

OUR STORY
BEGINS WITH

You



National Bankshares

2013 ANNUAL REPORT



Our story begins with you.

From your first piggy bank to your first job. Raising a family, starting a business, buying a home. Achieving a comfortable retirement. We think these are the true measures of our success, and we have been proud to share these milestones with you.

Since we first opened our doors in 1891, we have followed a simple philosophy – serve our customers well and the rest will follow. While we are proud to report our financial results for 2013, we believe that our story isn't found in the numbers, charts and graphs, but in the lives of the people we serve.

National Bankshares, Inc. is committed to providing the people of Southwest Virginia with truly personalized community banking. We always strive to provide friendly service and a combination of traditional and innovative banking products to meet your unique needs. We also believe in giving back to our community by supporting local people and organizations who make our hometowns a better place to live.

Thank you for choosing us for your financial needs and placing your trust in National Bankshares, Inc.

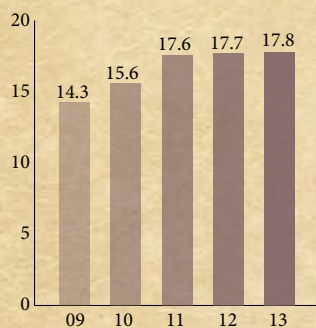


National Bankshares

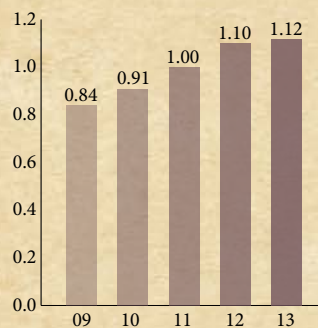
Financial Highlights

\$ in thousands, except share and per share data

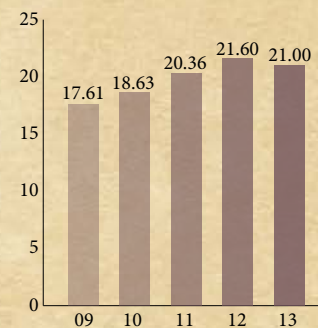
	2013	2012	2011	2010	2009
Net income	\$ 17,790	\$ 17,747	\$ 17,638	\$ 15,569	\$ 14,319
Basic net income per share	2.56	2.56	2.54	2.25	2.07
Diluted net income per share	2.55	2.55	2.54	2.24	2.06
Cash dividends per share	1.12	1.10	1.00	0.91	0.84
Book value per share	21.00	21.60	20.36	18.63	17.61
Loans, net	587,463	583,813	580,402	568,779	583,021
Total securities	349,065	352,043	318,913	315,907	297,417
Total assets	1,110,630	1,104,361	1,067,102	1,022,238	982,367
Total deposits	960,036	946,766	919,333	884,583	852,112
Stockholders' equity	145,892	150,109	141,299	129,187	122,076



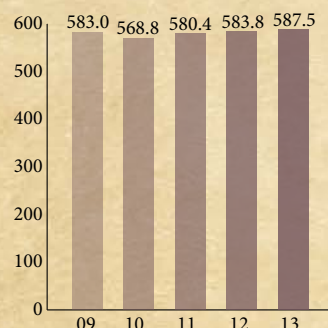
Net Income
(\$ in millions)



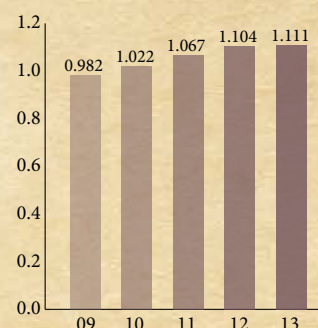
Cash Dividends Per Share (\$)



Book Value Per Share (\$)



Loans, Net
(\$ in millions)



Total Assets
(\$ in billions)

To Our Stockholders

We are pleased to report the results of National Bankshares, Inc. for 2013. We are proud of the strong, true community focused banking that we deliver in our market area by making loans and increasing deposits in an economy that improved gradually in 2013.

Speaking to that strength, the Company's net income for the year was \$17.79 million, an increase over the nearly \$17.75 million in 2012. The 2013 return on average assets and return on average equity remained steady at 1.63% and 11.90%, respectively. By the end of 2013, your Company's basic net income per share also remained consistent with the prior year at \$2.56. National Bankshares, Inc. ended 2013 with total assets of over \$1.11 billion.

Lending is the cornerstone of any community bank. The year 2013 still posed challenges to businesses and individuals in our communities, leaving many uncertain about moving forward with their borrowing needs. Balancing loan growth with credit quality is perhaps the single most significant challenge the financial industry has faced since 2008. Our Company is no different.

As a result of these challenges and the continued low interest rate environment in 2013, our net interest margin declined from 4.38% in 2012 to 4.25% in 2013. Net interest income was \$40.17 million which was a slight decrease over the \$40.78 in 2012. Non-interest income improved from \$8.82 million in 2012 to \$8.84 million in 2013. Our existing loan quality improved in 2013. Total non-performing assets decreased from \$14.46 million in 2012 to \$11.30 million at the end of 2013 while our net charge-offs to average net loans declined from 0.49% in 2012 to 0.28% in 2013.

The full detail of our financial performance is discussed in Management's Discussion and Analysis section found in the attached SEC Form 10-K. Please take the opportunity to read this information as it provides additional insights and discussion related to our 2013 financial performance.

For several years, annual reports of community banking organizations throughout the nation, including ours, have commented upon the cascade of new and pending banking regulations that have compelled banks to incur growing compliance management costs. While there appears to be no end in sight to the imposition of new directives

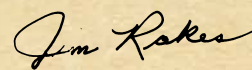
and rules, we will continue to devote the resources necessary to comply with the all regulatory requirements in a manner that has the least negative effect possible on our ability to offer quality products and services to our customers.

We continue to look for added value and convenience for our customers. In 2013, we launched a mobile banking application. This mobile banking product provides the true convenience of 24/7 banking. Many of our customers continue to sign-up for mobile and internet banking in order to take advantage of the convenience of these technologies.

During 2013, we were able to return more of our earnings to stockholders while maintaining a strong balance sheet. Bankshares paid our stockholders dividends of \$1.12 per share in 2013 compared to \$1.10 in 2012. This per share dividend payment amount resulted in an increase in the dividend payout ratio to 43.74% in 2013 compared to 43.04% in 2012.

Bankshares has a long-standing tradition of financial stability, community dedication and delivering long-term value to our stockholders. We are pleased with the performance we achieved in 2013. We also want to thank all of the Directors of National Bankshares, Inc. and National Bank and the Advisory Directors of National Bank for their commitment to bring value to our stockholders and customers. As always, we appreciate the hard work and dedication of our employees whose commitment to providing superior customer service fulfills our community banking mission.

Thank you for your continued investment and confidence in our Company.



James G. Rakes
Chairman, President and
Chief Executive Officer





National Bankshares

Board of Directors



Standing, from left:

Glenn P. Reynolds, President, Reynolds Architects, Inc.

Lawrence J. Ball, President, Moog Components Group

John E. Dooley, Chief Executive Officer, Virginia Tech Foundation, Inc.

William A. Peery, President, Cargo Oil Co., Inc.

Seated, from left:

Charles E. Green, III, Financial Planner, AXA Advisors, L.L.C.

Dr. Mary G. Miller, President, Interactive Design and Development, Inc.

Dr. Jack M. Lewis, President, New River Community College

Dr. James M. Shuler, Delegate, Virginia House of Delegates, Retired

James G. Rakes, Chairman, President and Chief Executive Officer, National Bankshares, Inc.

Chairman, President and Chief Executive Officer, National Bank

Chairman, President and Chief Executive Officer, National Bankshares Financial Services, Inc.

Consolidated Balance Sheets

\$ in thousands, except share and per share data

Assets	December 31, 2013	December 31, 2012
Cash and due from banks	\$ 13,283	\$ 14,783
Interest-bearing deposits	97,376	96,597
Securities available for sale, at fair value	183,668	189,815
Securities held to maturity (fair value approximates \$159,337 at December 31, 2013 and \$170,846 at December 31, 2012)	163,983	160,539
Restricted stock	1,414	1,689
Total securities	349,065	352,043
Mortgage loans held for sale	1,276	2,796
Loans:		
Real estate construction loans	45,925	50,313
Consumer real estate loans	145,499	143,262
Commercial real estate loans	311,266	304,308
Commercial non real estate loans	31,262	37,349
Public sector and IDA loans	34,220	26,169
Consumer non real estate loans	28,423	31,714
Total loans	596,595	593,115
Less unearned income and deferred fees	(905)	(953)
Loans, net of unearned income and deferred fees	595,690	592,162
Less allowance for loan losses	(8,227)	(8,349)
Loans, net	587,463	583,813
Premises and equipment, net	9,951	10,401
Accrued interest receivable	5,949	6,247
Other real estate owned, net	4,712	1,435
Intangible assets and goodwill	8,299	9,377
Bank-owned life insurance (BOLI)	21,181	20,523
Other assets	12,075	6,346
Total assets	\$ 1,110,630	\$ 1,104,361
Liabilities and Stockholders' Equity		
Noninterest-bearing demand deposits	\$ 142,645	\$ 144,252
Interest-bearing demand deposits	501,541	455,713
Savings deposits	74,141	69,063
Time deposits	241,709	277,738
Total deposits	960,036	946,766
Accrued interest payable	92	139
Other liabilities	4,610	7,347
Total liabilities	964,738	954,252
Commitments and contingencies	---	---
Stockholders' equity:		
Preferred stock, no par value, 5,000,000 shares authorized; none issued and outstanding	---	---
Common stock of \$1.25 par value. Authorized 10,000,000 shares; issued and outstanding, 6,947,974 shares in 2013 and 2012	8,685	8,685
Retained earnings	154,171	144,162
Accumulated other comprehensive (loss), net	(16,964)	(2,738)
Total stockholders' equity	145,892	150,109
Total liabilities and stockholders' equity	\$ 1,110,630	\$ 1,104,361

Consolidated Statements of Income

\$ in thousands, except share and per share data

	Years ended December 31,		
Interest Income	2013	2012	2011
Interest and fees on loans	\$ 32,819	\$ 35,354	\$ 36,514
Interest on interest-bearing deposits	213	240	155
Interest on securities – taxable	6,707	6,613	6,745
Interest on securities – nontaxable	6,388	6,463	6,532
Total interest income	46,127	48,670	49,946
Interest Expense			
Interest on time deposits of \$100 or more	865	1,491	2,019
Interest on other deposits	5,090	6,396	7,165
Total interest expense	5,955	7,887	9,184
Net interest income	40,172	40,783	40,762
Provision for loan losses	1,531	3,134	2,949
Net interest income after provision for loan losses	38,641	37,649	37,813
Noninterest Income			
Service charges on deposit accounts	2,563	2,594	2,617
Other service charges and fees	225	243	287
Credit card fees	3,330	3,278	3,197
Trust income	1,150	1,313	1,087
BOLI income	739	814	762
Other income	770	472	449
Realized securities gains, net	59	104	90
Total noninterest income	8,863	8,818	8,489
Noninterest Expense			
Salaries and employee benefits	11,978	12,005	11,357
Occupancy and furniture and fixtures	1,616	1,589	1,599
Data processing and ATM	1,700	1,593	1,701
FDIC assessment	554	475	677
Credit card processing	2,546	2,442	2,485
Intangible assets amortization	1,078	1,083	1,083
Net costs of other real estate owned	296	208	518
Franchise taxes	1,083	901	780
Other operating expenses	3,519	3,179	3,217
Total noninterest expense	24,370	23,475	23,417
Income before income tax expense	23,107	22,992	22,885
Income tax expense	5,317	5,245	5,247
Net income	\$ 17,790	\$ 17,747	\$ 17,638
Basic net income per common share	\$ 2.56	\$ 2.56	\$ 2.54
Fully diluted net income per common share	\$ 2.55	\$ 2.55	\$ 2.54



Board of Directors



Standing, from left: **Michael E. Dye**, Pharmacist/Owner, New Graham Pharmacy; **Dr. J. Lewis Webb, Jr.**, Retired Dentist; **James C. Thompson**, Chairman, Thompson & Litton, Inc.; **Norman V. Fitzwater**, President, A Cleaner World Blacksburg.

Seated from left: **Dr. James M. Shuler**, Delegate, Virginia House of Delegates, Retired; **Mildred R. Johnson**, Director of Undergraduate Admissions, Virginia Polytechnic Institute and State University; **F. Brad Denardo**, Executive Vice President, National Bankshares, Inc., Executive Vice President/Chief Operating Officer, National Bank, Treasurer, National Bankshares Financial Services, Inc.; **James G. Rakes**, Chairman, President and Chief Executive Officer, National Bankshares, Inc., Chairman, President and Chief Executive Officer, National Bank, Chairman, President and Chief Executive Officer, National Bankshares Financial Services, Inc.

National Bank Advisory Boards

Montgomery County: Dan A. Dodson, Kathryn S. Oddo, James J. Owen, Arlene A. Saari, James C. Stewart, Marc A. Verniel

Giles County: Dr. Terry E. Arbogast, Lisa W. Epperly, Dr. Robert C. McCracken

Galax: Thomas L. McChesney, Dr. James A. Williams, Jr., David F. Wilson

Christiansburg/Radford/Pulaski County: Charles R. Beller, III, William K. Cunningham, Dr. Kenneth E. Jones, Dr. Peter J. McDonald

Richlands: Thurmon T. Hackworth, Dr. Marvin D. Harman, Peter M. Mulkey, John M. Warner



A Tradition of Service

Alexander Black founded The Bank of Blacksburg in 1891 to serve the people of his small but growing community in the mountains of Southwest Virginia. Well over a century later, our bank has grown along with the region, and today National Bank operates 25 banking offices and has over one billion dollars in assets. Although our name has changed as we have expanded to serve new localities, we remain the same company dedicated to Alexander Black's original ideals of good customer service, good value and good service to the community.

National Bankshares, Inc. was formed as the holding company of National Bank in 1986 with the mission of providing a solid community banking investment that benefits our region. Over a quarter of a century later, Bankshares is a nationally-recognized leader in community banking performance. In addition to National Bank, National Bankshares also operates a financial services subsidiary, National Bankshares Financial Services, Inc., that provides investment and insurance services in a community bank setting.

To learn more about National Bankshares, visit our website at: www.nationalbankshares.com.



National Bankshares

Corporate Information

National Bankshares, Inc. Executive Officers

James G. Rakes
Chairman, President and Chief Executive
Officer

F. Brad Denardo
Executive Vice President

David K. Skeens
Treasurer and Chief Financial Officer

Annual Meeting

The Annual Meeting of Stockholders will be held on Tuesday, April 8, 2014 at 3:00 p.m. at Custom Catering Center, 902 Patrick Henry Drive, Blacksburg, Virginia.

Corporate Stock

National Bankshares, Inc. common stock trades on the Nasdaq Capital Market under the symbol "NKSH".

Financial Information

Investors and analysts seeking financial information about National Bankshares, Inc. should contact:

James G. Rakes, Chairman, President and Chief Executive Officer
(540) 951-6300 or (800) 552-4123
jrakes@nbbank.com

Written requests may be directed to:
National Bankshares, Inc.
P.O. Box 90002, Blacksburg, VA 24062-9002

Stockholder Services and Stock Transfer Agent

Stockholders seeking information about stock transfer requirements, lost certificates, dividends and other stockholder matters should contact:

Bryson J. Hunter
Secretary and Counsel
(540) 951-6300 or (800) 552-4123
bhunter@nbbank.com

or

Transfer Agent
Registrar and Transfer Company
10 Commerce Drive
Cranford, NJ 07016-3572
(800) 368-5948
info@rtco.com

A copy of National Bankshares, Inc.'s annual report to the Securities and Exchange Commission on Form 10-K will be furnished without charge to any stockholder upon written request. The Form 10-K and other corporate publications are also available at www.nationalbankshares.com. Proxy materials for the Annual Meeting of Stockholders are available at www.nationalbanksharesproxy.com.

Corporate Office

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