	1.02%	1.48%	1.51%
Return on average equity (1)	7.59	6.57	7.79	11.69	12.72
Return on average tangible equity (2)	10.05	8.94	10.60	16.09	16.60
Dividend payout ratio	68.08	82.40	69.89	48.82	45.58
Efficiency ratio (3)	61.53	63.46	60.83	54.44	53.63
Net interest margin	3.78	3.81	3.87	4.24	4.20
Asset Quality Ratios:					
Allowance for loan losses to period end loans	1.62%	1.55%	1.37%	1.34%	1.34%
Allowance for loan losses to period end non-performing loans	324.22	224.22	275.01	280.22	212.09
Non-performing assets to total assets	0.76	0.87	0.91	0.42	0.45
Net charge-offs to average loans	0.24	0.24	0.21	0.05	0.10
Capital Ratios:					
Total risk-based capital ratio	19.64%	18.82%	17.92%	18.28%	17.45%
Tier 1 risk-based capital ratio	18.38	17.56	16.67	17.03	16.18
Tier 1 leverage ratio	12.74	12.81	13.04	12.98	12.15
Equity to assets ratio (4)	10.41	10.48	10.17	10.25	9.26

- (1) Return on average common equity is calculated by dividing net income available to common shareholders by average common equity.
- (2) Return on average tangible common equity is calculated by dividing net income available to common shareholders less amortization of intangibles by average common equity less average intangibles.
- (3) The efficiency ratio is calculated by dividing noninterest expense by the sum of net interest income plus noninterest income.
- (4) Equity to assets ratio is calculated by dividing period-end common equity less period-end intangibles by period-end assets less period-end intangibles.

Table of Contents**SELECTED HISTORICAL FINANCIAL DATA OF MIDCAROLINA**

The following table sets forth certain of MidCarolina's consolidated financial data as of the end of and for each of the years in the five-year period ended December 31, 2010. The historical consolidated financial information as of the end of and for each of the years in the five-year period ended December 31, 2010, is derived from MidCarolina's audited consolidated financial statements. MidCarolina's audited consolidated financial statements for the years ended December 31, 2010, 2009, and 2008, begin on page F-1 of this proxy statement/prospectus.

The selected historical financial data below is only a summary and should be read in conjunction with the MidCarolina consolidated financial statements and their accompanying notes that are included in this proxy statement/prospectus.

	2010	2009	December 31, 2008	2007	2006
	(Amounts in thousands, except per share information)				
Results of Operations:					
Interest income	\$ 25,726	\$ 27,583	\$ 29,616	\$ 31,053	\$ 27,061
Interest expense	8,123	10,440	15,294	17,721	14,241
Net interest income	17,603	17,143	14,322	13,332	12,820
Provision for loan losses	6,418	4,455	1,665	425	394
Net interest income after provision for loan losses	11,185	12,688	12,657	12,907	12,426
Noninterest income	2,659	2,787	2,220	2,627	2,304
Noninterest expense	12,881	12,281	9,462	8,305	9,077
Income before income taxes	963	3,194	5,415	7,229	5,653
Income tax expense	(14)	818	1,741	2,342	1,757
Net income	\$ 977	\$ 2,376	\$ 3,674	\$ 4,887	\$ 3,896
Dividends on preferred stock preferred stock	364	417	417	417	417
Net income available to common shareholders	\$ 613	\$ 1,959	\$ 3,257	\$ 4,470	\$ 3,479
Financial Condition:					
Total assets	\$ 531,200	\$ 541,004	\$ 540,847	\$ 467,186	\$ 420,850
Loans, net of unearned income	399,829	438,087	434,662	371,714	313,572
Securities	90,152	70,719	71,124	70,801	73,795
Deposits	465,873	465,020	467,948	373,897	339,275
Shareholders' equity	40,424	40,185	37,196	33,150	28,259
Shareholders' equity, tangible	40,424	40,185	37,196	33,150	28,259
Per Common Share Data:					
Earnings per share, basic	\$ 0.12	\$ 0.40	\$ 0.66	\$ 0.98	\$ 0.80
Earnings per share, diluted	0.12	0.40	0.66	0.92	0.73
Cash dividends paid					
Book value	7.23	7.18	6.57	6.13	5.20
Book value, tangible	7.23	7.18	6.57	6.13	5.20
Weighted average shares outstanding, basic	4,927,828	4,927,828	4,915,350	4,548,565	4,348,128
Weighted average shares outstanding, diluted	4,927,828	4,930,310	4,916,876	4,851,738	4,775,853

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	2010	2009	December 31, 2008	2007	2006
	(Amounts in thousands, except per share information)				
Selected Ratios:					
Return on average assets	0.18%	0.43%	0.73%	1.09%	0.98%
Return on average equity (1)	1.70	5.80	10.50	17.82	17.63
Return on average tangible equity (2)	1.70	5.80	10.50	17.82	17.63
Common stock dividend ratio	0.00	0.00	0.00	0.00	0.00
Efficiency ratio (3)	63.37	61.62	57.20	52.04	60.02
Net interest margin	3.34	3.27	2.94	3.12	3.38
Asset Quality Ratios:					
Allowance for loan losses to period end loans	2.31%	1.67%	1.30%	1.20%	1.35%
Allowance for loan losses to period end non-performing loans	101.62	99.50	180.34	637.43	531.74
Non-performing assets to total assets	3.18	1.89	0.88	0.21	0.74
Net charge-offs to average loans	1.07	0.63	0.12	0.05	0.05
Capital Ratios:					
Total risk-based capital ratio	13.03%	11.93%	11.19%	11.48%	11.28%
Tier 1 risk-based capital ratio	11.77	10.67	9.97	10.37	10.12
Tier 1 leverage ratio	9.03	8.79	8.68	8.95	8.73
Equity to assets ratio (4)	7.61	7.43	6.87	7.10	6.71

- (1) Return on average common equity is calculated by dividing net income available to common shareholders by average common equity.
- (2) Return on average tangible common equity is calculated by dividing net income available to common shareholders less amortization of intangibles by average common equity less average intangibles.
- (3) The efficiency ratio is calculated by dividing noninterest expense by the sum of net interest income plus noninterest income.
- (4) Equity to assets ratio is calculated by dividing period-end common equity less period-end intangibles by period-end assets less period-end intangibles.

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SUMMARY UNAUDITED PRO FORMA COMBINED FINANCIAL DATA

The following summary unaudited pro forma combined financial information is designed to show how the merger might have affected historical financial statements if the merger had been completed at an earlier time and was prepared based on the historical financial results reported by American and MidCarolina. The following should be read in conjunction with Unaudited Pro Forma Condensed Combined Financial Information beginning on page 148, American's audited consolidated financial statements that are incorporated by reference into this proxy statement/prospectus and MidCarolina's audited consolidated financial statements which begin on page F-1 of this proxy statement/prospectus.

The unaudited pro forma balance sheet data assumes that the merger took place on December 31, 2010 and combines American's consolidated balance sheet as of December 31, 2010 with MidCarolina's consolidated balance sheet as of December 31, 2010. The unaudited pro forma statement of income data for the year ended December 31, 2010 give effect to the merger as if it occurred on January 1, 2010.

We expect that we will incur merger and integration charges as a result of the merger. We also anticipate that the merger will provide American with financial benefits that may include reduced operating expenses and opportunities to earn additional revenue. The information set forth below, while helpful in illustrating the financial characteristics of American under one set of assumptions, may not reflect all of these anticipated financial expenses and benefits and, accordingly, does not attempt to predict or suggest future results. It also is not necessarily indicative of the financial condition or results of operations of future periods or the financial condition or results of operations that actually would have been realized had the companies been combined during these periods.

Table of Contents**American National Bankshares Inc.****Selected Unaudited Pro Forma Condensed Combined Financial Data**

(Amounts in thousands, except per share data)

	As of
	December 31, 2010
Combined Condensed Balance Sheet	
ASSETS	
Cash and cash equivalents	\$ 26,920
Securities	321,781
Mortgage loans held for sale	6,093
Loans, net	879,079
Premises and equipment, net	26,161
Other real estate owned	10,960
Core deposit intangibles, net	8,613
Goodwill	36,643
Bank owned life insurance	13,332
Restricted stock	4,062
Other assets	29,685
Total assets	\$ 1,363,329
LIABILITIES AND SHAREHOLDERS EQUITY	
Deposits	1,107,750
Borrowings	105,358
Other liabilities	3,017
Shareholders' equity	147,204
Total liabilities and shareholders' equity	\$ 1,363,329
	For the
	Year Ended
	December 31,
	2010
Combined Condensed Statement of Income	
Interest income	\$ 61,914
Interest expense	16,188
Net interest income	45,726
Provision for loan losses	7,908
Net interest income after provision for loan losses	37,818
Noninterest income	11,773
Noninterest expense	38,083
Income before taxes	11,508
Income tax expense	3,452
Net income	8,056
Dividends and accretion on preferred stock	364

Net income available to common shareholders

7,692

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The following table shows per common share data regarding earnings, book value and cash dividends declared for American and MidCarolina on a historical, pro forma and pro forma equivalent basis. The pro forma and pro forma equivalent per share information was computed as if the merger had been completed on December 31, 2010 for purposes of book value and tangible book value. The same information was computed as if the merger had been completed for the year ended December 31, 2010, for purposes of basic and diluted earnings per share. The MidCarolina pro forma equivalent information was calculated by multiplying the corresponding pro forma combined data by the exchange ratio of 0.33 to 1.0. This information shows how each share of MidCarolina common stock would have participated in the combined company's net income, book value per share, and cash dividends if the merger had been completed on the relevant dates. These amounts do not necessarily reflect future per share amounts of earnings, book value per share or cash dividends of American.

The following unaudited comparative per share data is derived from the historical consolidated financial statements of each of American and MidCarolina. The pro forma data does not give effect to the reduction in operating expenses and the revenue enhancement opportunities that are anticipated subsequent to the merger. Therefore, while helpful in illustrating the financial characteristics of the merger under one set of circumstances, the pro forma data is not indicative of the results of future operations or other actual results that would have occurred had the merger been consummated at the beginning of the period presented. The information below should be read in conjunction with the audited consolidated financial statements and accompanying notes of American, which are incorporated by reference into this proxy statement/prospectus, and the audited consolidated financial statements and accompanying notes of MidCarolina, which begin on page F-1 of this proxy statement/prospectus. See also [Unaudited Pro Forma Condensed Combined Financial Information](#) beginning on page 148.

As of and for the year ended December 31, 2010

	American Historical	MidCarolina Historical	Pro Forma Combined	MidCarolina Pro Forma Equivalent Per Common Share
Earnings per share, basic	\$ 1.35	\$ 0.12	\$ 0.99	\$ 0.33
Earnings per share, diluted	1.35	0.12	0.99	0.33
Cash dividends declared per share (1)	0.92		0.92	0.30
Book value per share	17.64	7.23	18.98	6.26
Tangible book value per share	13.76	7.23	13.15	4.34

- (1) It is anticipated that the initial dividend rate of American after the merger will be equal to the current dividend rate of American. American paid a quarterly dividend of \$0.23 per share for each quarter in the year ended December 31, 2010. MidCarolina has never paid a cash dividend on its common stock. Accordingly, the pro forma combined dividends per share information represents the historical dividend rate of American. See [Market for Common Stock and Dividends](#) on page 90 for more information.

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RISK FACTORS

In addition to the other information contained in or incorporated by reference into this proxy statement/prospectus, you should consider carefully the following risk factors in deciding how to vote on the merger proposals. Many of these risks and uncertainties could affect American's future financial results and may cause American's future earnings and financial condition to be less favorable than its expectations. In addition, you should read and consider the risks associated with the business of American because these risks will also relate to the combined company after the merger. Certain of these risks are highlighted on page 29 under the heading **Cautionary Statement Regarding Forward-Looking Statements**. Certain risks can also be found in the documents incorporated by reference into this proxy statement/prospectus.

The merger consideration for the MidCarolina common stock is fixed despite any change in American's stock price.

Each share of MidCarolina common stock will be converted into the right to receive 0.33 shares of American common stock, the value of which will depend upon the price of American common stock. The price of American common stock when the merger takes place may vary from its price at the date the fixed exchange ratio was established, at the date of this proxy statement/prospectus and at the date of the special meetings. Such variations in the price of American common stock may result from changes in the business, operations or prospects of American, regulatory considerations, general market and economic conditions, and other factors. At the time of the special meetings, shareholders of American and MidCarolina will not know the exact value of the consideration to be paid by American when the merger is completed.

The merger agreement limits MidCarolina's ability to pursue alternatives to the merger.

The merger agreement contains no-shop provisions that, subject to limited exceptions, limit MidCarolina's ability to discuss, facilitate or commit to competing third-party proposals to acquire all or a significant part of the company. In addition, MidCarolina must pay American a termination fee of \$1,700,000 if the merger agreement is terminated and MidCarolina, subject to certain restrictions, consummates another similar transaction. These provisions might discourage a potential competing acquiror that might have an interest in acquiring all or a significant part of MidCarolina from considering or proposing the acquisition even if it were prepared to pay consideration with a higher per share market price than that proposed in the merger.

Neither of the fairness opinions received by American and MidCarolina in connection with the merger have been updated to reflect changes in circumstances since the signing of the merger agreement, and they likely will not be updated before completion of the merger.

The opinions rendered by Keefe, Bruyette & Woods, Inc., financial advisor to American, and Stifel, Nicolaus & Co., financial advisor to MidCarolina, on December 15, 2010, are based upon information available as of such date. Neither opinion has been updated to reflect changes that may occur or may have occurred after the date on which it was delivered, including changes to the operations and prospects of American or MidCarolina, changes in general market and economic conditions, or other changes. Any such changes may alter the relative value of American or MidCarolina or the prices of shares of American common stock or MidCarolina common stock by the time the merger is completed. The opinions do not speak as of the date the merger will be completed or as of any date other than the date of such opinions. American and MidCarolina do not currently anticipate asking their respective financial advisors to update the opinions prior to the time the merger is completed. For a description of the opinion that American received from its financial advisor, please see **The Merger Opinion of**

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American's Financial Advisor, beginning on page 53. For a description of the opinion that MidCarolina received from its financial advisor, please see The Merger Opinion of MidCarolina's Financial Advisor, beginning on page 60.

If American and MidCarolina do not successfully integrate, the combined company may not realize the expected benefits from the merger.

Integration in connection with a merger is sometimes difficult, and there is a risk that integrating American and MidCarolina may take more time and resources than we expect. American's ability to integrate MidCarolina and its future success depend in large part on the ability of members of its board of directors and executive officers to work together effectively. After the merger, American will be governed by a board of directors comprised of 14 directors, of which 11 are current directors of American and three are current directors of MidCarolina. Additionally, though he will not serve as a voting director of American, MidCarolina's chairman, James R. Copland III, will serve as a director emeritus of American following the merger. Certain directors of MidCarolina and MidCarolina Bank selected by American will also be invited to join the North Carolina Advisory Board of Directors of American National Bank. Current American president and chief executive officer, Charles H. Majors, will continue to serve as president and chief executive officer of American and chairman and chief executive officer of American National Bank. Jeffrey V. Haley, current president of American National Bank, will continue to serve as president of American National Bank. Current MidCarolina president and chief executive officer, Charles T. Canaday, Jr., will serve as a senior vice president of American and an executive vice president of American National Bank, as well as president of North Carolina Banking for American National Bank. Disagreements among board members and executive management could arise in connection with integration issues, strategic considerations and other matters. As a result, there is a risk that American's board of directors and executive officers may not be able to operate effectively, which would affect adversely American's ability to integrate the operations of American and MidCarolina successfully and American's future operating results.

Combining American and MidCarolina may be more difficult, costly or time-consuming than we expect.

American and MidCarolina have operated, and, until the completion of the merger, will continue to operate, independently. The integration process could result in the loss of key employees, the disruption of each party's ongoing business, inconsistencies in standards, controls, procedures and policies that affect adversely either party's ability to maintain relationships with customers and employees or achieve the anticipated benefits of the merger. As with any merger of financial institutions, there also may be disruptions that cause American and MidCarolina to lose customers or cause customers to withdraw their deposits from MidCarolina's or American's banking subsidiaries, or other unintended consequences that could have a material adverse effect on American's results of operations or financial condition after the merger.

American National Bank may not be able to effectively integrate the operations of MidCarolina Bank and American National Bank.

The future operating performance of American and American National Bank will depend, in part, on the success of the merger of MidCarolina Bank and American National Bank. The success of the merger of the banks will, in turn, depend on a number of factors, including: American's ability to (i) integrate the operations and branches of MidCarolina Bank and American National Bank; (ii) retain the deposits and customers of MidCarolina Bank and American National Bank; (iii) control the incremental increase in noninterest expense arising from the merger in a manner that enables the combined bank to improve its overall operating efficiencies; and (iv) retain and integrate the appropriate personnel of

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MidCarolina Bank into the operations of American National Bank, as well as reducing overlapping bank personnel. The integration of MidCarolina Bank and American National Bank following the merger will require the dedication of the time and resources of the banks management, and may temporarily distract managements attention from the day-to-day business of the banks. If American National Bank is unable to successfully integrate MidCarolina Bank, American National Bank may not be able to realize expected operating efficiencies and eliminate redundant costs.

The merger may distract management of American and MidCarolina from their other responsibilities.

The merger could cause the respective management groups of American and MidCarolina to focus their time and energies on matters related to the transaction that otherwise would be directed to their business and operations. Any such distraction on the part of either company s management, if significant, could affect its ability to service existing business and develop new business and adversely affect the business and earnings of American or MidCarolina before the merger, or the business and earnings of American after the merger.

Future results of the combined company may be materially different from those reflected in the unaudited pro forma condensed combined financial statements included in this document.

The unaudited pro forma condensed combined financial statements included in this document only show a combination of American s and MidCarolina s historical results, and they do not necessarily indicate the future financial condition or operating results of the combined company. American estimates that the combined company will record an aggregate of approximately \$4.0 million, net of income tax effect, in merger-related expenses and restructuring charges. The actual charges may be higher or lower than estimated, depending upon how costly or difficult it is to integrate the two companies. These charges will decrease the capital of the combined company available for future profitable, income-earning investments.

MidCarolina s directors and executive officers have interests in the merger that differ from the interests of MidCarolina s other shareholders.

For MidCarolina shareholders, in deciding how to vote on the proposal to approve the merger agreement, you should be aware that MidCarolina s directors and executive officers have interests in the merger that are different from, or in addition to, the interests of MidCarolina shareholders generally. Those interests may cause them to view the merger proposal differently than other MidCarolina shareholders view the proposal. See The Merger Interests of Certain Persons in the Merger on page 85.

Current holders of MidCarolina common stock will have less influence as holders of American common stock.

As a group, the current holders of common stock of MidCarolina will own approximately 21% of the outstanding common stock of American after the merger. Each current holder of MidCarolina common stock will own a smaller percentage of American than they currently own of MidCarolina. As a result, holders of MidCarolina common stock will have less influence on the management and policies of American than they currently have on the management and policies of MidCarolina.

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The merger is being investigated by law firms, which may cause the transaction to be delayed or not completed.

Several law firms recently announced that they are investigating whether the MidCarolina board of directors breached its fiduciary duties by failing to adequately shop MidCarolina before agreeing to the merger, and whether the MidCarolina shareholders are receiving adequate consideration for their shares. The MidCarolina board of directors believes that it fulfilled its fiduciary duties and acted in the best interests of MidCarolina shareholders by entering into the merger agreement, and therefore that the investigations are without merit. No lawsuit or other proceeding has been initiated at this time. However, if a lawsuit is initiated or there is an adverse judgment in any lawsuit following such investigations, such actions may prevent the merger from becoming effective or from becoming effective within the expected timeframe.

If economic conditions deteriorate further, the ability of borrowers to repay loans and the value of the collateral securing loans will decrease, which could adversely affect American's results of operations and financial condition.

Changes in prevailing economic conditions, including declining real estate values, changes in interest rates, adverse employment conditions, the monetary and fiscal policies of the federal government and other significant external events, may adversely affect American's financial results. Because a significant portion of American's loan portfolio is comprised of real estate related loans, continued decreases in real estate values could adversely affect the value of property used as collateral for loans in American's loan portfolio. Although the adverse economic climate during the past several years has not severely impacted American due to its strict underwriting standards, further adverse changes in the economy could have a negative effect on the ability of borrowers to make timely repayments of their loans, which would have an adverse impact on American's earnings.

American may need to raise additional capital in the future to continue to grow, but may be unable to obtain additional capital on favorable terms or at all.

Federal and state banking regulators require American and American National Bank to maintain adequate levels of capital to support their operations. Although American currently has no definitive plans for additional offices, other than in connection with the merger, its business strategy calls for it to continue to grow in its existing banking markets (internally and through additional offices) and to expand into new markets as appropriate opportunities arise. Continued growth in American's earning assets, which may result from internal expansion and new branch offices, at rates in excess of the rate at which its capital is increased through retained earnings, will reduce American's capital ratios. If American's capital ratios fell below well capitalized levels, American National Bank's Federal Deposit Insurance Corporation (FDIC) deposit insurance assessment rate would increase until capital was restored and maintained at a well capitalized level. A higher assessment rate would cause an increase in the assessments American pays for federal deposit insurance, which would have an adverse effect on American's operating results.

If, in the future, American needs to increase its capital to fund additional growth or satisfy regulatory requirements, its ability to raise that additional capital will depend on conditions at that time in the capital markets, economic conditions, American's financial performance and condition, and other factors, many of which are outside its control. There is no assurance that American will be able to raise additional capital on terms favorable to it or at all. Any future inability to raise additional capital on terms acceptable to American may have a material adverse effect on its ability to expand operations, and on its financial condition, results of operations and future prospects.

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Future issuances of common stock by American in connection with acquisitions or otherwise could dilute your ownership of American.

American may use its common stock to acquire other companies or to make investments in banks and other complementary businesses in the future. It may also issue common stock, or securities convertible into common stock, through public or private offerings, in order to raise additional capital in connection with future acquisitions, to satisfy regulatory capital requirements or for general corporate purposes. Any such stock issuances would dilute your ownership interest in American and may dilute the per share value of the common stock.

American is not obligated to pay cash dividends on its common stock.

American is a holding company and, currently, its sole source of funds for paying dividends to its shareholders is dividends it receives from American National Bank. American has paid quarterly cash dividends to holders of its common stock at a rate of \$0.23 per share since the second quarter of 2007. However, American is not obligated to pay dividends in any particular amounts or at any particular times. Its decision to pay dividends in the future will depend on a number of factors, including its capital and the availability of funds from which dividends may be paid. See *Market for Common Stock and Dividends* on page 90 and *Description of American Capital Stock* on page 154.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

The Private Securities Litigation Reform Act of 1995 provides a *safe harbor* for forward-looking statements to encourage companies to provide prospective information, so long as those statements are identified as forward-looking and are accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those discussed in the statement. American and MidCarolina desire to take advantage of these *safe harbor* provisions with regard to the forward-looking statements in this proxy statement/prospectus and in the documents that are incorporated herein by reference. These forward-looking statements reflect the current views of American and MidCarolina with respect to future events and financial performance. Specifically, forward-looking statements may include:

statements relating to the ability of American and MidCarolina to timely complete the merger and the benefits thereof, including anticipated opportunities, synergies and cost savings estimated to result from the merger;

projections of revenues, expenses, income, income per share, net interest margins, asset growth, loan production, asset quality, deposit growth and other performance measures;

statements regarding expansion of operations, including branch openings, entrance into new markets, development of products and services, and execution of strategic initiatives;

discussion of the future state of the economy, competition, regulation, taxation, our business strategies, subsidiaries, investment risk and policies; and

statements preceded by, followed by or that include the words *estimate, plan, project, forecast, intend, expect, anticipate, seek, target* or similar expressions.

These forward-looking statements express the best judgment of American and MidCarolina based on currently available information and we believe that the expectations reflected in our forward-looking statements are reasonable.

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By their nature, however, forward-looking statements often involve assumptions about the future. Such assumptions are subject to risks and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. As such, American and MidCarolina cannot guarantee you that the expectations reflected in our forward-looking statements actually will be achieved. Actual results may differ materially from those in the forward-looking statements due to, among other things, the following factors:

the businesses of American and MidCarolina may not be integrated successfully or such integration may be more difficult, time-consuming or costly than expected;

expected revenue synergies and cost savings from the merger may not be fully realized or realized within the expected timeframe;

revenues following the merger may be lower than expected;

customer and employee relationships and business operations may be disrupted by the merger;

the ability to obtain required regulatory and shareholder approvals, and the ability to complete the merger on the expected timeframe, may be more difficult, time-consuming or costly than expected;

changes in general business, economic and market conditions;

changes in fiscal and monetary policies, and laws and regulations;

changes in interest rates, deposit flows, loan demand and real estate values;

a deterioration in credit quality and/or a reduced demand for, or supply of, credit;

volatility in the securities markets generally or in the market price of American's stock specifically; and

the risks outlined in "Risk Factors" beginning on page 25.

We caution you not to place undue reliance on any forward-looking statements, which speak only as of the date of this proxy statement/prospectus or, in the case of a document incorporated herein by reference, as of the date of that document. Except as required by law, neither American nor MidCarolina undertakes any obligation to publicly update or release any revisions to these forward-looking statements to reflect any events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

Additional factors that could cause actual results to differ materially from those expressed in the forward-looking statements are discussed in reports filed with the SEC by American and MidCarolina. See "Where You Can Find More Information" beginning on page 165 for a list of the documents incorporated herein by reference.

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THE AMERICAN SPECIAL MEETING

Date, Place and Time

This proxy statement/prospectus is first being mailed on or about [], 2011 to American shareholders who held shares of common stock, par value \$1.00 per share, on the record date for the American special meeting of shareholders. This proxy statement/prospectus is accompanied by the notice of the special meeting and a form of proxy that is solicited by the board of directors of American for use at the special meeting to be held on June 14, 2011, at 1:00 p.m. local time, at The Wednesday Club, which is located at 1002 Main Street, Danville, Virginia, and at any adjournments or postponements of that meeting.

Purpose of the American Special Meeting

At the special meeting, the shareholders of American will be asked:

to approve a proposal to issue up to approximately 1,750,000 shares of American common stock to MidCarolina shareholders in accordance with the merger agreement, as more fully described in this proxy statement/prospectus; and

to approve a proposal to adjourn or postpone the meeting to a later date or dates, if necessary, to permit further solicitation of proxies in the event there are not sufficient votes at the time of the meeting to approve the issuance of shares of American common stock to MidCarolina shareholders.

Recommendation of the American Board of Directors

The American board believes that the proposed merger with MidCarolina is fair to and is in the best interests of American and its shareholders and unanimously recommends that shareholders vote **FOR** each of the proposals that will be presented at the American special meeting as described in this proxy statement/prospectus.

Record Date and Voting Rights; Quorum

The American board of directors has fixed the close of business on April 27, 2011 as the record date for determining the shareholders entitled to notice of and to vote at the special meeting or any postponements or adjournments thereof. Accordingly, you are only entitled to notice of and to vote at the special meeting if you were a record holder of American common stock at the close of business on the record date. At that date, 5,889,635 shares of American common stock were outstanding and entitled to vote.

To have a quorum that permits American to conduct business at the American special meeting, we require the presence, whether in person or by proxy, of the holders of American's common stock representing a majority of the voting shares outstanding on the record date. You are entitled to one vote for each outstanding share of American common stock you held as of the close of business on the record date.

Holders of shares of American common stock present in person at the special meeting but not voting, and shares of the common stock for which proxy cards are received indicating that their holders have abstained, will be counted as present at the special meeting for purposes of determining whether there is a quorum for transacting business. Shares held in street name that have been designated by

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brokers on proxies as not voted will not be counted as votes cast for or against any proposal. These broker non-votes will, however, be counted for purposes of determining whether a quorum exists.

Under Virginia law, when shares of a bank or bank holding company are held by a trust institution (including a bank with trust powers) which is serving as a trustee, agent or in any other fiduciary capacity, the trust institution may not vote such shares if the voting securities of the bank or bank holding company held in a fiduciary capacity exceed 5% of the outstanding voting securities of the bank holding company, unless (i) there has been a determination by the Federal Reserve that the right to vote 5% or more of the voting securities but less than 25% of the voting securities does not constitute control of that bank or bank holding company, or (ii) there is some other fiduciary serving or appointed in addition to the trust institution (a co-fiduciary) and that co-fiduciary is not a director, officer or employee of the trust institution. In the absence of such determination by the Federal Reserve or the appointment of a qualified co-fiduciary, then the shares of the bank or bank holding company held by the trust institution shall not be deemed to be outstanding and entitled to vote at a meeting of shareholders.

Ambro and Company, the nominee name that American National Bank uses to register the securities it holds in a fiduciary capacity for customers, held 263,798 shares of American common stock as sole fiduciary (with no qualifying co-fiduciary having been appointed) as of the record date for the American special meeting, which constituted 4.3% of the issued and outstanding shares of American common stock. Ambro and Company has never requested, nor has it received, a determination by the Federal Reserve that the right to vote any shares held by it in a fiduciary capacity does not constitute control of American. Further, as of the record date for the American special meeting, neither American National Bank nor an interested party petitioned a court to appoint a co-fiduciary for the sole purpose of voting the shares of American held by Ambro and Company at the special meeting. As a result, the 263,798 shares of American common stock held by Ambro and Company in its capacity as sole fiduciary as of the record date cannot be voted at the American special meeting and are not deemed to be outstanding and entitled to vote for purposes of determining a quorum. Accordingly, as of the record date for the American special meeting, there are 5,889,635 shares deemed outstanding and entitled to vote at the meeting.

Votes Required

Vote required to approve the issuance of common stock to MidCarolina shareholders. The approval of the issuance of up to approximately 1,750,000 shares of American common stock to MidCarolina shareholders in the merger requires the affirmative vote of a majority of the total votes cast on the proposal.

Failures to vote, abstentions and broker non-votes will not count as votes cast.

Vote Required for Adjournment or Postponement of the American Special Meeting. Approval of any motion to adjourn or postpone the special meeting to permit further solicitation of proxies to approve the issuance of shares of American common stock to MidCarolina shareholders requires the affirmative vote of a majority of the shares of American common stock voted at the special meeting, whether or not a quorum is present.

Failures to vote, abstentions and broker non-votes will not count as votes cast and will have no effect for purposes of determining whether a proposal to adjourn or postpone the special meeting has been approved.

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Stock Ownership of American Executive Officers and Directors

As of the record date, directors and executive officers of American and their affiliates beneficially owned and were entitled to vote approximately [] shares of American common stock at the American special meeting. These shares represent approximately []% of the aggregate voting power of American shares entitled to vote at the special meeting.

Voting at the American Special Meeting

Record Holders. If your shares of American common stock are held of record in your name, your shares can be voted at the American special meeting in either of the following ways:

You can attend the American special meeting and vote in person. A ballot will be provided for your use at the meeting.

You can vote your shares by using the proxy card which is enclosed for your use in connection with the special meeting. If you complete and sign the proxy card and return it in the enclosed postage-paid envelope, you will be appointing the proxies named in the proxy card to vote your shares for you at the meeting. The authority you will be giving the proxies is described in the proxy card. When your proxy card is returned properly executed, the shares of American common stock represented by it will be voted at the American special meeting in accordance with the instructions contained in the proxy card.

If proxy cards are returned properly executed without an indication as to how the proxies should vote, the American common stock represented by each such proxy card will be considered to be voted: (i) FOR the proposal to issue up to approximately 1,750,000 shares of American common stock to MidCarolina shareholders and (ii) FOR any proposal to adjourn or postpone the meeting to permit the further solicitation of proxies.

If the special meeting is postponed or adjourned, all proxy cards will be voted at the reconvened special meeting in the same manner as they would have been voted at the originally scheduled special meeting, except for any proxy cards that have been properly withdrawn or revoked.

Your vote is important. Accordingly, please sign, date and return the enclosed proxy card whether or not you plan to attend the American special meeting in person.

Shares Held in Street Name. Only the record holders of shares of American common stock, or their appointed proxies, may vote those shares. As a result, if your shares of American common stock are held for you in street name by a broker or other nominee, such as a bank or custodian, then only your broker or nominee (*i.e.* the record holder) may vote them for you, or appoint the proxies to vote them for you, unless you previously have made arrangements for your broker or nominee to assign its voting rights to you or for you to be recognized as the person entitled to vote your shares. You will need to follow the directions your broker or nominee provides you and give it instructions as to how it should vote your shares by following the instructions you received from your broker or nominee with your copy of this proxy statement/prospectus. Brokers and other nominees who hold shares in street name for their clients typically have the discretionary authority to vote those shares on routine proposals when they have not received instructions from beneficial owners of the shares. However, they may not vote those shares on non-routine matters (including the proposal to approve the issuance of shares of American common stock to MidCarolina shareholders in the merger) unless their clients give them voting instructions. To ensure

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that your shares are represented at the American special meeting and voted in the manner you desire, *it is important that you instruct your broker or nominee as to how it should vote your shares.*

If your shares are held in street name and you wish to vote them in person at the American special meeting, you must obtain a proxy, executed in your favor, from the holder of record.

Revocation of Proxies

Record Holders. If you are the record holder of shares of American common stock and you sign and return a proxy card and you later wish to revoke the authority or change the voting instructions you gave the proxies, you can do so at any time before the voting takes place at the American special meeting by taking the appropriate action described below.

To change the voting instructions you gave the proxies:

you can complete, sign and submit a new proxy card, dated after the date of your original proxy card, which contains your new instructions, and submit it so that it is received before the voting takes place at the American special meeting.

The proxies will follow the last voting instructions received from you before the special meeting.

To revoke your proxy card:

you can give American's Corporate Secretary a written notice, before the voting takes place at the special meeting, that you want to revoke your proxy card; or

you can attend the special meeting and vote in person or notify American's Corporate Secretary that you want to revoke your proxy card and vote your shares in person. Simply attending the special meeting alone, without voting in person or notifying American's Corporate Secretary, will not revoke your proxy card.

You must submit your new proxy card or notice of revocation addressed to American's Corporate Secretary at American National Bankshares Inc., Attention: Corporate Secretary, 628 Main Street, Danville, Virginia 24541, no later than the beginning of the American special meeting or, if the special meeting is adjourned or postponed, before the adjourned or postponed meeting is actually held.

If you need assistance in changing or revoking your proxy, please contact American's Investor Relations by calling (434) 792-5111 or by writing to American National Bankshares Inc., 628 Main Street, Danville, Virginia 24541, Attention: Investor Relations.

Shares Held in Street Name. If your shares are held in street name and you want to change or revoke voting instructions you have given to the record holder of your shares, you must follow your bank's, broker's, custodian's or nominee's directions.

Solicitation of Proxies

This solicitation is made on behalf of the American board of directors, and American will pay the costs of soliciting and obtaining proxies, including the cost of reimbursing banks and brokers for forwarding proxy materials to shareholders. Proxies may be solicited, without extra compensation, by American's officers and employees by mail, electronic mail, telephone, fax or personal interviews.

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American will also reimburse brokers and other custodians, nominees and fiduciaries for their expenses in sending these materials to you and getting your voting instructions.

THE MIDCAROLINA SPECIAL MEETING

Date, Place and Time

This proxy statement/prospectus is first being mailed on or about [], 2011 to MidCarolina shareholders who held (i) shares of common stock, no par value per share, and (ii) shares of Series A preferred stock, no par value per share, on the record date for the MidCarolina special meeting of shareholders. This proxy statement/prospectus is accompanied by the notice of the special meeting and, in the case of holders of MidCarolina common stock, a form of proxy that is solicited by the board of directors of MidCarolina for use at the special meeting to be held on June 14, 2011, at 4:00 p.m. local time, at the Best Western Burlington Inn, which is located at 700 Huffman Mill Road, Burlington, North Carolina, and at any adjournments or postponements of that meeting.

Purpose of the MidCarolina Special Meeting

At the special meeting, the holders of MidCarolina common stock will be asked:

to approve the merger agreement and the transactions contemplated thereby, as more fully described in this proxy statement/prospectus; and

to approve a proposal to adjourn or postpone the meeting to a later date or dates, if necessary, to permit further solicitation of proxies in the event there are not sufficient votes at the time of the meeting to approve the merger agreement.

Recommendation of the MidCarolina Board of Directors

The MidCarolina board believes that the proposed merger with American is fair to and is in the best interests of MidCarolina and its shareholders and unanimously recommends that holders of MidCarolina common stock vote **FOR** each of the proposals that will be presented at the MidCarolina special meeting as described in this proxy statement/prospectus.

Record Date and Voting Rights; Quorum

The MidCarolina board of directors has fixed the close of business on April 26, 2011 as the record date for determining the holders of MidCarolina common stock entitled to notice of and to vote at the special meeting or any postponements or adjournments thereof. Holders of Series A preferred stock are entitled to notice of the special meeting, but are not entitled to vote at the special meeting. Accordingly, you are only entitled to vote at the special meeting if you were a record holder of MidCarolina common stock at the close of business on the record date. At that date, 4,929,747 shares of MidCarolina common stock were outstanding and entitled to vote.

To have a quorum that permits MidCarolina to conduct business at the MidCarolina special meeting, we require the presence, whether in person or by proxy, of the holders of MidCarolina's common stock representing a majority of the voting shares outstanding on the record date. You are entitled to one vote for each outstanding share of MidCarolina common stock you held as of the close of business on the record date.

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Holders of shares of MidCarolina common stock present in person at the special meeting but not voting, and shares of the common stock for which proxy cards are received indicating that their holders have abstained, will be counted as present at the special meeting for purposes of determining whether there is a quorum for transacting business. Shares held in street name that have been designated by brokers on proxies as not voted will not be counted as votes cast for or against any proposal. These broker non-votes will, however, be counted for purposes of determining whether a quorum exists.

Votes Required

Vote Required for Approval of the Merger Agreement and the Merger. The approval of the merger agreement and the transactions contemplated thereby requires the affirmative vote of at least a majority of the shares of MidCarolina common stock outstanding on the record date for the special meeting.

Failures to vote, abstentions and broker non-votes will not count as votes cast. Because, however, approval of the merger agreement and the transactions contemplated thereby requires the affirmative vote of at least a majority of the shares of MidCarolina common stock outstanding on the record date, failures to vote, abstentions and broker non-votes will have the same effect as votes against the merger.

Vote Required for Adjournment or Postponement of the MidCarolina Special Meeting. Approval of any motion to adjourn or postpone the special meeting to permit further solicitation of proxies to approve the merger agreement requires the affirmative vote of a majority of the shares of MidCarolina common stock voted at the special meeting, whether or not a quorum is present.

Failures to vote, abstentions and broker non-votes will not count as votes cast and will have no effect for purposes of determining whether a proposal to adjourn or postpone the special meeting has been approved.

Stock Ownership of MidCarolina Executive Officers and Directors

As of the record date, directors and executive officers of MidCarolina and their affiliates beneficially owned and were entitled to vote approximately 916,308 shares of MidCarolina common stock at the MidCarolina special meeting. These shares represent approximately 18.6% of the aggregate voting power of MidCarolina shares entitled to vote at the special meeting. Each director and executive officer of MidCarolina has entered into an agreement with American pursuant to which he or she has agreed to vote all of his or her shares in favor of the merger agreement, except that certain shares they hold in a fiduciary capacity or for which they have no voting or dispositive power are not covered by the agreement.

Voting at the MidCarolina Special Meeting

Record Holders. If your shares of MidCarolina common stock are held of record in your name, your shares can be voted at the MidCarolina special meeting in any of the following ways:

You can attend the MidCarolina special meeting and vote in person. A ballot will be provided for your use at the meeting.

You can vote your shares by using the proxy card which is enclosed for your use in connection with the special meeting. If you complete and sign the proxy card and return it in the enclosed postage-paid envelope, you will be appointing the proxies named in the proxy card to vote your shares for you at the meeting. The authority you will be giving the proxies

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is described in the proxy card. When your proxy card is returned properly executed, the shares of MidCarolina common stock represented by it will be voted at the MidCarolina special meeting in accordance with the instructions contained in the proxy card. If proxy cards are returned properly executed without an indication as to how the proxies should vote, the MidCarolina common stock represented by each such proxy card will be considered to be voted: (i) FOR the proposal to approve the merger agreement and the transactions contemplated thereby; and (ii) FOR any proposal to adjourn or postpone the meeting to permit the further solicitation of proxies.

If the special meeting is postponed or adjourned, all proxy cards will be voted at the reconvened special meeting in the same manner as they would have been voted at the originally scheduled special meeting, except for any proxy cards that have been properly withdrawn or revoked.

You can appoint the proxies to vote your shares for you by going to the Internet website www.midcarolinabank.com/proxy. When you are prompted for your control number, enter the number printed just above your name on the enclosed proxy card, and then follow the instructions provided. You may vote by Internet only until 5:00 p.m. Eastern Daylight Time on June 13, 2011, which is the day before the MidCarolina special meeting date. If you vote by Internet, you need not sign and return a proxy card. Under North Carolina law, you will be appointing the proxies to vote your shares on the same terms as are described above and with the same authority as if you completed, signed and returned a proxy card. The authority you will be giving the proxies is described in the proxy card.

Your vote is important. Accordingly, please sign, date and return the enclosed proxy card, or follow the instructions above to vote by Internet, whether or not you plan to attend the MidCarolina special meeting in person.

Shares Held in Street Name. Only the record holders of shares of MidCarolina common stock, or their appointed proxies, may vote those shares. As a result, if your shares of MidCarolina common stock are held for you in street name by a broker or other nominee, such as a bank or custodian, then only your broker or nominee (*i.e.* the record holder) may vote them for you, or appoint the proxies to vote them for you, unless you previously have made arrangements for your broker or nominee to assign its voting rights to you or for you to be recognized as the person entitled to vote your shares. You will need to follow the directions your broker or nominee provides you and give it instructions as to how it should vote your shares by following the instructions you received from your broker or nominee with your copy of this proxy statement/prospectus. Brokers and other nominees who hold shares in street name for their clients typically have the discretionary authority to vote those shares on routine proposals when they have not received instructions from beneficial owners of the shares. However, they may not vote those shares on non-routine matters (including the proposal to approve the merger agreement) unless their clients give them voting instructions. To ensure that your shares are represented at the MidCarolina special meeting and voted in the manner you desire, ***it is important that you instruct your broker or nominee as to how it should vote your shares.***

If your shares are held in street name and you wish to vote them in person at the MidCarolina special meeting, you must obtain a proxy, executed in your favor, from the holder of record.

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Revocation of Proxies

Record Holders. If you are the record holder of shares of MidCarolina common stock and you sign and return a proxy card or appoint the proxies by Internet and you later wish to revoke the authority or change the voting instructions you gave the proxies, you can do so at any time before the voting takes place at the MidCarolina special meeting by taking the appropriate action described below.

To change the voting instructions you gave the proxies:

you can complete, sign and submit a new proxy card, dated after the date of your original proxy card, which contains your new instructions, and submit it so that it is received before the special meeting or, if hand delivered, before the voting takes place at the MidCarolina special meeting; or

if you appointed the proxies by Internet, you can go to the same Internet website (www.midcarolinabank.com/proxy), before 5:00 p.m. Eastern Daylight Time on June 13, 2011 (the day before the special meeting), enter the same control number (printed just above your name on the enclosed proxy card) that you previously used to appoint the proxies, and then change your voting instructions.

The proxies will follow the last voting instructions received from you before the special meeting.

To revoke your proxy card or your appointment of the proxies by Internet:

you can give MidCarolina's Corporate Secretary a written notice, before the special meeting or, if hand delivered, before the voting takes place at the special meeting, that you want to revoke your proxy card or Internet appointment; or

you can attend the special meeting and vote in person or notify MidCarolina's Corporate Secretary, before the voting takes place, that you want to revoke your proxy card or Internet appointment. Simply attending the special meeting alone, without voting in person or notifying MidCarolina's Corporate Secretary, will not revoke your proxy card or Internet appointment.

If you submit your new proxy card or notice of revocation by mail, it should be addressed to MidCarolina's Corporate Secretary at MidCarolina Financial Corporation, Attention: Corporate Secretary, 3101 South Church Street, Burlington, North Carolina 27216, and must be received no later than the beginning of the MidCarolina special meeting or, if the special meeting is adjourned or postponed, before the adjourned or postponed meeting is actually held. If hand delivered, your new proxy card or notice of revocation must be received by MidCarolina's Corporate Secretary before the voting takes place at the special meeting or at any adjourned or postponed meeting.

If you need assistance in changing or revoking your proxy, please contact MidCarolina's Corporate Secretary by calling (336) 538-1600 or by writing to MidCarolina Financial Corporation, 3101 South Church Street, Burlington, North Carolina 27216, Attention: Corporate Secretary.

Shares Held in Street Name. If your shares are held in street name and you want to change or revoke voting instructions you have given to the record holder of your shares, you must follow your bank's, broker's, custodian's or nominee's directions.

Solicitation of Proxies

This solicitation is made on behalf of the MidCarolina board of directors, and MidCarolina

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will pay the costs of soliciting and obtaining proxies, including the cost of reimbursing banks and brokers for forwarding proxy materials to shareholders. Proxies may be solicited, without extra compensation, by MidCarolina's officers and employees by mail, electronic mail, telephone, fax or personal interviews. In addition, MidCarolina has engaged Morrow & Co., LLC to assist it in the distribution and solicitation of proxies for a fee of \$5,000 plus reasonable expenses. MidCarolina will reimburse brokers and other custodians, nominees and fiduciaries for their expenses in sending these materials to you and getting your voting instructions.

THE MERGER

The following is a summary description of the material aspects of the merger agreement and the merger. This description does not purport to be complete and is qualified in its entirety by reference to the merger agreement, which is attached as Appendix A to this proxy statement/prospectus and incorporated herein by reference. We urge you to read the merger agreement in its entirety.

General

The American board of directors and the MidCarolina board of directors have each approved the merger agreement, which provides for the merger of MidCarolina with and into a newly-formed merger subsidiary of American.

Each share of MidCarolina common stock issued and outstanding before the merger will be converted into the right to receive 0.33 shares of American common stock. We sometimes refer to this as the exchange ratio. The exchange ratio is fixed and will not be adjusted to reflect stock price changes prior to the effective date of the merger. In addition, each share of MidCarolina Series A preferred stock issued and outstanding before the merger will be converted into the right to receive one share of American Series A preferred stock. American has never issued preferred stock, and does not have any preferred stock outstanding as of the date of this proxy statement/prospectus. The American Series A preferred stock is being established in connection with the merger to have substantially identical terms, preferences and rights as the MidCarolina Series A preferred stock. The form of the articles of amendment to American's articles of incorporation establishing the American Series A preferred stock is attached as Exhibit 1.3(a) to the merger agreement, a copy of which is attached as Appendix A to the proxy statement/prospectus. No fractional shares will be issued, and cash will be paid instead. Shares of MidCarolina common stock and Series A preferred stock issued and outstanding before the merger will be cancelled upon completion of the merger.

Shares of MidCarolina common stock or MidCarolina Series A preferred stock held by MidCarolina shareholders who have elected dissenters rights will not be converted into the right to receive shares of American common stock or American Series A preferred stock upon consummation of the merger. Shareholders who wish to assert their dissenters' rights and comply with the procedural requirements of Article 13 of the North Carolina BCA, will be entitled to receive payment of the fair value of their shares in cash in accordance with North Carolina law. For more information regarding the exercise of these rights, see Dissenters' and Appraisal Rights.

As of the date of this proxy statement/prospectus, American expects that it will issue approximately [] shares of American common stock to the holders of MidCarolina common stock and 5,000 shares of American Series A preferred stock to the holders of MidCarolina Series A preferred stock in the merger, assuming no shareholders of MidCarolina exercise their dissenters' rights. At the completion of the merger, it is expected that there will be issued and outstanding approximately [] million shares of American common stock, with current American shareholders owning approximately 79% of American's outstanding common stock, on a fully diluted basis, and former holders of

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MidCarolina common stock owning approximately 21% of American's outstanding common stock on a fully diluted basis.

After the merger, it is expected that the merger subsidiary will merge with and into American and that MidCarolina Bank, the North Carolina chartered bank subsidiary of MidCarolina, will merge with and into American National Bank and Trust Company, the national bank subsidiary of American. American National Bank will be the surviving bank.

Background of the Merger

Each of American's and MidCarolina's board of directors has periodically engaged with senior management and their advisers in reviews of their respective companies' business and strategic direction and has considered ways to enhance their companies' performance and prospects in light of competitive and other relevant developments. These reviews have focused on, among other things, the business environment facing financial institutions generally, as well as conditions and ongoing consolidation in the financial services industry. For each company, these reviews have also included periodic discussions with respect to potential transactions that would further its strategic objectives, and the potential benefits and risks of those transactions, and from time to time have focused on the possibility of a merger with another banking organization.

Over the past several years, American National Bank and MidCarolina Bank have developed a business relationship relating to loan participations. During the course of that relationship, Charles H. Majors, president and chief executive officer of American, and Charles T. Canaday, Jr., president and chief executive officer of MidCarolina, on occasion have discussed the business relationship, their respective companies and the financial services industry in general.

In late 2009, senior management of American held general discussions with representatives of Keefe, Bruyette & Woods, Inc., a nationally recognized investment banking firm, about the current business environment for community banks, American's strategy and possible bank acquisitions for American.

On February 16, 2010, the board of directors of American held its regularly scheduled board meeting during which KBW recommended several merger candidates, one of which was MidCarolina. The American board discussed with KBW various financial and strategic aspects concerning merger transactions in general. In the discussion about MidCarolina, it was observed that American has had a presence along the Virginia-North Carolina border for over 100 years, and that MidCarolina was a particularly attractive acquisition candidate because its primary market area is adjacent to American's core banking market and would provide American with growth opportunities that were not present in its current market.

Following that meeting, Mr. Majors contacted Mr. Canaday and, on February 18, 2010, Messrs. Majors and Canaday met to discuss the current business environment for community banks and the strategic opportunities available for American and MidCarolina. At this meeting, Mr. Majors informed Mr. Canaday that American may be interested in pursuing a merger transaction with MidCarolina if MidCarolina was interested in such a transaction.

At a regular meeting of MidCarolina's board of directors on February 23, 2010, representatives of Stifel, Nicolaus & Company, Incorporated, a nationally recognized investment banking firm, were previously scheduled to meet with the board to discuss strategic planning issues. During the meeting, Mr. Canaday informed the board of the February 18th meeting with Mr. Majors, and, after a short and informal discussion regarding American's expression of interest, the board concluded that members of the

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board should have a discussion with American's management to gather further information regarding American and whether the board should explore the possibilities of a transaction with American.

On March 16, 2010, Mr. Majors informed the American board of his February 18th meeting with Mr. Canaday. At this meeting, the American board engaged in a brief and general discussion about MidCarolina, and the American board authorized senior management to evaluate further a possible transaction with MidCarolina.

On March 19, 2010, Mr. Majors and two outside directors of American (Ben J. Davenport, Jr. and Lester A. Hudson, Jr.) met with Mr. Canaday and three outside directors of MidCarolina (James R. Copland III, F.D. Hornaday, III and John K. Roberts) on an informal basis for the purpose of understanding each company's business, operations, culture and philosophy. No specific terms of a potential merger were discussed at this meeting.

On April 13, 2010, Mr. Majors met again with Mr. Canaday. At this meeting, Mr. Canaday informed Mr. Majors that MidCarolina would consider its various strategic business alternatives, which included remaining independent, pursuing a business combination transaction with American and pursuing a business combination with other potential merger partners.

From February into June 2010, MidCarolina's management and representatives of its board of directors discussed with Stifel its assessment of MidCarolina's prospects for raising additional capital and remaining independent, a potential transaction with American and MidCarolina's prospects for a transaction with another financial institution. In those discussions, various financial institutions, including American, were identified as potentially having an interest in MidCarolina and could be potential merger partners if the board chose to entertain a merger proposal. The board also discussed the advisability of soliciting the interest of some or all of those institutions. During the Fall of 2009, MidCarolina had been approached by a smaller community bank regarding a business combination in which MidCarolina would have been the acquiring institution. However, following discussions with that institution and with Stifel, MidCarolina's board concluded that the transaction would not be in the best interests of shareholders and chose not to pursue the transaction. During 2009 and 2010, neither MidCarolina nor Stifel received any solicited or unsolicited indications of interest from any financial institution other than American regarding an acquisition of MidCarolina.

At MidCarolina's regular board meeting on May 25, 2010, management and the board representatives reported on their discussions with Stifel. The MidCarolina board discussed MidCarolina Bank's financial performance, capital level, loan portfolio and credit quality issues, and its strategy for dealing with issues the board expected to be identified in a memorandum of understanding that it would be asked to enter into with the bank's regulators following an examination of the bank that was concluded during March 2010. In light of those issues, the board also discussed MidCarolina's various strategic options and the engagement of Stifel as MidCarolina's financial advisor.

At the May 25th meeting, the MidCarolina board authorized management to request that Stifel contact one financial institution identified as a potential acquirer and informally gauge its interest in discussing a business combination with MidCarolina if the board chose to seek a merger partner. After the meeting, Stifel contacted an executive officer of that institution and reported back to management that the officer thought his institution would be interested in discussing the prospects of a merger. In the course of discussing the institution, the board was informed that the institution's financial performance had been adversely affected by conditions in the recent economic environment and that it had reduced its dividend payments to its shareholders. With this information, the board chose to not invite discussions with that institution at that time pending MidCarolina's further consideration of its strategic options, its discussions with American, and its decision on whether to seek a merger transaction.

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On June 22, 2010, at a regular board meeting, the MidCarolina board approved the engagement of Stifel as MidCarolina's financial adviser. At that meeting, Stifel and the board discussed MidCarolina's strategic options, including its prospects for raising capital and remaining independent (as those prospects were affected by the regulatory issues to be identified in MidCarolina Bank's memorandum of understanding), pursuing a potential transaction with American and soliciting the interest of other potential acquirers that had been identified and reviewed with the board. Stifel also discussed with the board its positive assessment of American as a merger partner. It was the consensus of the directors that, based on information provided to them, American was an attractive potential merger partner and that discussions with American should continue.

During mid-April to mid-July 2010, informal discussions on a potential merger transaction had continued between senior management of MidCarolina and American. As a result of these early stage discussions, during the first half of July 2010, American's senior management began to consider in more detail the potential financial, operational, governance and other terms and conditions of a combination with MidCarolina. These internal meetings focused on, among other things, that the merger would be an all-stock transaction, the composition of the board for the combined company post-merger and the establishment of a focused North Carolina banking division.

On July 17, 2010, Stifel delivered to American a proposed confidentiality agreement covering information that each of American and MidCarolina might share with the other if discussions between them were to continue. On July 27 and 28, 2010, American and MidCarolina each executed a confidentiality agreement, and MidCarolina began to provide to American more detailed information about its business and operations than it previously had provided.

On August 4, 2010, Mr. Majors and two outside directors of American (Mr. Davenport and Claude B. Owen, Jr.) made a presentation to the MidCarolina board about American and its business operations and provided their view of how a potential merger of their organizations might be structured. Representatives of KBW and Stifel were also in attendance at the meeting. The American representatives indicated that the merger could be an all-stock transaction and that there could be a fairly apportioned board for the combined company considering the post-merger ownership interests of American and MidCarolina common shareholders, with an advisory board made up of directors of MidCarolina and MidCarolina Bank to serve the North Carolina market of the combined company that would result from such a transaction. Mr. Majors suggested that, based solely on American senior management's assessment of information regarding MidCarolina that American had received to date, American might be willing to propose a merger with an exchange ratio at a level that, at the then current market value of American's common stock, would provide merger consideration to MidCarolina's shareholders of as much as \$10.00 per share of MidCarolina's common stock (equating to an exchange ratio of 0.453 shares of American common stock for each share of MidCarolina common stock). However, no merger offer was extended, Mr. Majors indicated that, before a firm offer and specific exchange ratio could be proposed, American would want to conduct a more detailed due diligence review of MidCarolina, including a third-party review of MidCarolina's loan portfolio to assess its condition and estimate the approximate fair value adjustment that American would be required to make to the loan portfolio upon completion of a merger under applicable business combination accounting rules. At the meeting, the American representatives expressed a desire that MidCarolina's board enter into more formal discussions with them and requested that, before MidCarolina solicited discussions with other potential acquirers, it permit American to complete its third-party loan review and perform other due diligence and make a formal offer.

At a special meeting of the MidCarolina board on August 9, 2010, representatives of Stifel met with the board and discussed American's presentation and their assessment of American as a merger

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partner, MidCarolina's strategic options (including remaining independent) based on its then-current financial condition and profitability, MidCarolina's prospects for and costs associated with raising additional capital to support continued operations and growth, recent financial institution merger trends and activity, and its prospects for other potential merger options. The board and Stifel discussed a list of other potential merger partners and Stifel's analysis of the likelihood that they would be interested in acquiring MidCarolina, their capacity to make an acquisition and potential transaction terms those other potential merger partners might offer. The board concluded that American was a particularly attractive merger partner based on: its strong financial condition and performance during the recent recession, and the fact that it did not seem to have been as adversely affected by recent pressures on financial institutions and resulting credit quality issues for banks; the performance of its stock and its dividend history; the relative locations of the two banks' markets; and the value that MidCarolina would add to American's business. After Stifel's presentation, the MidCarolina board unanimously agreed that it would postpone any decision on whether to solicit the interest of any other institutions pending further discussions with American, and that it would permit American to conduct a review of MidCarolina's loan portfolio and perform other due diligence to determine what merger terms American would propose. The board authorized senior management and Stifel to continue merger discussions with the senior management of American and KBW.

On August 17, 2010, at a regular meeting of the American board, senior management provided the board with a status report with respect to the discussions with MidCarolina following the August 4th meeting with MidCarolina's board. KBW also informed the board about its discussions with Stifel concerning a potential transaction. At this meeting, the American board authorized the engagement of KBW to advise American on the financial aspects of a potential merger with MidCarolina.

In late August 2010, American began an in-depth due diligence review of MidCarolina. In early September 2010, Thurmond, Clower & Associates LLC, a regional consulting firm specializing in the financial services industry (Thurmond Clower), was engaged by American to perform a review of MidCarolina's loan portfolio, loan operations and credit administration. Following receipt of the due diligence report of Thurmond Clower in mid-September 2010, American performed additional due diligence on MidCarolina's loan portfolio, loan operations and credit administration.

At a regular board meeting on September 28, 2010, MidCarolina's management and Stifel updated the board on the status of the discussions with American, including the results of the third-party review of MidCarolina's loan portfolio which reflected a higher than expected estimate of fair value adjustments related to MidCarolina's loan portfolio that American believed it would be required to make in a merger under applicable business combination accounting rules. The board discussed with Stifel the results of Thurmond Clower's review and the estimated adjustments and their potential affect on merger terms that American might offer.

At a special meeting on October 7, 2010, the American board again was briefed on the discussions with MidCarolina and the results of American's due diligence review, including the Thurmond Clower report. The American board also received a detailed presentation by representatives of KBW about the characteristics and rationale of a merger with MidCarolina, including a financial analysis of the combined company after the merger. After KBW's presentation, the board encouraged American senior management to continue exploring the merger with its MidCarolina counterparts and approved management to submit a formal offer to MidCarolina to exchange 0.321 shares of American common stock for each share of MidCarolina common stock. The proposed exchange ratio was lower than American had first informally suggested might be possible at the August 4th meeting due to the results of the third-party review of MidCarolina's loan portfolio. After the meeting, KBW contacted Stifel to present American's formal exchange ratio offer.

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On October 19, 2010, the MidCarolina board held a regular meeting at which representatives of Stifel reviewed and provided their analysis of American's offer, and they continued their discussion with the board regarding MidCarolina's strategic options, including other potential acquirers and the prices paid in other recent merger transactions involving target companies similar to MidCarolina.

On October 26, 2010, at a MidCarolina board special meeting, the board continued its discussion with representatives of Stifel regarding American's offer. The board and Stifel discussed American's estimate of fair value adjustments related to MidCarolina's loan portfolio that it would have to make in a merger. Management and individual board members discussed the process of estimating those adjustments and similar adjustments made in other recent merger transactions with which Stifel was familiar, as well as discussions management had with accountants, advisors and others familiar with those matters since the board first received the results of Thurmond Clower's review. The board also considered Thurmond Clower's findings and American's estimate of adjustments in relation to the level of MidCarolina Bank's nonperforming loans, the issues described in the bank's memorandum of understanding with its regulators and in MidCarolina's separate memorandum of understanding which it had recently entered into with its regulator, the results of a separate limited credit quality review of the bank's loan portfolio by an independent consultant hired by MidCarolina Bank earlier in the year, and uncertainty regarding the increasing negative impact of current economic conditions on the bank's loan portfolio and its ability to improve its credit quality in the future. Based on those discussions, the board concluded that, while determining those adjustments is a subjective process, American's estimate of the total adjustments relating to MidCarolina's loans appeared to have been determined in a manner that was consistent with other recent transactions based on current conditions in the credit markets and increased levels of nonperforming loans in the banking industry in general, and that American's estimate of accounting adjustments relating to MidCarolina's loans was not unreasonable. The board unanimously agreed that it was receptive to considering American's proposal, but that it desired for Stifel to continue its discussions with the senior management of American and KBW with a view toward increasing the proposed exchange ratio.

On November 9, 2010, the MidCarolina board held a special meeting during which senior management and representatives of Stifel reported to the board on the negotiations with American and that American's senior management had agreed to recommend to American's board an increased exchange ratio of 0.33 shares of American common stock for each MidCarolina common share. The board discussed the revised offer and the proposed transaction terms, MidCarolina's financial condition, future prospects, regulatory issues (including the memorandums of understanding), and strategic options. The board also discussed its assessment of American as a merger partner, including its financial condition, stock performance and dividend history, and its financial performance during the recent economic conditions affecting the banking industry. Following such discussions, the board concluded that American was a particularly attractive merger partner, that its stock would be a sound investment for MidCarolina's shareholders and that the revised offer was fair and reasonable to MidCarolina's shareholders. The board unanimously agreed to move forward with the proposed transaction and that, based on the factors it had considered and its conclusions as described below under the caption "MidCarolina's Reasons for the Merger; Recommendation of MidCarolina's Board of Directors," it would do so without seeking offers from other potential acquirers. However, the board's action was subject to MidCarolina's completion of a reverse due diligence review of American, including a third-party review of American's loan portfolio and its satisfaction that the results of the review confirmed the board's conclusions regarding American's financial strength and relatively low level of credit quality issues, and to the negotiation of a mutually satisfactory definitive agreement.

On November 16, 2010, the board of directors of American held a special meeting during which American's senior management presented updated information on its due diligence investigation of MidCarolina. The American board received a summary of the proposed terms of the merger and

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discussed various aspects of the proposed combination of American and MidCarolina, including that MidCarolina would strongly consider a revised exchange ratio offer of 0.33 shares of American common stock for each share of MidCarolina common stock. In discussing the exchange ratio, Mr. Majors informed the board that a moderate increase was satisfactory to senior management because MidCarolina was an attractive franchise that would provide solid growth opportunities for American that were not present in its current market and because of other factors described under the caption American's Reasons for the Merger; Recommendation of American's Board of Directors. Mr. Majors stated that he believed the increase would quickly solidify the merger discussions. The American board further considered the merger and then approved the 0.33 exchange ratio, and authorized senior management to proceed towards a merger with MidCarolina and to begin negotiations leading to a definitive agreement in accordance with earlier communications with MidCarolina.

At this time, the parties and their financial advisors commenced further mutual due diligence reviews, and the legal advisors of American and MidCarolina began their initial mutual due diligence reviews. Counsel for the parties also began drafting the transaction documents to reflect the terms and conditions of the merger pursuant to the discussions between American and MidCarolina and their financial advisors. Due diligence continued over the course of the next several weeks, as the parties and their counsel continued to negotiate the terms of the definitive merger agreement and other related agreements. MidCarolina engaged a regional consulting firm specializing in loan portfolio review and consulting for community banks to perform a stress test and limited external review of American's loan portfolio, loan operations and credit administration, including American's mortgage loan operations. The firm's findings reflected that: considering the recent economic environment, American had an anomalously low level of problem loans; that its credit quality, as measured by its problem loans, credit loss history and other credit quality ratios, compared very favorably to its peers and to other banks the consulting firm had reviewed during the past 18 months; that stress testing conducted on American's loan portfolio supported a credit loss forecast that was much less severe than that reflected in comparable tests on other institutions; and that American appeared to have effective credit administration and risk management functions.

During the first two weeks of December 2010, the parties reached agreement on most of the remaining non-financial terms of the proposed merger and substantially complete drafts of the merger agreement and the other related agreements were circulated.

On December 14, 2010, the MidCarolina board met to receive further information from Stifel and from senior management, and to review the merger agreement with its legal counsel. Management reported on the due diligence investigation of American and on the results of the negotiations with American. Representatives of Ward and Smith, P.A., MidCarolina's legal counsel, reviewed the legal standards applicable to the board with respect to its consideration of the proposed merger. Counsel also reviewed with the MidCarolina board the terms of the definitive merger agreement that had been negotiated between the parties.

After receiving Stifel's presentation and an explanatory review of the terms and conditions of the proposed merger agreement from MidCarolina's legal counsel, and after review and discussion among members of the MidCarolina board of directors, including consideration of the factors described in this proxy statement/prospectus under the caption MidCarolina's Reasons for the Merger; Recommendation of MidCarolina's Board of Directors, the MidCarolina board adjourned the special meeting to allow the individual directors to more closely review the proposed merger agreement and consider whether they had any questions or concerns that had not been adequately addressed. The meeting was reconvened the next day, December 15th, at which time Stifel rendered its oral opinion, which was confirmed in writing, to the MidCarolina board that the per share merger consideration to be received by the shareholders of MidCarolina common stock from American in the merger is fair, from a

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financial point of view, to such shareholders (see [Opinion of MidCarolina's Financial Advisor](#)). After receiving Stifel's opinion, and after further discussion and consideration of the factors described in this proxy statement/prospectus under the caption [MidCarolina's Reasons for the Merger; Recommendation of MidCarolina's Board of Directors](#), the MidCarolina board determined that the merger with American and the related transactions and agreements were in the best interest of MidCarolina and its shareholders. The board voted unanimously to approve the proposed merger agreement and related transactions and agreements, and to recommend them to the shareholders of MidCarolina.

On December 15, 2010, the board of directors of American held a special meeting with senior management and its outside financial and legal advisors. Management reviewed for the American board the progress of its negotiations with MidCarolina and reported on the status of its due diligence review of MidCarolina. KBW reviewed with the American board of directors the structure and other terms of the proposed transaction and financial information regarding MidCarolina, American and the transaction, information regarding peer companies and comparable transactions and other relevant analyses. In connection with the deliberations by the American board, KBW rendered to the board its oral opinion (subsequently confirmed in writing), as described under the caption [Opinion of American's Financial Advisor](#), that as of the date of its opinion, the exchange ratio was fair, from a financial point of view, to American.

At that meeting, representatives of LeClairRyan, A Professional Corporation, American's legal counsel, discussed with the American board of directors the legal standards applicable to its decisions and actions with respect to its consideration of the proposed merger, and reviewed the legal terms of the proposed merger agreement and related transaction agreements.

After review and discussion among members of the American board of directors, including consideration of the factors described under the caption [American's Reasons for the Merger; Recommendation of American's Board of Directors](#), the American board determined that the transactions contemplated by the merger agreement and the related transactions and agreements are advisable and in the best interests of American and its shareholders and the directors voted to approve the merger with MidCarolina, to approve and adopt the merger agreement and to approve the related transactions and agreements.

Following the completion of the meetings of the American board and the MidCarolina board on December 15, 2010, the merger agreement and related agreements were placed in final form and were executed and delivered. The transaction was announced before the market opened on December 16, 2010 in a press release issued jointly by American and MidCarolina.

American's Reasons for the Merger; Recommendation of American's Board of Directors

In reaching its decision to adopt the merger agreement and recommend approval of the merger related matters to shareholders, the American board of directors consulted with senior management, as well as with its outside financial and legal advisors, and considered a number of factors, including, but not limited to, the following:

its belief that the merger is consistent with American's expansion strategy in North Carolina, that MidCarolina's banking operations are located in a growth market for American and that the merger will complement American's existing banking network and result in a natural expansion of American's current North Carolina operations;

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its belief that MidCarolina is a high quality community banking franchise with strong management and leadership, with a compatible business culture and a shared approach to customer service, as well as sharing similar demographic, economic and financial market characteristics with American;

its knowledge and review of MidCarolina's financial condition, earnings, business operations and prospects, taking into account the results of American's due diligence investigation of MidCarolina;

its knowledge and analysis of the current environment in the financial services industry, including the difficult economic conditions and the associated credit quality and capital issues facing the banking industry, continuing consolidation, the interest rate environment, higher operating costs resulting from regulatory initiatives and compliance mandates, trends in technology, increasing nationwide competition, and the likely effects of these factors on the companies' potential growth, performance and strategic options;

the fact that the merger would create one of the largest independent community banking organizations serving Virginia and North Carolina, based on currently estimated pro forma assets (\$1.4 billion), total net loans (\$879.1 million) and total deposits (\$1.1 billion);

its belief that American's increased size and scale, including its significantly larger capital base (approximately \$147.0 million), and quality of operations would better position it to compete and grow its business;

the potential cost saving opportunities and the related potential impact on American's earnings;

its belief that the combined company will be positioned to benefit from increased lending capacity;

its determination that an exchange ratio for the outstanding shares of MidCarolina common stock that is fixed and not subject to adjustment is appropriate to reflect the strategic purpose of the merger and consistent with market practice for mergers of this type and that a fixed exchange ratio fairly captures the respective ownership interests of the American and MidCarolina shareholders based on fundamental valuation assessments and avoids fluctuations caused by near-term market volatility;

the financial analyses and presentation of KBW, and its oral and written opinions that, as of December 15, 2010, the exchange ratio was fair, from a financial point of view, to American (see Opinion of American's Financial Advisor);

the corporate governance aspects of the transaction, including the post-merger board composition, the designation of Mr. Canaday to lead North Carolina Banking for American National Bank and the establishment of an advisory board of American National Bank to serve the North Carolina market; and

its assessment of the likelihood that the merger would be completed in a timely manner without unacceptable regulatory conditions or requirements, including that no branch divestitures would likely be required, and the ability of the management team to successfully integrate and operate the businesses of American and MidCarolina after the merger.

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The American board also considered the risks and potential negative factors outlined below, but concluded that the anticipated benefits of combining with MidCarolina were likely to outweigh substantially these risks and factors. The risks and factors considered included:

the potential for an initial negative impact on the market price of American common stock;

the possibility that the merger and related integration process could result in the loss of key employees, the disruption of American's on-going business and the loss of customers;

the possibility of encountering difficulties in achieving cost savings in the amount currently estimated or in the timeframe currently contemplated;

the substantial merger and integration related expenses, estimated at approximately \$4.0 million (after-tax) for the combined company; and

the risks of the type and nature described under Cautionary Statement Regarding Forward-Looking Statements, Risk Factors, and in filings of American incorporated in this proxy statement/prospectus by reference.

The foregoing discussion of the factors considered by American's board of directors is not intended to be exhaustive, but is believed to include all the material factors considered by American's board. In view of the wide variety of factors considered in connection with its evaluation of the merger and the complexity of these matters, the board of directors did not find it useful and did not attempt to quantify or assign any relative or specific weights to the various factors that it considered in reaching its determination to approve the merger and the merger agreement and recommend that shareholders vote FOR the approval of the issuance of up to 1,750,000 million shares of American common stock in the merger. In addition, individual members of the American board of directors may have given differing weights to different factors. The board of directors conducted an overall analysis of the factors described above, including thorough discussions with, and questioning of, American management and outside financial and legal advisors. The board considered all of the foregoing factors as a whole and, on balance, supported a favorable determination to approve the merger and recommend that shareholders approve the issuance of shares of American common stock to MidCarolina common shareholders in the merger.

It should be noted that this explanation of the American board's reasoning and all other information presented in this section is forward-looking in nature and, therefore, should be read in light of the factors discussed under the heading Cautionary Statement Regarding Forward-Looking Statements.

The American board of directors determined that the merger, the merger agreement and the transactions contemplated by the merger agreement are advisable and in the best interests of American and its shareholders and approved and adopted the merger agreement. The American board unanimously recommends that shareholders vote FOR the approval of the issuance of American common stock in the merger and the approval to adjourn or postpone the American special meeting, if necessary.

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MidCarolina's Reasons for the Merger; Recommendation of MidCarolina's Board of Directors

In reaching its decision to adopt and approve the merger agreement and recommend its approval to holders of MidCarolina's common stock, the MidCarolina board of directors consulted with senior management, as well as with its outside financial and legal advisors, and it evaluated the increasing difficulty MidCarolina faces, as an independent financial institution, in maintaining and improving performance and value for its shareholders in the economic environment currently affecting the banking industry as a whole. Recent economic conditions have had significant negative effects on the profitability, credit quality and market prices of financial institutions of all sizes, but particularly so in the case of smaller community-oriented institutions, and the board believes that economic recovery and improvements in banks' profits and market values will be a slow process. These effects are underscored by MidCarolina's recent performance and increased levels of nonperforming loans, and by its and MidCarolina Bank's memorandums of understanding with federal and state regulators. (See Information About MidCarolina Financial Corporation Memorandums of Understanding on page 93.) After considering MidCarolina's future prospects and strategic options, the board concluded that partnering with a larger, financially sound financial institution would better maximize the long-term value of shareholders investments than if MidCarolina remained independent, and it believes that the proposed merger with American is in the best interests of MidCarolina's shareholders.

Significant positive factors considered by the board in deciding to approve the merger and recommend it to MidCarolina's shareholders included:

the board's assessment of the business, earnings, operations, financial condition, asset quality, capital levels, management and prospects of both American and MidCarolina;

the current and historical prices of MidCarolina's common stock, and the fact that the value of the merger consideration at the time of announcement of \$7.85 per share of MidCarolina common stock represented a premium of approximately 175% over the \$2.85 market price of the stock on December 15, 2010, the date immediately prior to the announcement of the merger agreement;

that American currently pays a cash dividend on its common stock, while MidCarolina does not and is not likely to be able to pay a cash dividend in the near future;

the limited capital raising alternatives available to MidCarolina, especially because its shares were trading below book value and any sale of additional shares likely would be very dilutive to MidCarolina's shareholders;

the board's expectation that, to the extent additional capital is needed in the future, the combined company will be better positioned to raise capital at a lower cost and with less dilution to shareholders than if MidCarolina sought to raise capital alone;

the board's belief, based on the advice and opinion of Stifel, that the consideration being offered to the holders of MidCarolina common stock was fair, from a financial point of view;

the board's belief that an affiliation with a larger organization should result in cost-saving opportunities and operating efficiencies, which would have a positive effect on the combined company's operating results;

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the board's positive assessment of American as a merger partner based on American's performance and asset quality during recent adverse conditions in the banking industry, the experience of its management and 100-year history as a community oriented bank, and the broader range of financial services the combined company could offer in MidCarolina Bank's banking market, including services through American's trust department and insurance products division;

that American has only one office in North Carolina, which will help minimize customer disruption and job loss resulting from the merger;

that the combined company will have a more diversified market, which should decrease risk to shareholders relating to asset quality issues, particularly in connection with real estate lending;

that the combined company will be better able to grow, gain market share and serve the public in MidCarolina's banking market than MidCarolina could alone; and

that MidCarolina's chief executive officer will become an executive officer of American, three of MidCarolina's directors will become directors of American, and MidCarolina's Chairman will serve as an emeritus director of American, all of which will give MidCarolina's former shareholders representation in management of, and in the decision-making process relating to, the combined company's future business and direction.

The MidCarolina board also considered potential risks and negative factors relating to the merger as follows:

the exchange ratio was fixed while the market price for American's stock was at the high end of its normal trading range, so, if the market price of American common stock decreases prior to consummation of the merger, the value of the consideration to be received by holders of MidCarolina's common stock also will decrease;

the merger agreement limits MidCarolina's ability to pursue other merger opportunities;

the merger agreement obligates MidCarolina to pay a substantial termination fee if it later chooses to pursue a more attractive uninvited merger proposal or if the agreement is terminated under certain circumstances;

that American has an effective shelf registration on file with the SEC and may seek to increase its capital in the future in order to continue to grow while remaining well capitalized under bank regulatory capital guidelines, and that any sale of additional American common stock after the merger could dilute the ownership interests of MidCarolina shareholders after the merger and could negatively affect the value of the consideration received by holders of MidCarolina common stock in the merger;

MidCarolina will lose the autonomy associated with being an independent financial institution;

the merger could result in employee attrition and have a negative effect on business and customer relationships;

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while the merger is pending, MidCarolina's officers and employees will have to focus extensively on actions required to complete the merger which will divert their attention from MidCarolina's business, and MidCarolina will incur substantial transaction costs even if the merger is not consummated; and

while the merger is pending, MidCarolina will be subject to certain restrictions on the conduct of its business which may delay or prevent it from pursuing business opportunities that may arise or preclude it from taking actions that would be advisable if it was to remain independent.

The board concluded that the anticipated benefits of combining with American were likely to outweigh substantially these potential risks and negative factors.

Before approving the proposed transaction with American, the board considered, and discussed at length with Stifel, MidCarolina's strategic options, including remaining independent, in relation to the long-term best interests of shareholders. The board discussed MidCarolina's prospects for resolving its current increased level of nonperforming loans and successfully dealing with issues addressed in its and MidCarolina Bank's memorandums of understanding, and restoring a satisfactory level of profitability. The board also discussed the prospects for, and costs and potential impact on MidCarolina's shareholders associated with, raising additional capital that would be required in order to remain independent, deal with nonperforming loans and continue to grow while maintaining acceptable capital ratios. Additionally, although the board ultimately chose not to invite or solicit offers from or discussions with other institutions, with Stifel's assistance the board identified other potential merger partners based on various factors, including: size, geographic markets, banking philosophy, financial condition, capacity and the relative value that MidCarolina would add to their businesses in comparison to American. The board discussed those other institutions with Stifel, as well as Stifel's experience with bank mergers generally and its knowledge of those institutions in particular; its analysis of their businesses and expansion strategies; its perception of the likelihood that they would have an interest in MidCarolina (based on a number of factors, including their relative size, location, other past or recently announced transactions, and other financial considerations); how it thought they would analyze and structure any merger proposal; and their ability to offer more favorable terms than those offered by American. Based on its discussions with and analysis of information provided by Stifel, the board believed it to be unlikely that, if any of those other institutions were interested in MidCarolina, the consideration and other terms they would offer would be materially more favorable to MidCarolina's shareholders than those offered by American. Also, due to the continued uncertainty regarding the economy and MidCarolina's prospects for improving its credit quality and performance and fully resolving issues identified in the memorandums of understanding with its and MidCarolina Bank's banking regulators, the board believed that, in the process of seeking other offers, the amount ultimately realized for MidCarolina's shareholders could be less than that being offered by American. Lastly, in light of American's strong financial condition and the increased number of institutions that needed additional capital and were receptive to merger opportunities, the board recognized that American's business plan called for it to expand and diversify its banking markets and there was a possibility that American had other acquisition opportunities. Based on its discussions with American and its financial advisor, Stifel advised the board that American's financial position may provide American a greater range of transaction alternatives than might be open to MidCarolina and that delays in acting on American's offer could pose a risk that American would pursue those other alternatives. MidCarolina's board concluded that it would not be in the interest of MidCarolina's shareholders to risk losing the offered transaction and that it would not solicit other offers.

The MidCarolina board recognized that, though it considered it unlikely, it was possible that another institution might offer merger terms that were more favorable than those offered by American, and that, because the exchange ratio proposed by American was fixed, the value of the merger

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consideration ultimately received by holders of MidCarolina's common stock would vary with changes in the market value of American's common stock. However, based on its discussions with Stifel and its own evaluation of MidCarolina's financial condition, recent performance and prospects, the board believed that any terms offered by another institution would not be materially more favorable. Also, in its consideration of the long-term interests of MidCarolina's shareholders, the board believed that, rather than focusing solely on the value of the merger consideration, or the value on any particular day, it was equally important to focus on the quality of the investment MidCarolina's shareholders would receive in the merger. As a result, in choosing to merge with American without inviting discussions with other potential acquirers, and in addition to the other factors described in this discussion and the board's assessment of the terms proposed by American, the board evaluated American's offer and American itself as a merger partner based on American's history, financial condition, asset quality, consistent operating performance and future prospects; the competence, experience and integrity of American's management and its branch locations and community banking philosophy; its historical stock performance and dividend history; and other similar factors. The board noted that, while maintaining its focus on community banking, American's performance and, as evidenced by the third-party review conducted by MidCarolina's consultant, its asset quality, had remained strong relative to most other banks during the recent economic environment. The board believed that American's history of financial strength and consistent earnings and dividends made its stock an attractive investment for MidCarolina's shareholders during the current uncertainty in the banking industry, and it concluded that combining MidCarolina with American on the terms offered by American was its best option for maximizing the long-term value of MidCarolina's shareholders and was in the shareholders' best interest.

Additional factors MidCarolina's board considered in approving the merger agreement and the merger included:

the results of MidCarolina's due diligence review of American, and the board's belief that American's depth of management, conservative credit culture, relatively low level of wholesale funding and exposure to commercial real estate lending, and efficient operations and credit administration functions, are characteristics that are of heightened importance in the ability of financial institutions to survive and prosper in the current environment and economic conditions in which financial institutions must operate, and that those characteristics will benefit MidCarolina's shareholders;

the current financial services industry environment, including increased competition and consolidation trends;

the effects of increased regulatory requirements on the financial services industry generally and on MidCarolina's income and expenses;

the board's review with its legal and financial advisors of the provisions of the merger agreement;

the non-economic terms and effects of the merger, including the social effects of the merger on MidCarolina Bank's existing depositors, borrowers and employees;

the expected tax consequences of the merger to MidCarolina's shareholders;

the indicated value to be received by holders of MidCarolina's common stock in relation to the trading prices, book value and earnings per share of MidCarolina's common stock;

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the relative lack of liquidity in the trading market for MidCarolina's common stock relative to the market for American's common stock;

the likelihood that the transaction will be approved by regulatory authorities, and the prospects for successful completion of the merger;

the board's belief that the number of potential acquirers interested in smaller financial institutions with limited geographic markets, like MidCarolina, and the merger prices being offered to community banks, has diminished and may diminish even further over time; and

the proposed employment arrangements with MidCarolina's president and chief executive officer, and potential payments to be made by American to MidCarolina's executive officers related to their various employment and other agreements.

The foregoing discussion of the factors considered by MidCarolina's board of directors is not intended to be exhaustive, but is believed to include all the material factors considered by MidCarolina's board. In view of the wide variety of factors considered in connection with its evaluation of the merger and the complexity of these matters, the board of directors did not find it useful and did not attempt to quantify or assign any relative or specific weights to the various factors that it considered in reaching its determination to approve the merger and the merger agreement and recommend that shareholders vote FOR approval of the merger agreement. In addition, individual members of the MidCarolina board of directors may have given differing weights to different factors. The board of directors conducted an overall analysis of the factors described above, including thorough discussions with, and questioning of, MidCarolina management and outside financial and legal advisors. The board considered all of the foregoing factors as a whole and unanimously supported a favorable determination to approve the merger and recommend that shareholders approve the merger agreement.

The MidCarolina board of directors unanimously determined that the merger, the merger agreement and the transactions contemplated by the merger agreement are in the best interests of MidCarolina and its shareholders and unanimously approved and adopted the merger agreement. The MidCarolina board unanimously recommends that holders of MidCarolina common stock vote FOR the approval of the merger agreement and FOR the approval to adjourn or postpone the MidCarolina special meeting, if necessary.

Opinion of American's Financial Advisor

On December 6, 2010, American executed an engagement agreement with Keefe, Bruyette & Woods, Inc. KBW's engagement encompassed assisting American in analyzing, structuring, negotiating and effecting a transaction with MidCarolina. American selected KBW because KBW is a nationally recognized investment banking firm with substantial experience in transactions similar to the merger and is familiar with American and its business. As part of its investment banking business, KBW is continually engaged in the valuation of financial businesses and their securities in connection with mergers and acquisitions.

On December 15, 2010, the American board of directors held a meeting to evaluate the proposed merger of MidCarolina with and into American. At this meeting, KBW reviewed the financial aspects of the proposed merger and rendered an oral opinion (subsequently confirmed in writing), to American that, as of such date, and based upon and subject to factors and assumptions set forth therein, the exchange ratio in the merger is fair, from a financial point of view to American. The American board of directors approved the merger agreement at this meeting.

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The full text of KBW's written opinion, dated December 15, 2010, which sets forth the assumptions made, procedures followed, matters considered and limitations on the review undertaken in connection with the opinion, is attached as Appendix B to this proxy statement/prospectus and is incorporated herein by reference. The description of the opinion set forth herein is qualified in its entirety by reference to the full text of such opinion. American's shareholders are urged to read the opinion in its entirety.

KBW's opinion speaks only as of the date of the opinion. The opinion is directed to the American board of directors and addresses only the fairness, from a financial point of view to American, of the exchange ratio in the merger. It does not address the underlying business decision to proceed with the merger and does not constitute a recommendation to any American shareholder as to how the shareholder should vote at the American special meeting on the merger or any related matter.

In connection with its opinion, KBW reviewed, analyzed and relied upon material bearing upon the merger and the financial and operating condition of American and MidCarolina and the merger, including among other things, the following:

the merger agreement,

the Annual Report to Shareholders and Annual Report on Form 10-K for the three years ended December 31, 2009 of American and MidCarolina,

certain interim reports to shareholders and Quarterly Reports on Form 10-Q of American and MidCarolina and certain other communications from American and MidCarolina to their respective shareholders, and

other financial information concerning the businesses and operations of American and MidCarolina furnished to KBW by American and MidCarolina, respectively, for purposes of KBW's analysis.

KBW also held discussions with members of senior management of American and MidCarolina regarding, the past and current business operations, regulatory relations, financial condition, and future prospects of the respective companies and such other matters that KBW deemed relevant to its inquiry. In addition, KBW compared certain financial and stock market information for MidCarolina and American with similar information for certain other companies the securities of which are publicly traded, reviewed the financial terms of certain recent business combinations in the banking industry, the potential pro forma impact of the merger, and performed such other studies and analyses as KBW considered appropriate.

In conducting its review and arriving at its opinion, KBW relied upon and assumed the accuracy and completeness of all of the financial and other information provided to it or publicly available, and did not independently verify the accuracy or completeness of any such information or assume any responsibility for such verification or accuracy. KBW relied upon the management of American and MidCarolina as to the reasonableness and achievability of the financial and operating projections (and assumptions and bases therefor) provided to KBW and KBW assumed that such projections reflect the best currently available estimates and judgments of such managements and that such projections will be realized in the amounts and in the time periods currently estimated by such managements. KBW is not an expert in the independent valuation of the adequacy of allowances for loan losses, and without

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independent verification, assumed that the aggregate allowances for loan and lease losses for American and MidCarolina are adequate to cover those losses. KBW did not make or obtain any evaluations or appraisals of any assets or liabilities of MidCarolina or American, nor did they examine or review any individual credit files.

The projections furnished to KBW and used by it in certain of its analyses were prepared by American's and MidCarolina's senior management teams. American and MidCarolina do not publicly disclose internal management projections of the type provided to KBW in connection with its review of the merger. As a result, such projections were not prepared with a view towards public disclosure. The projections were based on numerous variables and assumptions, which are inherently uncertain, including factors related to general economic and competitive conditions. Accordingly, actual results could vary significantly from those set forth in the projections. Any estimates or projections contained in the analyses performed by KBW are not necessarily indicative of actual values or future results, which may be significantly more or less favorable than suggested by these analyses. Additionally, estimates or projections of the value of businesses or securities do not purport to be appraisals or to reflect the prices at which such businesses or securities might actually be sold. Accordingly, these analyses and estimates are inherently subject to substantial uncertainty.

KBW was not asked to, and it did not, offer any opinion as to the terms of the merger agreement or the form of the merger, other than the exchange ratio, to the extent expressly specified in KBW's opinion. Additionally, KBW's opinion did not address the relative merits of the merger as compared to any alternative business strategies that might exist for American, nor does it address the effect of any other business combination in which American might engage.

For purposes of rendering its opinion, KBW assumed that, in all respects material to its analyses:

the merger will be completed substantially in accordance with the terms set forth in the merger agreement;

the representations and warranties of each party in the merger agreement and in all related documents and instruments referred to in the merger agreement are true and correct;

each party to the merger agreement and all related documents will perform all of the covenants and agreements required to be performed by such party under such documents;

all conditions to the completion of the merger will be satisfied without any waivers; and

in the course of obtaining the necessary regulatory, contractual, or other consents or approvals for the merger, no restrictions, including any divestiture requirements, termination or other payments or amendments or modifications, will be imposed that will have a material adverse effect on the future results of operations or financial condition of the combined entity or the contemplated benefits of the merger, including the cost savings, revenue enhancements and related expenses expected to result from the merger.

KBW further assumed that the merger will be accounted for as a purchase transaction under generally accepted accounting principles, and that the merger will qualify as a tax-free reorganization for United States federal income tax purposes. KBW's opinion is not an expression of an opinion as to the prices at which shares of American common stock will trade since the announcement of the proposed merger or the actual value of the American common shares when issued pursuant to the merger, or the prices at which the American common shares will trade following the completion of the merger.

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In performing its analyses, KBW considered such financial and other factors they deemed appropriate, including among other things, the historical and current financial position and results of operations of American and MidCarolina, the assets and liabilities of American and MidCarolina, and the nature and terms of certain other merger transactions involving banks and bank holding companies. KBW also took into account their assessment of general economic, market and financial conditions and other matters, which are beyond the control of KBW, American and MidCarolina and none of American, MidCarolina, KBW or any other person assumes responsibility if future results are materially different from those projected.

The exchange ratio was determined through negotiation between American and MidCarolina and the decision to enter into the merger was solely that of American's board of directors. In addition, the KBW opinion was among several factors taken into consideration by the American board in making its determination to approve the merger agreement and the merger. Consequently, the analyses described below should not be viewed as determinative of the decision of the American board of directors with respect to the fairness of the exchange ratio in the merger.

Summary of Analysis by KBW. The following is a summary of the material financial analyses presented by KBW to the American board of directors, in connection with rendering the fairness opinion described above. The following summary is not a complete description of the financial analyses performed by KBW in rendering its opinion or the presentation made by KBW to the American board of directors, nor does the order of analysis described represent relative importance or weight given to any particular analysis by KBW and is qualified in its entirety by reference to the written opinion of KBW attached as Appendix B to this proxy statement/prospectus. The preparation of a fairness opinion is a complex analytic process involving various determinations as to the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances. Therefore, a fairness opinion is not readily susceptible to partial analysis or summary description. Selecting portions of the analysis or of the summary set forth herein, without considering the analysis as a whole, could create an incomplete view of the processes underlying KBW's opinion. In arriving at its opinion, KBW considered the results of its entire analysis and KBW did not attribute any particular weight to any analysis or factor that it considered. Rather KBW made its determination as to fairness on the basis of its experience and professional judgment after considering the results of its entire analysis. The financial analyses summarized below include information presented in tabular format. Accordingly, KBW believes that its analyses and the summary of its analyses must be considered as a whole and that selecting portions of its analyses and factors or focusing on the information presented below in tabular format, without considering all analyses and factors or the full narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of the process underlying its analyses and opinion. The tables alone do not constitute a complete description of the financial analyses.

Summary of Proposal. Pursuant to the terms of the merger agreement, each outstanding share of Common Stock, no par value per share, of MidCarolina will be converted into and exchanged for 0.33 shares of common stock, par value \$1.00 per share, of American. The terms and conditions of the merger are more fully set forth in the merger agreement.

Selected Peer Group Analysis. Using publicly available information, KBW compared the financial performance and financial condition of MidCarolina to the following depository institutions that KBW considered comparable to MidCarolina.

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Companies included in MidCarolina's North Carolina peer group were:

Carolina Bank Holdings, Inc.	First Trust Bank
New Century Bancorp, Inc.	Oak Ridge Financial Services, Inc.
North State Bancorp	M&F Bancorp, Inc.
Park Sterling Bank	Randolph Bank & Trust Company
Waccamaw Bankshares, Inc.	Carolina Trust Bank
Bank of the Carolinas Corporation	Heritage Bancshares, Inc.
Uwharrie Capital Corp	

To perform this analysis, KBW used financial information as of or for the three or twelve month period ended September 30, 2010. Certain financial data prepared by KBW, and as referenced in the tables presented below may not correspond to the data presented in MidCarolina's historical financial statements, or to the data prepared by Stifel, Nicolaus & Company, Incorporated presented under the section "Opinion of MidCarolina's Financial Advisor," as a result of the different periods, assumptions and methods used by KBW to compute the financial data presented.

KBW's analysis showed the following concerning MidCarolina's financial performance:

	MidCarolina	North Carolina Peer Group Minimum	North Carolina Peer Group Maximum
Latest Twelve Months Core Return on Average Assets (1)	0.20%	(1.99%)	0.28%
Latest Twelve Months Core Return on Average Tangible Common Equity (1)	3.0%	(58.2%)	4.3%
Most Recent Quarter Net Interest Margin	3.28%	2.26%	4.19%
Latest Twelve Months Fee Income / Average Assets	0.5%	0.0%	1.7%
Latest Twelve Months Efficiency Ratio	58.1%	43.1%	84.5%

(1) Core income is defined as net income before extraordinary items, less the after-tax portion of investment securities gains or losses and nonrecurring items.

KBW's analysis showed the following concerning MidCarolina's financial condition:

	MidCarolina	North Carolina Peer Group Minimum	North Carolina Peer Group Maximum
Tangible Common Equity / Tangible Assets	6.72%	3.46%	29.06%
Tier 1 Ratio	11.43%	8.30%	43.09%
Total Capital Ratio	12.69%	9.30%	45.99%
Loan Loss Reserve / Loans	2.15%	1.41%	3.31%
Nonperforming Assets / Loans + OREO	5.29%	1.92%	15.65%
Latest Twelve Months Net Charge-Offs / Average Loans	1.07%	0.36%	4.34%

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KBW's analysis showed the following concerning MidCarolina's market performance:

	MidCarolina	North Carolina Peer Group Minimum	North Carolina Peer Group Maximum
Stock Price / Book Value per Share	0.38x	0.20x	0.83x
Stock Price / Tangible Book Value per Share	0.38x	0.20x	0.83x
Three Month Average Daily Trading Volume (\$000)	2.3	0.0	374.3

Selected Transaction Analysis. KBW reviewed publicly available information related to selected comparably sized acquisitions of nationwide banks and thrifts announced in the twelve months prior to December 15, 2010 with aggregate transaction values between \$25 million and \$125 million. The transactions included in the group were:

Acquiror	Acquired Company
Community Bank System, Inc.	Wilber Corporation
Modern Capital Partners L.P.	Madison National Bancorp Inc.
Chemung Financial Corporation	Fort Orange Financial Corp.
Berkshire Hills Bancorp, Inc.	Rome Bancorp, Inc.
Community Bancorp, LLC	Cadence Financial Corporation
Old National Bancorp	Monroe Bancorp
German American Bancorp, Inc.	American Community Bancorp, Inc.
F.N.B. Corporation	Comm Bancorp, Inc.
People's United Financial, Inc.	LSB Corporation
People's United Financial, Inc.	Smithtown Bancorp, Inc.
Grandpoint Bank	First Commerce Bancorp
WSFS Financial Corporation	Christiana Bank & Trust Company
Kearny Financial Corp. (MHC)	Central Jersey Bancorp
Donegal Group Inc.	Union National Financial Corporation
Rabobank Nederland	Napa Community Bank
National Australia Bank, Limited	F&M Bank-Iowa Central
Chemical Financial Corporation	O.A.K. Financial Corporation
Tower Bancorp, Inc.	First Chester County Corporation

Transaction multiples for the merger were derived from an aggregate offer price of \$39 million for MidCarolina. For each precedent transaction, KBW derived and compared, among other things, the implied ratio of price per common share paid for the acquired company to:

book value per share of the acquired company based on the latest publicly available financial statements of the company available prior to the announcement of the acquisition,

tangible book value per share of the acquired company based on the latest publicly available financial statements of the company available prior to the announcement of the acquisition,

tangible equity premium to core deposits (total deposits less time deposits greater than \$100,000) based on the latest publicly available financial statements of the company available prior to the announcement of the acquisition, and

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market premium based on the latest closing price 1-day prior to the announcement of the acquisition. The results of the analysis are set forth in the following table:

Transaction Price to:	American / MidCarolina Merger	Comparable Transactions Minimum	Comparable Transactions Maximum
Book Value	104%	39%	192%
Tangible Book Value	104%	39%	192%
Core Deposit Premium	0.5%	1.3%	14.2%
Market Premium (1)	175.5%	3.7%	169.5%

(1) Based on MidCarolina closing price of \$2.85 on December 14, 2010.

No company or transaction used as a comparison in the above analysis is identical to American, MidCarolina or the proposed merger. Accordingly, an analysis of these results is not mathematical. Rather, it involves complex considerations and judgments concerning differences in financial and operating characteristics of the companies involved.

Discounted Cash Flow Analysis. KBW performed a discounted cash flow analysis to estimate a range for the implied equity value of MidCarolina. In this analysis, KBW assumed discount rates ranging from 12.0% to 16.0% to derive (i) the present value of the estimated free cash flows that MidCarolina could generate over a five year period, including certain projected cost savings as a result of the merger, and (ii) the present value of MidCarolina's terminal value at the end of year five. Terminal values for MidCarolina were calculated based on a range of 10.0x to 14.0x estimated year six earnings. In performing this analysis, KBW used MidCarolina's and American's management's estimates. Certain data was adjusted to account for certain restructuring charges anticipated by management to result from the merger. KBW assumed that MidCarolina would maintain a tangible common equity / tangible asset ratio of 7.00% and would retain sufficient earnings to maintain that level. Any earnings in excess of what would need to be retained represented dividendable cash flows for MidCarolina.

Based on these assumptions, KBW derived a range of implied value of MidCarolina of \$5.86 per share to \$10.47 per share.

The discounted cash flow analysis is a widely used valuation methodology, but the results of such methodology are highly dependent on the assumptions that must be made, including asset and earnings growth rates, terminal values, dividend payout rates, and discount rates. The analysis did not purport to be indicative of the actual values or expected values of MidCarolina.

Forecasted Pro Forma Financial Analysis. KBW analyzed the estimated financial impact of the merger on American's 2011 estimated earnings per share. For both American and MidCarolina, KBW used management estimates of earnings per share for 2011. In addition, KBW assumed that the merger will result in cost savings equal to American's management's estimates. Based on its analysis, KBW determined that the merger would be accretive to American's estimated GAAP earnings per share in 2011.

Furthermore, the analysis indicated that American's Leverage Ratio, Tier 1 Risk-Based Capital Ratio and Total Risk Based Capital Ratio would all remain well capitalized by regulatory standards.

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This analysis was based on internal projections provided by American's and MidCarolina's senior management teams. For all of the above analysis, the actual results achieved by American following the merger may vary from the projected results, and the variations may be material.

Other Analyses. KBW compared the relative financial performance of MidCarolina to a variety of relevant industry peer groups and indices. KBW also reviewed earnings estimates, balance sheet composition and other financial data for MidCarolina.

The American board of directors retained KBW as an independent contractor to act as financial adviser to American regarding the merger. As part of its investment banking business, KBW is continually engaged in the valuation of banking businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, competitive biddings, secondary distributions of listed and unlisted securities, private placements and valuations for various other purposes. As specialists in the securities of banking companies, KBW has experience in, and knowledge of, the valuation of banking enterprises. In the ordinary course of its business as a broker-dealer, KBW may, from time to time, purchase securities from, and sell securities to, American and MidCarolina. As a market maker in securities KBW may from time to time have a long or short position in, and buy or sell, debt or equity securities of American for KBW's own account and for the accounts of its customers.

American and KBW entered into an agreement relating to the services to be provided by KBW in connection with the merger. American agreed to pay KBW a cash fee of \$100,000 upon the earlier of the execution of (i) an agreement in principle, or (ii) a definitive agreement with respect to a merger transaction. In addition, the Company agreed to pay to KBW at the time of closing a cash fee equal to \$400,000. Pursuant to the KBW engagement agreement, American also agreed to reimburse KBW for all reasonable out-of-pocket expenses and disbursements, including fees and reasonable expenses of counsel, incurred in connection with the engagement and to indemnify KBW and related parties against certain liabilities, including liabilities under federal securities laws, relating to, or arising out of, its engagement. During the three-year period ended December 31, 2010, KBW did not receive any other fees or compensation from either American or MidCarolina.

Opinion of MidCarolina's Financial Advisor

Stifel, Nicolaus & Company, Incorporated acted as MidCarolina's financial advisor in connection with the merger. Stifel is a nationally recognized investment banking and securities firm with membership on all the principal United States' securities exchanges and has substantial expertise in transactions similar to the merger. As part of its investment banking activities, Stifel is regularly engaged in the independent valuation of businesses and securities in connection with mergers, acquisitions, underwritings, sales and distributions of listed and unlisted securities, private placements and valuations for estate, corporate and other purposes.

On December 15, 2010, Stifel rendered its oral opinion, which was later confirmed in writing, to the board of directors of MidCarolina that, as of the date of Stifel's written opinion, the per share consideration to be received by the holders of shares of MidCarolina common stock from American in connection with the merger pursuant to the merger agreement was fair to such holders, from a financial point of view.

The full text of Stifel's written opinion dated December 15, 2010, which sets forth the assumptions made, matters considered and limitations of the review undertaken, is attached as Appendix C to this proxy statement/prospectus and is incorporated herein by reference. Holders of MidCarolina common stock are urged to, and should, read this opinion carefully and in its entirety in connection with this proxy statement/prospectus. The summary of the opinion of Stifel set forth

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in this proxy statement/prospectus is qualified in its entirety by reference to the full text of such opinion. The opinion of Stifel will not reflect any developments that may occur or may have occurred after the date of its opinion and prior to the completion of the merger. Stifel does not have or assume any obligation to update, revise or reaffirm its fairness opinion, except in accordance with the terms and conditions of Stifel's engagement letter agreement with MidCarolina. MidCarolina does not currently expect that it will request an updated opinion from Stifel.

No limitations were imposed by MidCarolina on the scope of Stifel's investigation or the procedures to be followed by Stifel in rendering its opinion. In arriving at its opinion, Stifel did not ascribe a specific range of values to MidCarolina. Stifel's opinion is based on the financial and comparative analyses described below. Stifel's opinion is solely for the information of, and directed to, MidCarolina's board of directors for its information and assistance in connection with the board's consideration of the financial terms of the merger and is not to be relied upon by any shareholder of MidCarolina or American or any other person or entity. Stifel's opinion was not intended to be and does not constitute a recommendation to MidCarolina's board of directors as to how the board should vote on the merger or to any shareholder of MidCarolina or American as to how any such shareholder should vote at any shareholders' meeting at which the merger is considered, or whether or not any shareholder of MidCarolina should enter into a voting, shareholders' or affiliates' agreement with respect to the merger, or exercise any dissenter's or appraisal rights that may be available to such shareholder. In addition, Stifel's opinion does not compare the relative merits of the merger with any other alternative transaction or business strategy which may have been available to MidCarolina and does not address the underlying business decision of MidCarolina's board of directors or MidCarolina to proceed with or effect the merger. Stifel was not requested to, and did not, explore alternatives to the merger or solicit the interest of any other parties in pursuing transactions with MidCarolina, with the exception of one party whom MidCarolina's board of directors authorized Stifel to contact but with whom, at the board's subsequent request, Stifel did not engage in any negotiations regarding a transaction.

In connection with its opinion, Stifel, among other things:

reviewed and analyzed a draft copy of the merger agreement dated December 13, 2010;

reviewed and analyzed the audited consolidated financial statements of MidCarolina for the five years ended December 31, 2009 and the unaudited consolidated financial statements of MidCarolina for the quarter ended September 30, 2010;

reviewed and analyzed the audited consolidated financial statements of American for the three years ended December 31, 2009 and the unaudited consolidated financial statements of American for the quarter ended September 30, 2010;

reviewed and analyzed certain other publicly available information concerning MidCarolina and American;

held discussions with American's senior management, including, without limitation, discussions regarding estimates of certain cost savings, operating synergies, merger charges and the pro forma financial impact of the merger on American;

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reviewed certain non-publicly available information concerning MidCarolina, including, without limitation, internal financial analyses and forecasts prepared by its management and held discussions with MidCarolina's senior management regarding recent developments and regulatory matters;

participated in certain discussions and negotiations between representatives of MidCarolina and American;

reviewed the reported prices and trading activity of the equity securities of MidCarolina and American;

analyzed the relative contribution of MidCarolina and American with regard to certain assets, liabilities, earnings and capital;

analyzed certain publicly available information concerning the terms of selected merger and acquisition transactions that Stifel considered relevant to its analysis;

reviewed and analyzed certain publicly available financial and stock market data relating to selected public companies that Stifel deemed relevant to its analysis;

conducted such other financial studies, analyses and investigations and considered such other information as Stifel deemed necessary or appropriate for purposes of Stifel's opinion; and

took into account Stifel's assessment of general economic, market and financial conditions and Stifel's experience in other transactions, as well as Stifel's experience in securities valuations and Stifel's knowledge of the banking industry generally.

In rendering its opinion, Stifel relied upon and assumed, without independent verification, the accuracy and completeness of all of the financial and other information that was provided to Stifel, by or on behalf of MidCarolina or American, or that was otherwise reviewed by Stifel and has not assumed any responsibility for independently verifying any of such information. With respect to the financial forecasts supplied to Stifel by MidCarolina and American (including, without limitation, potential cost savings and operating synergies realized by a potential acquirer), Stifel has assumed that the forecasts were reasonably prepared on the basis reflecting the best currently available estimates and judgments of the management of MidCarolina and American, as applicable, as to the future operating and financial performance of MidCarolina and American, as applicable, and that they provided a reasonable basis upon which Stifel could form its opinion. Such forecasts and projections were not prepared with the expectation of public disclosure. All such projected financial information is based on numerous variables and assumptions that are inherently uncertain, including, without limitation, factors related to general economic, market and competitive conditions. Accordingly, actual results could vary significantly from those set forth in such projected financial information. Stifel has relied on this projected information without independent verification or analyses and does not in any respect assume any responsibility for the accuracy or completeness thereof. Stifel has further relied upon the assurances by MidCarolina or American that they are unaware of any facts that would make their respective information incomplete or misleading.

Stifel also assumed that there were no material changes in the assets, liabilities, financial condition, results of operations, business or prospects of either MidCarolina or American since the date of the last financial statements of each company made available to Stifel. Stifel has also assumed, without independent verification and with consent of management of MidCarolina, that the aggregate allowances for loan losses set forth in the respective financial statements of MidCarolina and American are in the

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aggregate adequate to cover all such losses. Stifel did not make or obtain any independent evaluation, appraisal or physical inspection of either MidCarolina's or American's assets or liabilities, the collateral securing any of such assets or liabilities, or the collectibility of any such assets nor did Stifel review loan or credit files of MidCarolina or American. Estimates of values of companies and assets do not purport to be appraisals or necessarily reflect the prices at which companies or assets may actually be sold. Because such estimates are inherently subject to uncertainty, Stifel assumes no responsibility for their accuracy. Stifel relied on advice of MidCarolina's counsel as to certain legal matters with respect to MidCarolina, the merger agreement and the merger and other transactions and other matters contained or contemplated therein. Stifel has assumed, with the consent of MidCarolina management, that there are no factors that would delay or subject to any adverse conditions any necessary regulatory or governmental approval and that all conditions to the merger will be satisfied and not waived. In addition, Stifel assumed that the definitive merger agreement would not differ materially from the draft Stifel reviewed. Stifel has also assumed that the merger will be consummated substantially on the terms and conditions described in the merger agreement, without any waiver of material terms or conditions by MidCarolina or any other party, and that obtaining any necessary regulatory approvals or satisfying any other conditions for consummation of the merger will not have an adverse effect on MidCarolina or American. Stifel assumed that the merger would be consummated in a manner that complies in all respects with the applicable provisions of the Securities Act of 1933, the Securities Exchange Act of 1934 and all other applicable federal and state statutes, rules and regulations.

Stifel is not a legal, tax, regulatory or bankruptcy advisor. Stifel has not considered any legislative or regulatory changes recently adopted or currently being considered by the United States Congress, the various federal banking agencies, the SEC or any other regulatory bodies, or any changes in accounting methods or generally accepted accounting principles that may be adopted by the SEC or the Financial Accounting Standards Board, or any changes in regulatory accounting principles that may be adopted by any or all of the federal banking agencies. Stifel's opinion is not a solvency opinion and does not in any way address the solvency or financial condition of MidCarolina.

Stifel's opinion was necessarily based on economic, market, monetary, financial and other conditions as they existed on, and on the information made available to Stifel as of, the date of its opinion. It is understood that subsequent developments may affect the conclusions reached in Stifel's opinion and that Stifel does not have or assume any obligation to update, revise or reaffirm its opinion, except in accordance with the terms and conditions of Stifel's engagement letter agreement with MidCarolina.

Stifel's opinion is limited to whether the per share merger consideration is fair to the holders of shares of MidCarolina common stock, from a financial point of view. Stifel's opinion did not consider, address or include: (i) any other strategic alternatives currently (or which have been or may be) contemplated by MidCarolina or its board of directors; (ii) the legal, tax or accounting consequences of the merger on MidCarolina or the holders of MidCarolina common stock including, without limitation, whether or not the merger will qualify as a tax-free reorganization pursuant to Section 368 of the Internal Revenue Code; (iii) the fairness of the amount or nature of any compensation to any of MidCarolina's officers, directors or employees, or class of such persons, relative to the compensation to the holders of MidCarolina's securities; (iv) the treatment of, or effect of the merger on, MFC Series A Preferred Stock, ANB Series A Preferred Stock, ANB Common Stock, MFC Stock Options, ANB Stock Options (each as defined in the merger agreement), or any other class of securities of MidCarolina or American; (v) the Subsidiary Bank Merger (as defined in the merger agreement) or any other transaction contemplated by the merger agreement other than the merger, or any separate agreement contemplated to be entered into in connection with the Subsidiary Bank Merger or any other transaction; or (vi) any advice or opinions provided by KBW or any other advisor to MidCarolina or American.

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Furthermore, Stifel's opinion did not cover the prices, trading range or volume at which American's or MidCarolina's securities would trade following public announcement or consummation of the merger.

In connection with rendering its opinion, Stifel performed a variety of financial analyses that are summarized below. Such summary does not purport to be a complete description of such analyses. Stifel believes that its analyses and the summary set forth herein must be considered as a whole and that selecting portions of such analyses and the factors considered therein, without considering all factors and analyses, could create an incomplete view of the analyses and processes underlying its opinion. The preparation of a fairness opinion is a complex process involving subjective judgments and is not necessarily susceptible to partial analysis or summary description. In arriving at its opinion, Stifel considered the results of all of its analyses as a whole and did not attribute any particular weight to any analyses or factors considered by it. The range of valuations resulting from any particular analysis described below should not be taken to be Stifel's view of the actual value of MidCarolina. In its analyses, Stifel made numerous assumptions with respect to industry performance, business and economic conditions, and other matters, many of which are beyond the control of MidCarolina or American. Any estimates contained in Stifel's analyses are not necessarily indicative of actual future values or results, which may be significantly more or less favorable than suggested by such estimates. No company or transaction utilized in Stifel's analyses was identical to MidCarolina or American or the merger. Accordingly, an analysis of the results described below is not mathematical; rather, it involves complex considerations and judgments concerning differences in financial and operating characteristics of the companies and other facts that could affect the public trading value of the companies to which they are being compared. None of the analyses performed by Stifel was assigned a greater significance by Stifel than any other, nor does the order of analyses described represent relative importance or weight given to those analyses by Stifel. The analyses described below do not purport to be indicative of actual future results, or to reflect the prices at which MidCarolina's or American's common stock may trade in the public markets, which may vary depending upon various factors, including changes in interest rates, dividend rates, market conditions, economic conditions and other factors that influence the price of securities.

In accordance with customary investment banking practice, Stifel employed generally accepted valuation methods in reaching its opinion. The following is a summary of the material financial analyses that Stifel used in providing its opinion. Some of the summaries of financial analyses are presented in tabular format. In order to understand the financial analyses used by Stifel more fully, you should read the tables together with the text of each summary. The tables alone do not constitute a complete description of Stifel's financial analyses, including the methodologies and assumptions underlying the analyses, and if viewed in isolation could create a misleading or incomplete view of the financial analyses performed by Stifel. The summary data set forth below do not represent and should not be viewed by anyone as constituting conclusions reached by Stifel with respect to any of the analyses performed by it in connection with its opinion. Rather, Stifel made its determination as to the fairness to the shareholders of MidCarolina of the per share merger consideration, from a financial point of view, on the basis of its experience and professional judgment after considering the results of all of the analyses performed. Accordingly, the data included in the summary tables and the corresponding imputed ranges of value for MidCarolina should be considered as a whole and in the context of the full narrative description of all of the financial analyses set forth in the following pages, including the assumptions underlying these analyses.

In connection with rendering its opinion and based upon the terms of the draft merger agreement reviewed by it, Stifel assumed the aggregate consideration to be \$38.8 million and the per share consideration to be \$7.85 based upon the closing price of American's common stock on December 14, 2010. Stifel noted this represented a premium of 175% over MidCarolina's closing price of \$2.85 on December 14, 2010.

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Comparison of Selected Companies. Stifel reviewed and compared certain multiples and ratios for the merger with a peer group of 20 selected banks of similar size, geography and capital structure. In order to calculate a range of imputed values for a share of MidCarolina's common stock, Stifel compared the resulting theoretical offer price to each of the following categories: book value, tangible book value, latest twelve months earnings per share for the period ended September 30, 2010 and consensus earnings per share estimates for 2010 and 2011. Market price information was as of December 14, 2010. Stifel then applied the resulting range of multiples and ratios for the peer group specified above to the appropriate financial results of MidCarolina. This analysis resulted in a range of imputed values for MidCarolina of between \$1.90 and \$6.61 based on the median multiples for the peer group.

Additionally, Stifel calculated the following ratios with respect to the merger and the 20 selected comparable companies:

Ratios	American	Trading Multiples for Selected Peer Group		
	MidCarolina	25th Percentile	Median	75th Percentile
Price Per Share/Book Value Per Share	104%	55%	86%	92%
Price Per Share/Tangible Book Value Per Share	104%	56%	88%	96%
Price Per Share/Last 12 Months Earnings Per Share	53.0x	10.5x	12.6x	15.8x
Price Per Share/Estimated 2010 Earnings Per Share (1)	37.5x	11.7x	12.2x	18.4x
Price Per Share/Estimated 2011 Earnings Per Share (1)	15.2x	9.4x	10.9x	15.1x

(1) Based on MidCarolina management estimates and consensus equity research estimates for the selected peer group. Stifel also reviewed and compared certain multiples and ratios for American with a peer group of 16 selected banks of similar size, profitability, asset quality and capital structure. Stifel compared the American multiples and ratios to the peer group multiples and ratios for each of the following categories: book value, tangible book value, latest twelve months earnings per share for the period ended September 30, 2010 and consensus earnings per share estimates for 2010 and 2011. Market price information was as of December 14, 2010. Stifel then applied the resulting range of multiples and ratios for the peer group specified above to the appropriate financial results of American. This analysis resulted in a range of imputed values for American of between \$20.58 and \$25.42 based on the median multiples for the peer group.

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Additionally, Stifel calculated the following ratios with respect to American and the 16 selected comparable companies:

Ratios	American	Trading Multiples for Selected Peer Group		
		25th Percentile	Median	75th Percentile
Price Per Share/ Book Value Per Share	131%	131%	140%	150%
Price Per Share/Tangible Book Value Per Share	168%	143%	150%	175%
Price Per Share/Last 12 Months Earnings Per Share	17.0x	13.0x	15.4x	17.8x
Price Per Share/Estimated 2010 Earnings Per Share (1)	16.9x	12.5x	15.0x	16.5x
Price Per Share/Estimated 2011 Earnings Per Share (1)	16.1x	12.0x	13.9x	16.0x

- (1) American earnings per share are based on available equity research estimates and consensus equity research estimates for the selected peer group.

Analysis of Selected Bank Merger Transactions. Stifel analyzed certain information relating to recent transactions in the banking industry, consisting of 14 U.S. bank acquisitions announced between January 1, 2009 and December 14, 2010, with announced transaction values between \$20 million and \$75 million, seller non-performing assets to total assets greater than 1.0% at the time of announcement, and excluding merger of equals and terminated transactions. This analysis resulted in a range of imputed values for MidCarolina common stock of between \$5.92 and \$8.84 based upon the median multiples for the selected transactions. Stifel calculated the following ratios with respect to the merger and the selected transactions:

Ratios	American	Selected Transaction Multiples		
	MidCarolina	25th Percentile	Median	75th Percentile
Price Per Share/ Book Value Per Share	104%	81%	117%	131%
Price Per Share/Tangible Book Value Per Share	104%	84%	117%	131%
Price Per Share/Last 12 Months Earnings Per Share	53.0x	35.5x	45.0x	47.1x
Premium over Tangible Book Value/Deposits	0.3%	(1.2)%	1.3%	2.5%
Premium over Tangible Book Value/Core Deposits (1)	0.5%	(1.4)%	1.8%	3.7%
Price Per Share/Trading Price 1 Month Prior to Announcement (2)	149%	36%	88%	119%

- (1) Core deposits defined as total deposits less jumbo CDs (CDs with balances greater than \$100,000).
 (2) Premium based on the stock price as of the trading day 1-month prior to announcement of the transaction.

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Discounted Cash Flow Analysis. Using a discounted cash flow analysis, Stifel estimated the net present value of the future streams of after-tax cash flow that MidCarolina could produce for dividends to prospective buyers of MidCarolina's common stock, referred to below as dividendable net income. In this analysis, Stifel assumed that MidCarolina would perform in accordance with management's estimates and calculated assumed after-tax distributions to a potential acquiror such that MidCarolina's tangible common equity ratio would remain approximately 8.0% of assets. Stifel calculated the sum of the assumed dividendable net income streams per share for the years ended 2011-2015 plus calculated a terminal multiple (price/forward earnings per share) in five years at a range of 11.0x to 15.0x, discounted to present values at assumed discount rates ranging from 16.0% to 20.0%. This discounted cash flow analysis indicated an implied equity value reference range of \$5.21 to \$8.36 per share of MidCarolina's common stock. This analysis did not purport to be indicative of actual future results and did not purport to reflect the prices at which shares of MidCarolina's common stock may trade in the public markets. A discounted cash flow analysis was included because it is a widely used valuation methodology, but the results of such methodology are highly dependent upon the numerous assumptions that must be made, including earnings growth rates, asset growth rates, dividend payout rates, terminal multiples and discount rates.

In addition, Stifel used a discounted cash flow analysis to estimate the net present value of the future streams of after-tax cash flow that American could produce for dividends to prospective buyers of American's common stock, referred to below as dividendable net income. In this analysis, Stifel assumed that American would perform in accordance with equity research estimates for the years ended 2010-2011 and grew assets and earnings at an assumed rate for the years ended 2012-2016 and then calculated assumed after-tax distributions to a prospective buyer of American's common stock such that American's tangible common equity ratio would remain approximately 8.0% of assets. Stifel calculated the sum of the assumed dividendable net income streams per share for the years ended 2011-2015 plus calculated a terminal multiple (price/forward earnings per share) in five years at a range of 12.0x to 16.0x, discounted to present values at assumed discount rates ranging from 11.0% to 15.0%. This discounted cash flow analysis indicated an implied equity value reference range of \$19.22 to \$26.31 per share of American's common stock. This analysis did not purport to be indicative of actual future results and did not purport to reflect the prices at which shares of American's common stock may trade in the public markets. A discounted cash flow analysis was included because it is a widely used valuation methodology, but the results of such methodology are highly dependent upon the numerous assumptions that must be made, including earnings growth rates, asset growth rates, dividend payout rates, terminal multiples and discount rates.

Relative Contribution Analysis. Stifel analyzed the relative contribution of MidCarolina and American with regard to certain assets, liabilities, earnings, and capital to the pro forma company, which do not reflect any purchase accounting adjustments. Stifel compared the relative contribution of balance sheet and non-performing assets for the period ending September 30, 2010, estimated earnings for the year ended 2011, and market capitalization as of December 14, 2010 with the estimated pro forma ownership for MidCarolina based on an exchange ratio of 0.33x given a 100% stock transaction. The results of Stifel's analysis are set forth in the following table:

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Category	American	MidCarolina
Total Assets	59.9%	40.1%
Gross Loans	55.9%	44.1%
Core Deposits (1)	59.4%	40.6%
Common Equity	74.9%	25.1%
Tangible Common Equity (TCE)	70.1%	29.9%
TCE+ALLL-NPAs (2)	78.7%	21.3%
Non-performing assets (NPAs) (3)	26.2%	73.8%
2011 Net Income (4)	78.0%	22.0%
Market Capitalization (5)	91.2%	8.8%
Shareholder Ownership (6)	78.9%	21.1%

- (1) Core deposits defined as total deposits less jumbo CDs (CDs with balances greater than \$100,000).
- (2) TCE+ALLL-NPAs = tangible common equity + allowance for loan losses - non-performing assets (including TDRs).
- (3) Non-performing assets = non-accrual loans + real estate owned + troubled debt restructurings (TDRs).
- (4) MidCarolina 2011 net income based on management estimates; American 2011 net income based on available equity research estimates.
- (5) Stock price and shares outstanding as of December 14, 2010.
- (6) Shareholder ownership reflects the merger consideration.

Pro Forma Effect of the Merger. Stifel reviewed certain estimated future operating and financial information developed by MidCarolina and certain estimated future operating and financial information for the pro forma combined entity resulting from the merger for the 12-month period ended December 31, 2011. Based on this analysis, Stifel compared certain of MidCarolina's estimated future per share results with such estimated figures for the pro forma combined entity. Based on this analysis on a pro forma basis, the merger is forecast to be accretive to MidCarolina's earnings per share for the 12-month period ended December 31, 2011. Stifel also reviewed certain financial information in order to determine the estimated effect of the merger on MidCarolina's book value per share and tangible book value per share for the period ended December 31, 2010. Based on this analysis on a pro forma basis, the merger is forecasted to be dilutive to MidCarolina's book value per share and tangible book value per share. Stifel also noted that MidCarolina shareholders have not received a cash dividend to date and would be entitled to receive future cash dividends paid by American.

As described above, Stifel's opinion was among the many factors taken into consideration by MidCarolina's board of directors in making its determination to approve the merger.

Stifel has acted as financial advisor to MidCarolina in connection with the merger and will receive a fee equal to 1.25% of the total consideration received in connection with the merger for its services, which is contingent upon the completion of the merger except for a previously paid \$25,000 retainer fee. Stifel has also acted as financial advisor to MidCarolina's board of directors and received a fee of \$75,000 upon the delivery of its opinion that was not contingent upon consummation of the merger. In addition, MidCarolina has agreed to indemnify Stifel for certain liabilities arising out of Stifel's engagement. Stifel provided financial advisory services to MidCarolina during 2009 and 2010 in connection with a transaction that was never consummated, but Stifel was never formally engaged by MidCarolina pursuant to a written agreement letter or other agreement, nor did Stifel receive any fee or

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other compensation in connection with such services. Stifel may seek to provide investment banking services to American or its affiliates in the future, for which Stifel would seek customary compensation. In the ordinary course of business, Stifel may trade MidCarolina's or American's securities for its own account and for the accounts of its customers and, accordingly, may at any time hold a long or short position in such securities. Stifel's internal Fairness Opinion Committee approved the issuance of its opinion. During the three-year period ended December 31, 2010, Stifel did not receive any other fees or compensation from either MidCarolina or American.

Effective Date

The effective date of the merger will be the effective date and time set forth in the articles of merger that MidCarolina and the merger subsidiary will file with the Virginia State Corporation Commission and the Secretary of State of North Carolina. We will close the merger on a date on which both American and MidCarolina agree after the satisfaction or waiver, where waiver is legally permissible, of the last remaining condition to the merger, unless extended by the parties' mutual agreement. See "Conditions to Completion of the Merger" at page 75.

We anticipate that we will complete the merger in early July 2011, subject to the receipt of required shareholder and regulatory approvals. There can be no assurances as to if or when these approvals will be obtained or that the merger will be completed. If we do not complete the merger by December 31, 2011, either party may terminate the merger agreement, unless the failure to complete the merger by this date is due to the failure of the party seeking to terminate the merger agreement to perform an obligation under the merger agreement. See "Conditions to Completion of the Merger" at page 75.

Merger Consideration

General. In the proposed merger, holders of MidCarolina common stock will receive 0.33 shares of common stock of American for each of their shares of MidCarolina common stock outstanding on the effective date of the merger. This exchange ratio is fixed and will not be adjusted to reflect stock price changes prior to the closing. In addition, each share of MidCarolina Series A preferred stock will be converted into and exchanged for one share of American Series A preferred stock. The American Series A preferred stock is being established in connection with the merger to have substantially identical terms, preferences and rights as the MidCarolina Series A preferred stock. Shares of MidCarolina common stock or MidCarolina Series A preferred stock held by MidCarolina shareholders who have elected dissenters' rights will not be converted into the right to receive shares of American common stock or American Series A preferred stock upon consummation of the merger.

American's shareholders will continue to own their existing shares of American common stock. Each share of American common stock will continue to represent one share of common stock of American following the merger.

Fractional Shares. American will not issue any fractional shares of common stock. Instead, a MidCarolina shareholder who would otherwise have received a fraction of a share will receive an amount of cash equal to the fraction of a share of American common stock to which such holder would otherwise be entitled multiplied by the closing sale price of American common stock on the NASDAQ Global Select Market on the trading day immediately preceding the effective date of the merger.

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Treatment of MidCarolina Stock Options

Upon completion of the merger, each outstanding option to acquire MidCarolina common stock, whether or not exercisable, will be assumed by American and will be converted into an option to acquire that number of whole shares of American common stock, with the following adjustments:

the number of shares of American common stock subject to the new option will be equal to the product of the number of shares of MidCarolina common stock subject to the original option and the exchange ratio, rounded to the nearest whole share; and

the exercise price per share of the new option will be equal to the exercise price under the original option divided by the exchange ratio, rounded to the nearest whole cent.

Each converted MidCarolina stock option will have the same terms and conditions as were in effect immediately prior to the completion of the merger, subject to any accelerated vesting as a result of the merger to the extent provided by the terms of the applicable MidCarolina equity compensation plan and agreement thereunder.

As soon as practicable following the completion of the merger, American will file a registration statement to register the issuance of the shares of its common stock upon the exercise of the assumed MidCarolina stock options.

Ownership of American After the Merger

Upon completion of the merger, and assuming that no holder of MidCarolina common stock exercises his or her dissenters' rights, current American shareholders will own approximately 79% of American's outstanding common stock, on a fully diluted basis, and former holders of MidCarolina common stock will own approximately 21% of American's outstanding common stock, on a fully diluted basis.

Exchange of Stock Certificates in the Merger

American Common Stock. Each share of American common stock issued and outstanding immediately before the effective date of the merger will remain issued and outstanding immediately after completion of the merger as a share of common stock of American. As a result, there is no need for American shareholders to submit their stock certificates to American, the exchange agent or to any other person in connection with the merger or otherwise take any action as a result of the completion of the merger.

MidCarolina Common Stock. At the effective date of the merger, American will cause to be deposited with the exchange agent certificates representing shares of American common stock and American Series A preferred stock for the benefit of the holders of certificates representing shares of MidCarolina common stock and MidCarolina Series A preferred stock, and cash instead of any fractional shares that would otherwise be issued to MidCarolina shareholders in the merger.

Promptly after the completion of the merger, the exchange agent will send transmittal materials to each holder of a certificate for MidCarolina common stock and MidCarolina Series A preferred stock for use in exchanging MidCarolina stock certificates for certificates representing shares of American common stock and American Series A preferred stock, and cash instead of fractional shares, if applicable. The exchange agent will deliver certificates representing American common stock and American Series A preferred stock, and a check instead of any fractional shares once it receives the properly completed

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transmittal materials, together with certificates representing a holder's shares of MidCarolina common stock or MidCarolina Series A preferred stock.

MidCarolina stock certificates should NOT be returned with the enclosed proxy card. They should NOT be forwarded to the exchange agent until you receive a transmittal letter following completion of the merger.

MidCarolina stock certificates may be exchanged for new stock certificates with the exchange agent for up to six months after the completion of the merger. At the end of that period, any American stock certificates and cash will be returned to American. Any holders of MidCarolina stock certificates who have not exchanged their certificates will be entitled to look only to American, and only as general creditors of American, for new stock certificates and any cash to be received instead of fractional shares of American common stock.

Until you exchange your MidCarolina stock certificates for new stock certificates, you will not receive any dividends or other distributions in respect of shares of American common stock or American Series A preferred stock. Once you exchange your MidCarolina stock certificates for new stock certificates, you will receive, without interest, any dividends or distributions with a record date after the effective date of the merger and payable with respect to your shares, as well as any dividends with respect to MidCarolina stock declared before the effective date of the merger but unpaid.

If you own MidCarolina common stock or MidCarolina Series A preferred stock in book entry form or through a broker, bank or other holder of record, you will not need to obtain your MidCarolina stock certificates to surrender to the exchange agent.

If your MidCarolina stock certificate has been lost, stolen or destroyed, you may receive a new stock certificate upon the making of an affidavit of that fact. American may require you to post a bond in a reasonable amount as an indemnity against any claim that may be made against American with respect to the lost, stolen or destroyed MidCarolina stock certificate.

Neither American nor MidCarolina, nor any other person, will be liable to any former holder of MidCarolina stock for any amount properly delivered to a public official pursuant to applicable abandoned property, escheat or similar laws.

Dissenters and Appraisal Rights

American. The shareholders of American are not entitled to dissenters' or appraisal rights in connection with the merger.

MidCarolina. Under Article 13 of the North Carolina BCA (Article 13), current holders of MidCarolina common stock and MidCarolina Series A preferred stock who object to the merger may dissent and become entitled to be paid the fair value of their shares in cash if the merger is completed. All material information regarding the requirements a MidCarolina shareholder must comply with in order to exercise and perfect dissenters' rights is discussed below. If you intend to exercise your right to dissent (your Dissenters' Rights), you should carefully review the following information and comply with all requirements of Article 13. A copy of Article 13 is attached as Appendix D to this proxy statement/prospectus and is incorporated into this discussion by reference. You also should consult with legal counsel as to your rights under Article 13. The only rights of dissent available to MidCarolina shareholders are those provided by applicable law. Nothing in this proxy statement/prospectus shall be deemed to create or grant any such rights. No further notice of the events giving rise to dissenters' rights will be furnished by MidCarolina to you.

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If you intend to exercise Dissenters' Rights, you should be aware that cash paid to you likely will result in your receipt of taxable income. See Material Federal Income Tax Consequences on page 82.

Article 13 provides in detail the procedure which you must follow if you wish to exercise Dissenters' Rights. In summary, to exercise Dissenters' Rights:

if you are a holder of MidCarolina common stock or MidCarolina Series A preferred stock, you must give to MidCarolina, and MidCarolina must actually receive, before the vote on the merger agreement is taken at the MidCarolina special meeting, written notice of your intent to demand payment for your shares if the merger is completed (a Notice of Intent); and

if you are a holder of MidCarolina common stock, you must not vote your shares in favor of the merger agreement at the MidCarolina special meeting.

In other words, if you are a holder of MidCarolina common stock, you do not have to vote against the merger agreement, or even vote at all, to exercise Dissenters' Rights, *but you must not vote in favor of the merger agreement*. Both holders of MidCarolina common stock and holders of MidCarolina Series A preferred stock must give the required written Notice of Intent to exercise Dissenters' Rights. The Notice of Intent must contain the name of the holder of record of the shares of MidCarolina common stock or MidCarolina Series A preferred stock as to which dissenters' rights are to be exercised, and it must include a statement that the shareholder intends to dissent and demand payment for his or her shares if the merger is completed.

A record holder of MidCarolina common stock or MidCarolina Series A preferred stock may exercise Dissenters' Rights only if he dissents with respect to all shares he holds of record. However, a record holder such as a broker or other nominee that holds shares of MidCarolina common stock or MidCarolina Series A preferred stock as a nominee for other persons who are the beneficial owners of that stock, may exercise Dissenters' Rights as to fewer than all shares registered in that record holder's name, provided that (i) the record holder dissents with respect to all MidCarolina common stock or MidCarolina Series A preferred stock beneficially owned by each person on whose behalf the record holder is exercising Dissenters' Rights, and (ii) the record holder's Notice of Intent sets forth the name and address of each person on whose behalf the record holder is exercising Dissenters' Rights. A beneficial owner whose shares are held of record by a broker or other nominee may exercise Dissenters' Rights as to shares held on his behalf by that record holder only if (i) he exercises Dissenters' Rights as to all shares of which he is the beneficial owner, and (ii) not later than the time he delivers his Notice of Intent to MidCarolina, he also submits to MidCarolina the record holder's written consent to the dissent.

Your failure to satisfy these requirements will result in your not being entitled to exercise Dissenters' Rights and receive payment for your shares under Article 13. Even if you vote against the merger agreement (either in person or by appointment of proxy), you still must send the required Notice of Intent to exercise your Dissenters' Rights. You should remember that, as described under the caption "The MidCarolina Special Meeting - Voting at the MidCarolina Special Meeting" on page 36, if you return a signed appointment of proxy, or appoint the proxies to vote for you by Internet, but fail to provide instructions on how to vote your shares, you will be considered to have voted in favor of the merger agreement and you will not be able to assert Dissenters' Rights. If you do not return a proxy card or otherwise vote at all at the MidCarolina special meeting, you will not be treated as waiving your Dissenters' Rights as long as you have given the required Notice of Intent, as described above.

The MidCarolina special meeting will be held on June 14, 2011, at 4:00 p.m. local time, at the Best Western Burlington Inn, which is located at 700 Huffman Mill Road, Burlington, North Carolina. If

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you intend to dissent, your Notice of Intent should be mailed or delivered to MidCarolina's President and Chief Executive Officer, Charles T. Canaday, Jr., at MidCarolina's corporate office at 3101 South Church Street, Burlington, North Carolina 27216, or it may be hand delivered to him at the MidCarolina special meeting (before the voting begins). In order for a Notice of Intent sent by mail to be effective, it must actually be received by MidCarolina at its address prior to the MidCarolina special meeting. A Notice of Intent that is hand delivered must be received prior to the vote on the merger agreement at the MidCarolina special meeting.

If you deliver a Notice of Intent and the merger agreement is approved by MidCarolina's shareholders at the MidCarolina special meeting (or at any adjournment of the meeting), then, within 10 days following that approval, MidCarolina will send you a written notice (a Dissenters' Notice), by registered or certified mail, return receipt requested, so long as you have satisfied the requirements to exercise Dissenters' Rights. The Dissenters' Notice will include a copy of Article 13 and will:

include a form you can use for demanding payment, and state where your payment demand must be sent, and, if your shares are in certificated form, where and when your share certificates must be deposited; and

specify a date by which MidCarolina must receive your payment demand (which may not be less than 30 nor more than 60 days after the date the Dissenters' Notice is mailed).

After receipt of the Dissenters' Notice, you must deliver to MidCarolina a written demand for payment (a Payment Demand) and, if your shares are in certificated form, deposit your share certificates with MidCarolina by the date set forth in and in accordance with the terms and conditions of the Dissenters' Notice. Otherwise, you will not be entitled to payment for your shares under Article 13. If you deliver a Payment Demand and deposit your share certificates as required by the Dissenters' Notice, you will no longer be able to transfer your shares (unless your certificates are returned to you as described below), but you will retain all other rights as a shareholder until those rights are canceled or modified by completion of the merger. If your shares are in uncertificated form, MidCarolina may restrict the transfer of your shares from the time your Payment Demand is received until the merger is completed or the transfer restrictions are released as described below, but you will retain all other rights as a shareholder until those rights are cancelled or modified by completion of the merger.

As soon as the merger is completed, or within 30 days after receipt of your Payment Demand (whichever is later), MidCarolina will pay you (provided that you have satisfied all requirements to exercise Dissenters' Rights) the amount MidCarolina estimates to be the fair value of your shares, plus interest accrued to the date of payment. MidCarolina's payment will be accompanied by:

MidCarolina's most recent available financial statements;

an explanation of how MidCarolina estimated the fair value of your shares and how the interest was calculated; and

a copy of Article 13, and a statement of your rights if you are dissatisfied with MidCarolina's payment.

If the merger is not completed within 60 days after the date set for you to demand payment and deposit your share certificates, MidCarolina must return your deposited certificates or, in the case of uncertificated shares, release any transfer restrictions which have been imposed as described above; and if the merger is completed later, MidCarolina must send you a new Dissenters' Notice and repeat the Payment Demand procedures described above.

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If (i) you believe the amount paid by MidCarolina as described above is less than the fair value of your shares of MidCarolina common stock or MidCarolina Series A preferred stock, or that the interest due is incorrectly calculated; (ii) MidCarolina does not make timely payment to you; or (iii) MidCarolina does not complete the merger and does not return your deposited certificates, or release any transfer restrictions that have been placed on your uncertificated shares, within 60 days after the date set for demanding payment, then you may notify MidCarolina in writing of your own estimate of the fair value of your shares of MidCarolina common stock or MidCarolina Series A preferred stock and the amount of interest due and may demand payment of your estimate (a Further Payment Demand). In any such event, if you fail to take any such action within the 30 days after MidCarolina makes payment for your shares or fails to perform timely, you will be considered to have withdrawn your dissent and demand for payment and waived your rights under Article 13.

If you have taken all required actions and your demand for payment remains unsettled, you may file a lawsuit within 60 days after the earlier of the date of MidCarolina's payment or the date of your Further Payment Demand. If you take no action within that 60-day period, you will be considered to have withdrawn your dissent and demand for payment. In the court proceeding described above, the court may appoint one or more persons as appraisers to receive evidence and recommend a decision on the question of fair value, and it has discretion to make all dissenters whose demands remain unsettled parties to one proceeding. Each dissenter made a party to the proceeding must be served with a copy of the complaint and will be entitled to judgment for the amount, if any, by which the court finds the fair value of his or her shares, plus interest, to exceed the amount paid by MidCarolina. Court costs, appraisal, and counsel fees may be assessed by the court as it deems equitable.

The summary above describes all material information on the provisions of the North Carolina BCA relating to the requirements a MidCarolina shareholder must comply with in order to exercise and perfect dissenters' rights. The applicable sections of the North Carolina BCA relating to dissenters' rights are included as Appendix D to this proxy statement/prospectus. If you intend to exercise Dissenters' Rights, you are urged to carefully review Appendix D and to consult with legal counsel so as to be in strict compliance therewith.

Representations and Warranties

The merger agreement contains reciprocal representations and warranties relating to American and MidCarolina's respective businesses, including:

corporate organization, standing and power, and subsidiaries;

requisite corporate authority to enter into the merger agreement and to complete the contemplated transactions;

capital structure;

SEC filings, financial statements included in certain of those filings, regulatory reports filed with governmental agencies and accounting controls;

absence of certain changes or events and absence of certain undisclosed liabilities;

material contracts;

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legal proceedings and compliance with applicable laws;

tax matters;

ownership and leasehold interests in properties;

employee benefit matters;

insurance;

loan portfolio, allowance for loan losses and mortgage loan buy-backs;

certain delinquent and classified loans;

environmental matters;

books and records;

intellectual property;

tax treatment;

brokers and finders; and

engagement of financial advisors.

With the exception of specified representations relating to capitalization, corporate authority and, for MidCarolina, brokered deposits, that must be true and correct in all material respects, and representations relating to absence of conflict with organizational documents and absence of certain changes reasonably likely to have a material adverse effect, which must be true and correct in all respects, no representation will be deemed untrue or incorrect as a consequence of the existence or absence of any fact, event or circumstance unless that fact, event or circumstance, individually or taken together with all other facts, events or circumstances, has had or is reasonably likely to have a material adverse effect on the company making the representation.

The representations described above and included in the merger agreement were made for purposes of the merger agreement and are subject to qualifications and limitations agreed to by the parties in connection with negotiating the terms of the merger agreement. In addition, certain representations and warranties were made as of a specific date and may be subject to a contractual standard of materiality different from what might be viewed as material to shareholders. The representations and warranties and other provisions of the merger agreement should not be read alone, but instead should only be read together with the information provided elsewhere in this proxy statement/prospectus, in the documents incorporated by reference into this proxy statement/prospectus by American, and in the periodic and current reports and statements that American and MidCarolina each file with the SEC. See [Where You Can Find More Information](#) beginning on page 165.

Conditions to Completion of the Merger

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The respective obligations of American and MidCarolina to complete the merger are subject to the fulfillment or waiver of certain conditions, including the following:

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approval of the merger agreement by the holders of MidCarolina common stock;

approval by the American shareholders of the common stock to be issued in the merger;

approval of the merger by the necessary federal and state regulatory authorities;

approval from the NASDAQ Stock Market for the listing on the NASDAQ Global Select Market of the shares of American common stock to be issued in the merger;

the absence of any order, decree or injunction of a court or regulatory agency that enjoins or prohibits the completion of the merger;

accuracy of the other party's representations and warranties in the merger agreement, including the representation that no material adverse change has occurred;

the other party's compliance with its obligations under the merger agreement; and

the receipt by each party from LeClairRyan, A Professional Corporation, American's legal counsel, of a written legal opinion relating to the U.S. federal income tax treatment of the merger.

Where the merger agreement and/or law permits, American and MidCarolina could choose to waive a condition to its obligation to complete the merger even if that condition has not been satisfied. We cannot be certain when, or if, the conditions to the merger will be satisfied or waived or that the merger will be completed.

Regulatory Approvals

American and MidCarolina cannot complete the merger without prior approval from the Federal Reserve, the Virginia State Corporation Commission and the North Carolina Commissioner of Banks. On February 17, 2011, the North Carolina Commissioner of Banks approved American's application subject to the publication of a public notice of the merger, which notice has since been published. On March 16, 2011, the Virginia State Corporation Commission approved the notice filed by American and on March 21, 2011, American received approval of its Federal Reserve application. Accordingly, all regulatory approvals required for the merger have been obtained. Further, as of the date of this proxy statement/prospectus, American and MidCarolina have not received any communication from any of the regulatory agencies indicating that the required approvals do not remain in effect.

On April 28, 2011, the Office of the Comptroller of the Currency conditionally approved American National Bank's application to merge MidCarolina Bank into American National Bank. Such approval is required for the merger of MidCarolina Bank into American National Bank only, and is not required for the completion of the merger of American and MidCarolina.

Business Pending the Merger

American and MidCarolina have made customary agreements that place restrictions on them until completion of the merger. In general, American and MidCarolina are required to conduct their respective

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business in the ordinary and usual course and to take no action that would affect adversely or delay the ability to obtain the required approvals and consents for the merger, perform the covenants and agreements under the merger agreement or complete the merger on a timely basis.

MidCarolina has also agreed that, with certain exceptions, it will not, and shall not permit any of its subsidiaries to, without the prior written consent of American:

amend any articles of incorporation, bylaws or other similar governing instruments;

other than as permitted in the merger agreement, issue any additional shares of capital stock or grant any stock options, restricted shares or other stock-based awards;

enter into or amend any written employment or severance agreement or similar arrangement with any of its directors, officers or employees, or grant any salary or wage increase or increase any employee compensation, except for normal individual increases to employees and employee bonuses made in the ordinary course of business consistent with past practice;

enter into or amend any retirement, stock option, or other employee benefit plan or arrangement for any directors, officers or employees;

incur any obligation or liability or encumber or dispose of any assets, except in the ordinary course of business and for adequate value;

other than as permitted in the merger agreement, make, declare, pay any dividend on, or redeem, purchase or otherwise acquire any shares of capital stock;

adjust, split, combine, or reclassify any shares of capital stock;

make any material investment in or acquisitions of any other person or entity, other than by way of foreclosure or in satisfaction of debts previously contracted in good faith, in each case in the ordinary course of business;

enter into any new line of business, or change its lending, investment, underwriting, risk and asset liability management and other banking and operating policies that are material to it, except as required by applicable law;

implement or adopt any change in its tax or financial accounting principles, practices or methods, including reserving methodologies, other than as may be required by generally accepted accounting principles in the United States, regulatory accounting guidelines or applicable law;

knowingly take, or knowingly omit to take, any action that would reasonably be expected to prevent the merger from qualifying as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code;

take any action that would make any representation or warranty in the merger agreement untrue; or

agree to take any of the actions prohibited by the preceding bullet points.

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Pending consummation of the merger, American has agreed not to:

amend any articles of incorporation, bylaws or other similar governing instruments (except as provided by the merger agreement);

knowingly take, or knowingly omit to take, any action that would reasonably be expected to prevent the merger from qualifying as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code;

take any action that would make any representation or warranty in the merger agreement untrue; or

agree to take any of the actions prohibited by the preceding bullet points.

Amendment to American Articles of Incorporation

Pursuant to the merger agreement, each share of MidCarolina's Series A noncumulative perpetual preferred stock will be converted into one share of American's to-be-established Series A noncumulative perpetual preferred stock (except for shares held by MidCarolina's shareholders who dissent). Prior to the closing of the merger, American will amend its articles of incorporation to establish the American Series A preferred stock, which will have substantially identical terms, preferences and rights as the MidCarolina Series A preferred stock. The form of the articles of amendment to American's articles of incorporation establishing the American Series A preferred stock is attached as Exhibit 1.3(a) to the merger agreement, a copy of which is attached as Appendix A to the proxy statement/prospectus. Under American's articles of incorporation, the board of directors of American is empowered to authorize the issuance, in one or more series, of shares of preferred stock at such times, for such purposes and for such consideration as it may deem advisable without shareholder approval. Accordingly, shareholders of American will not vote on the amendment to establish the Series A preferred stock at the American special meeting.

No Solicitation

MidCarolina has agreed that, while the merger agreement is in effect, it will not directly or indirectly:

initiate, solicit or encourage any inquiries or proposals with respect to any acquisition transaction (as defined below) with someone other than American; or

engage or participate in any negotiations or discussions concerning, or provide any confidential or nonpublic information relating to, an acquisition transaction.

For purposes of the merger agreement, an acquisition transaction means, other than transactions contemplated by the merger agreement, any proposal or offer relating to, or transaction to effect:

a merger, consolidation, share exchange, business combination, reorganization, liquidation, dissolution or other similar transaction involving MidCarolina or MidCarolina Bank;

any acquisition or purchase, direct or indirect, of 10% or more of the consolidated assets of MidCarolina and its subsidiaries or 10% or more of any class of voting securities of

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MidCarolina or its subsidiaries whose assets, individually or in the aggregate, constitute more than 10% of the consolidated assets of MidCarolina; or

any tender offer (including a self-tender offer) or exchange offer that, if consummated, would result in a third party beneficially owning 10% or more of any class of voting securities of MidCarolina or its subsidiaries whose assets, individually or in the aggregate, constitute more than 10% of the consolidated assets of MidCarolina.

Under the merger agreement, however, if MidCarolina receives an unsolicited bona fide written proposal involving an acquisition transaction, it may engage in negotiations or discussions with or provide nonpublic information to the person or entity making that proposal only if:

the MidCarolina board of directors receives the proposal prior to the MidCarolina special meeting;

the MidCarolina board concludes in good faith, after consultation with and based upon the written advice of outside counsel, that the failure to take such actions would be inconsistent with its fiduciary duties to shareholders under applicable law;

the MidCarolina board also concludes in good faith that the proposal regarding the acquisition transaction constitutes or is reasonably likely to result in a superior proposal (as defined below); and

MidCarolina receives from the person or entity making the proposal an executed confidentiality agreement.

MidCarolina has agreed to advise American within 24 hours following receipt of any proposal or inquiry involving an acquisition transaction, including a description of the substance of the proposal (including the identity of the proposing party), and to keep American apprised of any related developments, discussions and negotiations on a current basis.

For purposes of the merger agreement, a superior proposal means a bona fide written proposal for an acquisition transaction made to MidCarolina that its board of directors concludes in good faith, after consultation with its financial and legal advisors, taking into account all legal, financial, regulatory and other aspects of the proposal and the person or entity making the proposal:

is more favorable to the shareholders of MidCarolina from a financial point of view, than the merger; and

is fully financed or reasonably capable of being fully financed, to the extent required, and reasonably likely to receive all required government approvals on a timely basis and otherwise reasonably capable of being completed on the terms proposed.

For the purposes of the definition of superior proposal, the term acquisition transaction has the same meaning as described above, except the reference to 10% or more is changed to be a reference to a majority and an acquisition transaction can only refer to a transaction involving MidCarolina or MidCarolina Bank.

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Except as otherwise provided in the merger agreement, nothing contained in the non-solicitation provisions of the merger agreement will permit MidCarolina to terminate the merger agreement or affect any of its other obligations under the merger agreement.

Waiver and Amendment

At any time on or before the effective date of the merger, any term or provision of the merger agreement, other than the exchange ratio, may be waived by the party which is entitled to the benefits thereof, without shareholder approval, to the extent permitted under applicable law. The merger agreement may be amended at any time before the merger by agreement of the parties, whether before or after the later of the date of their respective special meetings, except statutory requirements and requisite shareholder and regulatory authority approvals.

Termination of the Merger Agreement

Termination by American and MidCarolina. The merger agreement may be terminated, and the merger abandoned, by American and MidCarolina at any time before the merger is completed if the boards of directors of both parties vote to do so.

Termination by American or MidCarolina. The merger agreement may be terminated, and the merger abandoned, by either party's board of directors if:

the merger has not been completed by December 31, 2011, unless the failure to complete the merger by such time was caused by a failure to perform an obligation under the merger agreement by the terminating party; or

if any event or condition occurs which renders impossible the satisfaction of a condition to the obligations of the terminating party to effect the merger, and which cannot be or has not been cured within 30 days after giving written notice to the other party, provided that the impossibility of satisfying a condition is not due to the terminating party's breach of any of its obligations under the merger agreement.

Termination by American. American may terminate the merger agreement at any time before the MidCarolina special meeting if:

the board of directors of MidCarolina fails to recommend, or withdraws or modifies its recommendation to the MidCarolina shareholders that the merger agreement be approved in any way that is adverse to American; or

MidCarolina materially breaches its covenants in the merger agreement requiring the calling and holding of a meeting of shareholders to consider the merger agreement or breaches its covenant regarding the non-solicitation of other offers.

In addition, American may terminate the merger agreement at any time if:

MidCarolina enters into an agreement with another party with respect to a business combination transaction or with respect to an acquisition directly from MidCarolina of securities representing 10% or more of the voting power of MidCarolina; or

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a third party commences a tender offer or exchange offer for 20% or more of the outstanding shares of MidCarolina common stock, and the board of directors of MidCarolina recommends that MidCarolina shareholders tender their shares in the offer or otherwise fails to recommend that they reject the offer within a specified period.

Termination by MidCarolina. MidCarolina may terminate the merger agreement at any time:

before the American special meeting if the board of directors of American fails to recommend, or withdraws or modifies its recommendation to the American shareholders that the issuance of American common stock in the merger be approved in any way that is adverse to MidCarolina;

before the American special meeting if American materially breaches its covenants requiring the calling and holding of a meeting of shareholders to consider the issuance of American common stock; or

before the MidCarolina special meeting to enter into an acquisition agreement or similar agreement with respect to an unsolicited superior proposal, as defined in the merger agreement and described above, which has been received and considered by MidCarolina in compliance with the applicable terms of the merger agreement, provided that MidCarolina has notified American at least five business days in advance of any such termination and given American the opportunity during such period to make an offer at least as favorable as the superior proposal, as determined by the MidCarolina board of directors.

In the event of termination, the merger agreement will become null and void, except that certain provisions thereof relating to fees and expenses and confidentiality of information exchanged between the parties will survive any such termination.

Termination Fee

The merger agreement provides that MidCarolina must pay American a \$1,700,000 termination fee under the circumstances and in the manner described below:

if the merger agreement is terminated by American for any of the reasons described in the second, third or fourth bullet points under Termination of the Merger Agreement Termination by American on page 80 or by MidCarolina for the reasons described in the last bullet point under Termination of the Merger Agreement Termination by MidCarolina on this page 81, MidCarolina must pay the termination fee to American concurrently with the termination of the merger agreement; or

if (x) the merger agreement is terminated (i) by American for any of the reasons described in the second bullet point under Termination of the Merger Agreement Termination by American or MidCarolina on page 80, and the impossibility of the satisfaction of a condition to American's obligations has resulted from a breach by MidCarolina of any representation, warranty, covenant or agreement under the merger agreement, (ii) by American for any of the reasons described in the first bullet point under Termination of the Merger Agreement Termination by American on page 80, or (iii) by American or MidCarolina because the merger has not been consummated by December 31, 2011 and if the failure to consummate the merger by such date is due to MidCarolina's breach of any representation, warranty, covenant or agreement under the merger agreement, and prior to the termination of the

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merger agreement a proposal for an acquisition transaction (as described under No Solicitation on page 78) has been publicly announced or otherwise communicated or made known to the senior management of MidCarolina or its board of directors (or any person has publicly announced, communicated or made known an intention, whether or not conditional, to propose an acquisition transaction), and (y) within 12 months after such termination MidCarolina or MidCarolina Bank consummates an acquisition transaction, MidCarolina must pay the termination fee to American on the date the transaction is consummated; provided that, for the purposes of this termination fee provision, the term acquisition transaction has the same meaning as defined in the merger agreement and described above, except the reference to 10% or more is changed to be a reference to a majority.

Any termination fee that becomes payable to American pursuant to the merger agreement will be paid by wire transfer of immediately available funds to an account designated by American. If MidCarolina fails to timely pay the termination fee to American, MidCarolina will be obligated to pay the costs and expenses incurred by American to collect such payment, together with interest.

Expenses

In general, whether or not the merger is consummated, American and MidCarolina will each pay its respective expenses incident to preparing, entering into and carrying out the terms of the merger agreement. The parties will share the costs of printing this proxy statement/prospectus.

However, if the merger agreement is terminated by either party because of a material breach by the other party of any representation, warranty, covenant, agreement, undertaking or restriction contained in the merger agreement, the breaching party will reimburse the terminating party for all reasonable out-of-pocket fees and expenses up to \$250,000, provided the terminating party is not itself in material breach of any terms of the merger agreement. If American is entitled to reimbursement of its expenses and the \$1,700,000 termination fee, the maximum amount payable by MidCarolina to American would be \$1,700,000.

Any reimbursement of expenses will be paid by wire transfer of immediately available funds to an account designated by the receiving party within 30 days after the termination of the merger agreement. If either American or MidCarolina fails to timely reimburse the other party, the party which is to provide reimbursement will be obligated to pay the costs and expenses, including legal fees and expenses, incurred by the other party to collect such payment.

Accounting Treatment

The merger will be accounted for under the acquisition method of accounting under generally accepted accounting principles. Under the acquisition method of accounting, the assets and liabilities of MidCarolina will be recorded, as of completion of the merger, at their respective fair values and added to those of American. Any excess of purchase price over the fair values is recorded as goodwill. Financial statements and reported results of operations of American issued after completion of the merger will reflect these values, but will not be restated retroactively to reflect the historical financial position or results of operations of MidCarolina. See also Unaudited Pro Forma Condensed Combined Financial Information beginning on page 148.

Material Federal Income Tax Consequences

The following is a summary of the material federal income tax consequences of the merger applicable to a holder of shares of MidCarolina common stock or MidCarolina Series A preferred stock. This discussion is based upon the Internal Revenue Code, Treasury regulations, judicial authorities,

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published positions of the Internal Revenue Service (the IRS) and other applicable authorities, all as currently in effect and all of which are subject to change or differing interpretations (possibly with retroactive effect). This discussion is limited to U.S. holders (as defined below) that hold their shares of MidCarolina common stock or MidCarolina Series A preferred stock as a capital asset within the meaning of Section 1221 of the Internal Revenue Code (generally, property held for investment). This discussion does not address all of the tax consequences that may be relevant to a particular MidCarolina shareholder or to MidCarolina shareholders that are subject to special treatment under U.S. federal income tax laws, such as:

shareholders that are not U.S. holders;

financial institutions;

insurance companies;

mutual funds;

tax-exempt organizations;

S corporations or other pass-through entities (or investors in such entities);

dealers in securities or currencies;

persons subject to the alternative minimum tax provisions of the Internal Revenue Code;

persons whose functional currency is not the U.S. dollar;

traders in securities that elect to use a mark-to-market method of accounting;

persons who own more than 5% of the outstanding common stock of MidCarolina;

persons who hold MidCarolina common stock or MidCarolina Series A preferred stock as part of a straddle, hedge, constructive sale or conversion transaction; and

U.S. holders who acquired their shares of MidCarolina common stock or MidCarolina Series A preferred stock through the exercise of an employee stock option or otherwise as compensation.

If a partnership or other entity taxed as a partnership holds MidCarolina common stock or MidCarolina Series A preferred stock, the tax treatment of a partner in the partnership generally will depend upon the status of the partner and the activities of the partnership. Partnerships and partners in such a partnership should consult their tax advisers about the tax consequences of the merger to them.

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This discussion does not address the tax consequences of the merger under state, local or foreign tax laws. No assurance can be given that the IRS would not assert, or that a court would not sustain, a position contrary to any of the tax consequences set forth below.

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Holders of MidCarolina common stock and MidCarolina Series A preferred stock are urged to consult with their own tax advisors as to the tax consequences of the merger in their particular circumstances, including the applicability and effect of any state, local or foreign and other tax laws and of any changes in those laws.

For purposes of this section, the term "U.S. holder" means a beneficial owner of MidCarolina common stock or MidCarolina Series A preferred stock that for United States federal income tax purposes is:

a citizen or resident of the United States;

a corporation, or other entity treated as a corporation for U.S. federal income tax purposes, created or organized in or under the laws of the United States, any state thereof or the District of Columbia;

an estate that is subject to U.S. federal income tax on its income regardless of its source; or

a trust, the substantial decisions of which are controlled by one or more U.S. persons and which is subject to the primary supervision of a U.S. court, or a trust that validly has elected under applicable Treasury regulations to be treated as a U.S. person for U.S. federal income tax purposes.

Tax Consequences of the Merger Generally. American and MidCarolina intend the merger to qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code. It is a condition to the obligations of American and MidCarolina to complete the merger that each receive a written opinion from American's legal counsel, LeClairRyan, A Professional Corporation, to the effect that the merger will be treated as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code. In addition, in connection with the filing of the registration statement of which this document is a part, LeClairRyan has delivered an opinion to American and MidCarolina to the same effect as the opinion described above. In rendering these opinions, LeClairRyan may require and rely upon representations contained in letters and certificates to be received from American and MidCarolina. If the letters or certificates are incorrect, the conclusions reached in the opinions could be jeopardized. In addition, the opinions will be subject to certain qualifications and limitations as set forth in the opinions.

The tax opinions given in connection with the merger will not be binding on the IRS. Neither American nor MidCarolina intends to request any ruling from the IRS as to the U.S. federal income tax consequences of the merger. Consequently, no assurance can be given that the IRS will not assert, or that a court would not sustain, a position contrary to the consequences set forth below. In addition, if any of the representations or assumptions upon which the opinions is based are inconsistent with the actual facts, the U.S. federal income tax consequences of the merger could be adversely affected.

Accordingly, and as set forth in the opinion delivered in connection herewith, a U.S. holder will not recognize any gain or loss as a result of the receipt of shares of American common stock or American Series A preferred stock pursuant to the merger, except with respect to cash received in lieu of fractional shares or as a dissenting shareholder.

Cash Received in Lieu of Fractional Shares. A U.S. holder that receives cash in lieu of a fractional share of American common stock in the merger will generally be treated as having received such fractional share and then as having received such cash in redemption of such fractional share interest. A U.S. holder generally will recognize gain or loss measured by the difference between the amount of cash received and the portion of the basis of the shares of MidCarolina common stock

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allocable to such fractional interest. Such gain or loss generally will constitute capital gain or loss and will be long-term capital gain or loss if the U.S. holder's holding period in the MidCarolina common stock exchanged therefor was greater than one year as of the date of the exchange. The deductibility of capital losses is subject to limitations.

Tax Basis and Holding Period. A U.S. holder's aggregate tax basis in the American common stock or American Series A preferred stock received in the merger will equal such shareholder's aggregate tax basis in the MidCarolina common stock or MidCarolina Series A preferred stock surrendered in the merger, reduced by any amount allocable to a fractional share of American common stock for which cash is received. The holding period for the shares of American common stock or American Series A preferred stock received in the merger generally will include the holding period for the shares of MidCarolina common stock or MidCarolina Series A preferred stock exchanged therefor.

Reporting Requirements. A U.S. holder who receives American common stock or American Series A preferred stock as a result of the merger will be required to retain records pertaining to the merger. Each U.S. holder who is required to file a U.S. tax return and who is a significant holder that receives American common stock or American Series A preferred stock will be required to file a statement with such holder's U.S. federal income tax return setting forth such holder's basis in the MidCarolina common stock or MidCarolina Series A preferred stock and the fair market value of the American common stock received in the merger. A significant holder is a U.S. holder, who, immediately before the merger, owned at least 5% of the outstanding common stock of MidCarolina.

Backup Withholding. Payments of cash made to a U.S. holder of MidCarolina stock in lieu of fractional shares of American common stock or as a dissenting shareholder in the merger may be subject to information reporting and backup withholding, unless the U.S. holder of MidCarolina stock (i) provides a correct taxpayer identification number and any other required information to the payor; or (ii) is a corporation or comes within certain exempt categories and otherwise complies with applicable requirements of the backup withholding rules.

Any amounts withheld under the backup withholding rules generally will be allowed as a refund or credit against the holder's U.S. federal income tax liability, provided the holder timely furnishes the required information to the IRS.

Interests of Certain Persons in the Merger

As discussed below, some MidCarolina directors and officers have interests in the merger that differ from, or are in addition to, the interests of other MidCarolina shareholders. When considering the recommendation of the MidCarolina board, you should be aware of these interests. The MidCarolina board was aware of these interests and considered them before approving and adopting the merger agreement.

Indemnification and Insurance. American has agreed to indemnify the officers and directors of MidCarolina against certain liabilities arising before the effective date of the merger to the same extent that MidCarolina or MidCarolina Bank would have been legally required or permitted to do so if the merger had not taken place. American has also agreed to provide liability insurance for the current officers and directors of MidCarolina for six years after the merger, subject to a cap on the annual premium payments equal to 150% of MidCarolina's current annual premium.

Director Appointments. Three current directors of MidCarolina, F. D. Hornaday III, John H. Love and Robert A. Ward, were chosen by MidCarolina's board of directors, and approved by American's board of directors, to become directors of American and American National Bank following

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the merger. Additionally, though he will not serve as a voting director of American, MidCarolina's chairman, James R. Copland III, will serve as a director emeritus of American following the merger. Certain directors of MidCarolina and MidCarolina Bank selected by American will also be invited to join the North Carolina Advisory Board of Directors of American National Bank.

Executive Officer Position. Current MidCarolina president and chief executive officer, Charles T. Canaday, Jr., will serve as a senior vice president of American and an executive vice president of American National Bank, as well as president of North Carolina Banking for American National Bank. American, American National Bank and Mr. Canaday have entered into employment and executive severance agreements as described below with respect to his employment by American National Bank after the merger.

Employment and Change in Control Agreements. In connection with entering into the merger agreement, American National Bank has entered into an employment agreement with Charles T. Canaday, Jr. that is effective upon the consummation of the merger. Under the terms of the agreement, Mr. Canaday will serve as a senior vice president of American and an executive vice president of American National Bank, as well as president of North Carolina Banking for American National Bank. The employment agreement provides Mr. Canaday with an annual base salary that will be no less than \$190,000 (as compared to his current \$230,000 annual salary as an officer of MidCarolina Bank). In addition, after consummation of the merger, American National Bank will pay Mr. Canaday \$550,000 as a retention bonus for his agreeing to serve as an officer of American National Bank after the merger. American National Bank and Mr. Canaday will also enter into an arrangement at the time of the merger under which American National Bank will fund a deferred compensation account for Mr. Canaday with a lump sum payment of \$205,100. The deferred compensation account will vest and become payable, provided Mr. Canaday remains in full-time employment with American National Bank on such vesting date, in three annual installments beginning on June 30, 2012 and ending on June 30, 2014. Under his employment agreement with American National Bank, Mr. Canaday will be eligible to participate in any profit sharing, incentive and performance compensation programs of American National Bank on the same basis as other similarly situated officers of American National Bank. Mr. Canaday has also agreed to comply with certain industry standard noncompetition and nonsolicitation provisions contained in the agreement.

According to the terms of the employment agreement, American National Bank may terminate Mr. Canaday's employment at any time and for any reason. If American National Bank terminates Mr. Canaday's employment for any reason other than death, disability or for good cause (as defined in the agreement), American National Bank will be obligated to continue to provide him with his base salary (as in effect on the date that his employment terminates) during the period beginning on the employment termination date and ending on the earlier of the date Mr. Canaday attains age 65 or the second anniversary of the employment termination date.

The employment agreement for Mr. Canaday terminates upon a change in control of American or American National Bank, at which time the executive severance agreement described below between American, American National Bank and Mr. Canaday will become effective and any termination benefits will be determined and paid solely pursuant to such agreement.

According to the executive severance agreement between American, American National Bank and Mr. Canaday that becomes effective upon a change in control (as defined in the agreement) of American or American National Bank, the bank or its successor agrees to continue to employ Mr. Canaday for a term of three years after the date of a change in control. During the term of the agreement, his base salary, profit sharing and incentive compensation cannot be reduced. He would also receive continued salary and benefits if his employment is terminated without cause (as defined in the

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agreement) during the term of the agreement. If his employment is terminated without cause before the first anniversary of the change in control, Mr. Canaday would receive continued salary and benefits until the earlier of the second anniversary of the change in control or the last day of the term of the agreement. If the termination of employment without cause occurs on or after the first anniversary of the change in control, Mr. Canaday will receive continued salary and benefits until the earlier of the first anniversary of termination of employment or the last day of the term of the agreement.

The executive severance agreement also provides for continued salary and benefits if Mr. Canaday resigns under certain circumstances. Beginning on the date of a change in control and through the third month thereafter, Mr. Canaday may resign and receive continued salary and benefits for 12 months if his resignation is due to a reduction in his compensation or a required relocation of his office more than 30 miles from his office at the date of the change in control. Beginning in the fourth month after a change in control and through the first anniversary thereafter, Mr. Canaday may resign for any or no reason and receive continued salary and benefits for 12 months. After the first anniversary of a change in control, Mr. Canaday may resign and receive continued salary and benefits until the earlier of the first anniversary of the termination of his employment or the last day of the term of the agreement if his resignation is due to a reduction in his compensation, a required relocation of his office more than 30 miles from his office at the date of the change in control or a reduction in the duties or title assigned to him as of the first anniversary of the change in control.

The amounts payable under the severance agreement are governed by two limitations. First, no amounts will be paid under the agreement for any period after Mr. Canaday attains age 65. Second, no amounts will be paid under the agreement to the extent that the benefits would make Mr. Canaday liable for the payment of an excise tax under Section 4999 of the Internal Revenue Code.

As a condition to entering into these new agreements, if the merger is consummated, Mr. Canaday's existing employment agreement with MidCarolina will terminate, and he will not have any change in control benefits that would otherwise be available upon consummation of the merger, except that the terms of the merger agreement will still trigger accelerated vesting of any outstanding options, as well as death benefit rights under the split dollar insurance agreement that Mr. Canaday has with MidCarolina. Mr. Canaday's salary continuation agreement will also still be in effect. The above-described employment and executive severance agreements become effective upon completion of the merger. They will have no effect on the current arrangements that Mr. Canaday has with MidCarolina if the merger is not completed.

Potential Payments Under Employment and Salary Continuation Agreements. MidCarolina has employment and salary continuation agreements with the following executive officers: Charles T. Canaday, Jr., president and chief executive officer of MidCarolina, Christopher B. Redcay, senior vice president and chief financial officer of MidCarolina, and R. Craig Patterson, senior vice president and chief credit officer of MidCarolina. Under the terms of each employment agreement, if, within two years following a change in control of MidCarolina, the officer's employment is terminated without cause or the officer terminates his employment with good reason (as such terms are defined in each agreement), he will be entitled to receive certain severance payments. The severance payments are to be made in monthly installments. Assuming a termination under such circumstances at December 31, 2010, following a change in control of MidCarolina, the approximate payments to each officer under the employment agreements would have been: Mr. Canaday, \$755,000; Mr. Redcay, \$330,533; and Mr. Patterson, \$313,833. Mr. Canaday has entered into the above-described employment agreement and executive severance agreement with American National Bank that will be effective upon consummation of the merger and will supersede and terminate his existing employment agreement with MidCarolina and any severance payments due thereunder in connection with the merger.

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MidCarolina also has salary continuation agreements with Messrs. Canaday, Redcay and Patterson. Under the terms of each salary continuation agreement, if, within one year following a change in control of MidCarolina, the officer's employment is terminated without cause or the officer terminates his employment with good reason (as such terms are defined in the agreement), he will be entitled to receive a lump sum severance payment in an amount equal to his projected accrual balance at age 65, without discount for the time-value of money. Assuming a termination under such circumstances at December 31, 2010, following a change in control of MidCarolina, the approximate payments to each officer under the salary continuation agreement would have been \$723,065. American has agreed to assume all obligations under the salary continuation agreements.

Stock Options. MidCarolina has awarded certain employees, officers and directors stock options pursuant to its equity compensation plans. To the extent the options have not been exercised, upon consummation of the merger the options will be converted into stock options of American. The vesting of certain of these options will accelerate as a result of the merger and will become immediately exercisable stock options of American.

Employee Benefit Plans. As soon as administratively practicable following the merger, employees of MidCarolina who continue on as employees of American will be entitled to participate in the American health and welfare benefit and similar plans on the same terms and conditions as employees of American. These employees will receive credit for their years of service to MidCarolina for participation, vesting and benefit accrual purposes.

Voting Agreement

The directors and executive officers of MidCarolina have entered into an agreement with American pursuant to which they have agreed to vote all of their shares in favor of the merger agreement, except that certain shares they hold in a fiduciary capacity or for which they have no voting or dispositive power are not covered by the agreement.

The voting agreement prohibits, subject to limited exceptions, the directors and executive officers of MidCarolina from selling, transferring, pledging, encumbering or otherwise disposing of any shares of MidCarolina stock. The voting agreement terminates upon the earlier to occur of the completion of the merger and the termination of the merger agreement in accordance with its terms.

Certain Differences in Rights of Shareholders

American is a Virginia corporation subject to the provisions of the Virginia Stock Corporation Act (the Virginia SCA). MidCarolina is a North Carolina corporation and, therefore, is subject to the provisions of the North Carolina BCA. The rights of MidCarolina shareholders are presently governed by MidCarolina's articles of incorporation and bylaws, as well as the North Carolina BCA. Upon consummation of the merger, and MidCarolina's shareholders becoming shareholders of American, such shareholders' rights will be governed by the articles of incorporation and bylaws of American and the Virginia SCA.

A summary of the material differences between the rights of a MidCarolina shareholder under the North Carolina BCA and MidCarolina's articles of incorporation and bylaws, on the one hand, and the rights of an American shareholder under the Virginia SCA and the articles of incorporation and bylaws of American, on the other hand, is provided in this proxy statement/prospectus in the section Comparative Rights of Shareholders on page 155.

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Possible Alternative Merger Structure

The merger agreement provides that American and MidCarolina may mutually agree to change the structure of the merger. However, no change may be made that:

alters or changes the exchange ratio or the number of shares of American common stock or American Series A preferred stock into which MidCarolina common stock or MidCarolina Series A preferred stock will be converted in the merger,

adversely affects the tax treatment of American or MidCarolina or MidCarolina's shareholders pursuant to the merger agreement, or

materially impedes or delays completion of the merger in a timely manner.

Resales of American Stock

The shares of American common stock and American Series A preferred stock to be issued in connection with the merger will be freely transferable under the Securities Act of 1933, except for shares issued to any shareholder who may be deemed to be an affiliate of American for purposes of Rule 144 under the Securities Act of 1933. Persons who may be deemed to be affiliates include individuals or entities that control, are controlled by, or are under common control with, American and may include the executive officers, directors and significant shareholders of American.

Table of Contents**MARKET FOR COMMON STOCK AND DIVIDENDS**

American common stock is traded on the NASDAQ Global Select Market under the symbol AMNB. MidCarolina common stock trades on the OTC Bulletin Board under the symbol MCFI. MidCarolina Series A preferred stock is privately held and not traded on an established market.

As of the record date for the American special meeting, there were 6,153,433 shares of American common stock outstanding, which were held by approximately 1,591 holders of record. Such numbers of shareholders do not reflect the number of individuals or institutional investors holding stock in nominee name through banks, brokerage firms and others.

As of the record date for the MidCarolina special meeting, there were 4,929,747 shares of MidCarolina common stock outstanding, which were held by approximately 1,015 holders of record, and 5,000 shares of MidCarolina Series A preferred stock, which were held by one holder of record. Such numbers of shareholders do not reflect the number of individuals or institutional investors holding stock in nominee name through banks, brokerage firms and others.

The following table sets forth during the periods indicated the high and low sales prices of American common stock and MidCarolina common stock as reported on the NASDAQ Global Select Market and the OTC Bulletin Board, respectively, and the dividends declared per share of American common stock. MidCarolina has never paid a cash dividend on its common stock. The sales prices for MidCarolina common stock shown in the table below may not be representative of all transactions during the indicated periods or the actual fair market value of the common stock at the time of such transactions due to the infrequency of trades and the limited market for the common stock.

	American Common Stock			MidCarolina Common Stock		
	Sales Price		Dividends Declared Per Share	Sales Price		Dividends Declared Per Share
	High	Low		High	Low	
2011						
First Quarter	\$ 24.14	\$ 20.00	\$0.23	\$ 7.00	\$ 6.05	\$
Second Quarter (through [])	[]	[]		[]	[]	
2010						
First Quarter	\$ 22.51	\$ 17.04	\$0.23	\$ 5.50	\$ 4.50	\$
Second Quarter	23.00	18.11	0.23	5.50	4.00	
Third Quarter	22.30	18.00	0.23	4.40	2.70	
Fourth Quarter	24.42	21.32	0.23	7.00	2.80	
2009						
First Quarter	\$ 17.95	\$ 14.25	\$0.23	\$ 7.50	\$ 4.05	\$
Second Quarter	22.00	14.99	0.23	7.00	4.50	
Third Quarter	23.50	19.10	0.23	7.10	5.25	
Fourth Quarter	22.84	19.01	0.23	6.35	4.00	

The following table sets forth the closing sale prices per share of American common stock as reported on the NASDAQ Global Select Market and MidCarolina common stock as reported on the OTC Bulletin Board on December 15, 2010, the last trading day before we announced the signing of the merger agreement, and on [], 2011, the last trading day before the date of this proxy statement/prospectus. The

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following table also includes the equivalent price per share of MidCarolina common stock on those dates. The equivalent per share price reflects the value on each date of the American common stock that would have been received by MidCarolina shareholders if the merger had been completed on those dates, based on an assumed exchange ratio of 0.33 shares of American common stock for each share of MidCarolina common stock and the closing sales prices of American's common stock.

	American Common Stock	MidCarolina Common Stock	Equivalent Market Value Per Share of MidCarolina
December 15, 2010	\$ 23.80	\$ 2.85	\$ 7.85
[], 2011	\$ []	\$ []	\$ []

You are advised to obtain current market quotations for American common stock and MidCarolina common stock. The market price of American common stock at the effective date of the merger or at the time shareholders of MidCarolina who receive American common stock in the merger receive certificates evidencing such shares after the merger is consummated may be higher or lower than the market price at the time the merger agreement was executed, at the date of mailing of this proxy statement/prospectus or at the time of the special meetings.

American and MidCarolina are legal entities separate and distinct from their subsidiaries, and their revenues depend primarily on the payment of dividends from their subsidiary banks. Therefore, American's and MidCarolina's principal sources of funds with which to pay dividends on their stock and their other separate expenses are dividends they receive, respectively, from American National Bank and MidCarolina Bank. The subsidiary banks of both American and MidCarolina are subject to certain regulatory and other legal restrictions on the amount of dividends they are permitted to pay to American and MidCarolina. See Information About MidCarolina Financial Corporation Supervision and Regulation on page 95.

MidCarolina's and MidCarolina Bank's boards of directors have entered into agreements called memorandums of understandings with, respectively, the Federal Reserve Bank of Richmond and with the FDIC and North Carolina Commissioner of Banks. MidCarolina's agreement provides that it will not receive dividends from MidCarolina Bank, pay dividends on MidCarolina's common or preferred stock or payments on trust preferred securities, incur additional debt, or redeem any outstanding stock, without its regulator's prior written approval. MidCarolina Bank's agreement provides that it will not pay any dividend to MidCarolina without its regulators' approval. See Information About MidCarolina Financial Corporation Memorandums of Understanding on page 93.

American currently pays dividends on its common stock on a quarterly basis, and it anticipates declaring and paying quarterly dividends after completion of the merger. American has no current intention to change its dividend strategy of paying a relatively high cash dividend, but has and will continue to evaluate that decision on a quarterly basis. After the merger, the final determination of the timing, amount and payment of dividends on American common stock will be at the discretion of its board of directors and will depend upon the earnings of American and its subsidiary bank, the financial condition of American and other factors, including general economic conditions and applicable governmental regulations and policies.

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INFORMATION ABOUT AMERICAN NATIONAL BANKSHARES INC.

American National Bankshares Inc. is a bank holding company organized under the laws of the Commonwealth of Virginia and headquartered in Danville, Virginia. American provides a full range of financial services through its subsidiary community bank, American National Bank and Trust Company, a national banking association chartered in 1909 under the laws of the United States. American National Bank serves southern and central Virginia and the northern portion of North Carolina with 18 banking offices. The common stock of American is traded on the NASDAQ Global Select Market under the symbol AMNB.

As of December 31, 2010, American had total assets of approximately \$833.7 million, total net loans of approximately \$512.3 million, total deposits of approximately \$640.1 million and total shareholders' equity of approximately \$108.1 million. American National Bank also manages an additional \$417.0 million of assets in its trust and investment services division.

The principal executive offices of American are located at 628 Main Street, Danville, Virginia 24541. American's telephone number is (434) 792-5111.

For more information about American, see [Where You Can Find More Information](#) beginning on page 165.

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INFORMATION ABOUT MIDCAROLINA FINANCIAL CORPORATION

Business

General. MidCarolina Financial Corporation is a North Carolina business corporation that was formed in 2002 to serve as a bank holding company for MidCarolina Bank. Its office is located at 3101 South Church Street, Burlington, North Carolina 27215, and its principal source of revenue is dividends it receives from MidCarolina Bank on MidCarolina Bank's common stock held by MidCarolina.

MidCarolina Bank began operations on August 14, 1997 as a North Carolina chartered commercial bank. It is engaged in general commercial banking primarily in Alamance and Guilford Counties, North Carolina. Its main office is located in Burlington, North Carolina, and it has one full-service branch in Burlington, one full-service branch in Graham, two full-service branches in Greensboro, and one full-service branch in Mebane, and limited service offices in the Alamance Regional Medical Center and the Village of Brookwood Retirement Center, both of which are located in Burlington. Its loans and deposits are generated primarily from the areas where its offices are located.

MidCarolina Bank's primary sources of revenue are interest and fee income from its lending activities. These lending activities consist principally of originating commercial operating and working capital loans, loans secured by commercial real estate, residential mortgage loans, home equity lines of credit, and other consumer loans. Its current lending strategy is to establish market share throughout Alamance and Guilford Counties, with an emphasis in Burlington, Graham, Greensboro and Mebane. Interest and dividend income from investment activities generally provide its second largest source of income.

Deposits are the primary source of MidCarolina Bank's funds for lending and other investment purposes. It attracts both short-term and long-term deposits from the general public by offering a variety of accounts and rates, including statement savings accounts, negotiable order of withdrawal accounts, money market demand accounts, non-interest-bearing accounts and fixed interest rate certificates with varying maturities. MidCarolina Bank's deposits are obtained primarily from its primary market area, and it uses traditional marketing methods to attract new customers and deposits, including print media advertising and direct mailings. However, it also utilizes alternative sources of funds, such as brokered certificates of deposit and borrowings from the Federal Home Loan Bank of Atlanta. Deposit flows are greatly influenced by economic conditions, the general level of interest rates, competition and other factors.

Memorandums of Understanding. During June 2010, MidCarolina Bank's board of directors entered into an agreement called a Memorandum of Understanding (the "Memorandum") with the FDIC and the North Carolina Commissioner of Banks which provides that MidCarolina Bank will move in good faith to take various actions designed to improve its lending procedures and other conditions related to its operations. The Memorandum provides generally for MidCarolina Bank's board of directors to (i) review and formulate objectives relative to liquidity and growth, including a reduction in reliance on volatile liabilities, (ii) formulate plans for the reduction and improvement in adversely classified assets, (iii) review compliance with and, as necessary, modify written policies regarding asset/liability, investment and funds management, (iv) oversee and enforce loan underwriting procedures and implement policies regarding other real estate and an effective loan documentation system, (v) not pay any dividend without the approval of the regulators, (vi) review officer performance and consider additional staffing needs, and (vii) provide progress reports and submit various other information to the regulators.

During October 2010, MidCarolina's board of directors entered into a separate Memorandum of Understanding with the Federal Reserve Bank of Richmond under which MidCarolina agreed that, among other things, and without its regulator's prior written approval, it will not (i) receive dividends from

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MidCarolina Bank, (ii) pay dividends on MidCarolina's common or preferred stock or payments on trust preferred securities, (iii) incur additional debt, or (iv) redeem any outstanding stock.

Subsidiaries. MidCarolina Bank is MidCarolina's only bank subsidiary. MidCarolina also holds all of the common trust securities of two statutory business trusts, MidCarolina I and MidCarolina Trust II, which were formed by MidCarolina to facilitate the issuance of preferred trust securities to provide it with additional capital. MidCarolina Bank's only subsidiary, MidCarolina Investments, Inc., was dormant during 2010. It previously made general securities brokerage, insurance and other financial services available through a contract arrangement with a third-party broker-dealer and insurance agency. MidCarolina Bank currently makes those services available through a similar contract arrangement with a third-party provider.

Employees. At December 31, 2010, MidCarolina Bank had 77 full-time equivalent employees. MidCarolina itself has no separate employees.

Market Area and Competition. MidCarolina Bank's primary market area is Alamance County and Guilford County, North Carolina, and it faces strong competition in that market, both in attracting deposits and making loans. Its most direct competition for deposits comes from commercial banks, savings institutions and credit unions located in the market area, including large financial institutions that have greater financial and marketing resources available to them. Competition has increased as a result of the elimination of restrictions on the interstate operations of financial institutions.

Based on data published by the FDIC as of June 30, 2010, there were 16 depository institutions (excluding credit unions) with 50 banking offices in Alamance County alone, and MidCarolina Bank held 17.9% of the total deposits held by the offices of those institutions in that county. It held 4.5% of the total deposits held by offices of all depository institutions (other than credit unions) located in Alamance and Guilford Counties on a combined basis. MidCarolina Bank also faces significant competition for depositors' funds from sellers of short-term money market securities and other corporate and government securities. MidCarolina Bank's ability to attract and retain interest-bearing deposits depends generally on its ability to provide a rate of return, liquidity and risk comparable to that offered by competing investment opportunities.

Competition for loans comes from savings institutions, credit unions, commercial banks, and mortgage banking companies. MidCarolina Bank competes for loans primarily through the interest rates and loan fees it charges and the efficiency and quality of services it provides to borrowers.

Property. MidCarolina Bank owns the facilities that house its main office located at 3101 South Church Street in Burlington, as well as its full-service branch offices located at 5509-A West Friendly Avenue, Suite 102 in Greensboro, and at 842 South Main Street in Graham. It leases the facilities housing its full-service offices located at 2214 North Church Street in Burlington, 703 Suite 101, Green Valley Road in Greensboro, and 1107 South Fifth Street in Mebane. It occupies space rent-free for its two limited service offices in Burlington located in the Alamance Regional Medical Center and in the Village of Brookwood Retirement Center under arrangements with the owners of those facilities. MidCarolina Bank also rents space for its loan operations functions located at 3102 South Church Street in Burlington.

The total net book value of MidCarolina Bank's furniture, fixtures, leasehold improvements, land, buildings and equipment at December 31, 2010 was approximately \$6.7 million. All properties are considered by MidCarolina Bank's management to be in good condition and adequately covered by insurance.

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Supervision and Regulation

MidCarolina's and MidCarolina Bank's business and operations are subject to extensive federal and state governmental regulation and supervision. The following is a summary of some of those basic statutes and regulations. However, it is not a complete discussion of all the laws that affect their business, and it is qualified in its entirety by reference to the particular statutory or regulatory provision being described.

General. MidCarolina is a bank holding company registered with the Federal Reserve under the Bank Holding Company Act of 1956, as amended (the "BHCA"). It is subject to supervision and examination by, and the regulations and reporting requirements of, the Federal Reserve. Under the BHCA, a bank holding company's activities are limited to banking, managing or controlling banks, or engaging in other activities the Federal Reserve determines are closely related and a proper incident to banking or managing or controlling banks.

The BHCA prohibits a bank holding company from acquiring direct or indirect control of more than 5.0% of the outstanding voting stock, or substantially all of the assets, of any financial institution, or merging or consolidating with another bank holding company or savings bank holding company, without the Federal Reserve's prior approval. Additionally, the BHCA generally prohibits bank holding companies from engaging in a nonbanking activity, or acquiring ownership or control of more than 5.0% of the outstanding voting stock of any company that engages in a nonbanking activity, unless that activity is determined by the Federal Reserve to be closely related and a proper incident to banking. In approving an application to engage in a nonbanking activity, the Federal Reserve must consider whether that activity can reasonably be expected to produce benefits to the public, such as greater convenience, increased competition, or gains in efficiency, that outweigh possible adverse effects, such as undue concentration of resources, decreased or unfair competition, conflicts of interest or unsound banking practices.

The law imposes a number of obligations and restrictions on bank holding companies and their insured bank subsidiaries designed to minimize potential losses to depositors and the FDIC's Deposit Insurance Fund (the "DIF"). For example, if a bank holding company's insured bank subsidiary becomes undercapitalized, the bank holding company is required to guarantee the bank's compliance (subject to certain limits) with the terms of any capital restoration plan filed with its federal banking agency. A bank holding company is required to serve as a source of financial strength to its bank subsidiaries and to commit resources to support those banks in circumstances in which, absent that policy, it might not do so. Under the BHCA, the Federal Reserve may require a bank holding company to terminate any activity or relinquish control of a nonbank subsidiary if the Federal Reserve determines that the activity or control constitutes a serious risk to the financial soundness and stability of a bank subsidiary of the bank holding company.

MidCarolina Bank is a North Carolina-chartered bank. Its deposits are insured under the FDIC's DIF, and it is subject to supervision and examination by, and the regulations and reporting requirements of, the FDIC and the North Carolina Commissioner of Banks. MidCarolina Bank's business also is influenced by prevailing economic conditions and governmental policies, both foreign and domestic, and by the monetary and fiscal policies of the Federal Reserve. MidCarolina Bank is not a member of the Federal Reserve System. However, under the Federal Reserve's regulations, all FDIC-insured banks must maintain average daily reserves against their transaction accounts. Currently, no reserves are required on the first \$10.7 million of transaction accounts, but a bank must maintain reserves equal to 3.0% on aggregate balances between \$10.7 million and \$58.8 million, and reserves equal to 10.0% on aggregate balances in excess of \$58.8 million. The Federal Reserve may adjust these percentages from time to time. Because MidCarolina Bank's reserves must be maintained in the form of vault cash or in an account at a Federal Reserve Bank or with a qualified correspondent bank, one effect of the reserve requirement is to reduce the amount of MidCarolina Bank's assets that are available for lending and other investment activities. The Federal Reserve's actions and policy directives determine to a significant degree the cost

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and availability of funds MidCarolina Bank obtains from money market sources for lending and investing, and they also influence, directly and indirectly, the rates of interest MidCarolina Bank pays on its time and savings deposits and the rates it charges on commercial bank loans.

As an insured bank, MidCarolina Bank is prohibited from engaging as a principal in an activity that is not permitted for national banks unless (i) the FDIC determines that the activity would pose no significant risk to the DIF and (ii) MidCarolina Bank is in compliance with applicable capital standards. Insured banks also are prohibited generally from directly acquiring or retaining any equity investment of a type or in an amount not permitted for national banks.

The North Carolina Commissioner of Banks and the FDIC regulate all areas of MidCarolina Bank's business, including its payment of dividends and other aspects of its operations. They conduct regular examinations of MidCarolina Bank, and it must furnish periodic reports to the North Carolina Commissioner of Banks and the FDIC containing detailed financial and other information about its affairs. The North Carolina Commissioner of Banks and the FDIC have broad powers to enforce laws and regulations that apply to MidCarolina Bank and to require corrective action of conditions that affect its safety and soundness. These powers include, among others, issuing cease and desist orders, imposing civil penalties, removing officers and directors, and otherwise intervening in MidCarolina Bank's operation and management if their examinations and the reports filed with them indicate the need to do so.

Under North Carolina banking laws, if a bank's capital stock becomes impaired by losses or other causes, and the bank's surplus and undivided profits are insufficient to make good the impairment, the North Carolina Commissioner of Banks may require the bank to make the impairment good by an assessment upon the bank's stockholders (or on its sole shareholder in the case of a bank owned by a bank holding company). If any stockholder does not pay the assessment, the bank's board of directors must sell a sufficient amount of the bank's stock held by that stockholder at public auction to make good the assessment on that stockholder.

Gramm-Leach-Bliley Act. Various federal laws governing the banking industry, as well as the securities and insurance industries, were changed during 1999 with the enactment of the Gramm-Leach-Bliley Act. The act permitted bank holding companies to become financial holding companies and, in general (i) expanded opportunities to affiliate with securities firms and insurance companies; (ii) overrode certain state laws that prohibited certain banking and insurance affiliations; (iii) expanded the activities in which banks and bank holding companies could participate; (iv) required that banks and bank holding companies engage in some activities only through affiliates owned or managed in accordance with specified requirements; and (v) reorganized responsibility among various federal regulators for oversight of certain securities activities conducted by banks and bank holding companies.

Dodd-Frank Act. During 2010, the bank regulatory landscape was again dramatically changed by the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) which was signed into law on July 21, 2010 and which implements far-reaching regulatory reform. Among its more significant provisions, the Dodd-Frank Act:

established the Financial Stability Oversight Counsel made up of the heads of the various bank regulatory and other agencies to identify and respond to risks to U.S. financial stability arising from ongoing activities of large financial companies;

established centralized responsibility for consumer financial protection by creating a new Consumer Financial Protection Bureau which will be responsible for implementing, examining and enforcing compliance with federal consumer financial laws with respect to financial institutions with over \$10 billion in assets;

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required that banking agencies establish for most bank holding companies the same leverage and risk-based capital requirements as apply to insured depository institutions, and that bank holding companies and banks be well-capitalized and well managed in order to acquire banks located outside their home states; and, prohibits bank holding companies from including new trust preferred securities in their Tier 1 capital and, beginning with a three-year phase-in period on January 1, 2013, requires bank holding companies with assets over \$15 billion to deduct existing trust preferred securities from their Tier 1 capital;

required the FDIC to set a minimum DIF reserve ratio of 1.35% and that the DIF reserve ratio be increased to that level by September 30, 2020, off-set the effect of the higher minimum ratio on insured depository institutions with assets of less than \$10 billion, and change the assessment base used for calculating insurance assessments from the amount of insured deposits to average consolidated total assets minus average tangible equity;

established a permanent \$250,000 limit for federal deposit insurance; provided separate, unlimited federal deposit insurance until December 31, 2012 for noninterest-bearing demand transaction accounts, and repealed the federal prohibition on the payment of interest on certain demand deposits, thereby permitting depository institutions to pay interest on business transaction and other accounts;

amended the Electronic Fund Transfer Act to, among other things, give the Federal Reserve the authority to establish rules regarding interchange fees charged for electronic debit transactions by payment card issuers having assets over \$10 billion and to enforce a new statutory requirement that those fees be reasonable and proportional to the actual cost of a transaction to the issuer; and

required implementation of various corporate governance processes affecting areas such as executive compensation and proxy access by shareholders.

Many aspects of the Dodd-Frank Act are subject to rulemaking and will take effect over time, making it difficult to anticipate the overall financial impact on financial institutions and consumers. Provisions in the legislation that affect the payment of interest on demand deposits and interchange fees are likely to increase the costs associated with deposits as well as reduce banks' revenues.

Restrictions on Payment of Dividends. Under North Carolina law, MidCarolina is authorized to pay dividends as declared by its board of directors, provided that no such distribution results in MidCarolina's insolvency on a going concern or balance sheet basis. However, although MidCarolina is a legal entity separate and distinct from MidCarolina Bank, its principal source of funds with which it can pay dividends to its shareholders and its separate expenses is dividends it receives from MidCarolina Bank. For that reason, MidCarolina's ability to pay dividends effectively is subject to the same limitations that apply to MidCarolina Bank.

In general, MidCarolina Bank may pay dividends only from its undivided profits. However, if its surplus is less than 50% of its paid-in capital stock, its directors may not declare any cash dividend until it has transferred to surplus 25% of its undivided profits or any lesser percentage necessary to raise its surplus to an amount equal to 50% of its paid-in capital stock.

As described above under the caption "Memorandums of Understanding," MidCarolina's and MidCarolina Bank's boards of directors have entered into agreements with, respectively, the Federal Reserve Bank of Richmond and with the FDIC and North Carolina Commissioner of Banks. MidCarolina's agreement provides that it will not receive dividends from MidCarolina Bank, pay dividends on MidCarolina's common or preferred stock or payments on trust preferred securities, incur additional debt, or redeem any outstanding stock, without its regulator's prior written approval.

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MidCarolina Bank's agreement provides that it will not pay any dividend to MidCarolina without its regulators' approval.

Federal law prohibits MidCarolina Bank from making any capital distributions, including paying a cash dividend, if it is, or after making the distribution it would become, undercapitalized as that term is defined in the Federal Deposit Insurance Act (the FDIA). Also, if in the FDIC's opinion an insured bank under its jurisdiction is engaged in or is about to engage in an unsafe or unsound practice, the FDIC may require, after notice and hearing, that the bank cease and desist from that practice. The FDIC has indicated that paying dividends that deplete a bank's capital base to an inadequate level would be an unsafe and unsound banking practice. (See Prompt Corrective Action below.) The FDIC has issued policy statements which provide that insured banks generally should pay dividends only out of their current operating earnings. Also, under the FDIA no dividend may be paid by an FDIC-insured bank while it is in default on any assessment due the FDIC. MidCarolina Bank's payment of dividends also may be affected or limited by other factors, such as events or circumstances that lead the FDIC to require it to maintain its capital above regulatory guidelines.

Capital Adequacy. MidCarolina and MidCarolina Bank are required to comply with the Federal Reserve's and FDIC's capital adequacy standards for bank holding companies and insured banks. The Federal Reserve and FDIC have issued risk-based capital and leverage capital guidelines for measuring capital adequacy, and all applicable capital standards must be satisfied for MidCarolina or MidCarolina Bank to be considered in compliance with regulatory capital requirements.

Under the risk-based capital guidelines, the minimum ratio (Total Capital Ratio) of an entity's total capital (Total Capital) to its risk-weighted assets (including certain off-balance-sheet items, such as standby letters of credit) is 8.0%. At least half of Total Capital must be composed of Tier 1 Capital. Tier 1 Capital includes common equity, undivided profits, minority interests in the equity accounts of consolidated subsidiaries, qualifying noncumulative perpetual preferred stock, and a limited amount of cumulative perpetual preferred stock, less goodwill and certain other intangible assets. The remaining Total Capital may consist of Tier 2 Capital which includes certain subordinated debt, certain hybrid capital instruments and other qualifying preferred stock, and a limited amount of loan loss reserves. A bank or bank holding company that does not satisfy minimum capital requirements may be required to adopt and implement a plan acceptable to its federal banking regulator to achieve an adequate level of capital.

Under the leverage capital measure, the minimum ratio (Leverage Capital Ratio) of Tier 1 Capital to average assets, less goodwill and various other intangible assets, is 3.0% for entities that meet specified criteria, including having the highest regulatory rating. All other entities generally are required to maintain an additional cushion of 100 to 200 basis points above the stated minimum. The guidelines also provide that banks experiencing internal growth or making acquisitions will be expected to maintain strong capital positions substantially above the minimum levels without significant reliance on intangible assets. A bank's Tangible Leverage Ratio (deducting all intangibles) and other indicators of capital strength also will be taken into consideration by banking regulators in evaluating proposals for expansion or new activities.

The Federal Reserve and the FDIC also consider interest rate risk (when the interest rate sensitivity of an institution's assets does not match the sensitivity of its liabilities or its off-balance-sheet position) in evaluating capital adequacy. Banks with excessive interest rate risk exposure must hold additional amounts of capital against their exposure to losses resulting from that risk. The regulators also require banks to incorporate market risk components into their risk-based capital. Under these market risk requirements, capital is allocated to support the amount of market risk related to a bank's trading activities.

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Capital categories of financial institutions are determined only for the purpose of applying the prompt corrective action rules described below which have been adopted by the various federal banking regulators, and they do not necessarily constitute an accurate representation of overall financial condition or prospects for other purposes. A failure to meet capital guidelines could subject MidCarolina Bank to a variety of enforcement remedies under those rules, including issuance of a capital directive, termination of FDIC deposit insurance, a prohibition on taking brokered deposits, and other restrictions on MidCarolina Bank's business. As described below, substantial additional restrictions can be imposed on banks that fail to meet applicable capital requirements.

Prompt Corrective Action. Federal law establishes a system of prompt corrective action to resolve the problems of undercapitalized banks. Under this system, the FDIC has established five capital categories (well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized) and it is required to take various supervisory actions, and is authorized to take other discretionary actions, with respect to banks in the three undercapitalized categories. The severity of any actions taken will depend on the capital category in which a bank is placed. Generally, subject to a narrow exception, current federal law requires the FDIC to appoint a receiver or conservator for a bank that is critically undercapitalized.

Under the FDIC's rules implementing the prompt corrective action provisions, an insured, state-chartered bank that (i) has a Total Capital Ratio of 10.0% or greater, a Tier 1 Capital Ratio of 6.0% or greater, and a Leverage Ratio of 5.0% or greater, and (ii) is not subject to any written agreement, order, capital directive, or prompt corrective action directive issued by the FDIC, is considered well capitalized. A bank with a Total Capital Ratio of 8.0% or greater, a Tier 1 Capital Ratio of 4.0% or greater, and a Leverage Ratio of 4.0% or greater, is considered adequately capitalized. A bank that has a Total Capital Ratio of less than 8.0%, a Tier 1 Capital Ratio of less than 4.0%, or a Leverage Ratio of less than 4.0%, is considered undercapitalized. A bank that has a Total Capital Ratio of less than 6.0%, a Tier 1 Capital Ratio of less than 3.0%, or a Leverage Ratio of less than 3.0%, is considered significantly undercapitalized, and a bank that has a tangible equity capital to assets ratio equal to or less than 2.0% is considered critically undercapitalized. For purposes of these rules, the term tangible equity includes core capital elements counted as Tier 1 Capital for purposes of the risk-based capital standards (see Capital Adequacy above), plus the amount of outstanding cumulative perpetual preferred stock (including related surplus), minus all intangible assets (with various exceptions). A bank may be deemed to be in a lower capitalization category than indicated by its actual capital position if it receives an unsatisfactory examination rating.

A bank categorized as undercapitalized, significantly undercapitalized, or critically undercapitalized is required to submit an acceptable capital restoration plan to the FDIC. An undercapitalized bank also is generally prohibited from increasing its average total assets, making acquisitions, establishing new branches, or engaging in new lines of business, other than in accordance with an accepted capital restoration plan or with the FDIC's approval. Also, the FDIC may treat an undercapitalized bank as being significantly undercapitalized if it determines that is necessary to carry out the purpose of the law.

On December 31, 2010, MidCarolina Bank's capital ratios were at levels to qualify it as well capitalized under the FDIC's rules.

Federal Deposit Insurance. MidCarolina Bank's deposits are insured by the FDIC to the full extent provided in the FDIA, and it pays assessments to the FDIC for that insurance coverage. Under the FDIA, the FDIC may terminate a bank's deposit insurance if it finds that the bank has engaged in unsafe and unsound practices, is in an unsafe or unsound condition to continue operations, or has violated applicable laws, regulations, rules or orders.

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The FDIC uses a risk-based assessment system to determine the amount of MidCarolina Bank's deposit insurance assessment based on an evaluation of the probability that MidCarolina Bank will cause a loss to the DIF. That evaluation takes into consideration risks attributable to different categories and concentrations of MidCarolina Bank's assets and liabilities and any other factors the FDIC considers relevant, including information obtained from the North Carolina Commissioner of Banks. A higher assessment rate results in an increase in the deposit insurance assessments paid by MidCarolina Bank.

The FDIC is responsible for maintaining the adequacy of the DIF, and the amount MidCarolina Bank pays for deposit insurance is influenced not only by an assessment of the risk it poses to the DIF, but also by the adequacy of the insurance fund at any time to cover the risk posed by all insured institutions. Because the DIF reserve ratio had fallen below the minimum level required by law, during 2008 the FDIC adopted a restoration plan to return the reserve ratio to the minimum level and, during 2009, it imposed a special assessment on insured institutions, increased regular assessment rates, and required that insured institutions prepay their regular quarterly assessments through 2012. More recently, as required by the Dodd-Frank Act, the FDIC has set the minimum DIF reserve ratio at 1.35% which must be achieved by September 30, 2020. Although the Dodd-Frank Act requires the FDIC to off-set the effect of the higher minimum ratio on insured depository institutions with assets of less than \$10 billion, FDIC insurance assessments paid by all insured depository institutions, including MidCarolina Bank, could be increased substantially in the future if the FDIC finds an increase to be necessary in order to adequately maintain the DIF.

Restrictions on Transactions with Affiliates. MidCarolina Bank is subject to the provisions of Sections 23A and 23B of the Federal Reserve Act which restrict certain transactions between a bank and its affiliates, including its bank holding company. Among other things, Section 23A limits the amount of:

a bank's loans or extensions of credit to, or investment in, its affiliates;

assets a bank may purchase from affiliates, except for real and personal property exempted by the Federal Reserve;

the amount of a bank's loans or extensions of credit to third parties collateralized by securities or obligations of the bank's affiliates; and

a bank's issuance of a guarantee, acceptance or letter of credit for its affiliates.

The total amount of these transactions is limited in amount, as to any one affiliate, to 10% of a bank's capital and surplus and, as to all affiliates, to 20% of a bank's capital and surplus. In addition to the amount limitations, each of the above transactions must meet specified collateral requirements. MidCarolina Bank also must comply with other provisions under Section 23A designed to prevent the Bank's taking of low-quality assets from an affiliate.

Section 23B, among other things, prohibits a bank or its subsidiaries generally from engaging in transactions with its affiliates unless those transactions are on terms substantially the same, or at least as favorable to the bank or its subsidiaries, as would apply in comparable transactions with nonaffiliated companies.

Federal law also restricts MidCarolina Bank's ability to extend credit to its and MidCarolina's executive officers, directors, principal shareholders and their related interests. These credit extensions:

must be made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated third parties; and

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must not involve more than the normal risk of repayment or present other unfavorable features.

Community Reinvestment. Under the Community Reinvestment Act (the CRA), an insured bank has a continuing and affirmative obligation, consistent with its safe and sound operation, to help meet the credit needs of its entire community, including low and moderate income neighborhoods. The CRA does not establish specific lending requirements or programs for banks, nor does it limit a bank's discretion to develop, consistent with the CRA, the types of products and services it believes are best suited to its particular community. The CRA requires the federal banking regulators, in their examinations of insured banks, to assess the banks' records of meeting the credit needs of their communities, using the ratings of outstanding, satisfactory, needs to improve, or substantial noncompliance, and to take that record into account in their evaluations of various applications by those banks. All banks are required to make public disclosure of their CRA performance ratings. MidCarolina Bank received a satisfactory rating in its last CRA examination during 2010.

USA Patriot Act of 2001. The USA Patriot Act of 2001 was enacted in response to the terrorist attacks that occurred in the United States on September 11, 2001. The act strengthened the ability of U.S. law enforcement and the intelligence community to work cohesively to combat terrorism on a variety of fronts. The act's impact on all financial institutions has been significant and wide ranging. The act contains sweeping anti-money laundering and financial transparency requirements and imposes various other regulatory requirements, including standards for verifying customer identification at account opening, and rules promoting cooperation among financial institutions, regulators and law enforcement agencies in identifying parties that may be involved in terrorism or money laundering.

Sarbanes-Oxley Act of 2002. The Sarbanes-Oxley Act of 2002 (the Sarbanes-Oxley Act) became effective on July 30, 2002. In general, it mandated important corporate governance and financial reporting requirements intended to enhance the accuracy and transparency of public companies' reported financial results. It established specific responsibilities for corporate chief executive officers, chief financial officers and audit committees in the financial reporting process, and it created a regulatory body to oversee auditors of public companies. It enhanced SEC enforcement tools, new criminal penalties for federal mail, wire and securities fraud, and criminal penalties for document and record destruction in connection with federal investigations. It also lengthened the statute of limitations for securities fraud claims and provided new corporate whistleblower protection.

The economic and operational effects of the Sarbanes-Oxley Act on public companies, including MidCarolina, have been significant in terms of the time, resources and costs associated with compliance. Because the Sarbanes-Oxley Act, for the most part, applies equally to larger and smaller public companies, MidCarolina will continue to be presented with additional challenges as a smaller, community-oriented financial institution seeking to compete with larger financial institutions in its markets.

Board of Directors

MidCarolina's bylaws provide that its board of directors:

consists of not less than five nor more than 20 members, with MidCarolina's board of directors being authorized to set and change the actual number of directors from time to time within those limits; and

is divided into three classes with directors being elected to staggered three-year terms, and that each year the terms of the directors in one class expire and directors in that class are

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elected for three-year terms or until their respective successors have been duly elected and qualified.

MidCarolina's board of directors currently consists of 15 directors, each of whom also serves as a director of MidCarolina Bank. Three current directors of MidCarolina, F. D. Hornaday III, John H. Love and Robert A. Ward, have been chosen by MidCarolina's board of directors, and approved by American's board of directors, to become directors of American and American National Bank following the merger. Additionally, though he will not serve as a voting director of American, MidCarolina's chairman, James R. Copland III, will serve as a director emeritus of American following the merger. The following table contains information about those four current MidCarolina directors.

Name and Age	Positions with	First Elected/	Principal Occupation and Business Experience
	MidCarolina and MidCarolina Bank (1)	Current Term Expires (2)	
James R. Copland III (70)	Chairman	1997 / 2013	Chairman, Copland Industries, Inc. and Copland Fabrics, Inc. (textiles)
F. D. Hornaday III (61)	Vice Chairman	1997 / 2011	President and Chief Executive Officer, Knit Wear Fabrics, Inc. (circular knit manufacturer)
John H. Love (51)	Director	1997 / 2011	President, W. E. Love & Associates, Inc. (insurance brokerage)
Robert A. Ward (70)	Director	1997 / 2013	Retired; previously, Executive Vice President and Chief Financial Officer, Unifi, Inc. (textiles) (1971 - 2005)

(1) Mr. Copland serves as Chairman of the board's Executive Committee. Mr. Hornaday serves as a member of the board's Audit Committee, Compensation Committee and Executive Committee. Mr. Love serves as Chairman of the board's Nominating and Corporate Governance Committee and as a member of Audit Committee, Compensation Committee and Executive Committee. Mr. Ward serves as Chairman of the board's Compensation Committee and a member of the board's Nominating and Corporate Governance Committee and Executive Committee.

(2) First elected refers to the year in which each individual first became a director of MidCarolina Bank. Each of the four directors listed in the table first became a director of MidCarolina during 2002 in connection with its organization as MidCarolina Bank's holding company and previously had served as an organizing director of MidCarolina Bank since 1997.

The experience, qualifications, attributes, skills and other factors that have led MidCarolina's board to conclude that each of the directors listed in the table above should serve as a director are described below.

James R. Copland III serves as Chairman of MidCarolina's and MidCarolina Bank's boards of directors. He first became a director of MidCarolina in 2002 in connection with its organization as MidCarolina Bank's holding company, and he previously had served as a founding director of MidCarolina Bank since 1997. His principal occupation is his service as the Chairman of Copland Industries, Inc. and Copland Fabrics, Inc. Mr. Copland is a Burlington native and holds a degree in Business Administration from the University of North Carolina at Chapel Hill. He gained experience as a bank director through his service on the board of directors of Northwestern Bank for 23 years and as a founding director of FirstSouth Bank, a locally-owned community bank in Burlington, from 1988 to 1996. Mr. Copland's management and financial background, and level of business knowledge and experience in the banking industry, are attributes that qualify him to serve as a director.

F.D. Hornaday III serves as Vice Chairman of MidCarolina's and MidCarolina Bank's boards of directors. He first became a director of MidCarolina in 2002 in connection with its organization as MidCarolina Bank's holding company, and he previously had served as a founding director of

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MidCarolina Bank since 1997. His principal occupation is President and Chief Executive Officer of Knit Wear Fabrics, Inc., a circular knit manufacturer. A lifelong Burlington resident, Mr. Hornaday received a degree in Industrial Relations from the University of North Carolina at Chapel Hill in 1971 and began his career in textiles the following year. He is currently a Board member of the Trust Company of the South, North Carolina's oldest non-depository trust company, and he also serves as the current Chairman of the Alamance Regional Medical Center Board overseeing the management of the hospital's strategic, business and regulatory environment. Mr. Hornaday's level of business knowledge and experience derived from management positions in the textile industry, along with his leadership of the local hospital board, are attributes that qualify him to serve as a director.

John H. Love first became a director of MidCarolina in 2002 in connection with its organization as MidCarolina Bank's holding company, and he previously had served as a founding director of MidCarolina Bank since 1997. His principal occupation is President of W. E. Love & Associates, Inc., an insurance brokerage firm. A Burlington native, Mr. Love received a degree in Business Administration from the University of South Carolina in 1982 and began working in his family's business, where he remains today. Mr. Love's background in overall risk evaluation and statistical analysis of risk, and his experience dealing with multiple regulatory agencies in his own profession, qualify him to serve as a director.

Robert A. Ward first became a director of MidCarolina in 2002 in connection with its organization as MidCarolina Bank's holding company, and he previously had served as a founding director of MidCarolina Bank since 1997. He is retired from full-time employment, and previously served as Executive Vice President and Chief Financial Officer of Unifi, Inc., a textile company listed on the NYSE, from 1971 to 2005, where his duties included significant responsibility in the areas of accounting and risk management oversight, shareholder relations, SEC and New York Stock Exchange compliance, foreign exchange matters, international operations, employee benefits and general corporate administration. A longtime Burlington resident, he received a bachelor of science degree from East Carolina University in 1962 and became a Certified Public Accountant in 1964. Mr. Ward has served as Chairman of the Board of Trustees of East Carolina University, a member of the Board of Trustees of Elon University, on a local advisory board for NationsBank, and as president of the Carolinas chapter of the Financial Executives Institute. Mr. Ward's business and financial experience and expertise qualify him to serve as a director.

Director Independence

Each year, MidCarolina's board of directors reviews transactions, relationships and other arrangements involving its directors and determines which directors the board considers to be independent. In making those determinations, the board applies the independence criteria contained in the listing requirements of the NASDAQ Stock Market. The MidCarolina board has directed its Nominating and Corporate Governance Committee to assess each outside director's independence and report its findings to the board in connection with the board's periodic determinations, and to monitor the status of each director on an ongoing basis and inform the board of changes in factors or circumstances that may affect a director's ability to exercise independent judgment.

As described above under the caption - Board of Directors, F. D. Hornaday III, John H. Love and Robert A. Ward have been chosen by MidCarolina's board, and approved by American's board, to become directors of American and American National Bank following the merger, and MidCarolina's chairman, James R. Copland III, will serve as a director emeritus of American following the merger. Based on its most recent determination, MidCarolina's board of directors believes that each of those four individuals is an independent director under NASDAQ's criteria with respect to MidCarolina.

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In addition to the specific NASDAQ criteria, in assessing the independence of directors, MidCarolina's Nominating and Corporate Governance Committee and the board consider whether they believe any other transactions, relationships, arrangements or other factors could impair a director's ability to exercise independent judgment. In its determination that the above four directors are independent, those other factors considered by the Nominating and Corporate Governance Committee and the board included MidCarolina Bank's lending relationships with each of them.

Executive Officers

The individuals listed in the table below have been designated as the executive officers of MidCarolina and MidCarolina Bank.

Name and Age	Positions
Charles T. Canaday, Jr. (49)	President and Chief Executive Officer of MidCarolina and MidCarolina Bank (since 2007); previously served as Chief Operating Officer and Executive Vice President (from 2004 until 2007) and as MidCarolina Bank's Vice President and Senior Commercial Lender (from 2000 until 2004).
Christopher B. Redcay (58)	Chief Financial Officer and Treasurer (since 2003), Corporate Secretary (since 2006), and Senior Vice President (since 2004) of MidCarolina and MidCarolina Bank.
R. Craig Patterson (49)	Chief Credit Officer and Senior Vice President of MidCarolina (since 2004) and MidCarolina Bank's Chief Credit Officer and Senior Vice President (since 1997).

Following the merger, it is expected that Mr. Canaday will serve as senior vice president of American and as executive vice president and president of North Carolina Banking for American National Bank.

Executive Compensation

Summary. The following table shows the cash and other compensation paid or provided to or deferred by MidCarolina's president and chief executive officer, Charles T. Canaday, Jr., for 2010, 2009 and 2008. Mr. Canaday is compensated by MidCarolina Bank for his services as its officer, and he receives no separate salary or other cash compensation from MidCarolina. Mr. Canaday is employed by MidCarolina Bank under an employment agreement as described below.

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Name and Principal Position	Year	Salary (2)	Bonus (3)	Option Awards (4)	Change in		Total
					Pension Value (5)	All Other Compensation (6)	
Charles T. Canaday, Jr. (1) President and Chief Executive Officer	2010	\$ 230,000	\$ -0-	\$ -0-	\$ 20,343	\$ 18,065	\$ 268,408
	2009	230,000	-0-	28,660	19,066	17,585	295,311
	2008	230,000	65,000	-0-	17,869	22,593	335,462

- (1) Mr. Canaday is a member of MidCarolina's and MidCarolina Bank's boards of directors, but he receives no additional compensation for his service as a director.
- (2) Includes amounts deferred at Mr. Canaday's election under MidCarolina Bank's Section 401(k) plan.
- (3) Represents discretionary bonus paid for each year.
- (4) Reflects the aggregate grant date fair value, as computed under FASB ASC Topic 718, *Stock Compensation*, of stock options granted to Mr. Canaday during each year. A discussion of material assumptions made in the valuation of stock options is contained in notes B and M to MidCarolina's consolidated financial statements contained in this proxy statement/prospectus beginning on page F-1.
- (5) Reflects the increase during each year in the present value of Mr. Canaday's future benefits under his salary continuation agreement described below under the caption Retirement Benefits.
- (6) The following table describes Mr. Canaday's Other Compensation for 2010.

Description	Amount
MidCarolina Bank's matching contributions for the officer's account under its Section 401(k) plan	\$ 6,900
Automobile expense allowance paid in cash	4,800
Club dues paid by MidCarolina Bank	4,364
Cell phone reimbursement	1,620
Value officer is treated as receiving related to death benefit under split-dollar insurance policy (a)	381

- (a) Mr. Canaday is covered by a split-dollar life insurance policy that is owned by MidCarolina Bank and for which it paid lump-sum premiums in prior years. No premiums were paid on the policy during 2010, and no premiums on the policy are included in the table. MidCarolina Bank also provides its officers with group life, health, medical and other insurance coverages that are generally available to all salaried employees, and the cost of that insurance for Mr. Canaday is not included in the table.

Employment Agreement. Mr. Canaday is employed by MidCarolina Bank under an employment agreement entered into during May 2008. The agreement provides for:

an initial rolling term of three years that, at the end of each year, is extended by one additional year unless either MidCarolina Bank or Mr. Canaday gives notice that the agreement will not be extended;

annual base salary (originally \$230,000) which is subject to review and periodic increase by MidCarolina Bank's board of directors;

payment of monthly country club dues and a \$400 per month automobile allowance; and

the right to participate in bonus or incentive plans and other benefits made available by MidCarolina Bank to its executive officers.

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If Mr. Canaday's employment were terminated without cause, he would continue to receive his base salary for the remaining term of his agreement. Additionally, MidCarolina Bank could elect to enforce a covenant contained in the agreement that would prohibit Mr. Canaday from competing against MidCarolina Bank during a two-year restriction period described in the agreement following his termination (the Covenant Not To Compete). If MidCarolina Bank did that, it would be required to make additional monthly payments to Mr. Canaday for two years in an aggregate amount equal to two times his Average Annual Total Cash Compensation (which is defined in the agreement as the average of his base salary plus cash bonuses for the three calendar years preceding the year in which the termination of his employment occurred).

If, within two years following a change in control of MidCarolina or MidCarolina Bank:

Mr. Canaday's employment were terminated without cause, or

he terminated his own employment with good reason (as defined below), he would be paid an aggregate amount (payable in monthly payments for three years) equal to three times his Average Annual Total Cash Compensation. Those payments would be in lieu of any other payments under his agreement.

In the case of Mr. Canaday's voluntary termination of his own employment without good reason following a change in control, the agreement provides that MidCarolina Bank could elect to enforce the Covenant Not To Compete. If MidCarolina Bank did that, it would make monthly payments to Mr. Canaday for two years in an aggregate amount equal to two times his Average Annual Total Cash Compensation. The agreement provides for similar payments following any voluntary termination when there has not been a change in control.

As defined in the agreements, a change in control would have occurred if:

a person or group accumulated ownership of MidCarolina's or MidCarolina Bank's stock that amounted to more than 50% of the total fair market value or total voting power of all outstanding shares;

a majority of MidCarolina's board of directors were replaced during any 12-month period by directors whose appointment or election was not endorsed in advance by a majority of the board of directors; or

a person or group acquired assets from MidCarolina Bank with a total gross fair market value exceeding 50% of the total fair market value of all of its assets.

Under the agreement, Mr. Canaday would have good reason to terminate his own employment following a change in control if there was:

a material reduction in his base compensation, in his authority, duties or responsibilities, or in the budget over which he has authority;

a material change in the geographic location at which the officer must perform services; or

a material breach by MidCarolina Bank, or its successor, in any employment agreement between it and the officer.

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Under the Covenant Not To Compete, while Mr. Canaday received payments he could not directly or indirectly compete with MidCarolina Bank in any county where it had an office, in any contiguous county, or within a 15 mile radius thereof. In addition, following any termination of his employment, Mr. Canaday could not disclose or make use of any confidential information about MidCarolina Bank's business that he received during his employment.

The following table lists aggregate payments that would have been called for under Mr. Canaday's employment agreement if his employment had terminated under various circumstances on December 31, 2010.

Type of Termination Event	Amount
and Description of Payment	
<i>Involuntary Termination Without Cause, Other Than After a Change in Control:</i>	
Base salary for remaining term of employment agreement	\$ 555,833(1)
Additional payments if Covenant Not To Compete is enforced	503,333(2)
<i>Involuntary Termination Without Cause, or Voluntary Termination With Good Reason, After a Change in Control</i>	755,000(3)
<i>Voluntary Termination Without Good Reason After a Change in Control:</i>	
Payments if Covenant Not To Compete is enforced	503,333(2)
<i>Voluntary Termination Other Than After a Change in Control:</i>	
Payments if Covenant Not To Compete is enforced	503,333(2)

- (1) Reflects the aggregate amount of monthly payments that would be made during the remaining term of Mr. Canaday's employment agreement (approximately 29 months on December 31, 2010).
- (2) Reflects the aggregate amount of monthly payments that would be made to Mr. Canaday over a period of two years if MidCarolina Bank elected to enforce the Covenant Not To Compete contained in his employment agreement. These payments would not be made if MidCarolina Bank did not make that election.
- (3) Reflects the aggregate amount of monthly payments that would be made to Mr. Canaday over a period of three years. As described in this proxy statement/prospectus under the caption "The Merger - Interests of Certain Persons in the Merger" on page 85, upon completion of the merger Mr. Canaday's employment agreement with MidCarolina will terminate and be replaced by a new employment agreement with American National Bank, and he will not receive any change in control payments under the MidCarolina employment agreement. Under the agreement with American National Bank, Mr. Canaday will receive \$550,000 as a retention bonus for his agreeing to serve as an officer of American after the merger. American National Bank and Mr. Canaday will also enter into an arrangement at the time of the merger under which American National Bank will fund a deferred compensation account for Mr. Canaday with a lump sum payment of \$205,100.

Plan-Based Awards. MidCarolina has two compensation plans under which stock options have been granted, or from time to time in the future could be granted, to its and MidCarolina Bank's executive officers. They are:

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the Employee Stock Option Plan (the Old Plan) which has expired but under which options to buy shares of MidCarolina s common stock previously have been granted and remain outstanding; and

the Omnibus Stock Ownership and Long Term Incentive Plan (the New Plan) under which options to purchase MidCarolina common stock have been granted and under which restricted stock awards, long-term incentive compensation units, stock appreciation rights and book value shares could be granted in the future.

Stock options give the officers to whom they are granted the right to buy shares of MidCarolina common stock during a stated period of time (ordinarily ten years) at a fixed price per share equal to the fair market value of the stock as determined under the terms of the plans on the dates of grant. Options usually vest and become exercisable at intervals as to portions of the shares they cover based on a vesting schedule. They generally terminate immediately on the date of, or after a stated number of days following, the termination of an officer s employment. Options may be granted as incentive stock options that qualify for special tax treatment under the Internal Revenue Code, or they may be non-qualified stock options that do not qualify for that special tax treatment.

In addition to stock options, the New Plan authorizes the grant of other types of awards, including restricted stock awards (conditional grants of shares of common stock to officers subject to restrictions), long-term incentive compensation units (under which shares of common stock and cash may be paid to employees based on the extent to which performance goals or criteria set by the Compensation Committee are achieved), stock appreciation rights (under which payments may be made to officers based on increases in the market value of a specified number of shares of common stock during the term of the awards), and book value shares (under which payments may be made to officers based on increases in the book value of a specified number of shares of common stock during the term of the awards). However, no such other awards have been granted.

Stock options granted under the Old Plan and New Plan have not included any performance-based conditions. The price per share and vesting schedules of stock options are determined by the MidCarolina s board of directors based on the recommendation of the Compensation Committee at the time they are granted. The committee has used its own judgment in determining the levels of awards that it considers to be reasonable, and there are no specific measures or criteria on which the committee has determined the amounts of stock options that have been granted to executive officers.

In the event of a change in control transaction (as defined below), stock options granted under the New Plan would terminate if provision is not made in connection with the transaction for the options to be assumed by a successor company or otherwise to continue in effect. However, in any such event, the options would become immediately exercisable in full, without regard to any vesting schedule, and could be exercised on the date of the change of control, unless accelerating exercisability of the options would result in an excess parachute payment under Section 280G of the Internal Revenue Code. As defined in the agreements, a change of control transaction would occur if:

a person or group accumulated ownership of MidCarolina s or MidCarolina Bank s stock that amounted to more than 50% of the total fair market value or 35% or more of the total voting power of all outstanding shares;

a majority of MidCarolina s board of directors were replaced during any 12-month period by directors whose appointment or election was not endorsed in advance by a majority of the Board; or

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a person or group acquired assets from MidCarolina Bank with a total gross fair market value exceeding 40% of the total fair market value of all of its assets.

As described in the table below, on December 31, 2010, stock options held by Mr. Canaday remained unexercisable for 8,000 shares. As a result, those options would have accelerated and become immediately exercisable if there had been a change in control transaction on that date.

No new stock options were granted to any executive officers during 2010. The following table contains information about all stock options held by Mr. Canaday on December 31, 2010.

Outstanding Equity Awards at 2010 Year End

Name	Number of Securities Underlying Unexercised Stock options (Exercisable)	Option Awards		
		Number of Securities Underlying Unexercised Stock Options (Unexercisable)	Option Exercise Price	Option Expiration Date
Charles T. Canaday, Jr.	23,375	-0-	\$ 10.29	12/23/2015
	2,000	8,000(1)	7.25	01/20/2019

(1) The options became exercisable as to 25% of the remaining covered shares on January 20, 2011, and the remaining 75% become exercisable in three equal annual installments beginning on January 20, 2012.

As described in this proxy statement/prospectus under the caption *The Merger Interests of Certain Persons in the Merger* on page 85, upon consummation of the merger Mr. Canaday's stock options that remain unexercisable will immediately vest and become exercisable in full and, to the extent they have not previously been exercised, all his stock options will be converted into options to purchase shares of American common stock.

Retirement Benefits. MidCarolina Bank has entered into a salary continuation agreement with Mr. Canaday under which it will pay him an annual retirement benefit of \$70,000, in monthly payments, for his lifetime following the termination of his employment on or after age 65.

Under generally excepted accounting principles, MidCarolina Bank accrues a liability on its books each year for its obligation to Mr. Canaday under his agreement. These accruals are in amounts such that, at Mr. Canaday's normal retirement age, his accrual balance will equal the then-current present value of his normal retirement benefits for his expected lifetime. His accrual balance increases each year by a level principal amount, plus interest at an assumed discount rate. The discount rate for 2010 was 6.5%. It may be changed from time to time in the future to maintain the rate within reasonable standards under generally accepted accounting principles. Mr. Canaday's accrual balance at the time of any termination of his employment prior to normal retirement age will be the amount accrued on MidCarolina Bank's books at that time for its liability to him.

If Mr. Canaday's employment terminates before age 65 for any reason other than death, termination for cause or following a change in control, MidCarolina Bank will pay a reduced benefit to him for life in an amount calculated to fully amortize his accrual balance at the time of termination over a period beginning at his normal retirement age for his expected lifetime (taking into account interest on that balance during the payment period). Those payments will begin on the later of the first day of (i) the seventh month after termination of his employment, or (ii) the month after he reaches age 65. In the case of termination as a result of Mr. Canaday's disability, payments will begin following the expiration of six months from the termination of his employment. If Mr. Canaday dies while employed by MidCarolina

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Bank, or following termination of his employment under circumstances such that he is entitled to a benefit under his agreement, his beneficiary would receive a lump-sum payment in an amount equal to his accrual balance at the time of death.

If, within 12 months following a change of control (as defined below) of MidCarolina or MidCarolina Bank, Mr. Canaday's employment is terminated involuntarily without cause, or he terminates his own employment with good reason (as defined below), MidCarolina Bank, or its successor, would be obligated to pay to him, in a lump sum, an amount equal to his projected accrual balance at age 65, without discount for the time-value of money. If a change in control occurred after Mr. Canaday has begun receiving benefit payments, or following termination of his employment but before the commencement of benefit payments, he would be entitled to receive, in a lump sum, the amount of his remaining accrual balance.

Mr. Canaday's agreement would terminate automatically, and his right to payments will be forfeited, if his employment is terminated for cause.

As defined in the agreement, a change of control would occur if, in general:

a person or group accumulated ownership of MidCarolina's or MidCarolina Bank's stock that amounted to more than 50% of the total fair market value or total voting power of all outstanding shares;

a majority of MidCarolina's board of directors were replaced during any 12-month period by directors whose appointment or election was not endorsed in advance by a majority of the board; or

a person or group acquired assets of MidCarolina Bank with a total gross fair market value exceeding 50% of the total fair market value of all its assets.

Mr. Canaday would have good reason to terminate his own employment following a change in control if there was:

a material reduction in his base compensation, in his authority, duties or responsibility, or in the budget over which he has authority;

a material change in the geographic location at which he must perform services; or

a material breach by MidCarolina Bank in any employment agreement between it and him.

The following table shows the amount of the accrual balance on MidCarolina Bank's books at December 31, 2010, for its obligation to Mr. Canaday under his salary continuation agreement.

Name	Accrual Balance (1)
Charles T. Canaday, Jr.	\$ 166,729

(1) The accrual balance reflects the total amount accrued by MidCarolina Bank on its books for its liability to Mr. Canaday for benefits under his agreement.

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The following table lists the actual amounts of payments that would have been made to Mr. Canaday under his salary continuation agreement if his employment had been terminated under the specified circumstances as of December 31, 2010.

Name	Monthly payment following termination at age 65 (1)	Monthly payment following termination or disability before age 65 (2)	Lump-sum payment following death (3)	Lump-sum payment following change in control (4)
Charles T. Canaday, Jr.	\$ 5,833	\$ 3,654	\$ 166,729	\$ 723,065

- (1) Assumes that Mr. Canaday had reached age 65 at the time of termination of his employment on December 31, 2010. Payments would be made monthly for life.
- (2) Reduced payments would be payable for life following termination of employment before age 65 for any reason other than death, termination for cause, or termination following a change in control. The payment amount in the table assumes termination of employment on December 31, 2010 before age 65, and is the amount calculated to amortize Mr. Canaday's actual accrual balance on that date over a period beginning at age 65 and for his expected lifetime. Payments would begin on the first day of the later of the seventh month following termination of employment or of the month after Mr. Canaday reached age 65, or, in the case of disability, after six months following termination of employment, and would be made monthly for life.
- (3) The lump-sum payment amount equals Mr. Canaday's accrual balance on December 31, 2010.
- (4) A lump-sum payment would be made if, within 12 months following a change in control, Mr. Canaday's employment was terminated involuntarily without cause, or he terminated his own employment with good reason. The lump-sum payment amount equals Mr. Canaday's currently projected accrual balance at age 65, without discount for the time value of money.

As described in this proxy statement/prospectus under the caption "The Merger - Interests of Certain Persons in the Merger" on page 85, American has agreed to assume all of MidCarolina's obligations under Mr. Canaday's salary continuation agreement and it will remain in effect following the merger.

Life Insurance Benefits. MidCarolina Bank has purchased life insurance policies on the lives of each of its executive officers, and has entered into an endorsement split-dollar agreement with each of them. The policies are owned by MidCarolina Bank. Under the agreements, upon an officer's death while he remained employed by MidCarolina Bank, 80% of the net death proceeds of that officer's policy would be paid to his designated beneficiary. The net death proceeds of a policy would equal the total death benefit payable under the policy minus the cash surrender value of the policy. MidCarolina Bank would receive the remainder of the death benefits, including the full cash surrender value of the policy.

On December 31, 2010, the amount of the net death proceeds of the policies that would have been paid to Mr. Canaday's beneficiary following his death on that day was \$567,746.

Under MidCarolina Bank's group life insurance plan that is available on the same terms to all full-time employees, each of its executive officer is entitled to death benefits equal to his annual salary at the time of death. Benefits payable to Mr. Canaday's beneficiary under that plan following his death on December 31, 2010, would have been \$230,000.

Director Compensation

Directors Fees. MidCarolina's outside directors are compensated for their services as directors of MidCarolina Bank, and they receive no additional cash compensation for their services as

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MidCarolina's directors. Mr. Canaday is compensated as an officer of MidCarolina Bank, and he receives no additional compensation for his service as a director. The following table describes MidCarolina Bank's current standard schedule of fees paid to outside directors.

Description	Amount
Monthly fee paid to the Chairman of MidCarolina Bank's Board	\$ 1,600
Monthly fee paid to the Vice Chairman of MidCarolina Bank's Board	1,500
Monthly fee paid to Chairmen of the Audit and Loan Committees	600
Per diem fee for attendance at meetings of MidCarolina Bank's Board (1)	400
Per diem fee for attendance at Executive Committee meetings (1)	400
Per diem fee for attendance at other committee meetings (1) (2)	300

(1) The Chairman, Mr. Copland, and Vice Chairman, Mr. Hornaday, do not receive additional fees for attendance at meetings of MidCarolina Bank's board of directors or its committees.

(2) The Chairmen of the Audit and Loan Committees do not receive any additional fees for attendance at meetings of those committees.

Director Compensation for 2010. As described above under the caption - Board of Directors, F. D. Hornaday III, John H. Love and Robert A. Ward have been chosen by MidCarolina's board, and approved by American's board, to become directors of American and American National Bank following the merger, and MidCarolina's chairman, James R. Copland III, will serve as a director emeritus of American following the merger. The following table summarizes the compensation received by those directors from MidCarolina Bank for 2010.

2010 Director Compensation

Name	Fees Earned or Paid in Cash	Option Awards (1)	Total
James R. Copland III	\$ 19,200	-0-	\$ 19,200
F. D. Hornaday III	18,000	-0-	18,000
John H. Love	11,800	-0-	11,800
Robert A. Ward	12,200	-0-	12,200

(1) The 2008 Director Stock Option Plan authorizes grants of options from time to time to directors to purchase shares of MidCarolina common stock. Options generally are granted for a stated term (ordinarily ten years) at a fixed price per share that is equal to the market value of the underlying stock on the date the option is granted, and the options may include terms that provide for options to vest, or become exercisable, at intervals over a period of time. The plan authorizes the issuance of an aggregate of up to 250,000 shares of MidCarolina common stock upon the exercise of stock options. No stock options were granted to directors during 2010. On December 31, 2010, the directors listed in the table held stock options covering the following aggregate numbers of shares: Messrs. Copland and Hornaday 17,500 shares each; Messrs. Love and Ward 12,500 shares each.

Transactions with Related Persons

MidCarolina's board of directors has adopted a written policy under which its Nominating and Corporate Governance Committee, on an ongoing basis, will review and approve certain transactions, arrangements or relationships in which MidCarolina or MidCarolina Bank is a participant and in which any of their related persons has a material interest. Those related persons include MidCarolina's directors, nominees for election as directors, executive officers, beneficial owners of more than 5% of a class of voting stock, and members of the immediate family of one of those persons.

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Except as described below, the policy covers:

any transactions, arrangement or relationships, or series of transactions, arrangements or relationships, that are required to be disclosed in MidCarolina's proxy statements under rules of the SEC (in general, those in which the dollar amount involved exceeds or will exceed an aggregate of \$120,000, including all periodic payments) (Related Person Transactions); and

any other transactions, arrangements or relationships in which the dollar amount involved exceeds or will exceed an aggregate of \$20,000 (including all periodic payments) and that would fall in the first category above except for their amount being less than the \$120,000 dollar threshold specified above (Other Transactions).

The Nominating and Corporate Governance Committee will review and pre-approve Related Person Transactions, and Other Transactions will be reported to the committee but need not be pre-approved. In the case of ongoing arrangements or relationships under which MidCarolina or MidCarolina Bank regularly obtains products or services related to their business operations, the committee need not approve each separate transaction, but will review and approve each new arrangement or relationship and then monitor transactions on an ongoing basis. The transactions covered by the policy generally include loans, but the policy does not cover loans made by MidCarolina Bank in the ordinary course of its business that are subject to banking regulations relating to insider loans and that are required to be approved by a majority of MidCarolina Bank's board of directors. The policy also does not cover the provision of services by MidCarolina Bank as a depository of funds or similar banking services in the ordinary course of its business, or compensation paid to executive officers, or to an immediate family member of a related person, that has been reviewed and approved, or recommended to MidCarolina's board of directors for approval, by the board's Compensation Committee.

In its review of Related Person Transactions, the policy provides that the committee should exercise independent judgment and should not approve any proposed transaction unless and until it has concluded to its satisfaction that the transaction:

has been or will be agreed to or engaged in on an arm's-length basis;

is or will be on terms that are fair and reasonable to MidCarolina or MidCarolina Bank; and

is in MidCarolina's or MidCarolina Bank's best interests.

There were no transactions during 2010 with related persons that were required to be approved by the Nominating and Corporate Governance Committee. However, MidCarolina Bank has had, and expects to have in the future, banking transactions in the ordinary course of its business with certain directors, executive officers and other related persons. All loans included in those transactions during 2010 were made in the ordinary course of MidCarolina Bank's business on substantially the same terms, including interest rates, repayment terms and collateral, as those prevailing at the time the loans were made for comparable transactions with other persons, and those loans did not involve more than the normal risk of collectibility or present other unfavorable features.

Table of Contents**Beneficial Ownership of MidCarolina Common Stock**

Management of MidCarolina is not aware of anyone who, on April 26, 2011, the record date for the MidCarolina special meeting, owned, beneficially or of record, 5% or more of its outstanding common stock.

The following table describes the beneficial ownership of MidCarolina common stock on April 26, 2011, by its current directors and executive officers, individually, and by all of directors and executive officers as a group.

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership (1)	Percent of Class (2)
Dexter R. Barbee, Sr.	55,354	1.12%
H. Thomas Bobo	53,766	1.09%
James B. Crouch, Jr.	115,383	2.34%
Charles T. Canaday, Jr.	64,725	1.27%
Thomas E. Chandler	109,121	2.21%
James R. Copland III	113,410	2.29%
John (Tony) A. Holt, Sr.	26,415	0.54%
F. D. Hornaday III	69,610	1.41%
Teena Marie Koury	45,859	0.93%
John H. Love	38,643	0.78%
R. Craig Patterson	86,969	1.76%
James B. Powell	90,543	1.83%
Christopher B. Redcay	33,563	0.68%
John K. Roberts	79,359	1.61%
James H. Smith, Jr.	37,532	0.76%
Robert A. Ward	66,280	1.34%
George C. Waldrep, Jr.	6,900	0.14%
All current directors and executive officers as a group (17 persons)	1,093,432	21.40%

- (1) Except as otherwise noted, and to the best of knowledge of MidCarolina's management, the individuals named and included in the group exercise sole voting and investment power with respect to all listed shares. The listed shares include the following numbers of shares with respect to which individuals named and included in the group have shared voting and investment power: Mr. Bobo 14,633 shares; Mr. Crouch 18,520 shares; Mr. Chandler 8,167 shares; Mr. Copland 39,910 shares; Mr. Holt 16,332 shares; Mr. Hornaday 6,282 shares; Mr. Patterson 40,837 shares; Mr. Powell 20,418 shares; Mr. Roberts 14,290 shares; Mr. Smith 15,305 shares; Mr. Ward 40,000 shares; all current directors and executive officers as a group 234,694 shares. The listed shares also include the following numbers of shares that could be acquired by individuals named and included in the group pursuant to stock options that could be exercised within 60 days following April 26, 2011, and with respect to which shares they may be deemed to have sole investment power only: Messrs. Copland and Hornaday 13,500 shares; Messrs. Barbee, Chandler, Love, Roberts, and Ward 10,500 shares; Messrs. Bobo, Holt, Powell, Smith, and Ms. Koury 5,500 shares; Messrs. Crouch, and Waldrep 3,500; Mr. Canaday 27,375 shares; Mr. Patterson 24,374 shares; Mr. Redcay 13,375 shares; and all current directors and executive officers as a group 177,124 shares. Shares listed for certain of the named individuals have been pledged as security for loans as follows: Mr. Holt 4,083 shares.
- (2) Percentages are calculated based on 4,929,747 total outstanding shares plus, in the case of each named individual and the group, the number of additional shares (if any) that could be purchased by that individual

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or by persons included in the group pursuant to stock options that could be exercised within 60 days following April 26, 2011.

Section 16(a) Beneficial Ownership Reporting Compliance

MidCarolina's directors and executive officers are required by federal law to file reports with the Securities and Exchange Commission regarding the amounts of and changes in their beneficial ownership of MidCarolina common stock. Based on its review of copies of those reports, MidCarolina's proxy statements are required to disclose failures to report shares beneficially owned or changes in beneficial ownership, and failures to timely file required reports, during previous years. MidCarolina's management currently is not aware of any required reports which were not filed, or which were filed late, during 2010.

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**MIDCAROLINA MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS**

The discussion and analysis that follows is intended to assist readers in the understanding and evaluation of the financial condition and results of operations of MidCarolina Financial Corporation. It should be read in conjunction with the audited consolidated financial statements and accompanying notes included in this proxy statement/prospectus beginning on page F-1 and the supplemental financial data appearing throughout this discussion and analysis. Because MidCarolina's primary asset is MidCarolina Bank, the discussion that follows focuses on the bank's business and operations. In this discussion and analysis, MidCarolina Bank is referred to as "the bank."

Financial Condition

at December 31, 2010 and 2009

Overview. MidCarolina's total assets were \$531.2 million at year-end 2010, a decrease of \$9.9 million, or 1.83%, when compared to year-end 2009. Loans, excluding those held for sale, decreased by \$38.3 million, or 8.73%, from \$438.1 million at the beginning of the year to \$399.8 million at year end. The change in loans was composed principally of decreases of \$23.7 million in construction loans, \$1.0 million in home equity lines of credit, \$1.7 million in commercial mortgage loans, \$9.0 million in residential mortgage loans and \$2.9 million in commercial and industrial loans, all of which are segments of lending MidCarolina targets and intends to continue targeting in differing magnitudes in the future. Investment securities increased by \$19.4 million, or 27.48%, from \$70.7 million to \$90.2 million. Liquid assets, consisting of cash and demand balances due from banks, interest-earning deposits in other banks and investment securities, were 19.56% of total assets, at December 31, 2010 and 14.82% at December 31, 2009. The bank, as a member of the Federal Home Loan Bank of Atlanta (the "FHLB"), has an investment of \$2.1 million in FHLB stock. The bank's investment in life insurance used to offset the cost of employee benefit plans, increased by \$335,000 during 2010 to \$8.5 million. The increase was due to an increase in the cash surrender value of the policies. Other assets increased \$4.2 million over 2009. Other real estate owned ("OREO") was the component of other assets that incurred significant change. OREO increased \$4.4 million or 154.1% over 2009 year-end, reflecting the distressed economy affecting the industry.

Deposits increased a modest \$853,000 during 2010. However, the mix of deposits showed significant improvement as total transactional accounts comprised of noninterest-bearing demand accounts and interest-bearing demand accounts increased \$80.4 million or 50.89%, from \$186.5 million at December 31, 2009 to \$266.9 million at December 31, 2010. Individually, noninterest-bearing demand accounts decreased \$2.7 million, or 6.49%, interest bearing demand accounts increased \$83.1 million, or 57.38%, savings accounts increased \$5.9 million or 71.75%, and time deposits decreased \$85.5 million, or 31.63%, over the amount of these deposits at December 31, 2009. The bank also used wholesale brokered certificates of deposit and advances from the FHLB as funding sources during 2010 to serve as a secondary source of funding asset growth. Borrowings from the FHLB decreased \$10.0 million to \$15.0 million at December 31, 2010. Wholesale brokered certificates of deposit decreased \$1.2 million or 1.16% and comprised approximately 21.73% of total deposit balances. Typically, brokered certificates of deposit have similar terms to retail certificates of deposit issued in the bank's local markets, with rates marginally lower than local market certificate of deposit rates.

Total shareholders' equity increased by \$239,000, or 0.59%, during 2010. All capital ratios continue to place MidCarolina and the bank in excess of the minimum required to be a well-capitalized institution by regulatory measures. MidCarolina issued \$4.8 million in Series A preferred stock on August 15, 2005 and \$8.5 million in trust preferred securities during prior years, so as to remain well capitalized under regulatory capital guidelines without diluting existing shareholders' ownership. The

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trust preferred securities and Series A preferred stock should provide sufficient capital to retain a well-capitalized designation as defined by regulatory capital guidelines for the foreseeable future. The trust preferred securities qualify as Tier 1 regulatory capital and are reported in Federal Reserve regulatory reports as a qualifying security in a consolidated subsidiary. The junior subordinated debentures issued to guarantee the trust preferred securities do not qualify as Tier 1 regulatory capital.

Net Interest Income. Similar to most financial institutions, the primary component of earnings for the bank is net interest income. Net interest income is the difference between interest income, principally from the loan and investment securities portfolios, and interest expense, principally on deposits and borrowings. Changes in net interest income result from changes in volume, spread and margin. For this purpose, volume refers to the average dollar level of interest-earning assets and interest-bearing liabilities, spread refers to the difference between the average yield on interest-earning assets and the average cost of interest-bearing liabilities and margin refers to net interest income divided by average interest-earning assets and is influenced by the level and relative mix of interest-earning assets and interest-bearing liabilities, as well as levels of non-interest-bearing liabilities. During the years ended December 31, 2010, 2009 and 2008, average interest-earning assets were \$526.8 million, \$523.7 million and \$487.0 million, respectively. During these same years, the bank's net yields on average interest-earning assets were 3.34%, 3.27% and 2.94%, respectively. The increase in net yields from 2009 to 2010 is a reflection of decreases in interest rates over the year. An overall increase in spread which is the difference between yields earned on interest bearing assets less the interest paid on interest bearing liabilities was strongly influenced by the bank's concerted effort to increase transactional accounts during 2010. The bank's balance sheet is well positioned for changes in interest rates. When interest rates change, the bank's earnings and net yields remain stable as the bank's ratio of interest-earning assets to interest-bearing liabilities is well matched under all interest rate environments and time periods measured by the bank.

Table 1, Average Balances and Net Interest Income, following this discussion, presents an analysis of the bank's net interest income for 2010, 2009 and 2008.

Table 2, Volume and Rate Variance Analysis, following this discussion, shows the amounts of changes in net interest income due to changes in volume and rates and illustrates that the change in the average rate of loans was offset by the decrease in average deposit rates. These two variables were the predominant factors in the higher amount of net interest income realized by the bank in 2010, when compared to 2009.

**Results of Operations for the
Years Ended December 31, 2010 and 2009**

Overview. MidCarolina reported net income available to common shareholders of \$613,000, or \$0.12 per diluted common share, for the year ended December 31, 2010, compared to net income available to shareholders of \$2.0 million, or \$0.40 per diluted common share, for 2009, a decrease of \$1.3 million or \$0.28 per diluted share.

Net Interest Income. Net interest income increased to \$17.6 million for the year ended December 31, 2010, a \$468,000 or 2.73% increase from the \$17.1 million earned in 2009. Total interest income benefited from moderate growth in the level of average earning assets offset by significantly lower rates paid on liabilities caused by abnormally low interest rates during the year. The rates earned on a significant portion of the bank's loans adjust immediately when indices like the prime rate change. Conversely, a large portion of interest-bearing liabilities, including certificates of deposit and bank borrowings, have rates fixed until maturity. As a result, interest rate reductions will generally result in an immediate drop in the bank's interest income on loans, with a more delayed impact on interest expense

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because reductions in interest costs will only occur upon renewals of certificates of deposit or borrowings. Interest rate increases will generally result in an immediate increase in the bank's interest income on loans, with a more delayed impact on interest expense because increases in interest costs will only occur upon renewals of certificates of deposit or borrowings. Average total interest-earning assets increased \$3.1 million, or 0.59%, during 2010 compared to 2009, while the average yield decreased by 39 basis points from 5.27% to 4.88%. As interest rates remained very low during 2010, the average rate on loans repriced and decreased year over year. The average rate on investment securities decreased in 2010 compared to 2009 reflecting the lower reinvestment yields available for securities purchased or reinvested during the year. Average total interest-bearing liabilities increased by \$2.3 million, or 0.48%, a slightly lower growth rate than average interest-earning asset balances. The average cost of interest-bearing liabilities decreased by 50 basis points from 2.23% to 1.73%. With the cost on interest bearing liabilities decreasing more significantly than the yield on earning assets, the bank's net interest margin increased by 7 basis points. For the year ended December 31, 2010, the net interest margin was 3.34%, while for the year ended December 31, 2009, the net interest margin was 3.27%. Table 2, Volume and Rate Variance Analysis, following this discussion, reflects the volume and rate variances from 2010 as compared to 2009.

Provision for Loan Losses. The bank recorded \$6.4 million in the provision for loan losses in 2010, an increase of \$2.0 million from the \$4.5 million provision made in 2009. Provisions for loan losses are charged to income to bring the allowance for loan losses to a level deemed appropriate by management. In evaluating the allowance for loan losses, management considers factors that include growth, composition and industry diversification of the portfolio, historical loan loss experience, current delinquency levels, adverse situations that may affect a borrower's ability to repay, estimated value of any underlying collateral, prevailing economic conditions and other relevant factors. For 2010, large provisions were made each quarter in response to the weakened economy and real estate market. Specifically, builder/construction loans experienced a significant deterioration in their collateral values and many developers experienced decreased rates of building lot inventory turn-over. Although the bank reduced its total exposure to construction loans by \$23.7 million or 35.0% from \$67.6 million at December 31, 2009 to \$43.9 million at December 31, 2010, significant risk to property value depreciation continues to persist in the bank's construction loan portfolio. Real estate developers' ability to service debt for extended time periods remains tentative as cash flows have deteriorated. Total loans outstanding, net of loans held for sale, decreased \$38.3 million in 2010 and increased \$3.4 million in 2009. At December 31, 2010, the allowance for loan losses was \$9.2 million, an increase of \$1.9 million, or 26.27%, from the \$7.3 million at the end of 2009. The allowance represented 2.31% and 1.67%, respectively, of loans outstanding at the end of 2010 and 2009, net of loans held for sale. The increase in the allowance is reflective of the ongoing economic and real estate market deterioration experienced locally as well as nationally and internationally. At December 31, 2010, the bank had \$9.1 million in non-accrual loans. In 2009, the bank had \$7.3 million in non-accrual loans. For a more detailed discussion of the provision of loan losses and the established reserve, see the section captioned Additional Information on Financial Condition at December 31, 2010 and 2009 Analysis of Allowance for Loan Losses.

Non-Interest Income. Non-interest income decreased to \$2.7 million for the year ended December 31, 2010 compared to \$2.8 million for the year ended December 31, 2009, a decrease of \$128,000 or 4.59%. A significant factor in the decrease in total non-interest income was the reduction in service charges levied on deposit accounts. The banking industry is reevaluating the methodology in which overdrawn deposit account customers are service charged. The restructuring of service charge routines in part caused by newly implemented Regulation E, effective July 1, 2010, caused MidCarolina to incur a \$198,000 decrease in service charge income from \$910,000 in 2009 to \$712,000 for 2010, or 21.76%. Mortgage operations income decreased to \$786,000 in 2010, from \$800,000 in 2009, reflecting the impact of the discontinuance of government initiated first time home buyer incentives. During 2010,

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the portion of other than temporary impairment (OTTI) expense that was determined to be credit-related and thus recognized in earnings as an expense was \$29,000, a decrease of \$119,000 or 80.41% compared to \$148,000 OTTI expense for 2009. Other non-interest income decreased \$75,000 in 2010 reflecting the absence of a one-time insurance claim recognized in 2009. Table 3, Noninterest Expenses, following this discussion, is a comparative analysis of the components of non-interest income for 2010, 2009 and 2008.

Non-Interest Expenses. Non-interest expenses totaled \$12.9 million for the year ended December 31, 2010, an increase of \$572,000 over the \$12.3 million reported for 2009. Salaries and employee benefits decreased \$365,000 primarily resulting from downsizing 5 staff positions during 2010. Professional and other services decreased \$236,000 or 32.15% primarily due to a reduction in expenses incurred related to legal proceedings completed during 2009. Other outside services increased \$368,000 or 98.40% resulting from expenses incurred during 2010 for merger related activities. Deposit and other insurance expense decreased \$27,000 or 2.11% because of increased FDIC premiums. Occupancy and equipment expense decreased by \$76,000 due to decreases in software licensure expenses that were absorbed by a third party information technology vendor resulting from the transfer of related management, hardware and software information technology responsibilities. Data processing and other outside services increased \$278,000, or 29.86%, due primarily to costs associated with the reconfiguration and relocation of the bank's data processing servers as well as the implementation of a significantly enhanced business and disaster recovery plan. Advertising expense decreased \$10,000. Loss on sale of OREO increased \$269,000 from \$339,000 in 2009 to \$618,000 in 2010, reflecting continued activity related to the disposition of foreclosed real estate. Table 4, Contractual Obligations and Commitments, following this discussion, presents a comparative analysis of the components of non-interest expenses for 2010, 2009 and 2008.

Income Taxes. An income tax benefit of \$14,000 was recognized in 2010 and a provision for income tax expense in the amount of \$818,000 was recognized in 2009. The effective tax rates were (1.45%) and 25.6%, respectively, on income before income taxes. The decrease in the effective tax rate for 2010 reflects an increase in the proportion of tax-exempt income to total income for 2010 over 2009.

Results of Operations for the**Years Ended December 31, 2009 and 2008**

Overview. MidCarolina reported net income available to common shareholders of \$2.0 million, or \$0.40 per diluted common share, for the year ended December 31, 2009, compared with net income available to shareholders of \$3.3 million, or \$0.66 per diluted common share, for 2008, a decrease of \$1.3 million or \$0.26 per diluted share.

Net Interest Income. Net interest income increased to \$17.1 million for the year ended December 31, 2009, a \$2.8 million or 19.70% increase from the \$14.3 million earned in 2008. Total interest income benefited from moderate growth in the level of average earning assets offset by significantly lower liability yields caused by historically low interest rates during the year. The rates earned on a significant portion of the bank's loans adjust immediately when indices like the prime rate change. Conversely, a large portion of interest-bearing liabilities, including certificates of deposit and bank borrowings, have rates fixed until maturity. As a result, interest rate reductions will generally result in an immediate drop in the bank's interest income on loans, with a more delayed impact on interest expense because reductions in interest costs will only occur upon renewals of certificates of deposit or borrowings. Interest rate increases will generally result in an immediate increase in the bank's interest income on loans, with a more delayed impact on interest expense because increases in interest costs will only occur upon renewals of certificates of deposit or borrowings. Average total interest-earning assets increased \$36.7 million, or 7.53%, during 2009 compared to 2008, while the average yield decreased by

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81 basis points from 6.08% to 5.27%. As interest rates remained very low during 2009, the average rate on loans repriced and decreased year over year. The average rate on investment securities decreased in 2009 compared to 2008 reflecting the lower reinvestment yields available for securities purchased or reinvested during the year. Average total interest-bearing liabilities increased by \$34.9 million, or 8.07%, a slightly higher growth rate than average interest-earning asset balances. The average cost of interest-bearing liabilities decreased by 131 basis points from 3.54% to 2.23%. With the cost on interest bearing liabilities decreasing more significantly than the yield on earning assets, the bank's net interest margin increased by 33 basis points. For the year ended December 31, 2009, the net interest margin was 3.27%, while for the year ended December 31, 2008, the net interest margin was 2.94%. Table 2, Volume and Rate Variance Analysis, following this discussion, reflects the volume and rate variances from 2009 as compared to 2008.

Provision for Loan Losses. The bank recorded \$4.5 million in the provision for loan losses in 2009, an increase of \$2.8 million from the \$1.7 million provision made in 2008. Provisions for loan losses are charged to income to bring the allowance for loan losses to a level deemed appropriate by management. In evaluating the allowance for loan losses, management considers factors that include growth, composition and industry diversification of the portfolio, historical loan loss experience, current delinquency levels, adverse situations that may affect a borrower's ability to repay, estimated value of any underlying collateral, prevailing economic conditions and other relevant factors. For 2009, large provisions were made each quarter in response to the weakened economy and real estate market. Specifically, builder/construction loans experienced a significant deterioration in their collateral values and many developers experienced decreased rates of building lot inventory turn-over. Although the bank reduced its total exposure to construction loans by \$24.3 million or 26.4% from \$91.9 million at December 31, 2008 to \$67.6 million at December 31, 2009, significant risk to property value depreciation continues to persist in MidCarolina's construction loan portfolio. Real estate developers' ability to service debt for extended time periods remains tentative as cash flows have deteriorated. Total loans outstanding, net of loans held for sale, increased by \$3.4 million in 2009 and by \$62.9 million in 2008. At December 31, 2009, the allowance for loan losses was \$7.3 million, an increase of \$1.7 million, or 29.74%, from the \$5.6 million at the end of 2008. The allowance represented 1.67% and 1.30%, respectively, of loans outstanding at the end of 2009 and 2008, net of loans held for sale. The increase in the allowance is reflective of the ongoing economic and real estate market deterioration experienced locally as well as nationally and internationally. At December 31, 2009, the bank had \$7.3 million in non-accrual loans. In 2008, the bank had \$3.1 million in non-accrual loans. For a more detailed discussion of the provision of loan losses and the established reserve, see the section captioned Additional Information on Financial Condition at December 31, 2010 and 2009 Analysis of Allowance for Loan Losses.

Non-Interest Income. Non-interest income increased to \$2.8 million for the year ended December 31, 2009 compared to \$2.2 million for the year ended December 31, 2008, an increase of \$567,000 or 25.54%. A significant factor in the increase in total non-interest income was the reduction in OTTI of private label collateralized mortgage obligation securities. OTTI recognized in 2009 was \$148,000, which is a decrease of \$342,000, a 69.79% improvement compared to the 2008 OTTI write down of \$490,000. The decrease in the determination of OTTI was influenced by the adoption of Accounting Standards Codification (ASC) Topic 320-10-65-1 (formerly referred to as FSP FAS 115-2, Recognition and Presentation of Other-than-Temporary Impairments) effective January 1, 2009. Prior to January 1, 2009, if an investment was determined to be other than temporarily impaired, then the difference between the carrying value and fair value was recognized as an OTTI loss in earnings. Beginning January 1, 2009, if an investment in a debt security was deemed to be other than temporarily impaired, then the difference between the carrying value and fair value was further evaluated to identify the portion that related to credit deterioration. Only the portion related to credit deterioration is recognized through earnings. The cumulative effect of the change in accounting principle was an opening

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adjustment of \$211,000, net of tax, to increase retained earnings. During 2009, the portion of OTTI that was determined to be credit-related and thus recognized in earnings was \$148,000. Mortgage operations income increased to \$800,000 in 2009, from \$571,000 in 2008, reflecting the impact of government initiated first time home buyer incentives and attractive refinancing rates available in the mortgage origination market. Service charges on deposit accounts in 2009 were \$910,000, a decrease of \$242,000, or 21.01%, compared to \$1.2 million in 2008 reflecting the competitive market for attracting and retaining demand deposit accounts. Other non-interest income increased \$272,000 in 2009 reflecting a receipt of a one time insurance claim for \$252,000. Table 3, *Noninterest Income*, following this discussion, is a comparative analysis of the components of non-interest income for 2010, 2009 and 2008.

Non-Interest Expenses. Non-interest expenses totaled \$12.3 million for the year ended December 31, 2009, an increase of \$2.8 million over the \$9.5 million reported for 2008. Noninterest expense of \$12.3 million, excluding the effect of the \$349,000 loss on sale of other real estate owned (*OREO*) increased \$1.9 million for 2009, compared to noninterest expense of \$9.5 million, excluding the effect of the \$536,000 gain on sale of *OREO* in 2008. Salaries and employee benefits increased \$239,000 primarily resulting from increases in fair value expenses of stock options issued in 2009. Professional and other services increased \$184,000 or 33.45% primarily due to increases in audit and legal fees and proceedings. Deposit and other insurance expense increased \$848,000 or 196.30% because of increased FDIC premiums and the special assessment imposed during 2009. Occupancy and equipment expense increased by \$449,000 due to increases in maintenance costs and additional lease expense incurred with the relocation of the bank's Green Valley Office located in Greensboro and new software licensure expenses. Data processing and other outside services increased \$144,000, or 18.30%, due primarily to costs associated with the reconfiguration and relocation of the bank's data processing servers as well as the implementation of a significantly enhanced business and disaster recovery plan. Advertising expense decreased \$49,000 reflecting new marketing strategies and programs during 2009. Table 4, *Noninterest Expenses*, following this discussion, presents a comparative analysis of the components of non-interest expenses for 2010, 2009 and 2008.

Income Taxes. The provision for income tax was \$818,000 in 2009 and \$1.7 million in 2008. The effective tax rates were 25.6% and 32.2%, respectively, on income before income taxes. The decrease in the effective tax rate for 2009 reflects an increase in the proportion of tax-exempt income to total income for 2009 over 2008.

Additional Information on Financial Condition**at December 31, 2010 and 2009****Liquidity**

The bank's sources of liquidity are customer deposits, cash and demand balances due from other banks, interest-earning deposits in other banks and investment securities available for sale. These funds, together with loan and securities repayments, are used to fund loans and continuing operations. At December 31, 2010, the bank had credit availability with the Federal Reserve Bank of Richmond (*FRB*) of \$51.1 million and the *FHLB* of \$165.4 million, with \$15.0 million outstanding.

Total deposits were \$465.9 million and \$465.0 million at December 31, 2010 and 2009, respectively. The bank's deposits increased 0.18% in 2010. Because the bank's organic deposit growth was sufficient in amount to meet the total funding needs of the bank, the bank reduced its exposure to alternative funding sources during 2010. The bank reduced its total wholesale funding sources in 2010 by \$35.1 million or 19.21%. Total wholesale funding was \$183.0 million at December 31, 2009 compared to \$147.8 million at December 31, 2010. The bank will continue to evaluate all funding sources for cost, accessibility, dependability and efficiency. Brokered certificates of deposits decreased \$1.2 million

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during 2010, from \$102.4 million in 2009 to \$101.2 million in 2010, a decrease of 1.16%. Brokered certificates of deposits as a percent of assets decreased from 18.92% in 2009 to 18.56% in 2010.

At December 31, 2010 and 2009, time deposits represented 39.67% and 58.12%, respectively, of the bank's total deposits. Certificates of deposit of \$100,000 or more represented 34.1% and 48.8%, respectively, of the bank's total deposits at December 31, 2010 and 2009. At December 31, 2010, the bank had \$26.4 million in public deposits and \$101.2 million in brokered time deposits. These sources of funds are generally considered to be less stable than deposits from the bank's local markets. However, management believes that other non-traditional funding time deposits are relationship oriented. While the bank appreciates the need to pay competitive rates to retain these deposits, other subjective factors also influence deposit retention. Based upon prior experience, the bank anticipates that a substantial portion of outstanding certificates of deposit will renew upon maturity. The bank's aggregate wholesale funding comprised of brokered CD's, wholesale NOW accounts, FHLB advances, FRB discount window borrowings and CDARS accounts (Certificate of Deposit Account Registry Service) as a percentage of total assets decreased to 31.7% in 2010 from 33.9% in 2009. The wholesale funding aggregate decrease is due primarily to an increase in traditional deposits resulting from MidCarolina's customer base's recognition of MidCarolina's consistent performance during a difficult economic period.

Management anticipates that the bank will continue to utilize non-local market funding sources such as wholesale NOW accounts, CDARS, FHLB advances, FRB advances and brokered certificates of deposits as a less costly diversified funding source to complement the bank's local market deposits. Deposits, loan repayments, mortgage-backed securities prepayments, bond maturities, FHLB advances, FRB discount window borrowings and current earnings will be employed to provide liquidity, generate loans, purchase securities, procure fixed assets and meet other operating needs incurred in normal banking activities.

In the normal course of business there are various outstanding contractual obligations of the bank that will require future cash outflows. In addition, there are commitments and contingent liabilities, such as commitments to extend credit that may or may not require future cash outflows. Table 5, Contractual Obligations and Commitments, following this discussion, summarizes the bank's contractual obligations and commitments as of December 31, 2010.

Capital Resources

At December 31, 2010 and 2009, shareholders' equity totaled \$40.4 million and \$40.2 million, respectively. MidCarolina's equity to asset ratio on those dates was 7.61% and 7.42%, respectively, reflecting MidCarolina's moderate negative asset growth during 2010. MidCarolina and the bank are subject to minimum capital requirements. See Information about MidCarolina Financial Corporation Supervision and Regulation. Because MidCarolina's only significant asset is its investment in the bank, information concerning capital ratios is essentially the same for MidCarolina and the bank.

All capital ratios place the bank in excess of minimum requirements to be classified as well capitalized by regulatory measures. The bank's Tier 1 leverage ratio was 9.03% at December 31, 2010.

Note Q to the audited consolidated financial statements beginning on page F-1 of this proxy statement/prospectus presents an analysis of the bank's regulatory capital position as of December 31, 2010 and 2009. Management anticipates that the bank will remain well-capitalized for regulatory purposes throughout 2011.

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Asset/Liability Management

The bank's results of operations depend substantially on its net interest income. Like most financial institutions, the bank's interest income and cost of funds are affected by general economic conditions and by competition in the market place. The purpose of asset/liability management is to provide stable net interest income growth by protecting the bank's earnings from undue interest rate risk, which arises from volatile interest rates and changes in the balance sheet mix, and by managing the risk/return relationships between liquidity, interest rate risk, market risk and capital adequacy. The bank maintains, and has complied with, an asset/liability management policy approved by the board of directors of MidCarolina and the bank that provides guidelines for controlling exposure to interest rate risk by utilizing the following ratios and trend analysis: liquidity, equity, volatile liability dependence, portfolio maturities, maturing assets and maturing liabilities. The bank's policy is to control the exposure of its earnings to changing interest rates by generally endeavoring to maintain a position within a range around an earnings neutral position, which is defined as the mix of assets and liabilities that generate a net interest margin that is least affected by interest rate changes.

When suitable lending opportunities are not sufficient to utilize available funds, the bank has generally invested such funds in securities, primarily securities issued by U.S. governmental agencies, mortgage-backed securities and securities issued by local governmental municipalities. The securities portfolio contributes to the bank's profits and plays an important part in the overall interest rate management. However, management of the securities portfolio alone cannot balance overall interest rate risk. The securities portfolio must be used in combination with other asset/liability techniques to actively manage the balance sheet. The primary objectives in the overall management of the securities portfolio are safety, liquidity, yield, asset/liability management (interest rate risk) and investing in securities that can be pledged for public deposits or as collateral for FHLB advances.

In reviewing the needs of the bank with regard to proper management of its asset/liability program, the bank's management estimates its future needs, taking into consideration historical periods of high loan demand and low deposit balances, estimated loan and deposit increases (due to increased demand through marketing) and forecasted interest rate changes. A number of measures are used to monitor and manage interest rate risk, including income simulations and interest sensitivity (gap) analyses. An income simulation model is the primary tool used to assess the direction and magnitude of changes in net interest income resulting from changes in interest rates. Key assumptions in the model include prepayments on loan and loan-backed assets, cash flows and maturities of other investment securities, loan and deposit volumes and pricing. These assumptions are inherently uncertain and, as a result, the model cannot precisely estimate net interest income or precisely predict the impact of higher or lower interest rates on net interest income. Actual results will differ from simulated results due to timing, magnitude and frequency of interest rate changes and changes in market conditions and management strategies, among other factors.

Based on the results of the income simulation model, as of December 31, 2010, due to the extremely low interest rate environment, the bank would expect a decrease in net interest income of \$709,000 if interest rates increase from current rates by an instantaneous 100 basis points and an increase in net interest income of \$23,000 if interest rates decrease from current rates by an instantaneous 100 basis points.

The analysis of an institution's interest rate gap (the difference between the repricing of interest-earning assets and interest-bearing liabilities during a given period of time) is another standard tool for the measurement of the exposure to interest rate risk. Management believes that because interest rate gap analysis does not address all factors that can affect earnings performance, it should be used in conjunction with other methods of evaluating interest rate risk.

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Table 6, Interest Rate Sensitivity Analysis, following this discussion, sets forth the amounts of interest-earning assets and interest-bearing liabilities outstanding at December 31, 2010, which are projected to reprice or mature in each of the future time periods shown. Except as stated below, the amounts of assets and liabilities shown which reprice or mature within a particular period were determined in accordance with the contractual terms of the assets or liabilities. Loans with adjustable rates are shown as being due at the end of the next upcoming adjustment period. Money market deposit accounts are considered rate sensitive and are placed in the shortest period. Negotiable order of withdrawal or other transaction accounts are also assumed to be rate sensitive and are placed in the shortest period. In making the gap computations, none of the assumptions sometimes made regarding prepayment rates and deposit decay rates are used for any interest-earning assets or interest-bearing liabilities. In addition, the table does not reflect scheduled principal payments that will be received throughout the lives of the loans. The interest rate sensitivity of the bank's assets and liabilities illustrated in the table would vary substantially if different assumptions were used or if actual experience differs from that indicated by such assumptions.

Table 6 illustrates that if assets and liabilities reprice in the time intervals indicated in the table, the bank is liability sensitive within three months, liability sensitive over three months to twelve months, liability sensitive within twelve months and asset sensitive thereafter. As stated above, certain shortcomings are inherent in the method of analysis presented in Table 6. For example, although certain assets and liabilities may have similar maturities or periods to repricing, they may react in different degrees to changes in market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market interest rates. For instance, while the table is based on the assumption that money market accounts are immediately sensitive to movements in rates, the bank expects that in a changing rate environment the amount of the adjustment in interest rates for such accounts would be less than the adjustment in categories of assets that are considered to be immediately sensitive. The same is true for all other interest-bearing transaction accounts. Additionally, certain assets have features that restrict changes in the interest rates of such assets both on a short-term basis and over the lives of such assets. Further, in the event of a change in market interest rates, prepayment and early withdrawal levels could deviate significantly from those assumed in calculating the tables. Finally, the ability of many borrowers to service their adjustable-rate debt may decrease in the event of an increase in market interest rates. Due to these shortcomings, the bank places primary emphasis on its income simulation model when managing its exposure to changes in interest rates. The bank does not normally make interest rate predictions, or take undue risk on potential changes in interest rate direction.

Lending Activities

General. The bank provides to its customers a full range of short- to medium-term commercial, mortgage, construction and personal loans, both secured and unsecured. The bank also makes real estate mortgage and construction loans.

The bank's loan policies and procedures establish the basic guidelines governing its lending operations. Generally, the guidelines address the types of loans that the bank seeks, target markets, underwriting and collateral requirements, terms, interest rate and yield considerations and compliance with laws and regulations. All loans or credit lines are subject to approval procedures and amount limitations. These limitations apply to the borrower's total outstanding indebtedness to the bank, including the indebtedness of any guarantor. The policies are reviewed and approved at least annually by the board of directors of the bank. The bank supplements its own supervision of the loan underwriting and approval process with periodic loan audits by internal loan examiners and outside professionals experienced in loan review work. The bank has focused its portfolio lending activities on typically higher

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yielding commercial, construction and consumer loans. The bank also originates one-to-four family mortgages that are typically sold into the secondary market, servicing released.

Table 7, Loan Portfolio Composition, following this discussion, provides an analysis of the bank's loan portfolio composition by type of loan as of the end of each of the last five years ending December 31, 2010.

Table 8, Loan Maturities, following this discussion, presents, at December 31, 2010, (i) the aggregate maturities or re-pricings of commercial, industrial and commercial mortgage loans and of real estate constructions loans, and (ii) the aggregate amounts of such loans by variable and fixed rates.

Commercial and Industrial Loans. At December 31, 2010, the bank's commercial and industrial loan portfolio equaled \$61.2 million, or 15.3% of total loans, as compared with \$64.2 million, or 14.6% of total loans, at December 31, 2009. Commercial and industrial loans include both secured and unsecured loans for working capital, expansion and other business purposes. Short-term working capital loans generally are secured by accounts receivable, inventory and/or equipment. The bank also makes term commercial loans secured by equipment and real estate. Lending decisions are based on an evaluation of the financial strength, management and credit history of the borrower, and the quality of the collateral securing the loan. With few exceptions, the bank requires personal guarantees and secondary sources of repayment.

Commercial and industrial loans generally provide greater yields and reprice more frequently than other types of loans, such as real estate loans, as most commercial loan yields are tied to the prime rate index. Therefore, yields on most commercial loans adjust with changes in the prime rate.

Real Estate Loans. Real estate loans are originated for the purpose of purchasing, constructing or refinancing one-to-four family, five-or-more family and commercial properties. The bank offers fixed and adjustable rate options. The bank provides customers access to long-term conventional real estate loans through its mortgage loan department which makes Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Company (FHLMC) and Government National Mortgage Association (GNMA) conforming loans that are originated with a commitment from a correspondent bank to purchase the loan within 30 to 45 days of closing.

Residential one-to-four family loans are classified into two categories: conforming loans, that are originated under the underwriting guidelines established by FNMA, FHLMC or GNMA and held for sale and nonconforming loans that are originated and retained in the bank's loan portfolio. The terms conforming and nonconforming do not refer to credit quality, but rather to whether the loan is underwritten so that it can be sold in the secondary market. At December 31, 2010, the bank had \$3.0 million in loans held for sale, while nonconforming loans held in the bank's permanent portfolio amounted to \$425,000. The bank's permanent residential mortgage loans are generally secured by properties located within the bank's market area. Most of the one-to-four family residential mortgage loans that the bank makes are conforming loans and are sold within 30 days of closing to a correspondent bank. The bank originated 233 loans in the amount of \$35.8 million for sale in the secondary market during 2010. The bank receives a fee for each loan originated, with fees aggregating \$786,000 for the year ended December 31, 2010 and \$800,000 for the year ended December 31, 2009. The bank anticipates that it will continue to be an active originator of residential loans. Nonconforming residential mortgage loans that are retained in the bank's loan portfolio generally have rate terms of five years or less, with amortizations up to 20 years.

The bank has made, and may continue to make, under qualifying circumstances, commercial real estate loans. Commercial real estate loans outstanding amounted to \$173.3 million at December 31,

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2010. These loans are secured principally by commercial buildings for office, storage and warehouse space, commercial and residential real estate developments and agricultural properties. Generally in underwriting commercial real estate loans, the bank requires the personal guarantee of borrowers and a demonstrated cash flow capability sufficient to service the debt. Loans secured by commercial real estate usually involve a greater degree of risk than one-to-four family residential mortgage loans. Payments on such loans are often dependent on successful operation or management of the properties.

The bank originates one-to-four family residential construction loans for the construction of custom homes (where the home buyer is the borrower) and provides financing to builders and consumers for the construction of pre-sold homes. The bank generally receives a pre-arranged permanent financing commitment from an outside entity prior to financing the construction of pre-sold homes. The bank lends to builders who have demonstrated a favorable record of performance and profitable operations and who are building in markets that management believes it understands and in which it is comfortable with the economic conditions. The bank also makes commercial real estate construction loans, generally for owner-occupied properties. The bank further endeavors to limit its construction lending risk through adherence to established underwriting procedures. The bank generally requires documentation for all draw requests and utilizes loan officers to inspect the project prior to honoring draw requests from the builder. With few exceptions, the bank requires personal guarantees and secondary sources of repayment on construction loans.

Consumer Loans and Home Equity Lines of Credits. Loans to individuals include automobile loans, boat and recreational vehicle financing, home equity and home improvement loans and miscellaneous secured and unsecured personal loans. Consumer loans generally can carry significantly greater risks than other loans, even if secured, if the collateral consists of rapidly depreciating assets such as automobiles and equipment. Repossessed collateral securing a defaulted consumer loan may not provide an adequate source of repayment of the loan. Consumer loan collections are sensitive to job loss, illness and other personal factors. The bank attempts to manage the risks inherent in consumer lending by following established credit guidelines and underwriting practices designed to minimize risk of loss.

Loan Approvals. The bank's loan policies and procedures establish the basic guidelines governing its lending operations. Generally, the guidelines address the type of loans that the bank seeks, target markets, underwriting and collateral requirements, terms, interest rate and yield considerations and compliance with laws and regulations. All loans or credit lines are subject to approval procedures and amount limitations. These limitations apply to the borrower's total outstanding indebtedness to the bank, including the indebtedness of any guarantor. The policies are reviewed and approved at least annually by the board of directors of the bank. The bank supplements its own supervision of the loan underwriting and approval process with periodic loan audits by independent, outside professionals experienced in loan review analysis.

Responsibility for loan production rests with the Senior Commercial Lending Officer in each market. The responsibility for loan underwriting, loan processing and approval is with the Chief Credit Officer. The board of directors of the bank reviews the President's lending authority annually. The board, in turn delegates loan authority to the Chief Credit Officer and other loan officers of the bank. Delegated authorities may include loans, letters of credit, overdrafts, uncollected funds and such other authority as determined by the board of directors or the President.

The President and the Chief Credit Officer each have the authority to approve loans up to \$400,000. The President in conjunction with the Chief Credit Officer have the combined authority to approve loans up to \$2.0 million which is the maximum staff, in-house lending limit set by the bank's board of directors. The board's Loan Committee approves all loans in excess of the staff's in-house

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lending limit. The Loan Committee consists of the President, the Chairman and Vice Chairman of the bank's board and six outside directors as appointed by the board of directors of the bank.

Additionally, all loans of \$50,000 or greater and all loans with relationship exposure of \$200,000 or above are reviewed by the Management Loan Committee comprised of the President, Chief Credit Officer, and the Senior Commercial Loan Officers for Alamance County and Guilford County. The bank's Loan Committee reviews all loans with total exposure of \$1.0 million or greater and approves all loans with total exposure of \$2.0 million or greater. The bank's legal lending limit was \$14.6 million at December 31, 2010. The bank seldom makes loans approaching its legal lending limit.

Commitments to Extend Credit

In the ordinary course of business, the bank enters into various types of transactions that include commitments to extend credit that are not included in loans receivable, net, presented on MidCarolina's consolidated balance sheets. The bank applies the same credit standards to these commitments as it uses in all its lending activities and has included these commitments in its lending risk evaluations. The bank's exposure to credit loss under commitments to extend credit is represented by the amount of these commitments. See Note P to the audited consolidated financial statements beginning on page F-1 of this proxy statement/prospectus and Table 5, Contractual Obligations and Commitments, following this discussion.

Asset Quality

The bank considers asset quality to be of primary importance, and employs a formal internal loan review process to ensure adherence to the lending policy as approved by the bank's board of directors. It is the responsibility of each loan officer to assign an appropriate risk grade to loans when originated. The bank's Credit Administration, through the loan review process, validates the accuracy of the initial risk grade assessment. In addition, as a given loan's credit quality changes, it is the responsibility of Credit Administration to change the borrower's risk grade accordingly. The process of determining the allowance for loan losses is fundamentally driven by the risk grade system. In determining the allowance for loan losses and any resulting provision to be charged against earnings, particular emphasis is placed on the results of the loan review process. Consideration is also given to historical loan loss experience, the value and adequacy of collateral, economic conditions in the bank's market area and other factors. For loans determined to be impaired, the allowance is based on discounted cash flows using the loan's initial effective interest rate or the fair value of the collateral for certain collateral dependent loans. This evaluation is inherently subjective, as it requires material estimates, including the amounts and timing of future cash flows expected to be received on impaired loans that may be susceptible to significant change. At December 31, 2010, the bank had 53 impaired loans totaling \$20.2 million comprised of 15 builder/construction loans totaling \$9.3 million, 17 commercial and industrial loans for \$9.1 million and 21 residential mortgage loans for \$1.8. The allowance for loan losses represents management's estimate of the appropriate level of reserve to provide for probable losses inherent in the loan portfolio.

The bank's policy regarding past due loans normally requires a prompt charge-off to the allowance for loan losses following timely collection efforts and a thorough review. Further efforts are then pursued through various means available. Loans carried in a non-accrual status are generally collateralized and are considered in the determination of the allowance for loan losses.

Nonperforming Assets

MidCarolina's total nonperforming assets increased \$6.1 million to \$16.3 million at December 31, 2010, from \$10.2 million at December 31, 2009, reflecting the distressed economy

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mentioned previously. Non-accrual loans, a subset of nonperforming assets, comprised 56% of total nonperforming assets or \$9.1 million. Other real estate owned comprised the remaining significant component of nonperforming assets in the amount of \$7.2 million or 44% of total nonperforming assets. Nonperforming restructured loans at December 31, 2010, which were included in total nonperforming assets, consisted of three construction loans in the amount of \$656,000 and one home equity line of credit in the amount of \$73,000. Performing restructured loans at December 31, 2010 which were not included in nonperforming assets, consisted of eight construction loans in the amount of \$3.3 million and one commercial mortgage loan in the amount of \$710,000.

Table 9, Nonperforming Assets, following this discussion, sets forth, for the last five years ending December 31, 2010, information with respect to the bank's nonperforming assets.

MidCarolina's consolidated financial statements are prepared on the accrual basis of accounting, including the recognition of interest income on loans, unless a loan is placed on non-accrual basis. For all classes of loans, loans are accounted for on a non-accrual basis when management has serious concerns about the collectibility of principal or interest. Generally, the bank's policy is to place a loan on non-accrual status when the loan becomes 90 days past due. Loans are also placed on non-accrual status in cases where management is uncertain whether the borrower can satisfy the contractual terms of the loan agreement. Payments received on non-accrual loans generally are applied to principal first, and then to interest after all principal payments have been satisfied. Restructured loans are those for which concessions, including the reduction of interest rates below a rate otherwise available to that borrower or the deferral of interest or principal, have been granted due to the borrower's weakened financial condition. The bank accrues interest on restructured loans at the restructured rate when management anticipates that no loss of original principal will occur. Potential problem loans are defined as loans currently performing that are not included in non-accrual or restructured loans, but are loans as to which management has concerns as to the borrower's ability to comply with present repayment terms. These loans could potentially deteriorate to non-accrual, past due or restructured loans status. Therefore, management quantifies the risk associated with problem loans in assessing the adequacy of the allowance for loan losses. At December 31, 2010, the bank identified \$9.1 million in non-accrual loans. At December 31, 2009, the bank identified \$7.4 million in non-accrual loans.

OREO consists of foreclosed, repossessed and idled properties. At December 31, 2010, there were \$7.2 million assets classified as OREO. At December 31, 2009, there were \$2.9 million in assets classified as OREO.

Analysis of Allowance for Loan Losses

The allowance for loan losses is established through a provision for loan losses charged to expense. Loans are charged-off against the allowance when management believes that the collectability of principal is unlikely. Recoveries of amounts previously charged-off are credited to the allowance.

The allowance for loan losses relating to loans that are determined to be impaired is based on discounted cash flows using the loan's initial effective interest rate or the estimated fair value of the collateral, less costs to sell, for certain collateral dependent loans. Large groups of smaller balance homogeneous loans that are collectively evaluated for impairment (such as residential mortgage and consumer installment loans) are excluded from impairment evaluation, and their allowance for loan losses is calculated in accordance with the allowance for loan losses policy described below.

The provision for loan losses charged to operating expense is based on factors which, in management's judgment, deserve current recognition in estimating probable loan losses. Such factors considered by management include growth and composition of the loan portfolio, the relationship of the

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allowance for loan losses to outstanding loans, historical charge-off activity, current and probable future local, regional and national economic conditions and an in-depth assessment of the status of certain individual borrowers' ability to meet repayment obligations. While management uses the best information available to make evaluations, this evaluation is inherently subjective as it requires material estimates, including the amounts and timing of future cash flows expected to be received on impaired loans that may be susceptible to significant change. The provision contributed to the allowance for loan losses segregated by major loan category during 2010 is:

Loan Category	Contribution (in \$000)	Percentage of Total Provision
Construction loans	\$ 3,209	50.00%
Commercial mortgage loans	1,284	20.00
Home equity lines of credit	385	6.00
Residential mortgage loans	642	10.00
Commercial and industrial loans	834	13.00
Consumer loans	64	1.00

In addition, various regulatory agencies, as an integral part of their examination process, periodically review MidCarolina's allowance for loan losses. Such agencies may require MidCarolina to recognize adjustments to the allowance based on their judgments of information available to them at the time of their examination.

Growth in loans outstanding has, throughout the bank's history, been the primary reason for increases in the bank's allowance for loan losses and the resultant provisions for loan losses necessary to provide for those increases. This growth has been spread among the bank's major loan categories, with the concentrations of major loan categories being relatively consistent. Between December 31, 2009 and December 31, 2010, the range of each major category of loans as a percentage of total loans outstanding is as follows: residential mortgage loans 18.7% to 18.0%; commercial mortgage loans 39.9% to 43.0%; construction loans 15.4% to 10.9%; commercial and industrial loans 14.6% to 15.2%; loans to individuals 1.2% to 1.3%; and home equity lines of credit 10.2% to 10.8%. Net loan charge-offs in the past five years ranged from 0.05% to 1.07% of average loans outstanding. In 2009 and 2010, net charge-offs were 0.63% and 1.07% of average loans, respectively, reflecting the deterioration of economic conditions. Charge-offs are typically recognized when it is the opinion of management that all or a portion of an outstanding loan becomes uncollectible. Loan repayment may be realized through a contractual agreement, or through liquidation of assets pledged as collateral. Net charge-offs totaled \$2.8 million or 0.63% of outstanding loans for 2009 and \$4.5 million or 1.07% of outstanding loans for 2010. Charge-offs incurred by major loan category during 2010 are:

Loan Category	Contribution (in \$000)	Percentage of Total Provision
Construction loans	\$ 2,388	49.65%
Commercial mortgage	965	20.07
Commercial and industrial loans	611	12.71
Residential mortgage loans	462	9.61
Home equity lines of credit	319	6.64
Consumer loans	65	1.36

The bank's allowance for loan losses (ALLR) at December 31, 2009 of \$7.3 million represents 1.67% of total loans outstanding, net of loans held for sale. The bank's ALLR losses at December 31, 2010 was \$9.2 million or 2.31% of outstanding loans, net of loans held for sale. The ALLR as a percentage of loans outstanding increased in 2010 compared to 2009 due to increases in net charge-offs as

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well as nonperforming loans, reflecting the decline in the local, national and international economic environment. The ending balance of the ALLR by major loan category and the major category's ALLR balance as a percentage of its outstanding loan balance at December 31, 2010 are:

Loan Category	ALLR Balance (in \$000)	ALLR as a Percentage of Category Loan Balance Outstanding
Construction loans	\$ 2,079	4.74%
Commercial mortgage	3,239	1.87
Commercial and industrial loans	1,397	2.29
Residential mortgage loans	1,563	2.19
Home equity lines of credit	810	1.86
Consumer loans	138	2.56

Nonperforming loans increased \$1.7 million during 2010 to \$9.1 million compared to \$7.3 million at December 31, 2009 and \$4.9 million of the nonperforming loans at December 31, 2010, or 65.2%, were concentrated in commercial real estate.

Table 10, Allocation for the Allowance of Loan Losses, following this discussion, presents the allocation of the allowance for loan losses at the end of each of the last five years ending December 31, 2010. The allocation is based on an evaluation of defined loan problems, historical ratios of loan losses and other factors that may affect future loan losses in the categories of loans shown.

Table 11, Loan Loss and Recovery Experience, following this discussion, sets forth for each of the last five years ending December 31, 2010, information regarding changes in the bank's allowance for loan losses.

Investment Activities

The bank's portfolio of investment securities, all of which are available for sale, consists primarily of U.S. government agency securities, mortgage-backed securities, government sponsored enterprise collateralized mortgage obligations, private label collateralized mortgage obligations and securities issued by local governments. Securities to be held for indefinite periods of time and not intended to be held to maturity are classified as available for sale and carried at fair value, with any unrealized gains or losses reflected as an adjustment to stockholders' equity. Securities held for indefinite periods of time include securities that management intends to use as part of its asset/liability management strategy and that may be sold in response to changes in interest rates and/or significant prepayment risks. It is the bank's policy to classify its investment securities as available for sale. Table 12, Securities Portfolio Composition, following this discussion, summarizes investment securities by type at December 31, 2010, 2009 and 2008.

Table 13, Securities Portfolio Composition, following this discussion summarizes the amortized costs, fair values and weighted average yields of the bank's investment securities at December 31, 2010, by contractual maturity groups.

The bank does not engage in, nor does it presently intend to engage in, securities trading activities and therefore does not maintain a trading account. At December 31, 2010, there were no securities of any issuer (other than governmental agencies) held in the bank's portfolio that exceeded 10% of MidCarolina's shareholders' equity.

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Sources of Funds

Deposit Activities. The bank provides a range of deposit services, including non-interest-bearing checking accounts, interest-bearing checking and savings accounts, money market accounts and certificates of deposit. These accounts generally earn interest at rates established by management based on competitive market factors and management's desire to increase or decrease certain types or maturities of deposits. As described under the caption "Liquidity" above, the bank uses wholesale deposits as a funding source. However, the bank strives to establish customer relations to attract core deposits in non-interest-bearing transactional accounts and thus to reduce the bank's costs of funds.

Table 14, "Average Deposits," following this discussion, sets forth for the years ended December 31, 2010, 2009 and 2008 the average balances outstanding and average interest rates for each major category of deposits.

Table 15, "Maturities of Time Deposits of \$100,000 or More," following this discussion, presents maturities of certificates of deposit with balances of \$100,000 or more at December 31, 2010.

Borrowings. As additional sources of funding, the bank uses advances from the FHLB under a line of credit equal to 30% of the bank's total assets, subject to qualifying collateral. The available aggregate line of credit was \$165.4 million at December 31, 2010. Outstanding advances at December 31, 2010 totaled \$15.0 million, of which \$5.0 million matures in 2011 at 2.37% and \$10 million matures in 2018 at 2.98%. The bank had no daily rate credit advances outstanding at December 31, 2010. Pursuant to collateral agreements with the FHLB, at December 31, 2010, advances are secured by loans with a carrying amount of \$50.2 million, which approximates market value. Advances outstanding at December 31, 2009 totaled \$25.0 million.

The bank also has a line of credit with the FRB through their discount window in the amount of \$51.1 million. No borrowings were outstanding at December 31, 2010. The line of credit is secured by loans with a carrying amount of \$62.8 million, which approximates market value.

In addition to FHLB advances, MidCarolina has issued \$8.8 million of junior subordinated debentures to its wholly owned capital trusts, MidCarolina I and MidCarolina Trust II, to fully and unconditionally guarantee the preferred securities issued by the trusts. These long term obligations, which currently qualify as Tier 1 capital for MidCarolina, constitute a full and unconditional guarantee by MidCarolina of the trusts' obligations under the capital trust securities.

Critical Accounting Policies

MidCarolina has established various accounting policies that govern the application of accounting principles generally accepted in the United States of America in the preparation of MidCarolina's financial statements. Significant accounting policies are described in Note B to the audited consolidated financial statements beginning on page F-1 of this proxy statement/prospectus. A critical accounting policy is one that is both very important to the portrayal of MidCarolina's financial condition and results, and requires management's most difficult, subjective or complex judgments. What makes these judgments difficult, subjective and/or complex is the need to make estimates about the effects of matters that are inherently uncertain. These policies may involve significant judgments and estimates that have a material impact on the carrying value of certain assets and liabilities. Different assumptions made in the application of these policies could result in material changes in MidCarolina's financial position and results of operations.

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Allowance for Loan Losses. MidCarolina's most significant critical accounting policy is the determination of the bank's allowance for loan losses. If the mix and amount of future write-offs differ significantly from those assumptions used in making a determination, the allowance for loan losses and provision for loan losses on the income statement could be materially affected. For further discussion of the allowance for loan losses and a detailed description of the methodology used in determining the adequacy of the allowance, see the sections of this discussion titled "Asset Quality," "Analysis of Allowance for Loan Losses" and Note B to the audited financial statements beginning on page F-1 of this proxy statement/prospectus.

Other Than Temporary Impairment. MidCarolina evaluates securities for other than temporary impairment at least on a monthly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (i) the length of time and the extent to which the fair value has been less than cost, (ii) the financial condition and near-term prospects of the issuer, (iii) the anticipated outlook for changes in the general level of interest rates, (iv) whether, for debt securities, it is more likely than not that MidCarolina will be required to sell the security before recovery of its amortized cost basis, and (v) whether, for equity securities, MidCarolina's intent and ability to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Table of Contents**Table 1****Average Balances and Net Interest Income**

(\$ in thousands)

	Year Ended December 31, 2010			Year Ended December 31, 2009			Year Ended December 31, 2008		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
Interest-earning assets:									
Loans, net (1)	\$ 421,947	\$ 22,943	5.44%	\$ 441,704	\$ 24,160	5.47%	\$ 405,119	\$ 25,763	6.36%
Investment securities (2)	76,114	2,706	3.56%	70,289	3,378	4.81%	69,728	3,561	5.11%
Interest-earning cash deposits	26,468	48	0.18%	9,387	21	0.22%	9,678	131	1.35%
Other	2,250	29	1.29%	2,312	24	1.04%	2,454	161	6.56%
Total interest-earning assets	526,779	25,726	4.88%	523,692	27,583	5.27%	486,979	29,616	6.08%
Other assets	25,439			26,915			19,602		
Total assets	\$ 552,218			\$ 550,607			\$ 506,581		
Interest-bearing liabilities:									
Deposits:									
Demand deposits	208,977	2,733	1.31%	112,438	1,510	1.34%	74,531	1,275	1.71%
Savings deposits	11,691	78	0.67%	6,663	20	0.30%	5,772	29	0.50%
Fixed maturity deposits	219,836	4,344	1.98%	312,282	7,648	2.45%	308,562	12,192	3.95%
Short term borrowed funds				2,225	15	0.67%	9,807	288	2.94%
Long term borrowed funds	29,106	968	3.33%	33,764	1,247	3.69%	33,764	1,510	4.47%
Total interest-bearing liabilities	469,610	8,123	1.73%	467,372	10,440	2.23%	432,436	15,294	3.54%
Noninterest-bearing deposits	40,545			43,629			36,925		
Other liabilities	1,137			992			1,390		
Stockholders' equity	40,926			38,614			35,830		
Total liabilities and stockholders' equity	\$ 552,218			\$ 550,607			\$ 506,581		
Net interest income and interest rate spread (3)									
		\$ 17,603	3.15%		\$ 17,143	3.03%		\$ 14,322	2.54%
Net interest margin (4)									
			3.34%			3.27%			2.94%
Ratio of average interest-earning assets to average interest-bearing liabilities									
	112.17%			112.05%			112.61%		

(1) Average loans include non-accruing loans and loans held for sale.

(2) Tax exempt income is not computed on a tax equivalent basis.

(3) Interest rate spread equals the earning asset yield minus the interest-bearing liability rate.

(4) Net interest margin is computed by dividing net interest income by total earning assets.

Table of Contents**Table 2****Volume and Rate Variance Analysis****(In thousands)**

	Year Ended December 31, 2010 vs. 2009			Year Ended December 31, 2009 vs. 2008		
	Increase (Decrease) Due to			Increase (Decrease) Due to		
	Volume	Rate	Total	Volume	Rate	Total
Interest income:						
Loans, net	\$ (1,077)	\$ (140)	\$ (1,217)	\$ 2,164	\$ (3,767)	\$ (1,603)
Investment securities	244	(916)	(672)	28	(211)	(183)
Interest-earning cash deposits	35	(8)	27	(2)	(108)	(110)
Other	(1)	6	5	(5)	(132)	(137)
Total interest income	(799)	(1,058)	(1,857)	2,185	(4,218)	(2,033)
Interest expense:						
Deposits						
Demand deposits	1,280	(57)	1,223	579	(344)	235
Savings deposits	24	34	58	4	(13)	(9)
Fixed maturity deposits	(2,045)	(1,259)	(3,304)	119	(4,663)	(4,544)
Short term borrowed funds	(15)	0	(15)	(137)	(136)	(273)
Long term borrowed funds	(163)	(116)	(279)		(263)	(263)
Total interest expense	(919)	(1,398)	(2,317)	565	(5,419)	(4,854)
Net interest income increase (decrease)	\$ 120	\$ 340	\$ 460	\$ 1,620	\$ 1,201	\$ 2,821

Table of Contents**Table 3****Noninterest Income****(In thousands)**

	Year Ended December 31,		
	2010	2009	2008
Service charges on deposit accounts	\$ 712	\$ 910	\$ 1,152
Mortgage operations	786	800	571
Investment brokerage fees	248	245	300
Increase in cash surrender value of life insurance	335	286	299
Core noninterest income	2,081	2,241	2,322
Securities gains, net	51	63	29
Impairment on investment securities	(29)	(148)	(490)
Other noninterest income	556	631	359
Total noninterest income	\$ 2,659	\$ 2,787	\$ 2,220

Table of Contents**Table 4****Noninterest Expenses****(In thousands)**

	Year Ended December 31,		
	2010	2009	2008
Salaries	\$ 4,313	\$ 4,564	\$ 4,338
Employee benefits	948	1,062	1,049
Total salaries and benefits	5,261	5,626	5,387
Occupancy expense	1,003	979	699
Equipment expense	503	603	434
Other outside services	742	374	307
Data processing	1,209	931	787
Office supplies and postage	346	341	350
Deposit and other insurance	1,253	1,280	432
Professional and other services	498		