



# CELEBRATING



# YEARS OF EXCELLENCE



National Bankshares

2015 ANNUAL REPORT



## THANK YOU

As we celebrate the 125th birthday of National Bank, we would like to thank the employees and directors, past and present, who have been a part of this incredible journey. Without your hard work and support our success would not be possible.



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National Bankshares, Inc.'s annual report to the Securities and Exchange Commission on Form 10-K is enclosed in the rear folder.

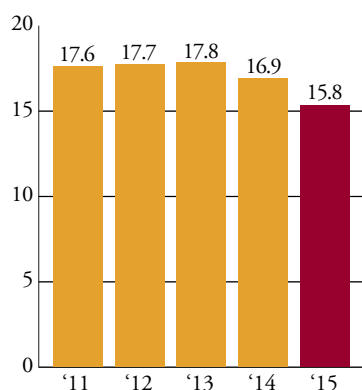
## FINANCIAL HIGHLIGHTS

(\$ in thousands, except ratios, share and per share data)

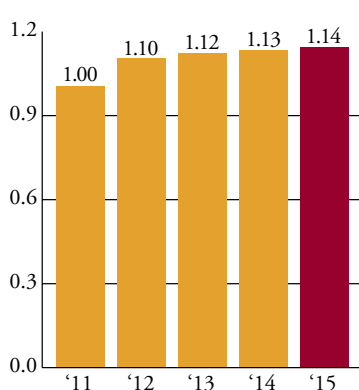
FOR THE YEAR	2015	2014	2013	2012	2011
Net income	\$ 15,833	\$ 16,914	\$ 17,790	\$ 17,747	\$ 17,638
Basic net income per share	2.28	2.43	2.56	2.56	2.54
Diluted net income per share	2.28	2.43	2.55	2.55	2.54
Cash dividends per share	1.14	1.13	1.12	1.10	1.00
Return on average assets	1.37%	1.51%	1.63%	1.64%	1.71%
Return on average equity	9.22%	10.72%	11.90%	12.01%	12.89%
Net interest margin	3.86%	4.00%	4.21%	4.34%	4.56%
Efficiency ratio	49.41%	47.08%	45.99%	43.77%	44.00%
Average equity to average assets	14.86%	14.08%	13.71%	13.68%	13.26%

AT YEAR-END	2015	2014	2013	2012	2011
Loans, net	610,711	597,203	587,463	583,813	580,402
Total securities	389,288	385,385	347,109	350,117	317,075
Total assets	1,199,739	1,154,731	1,110,630	1,104,361	1,067,102
Total deposits	1,018,859	982,428	960,036	946,766	919,333
Stockholders' equity	172,114	166,303	145,892	150,109	141,299
Book value per share	24.74	23.93	21.00	21.60	20.36

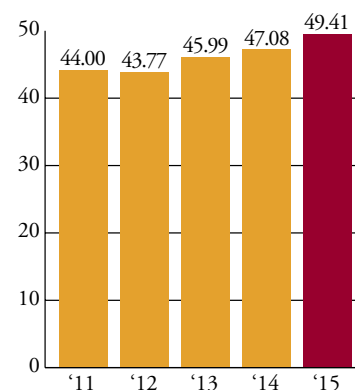
Net income (\$ millions)



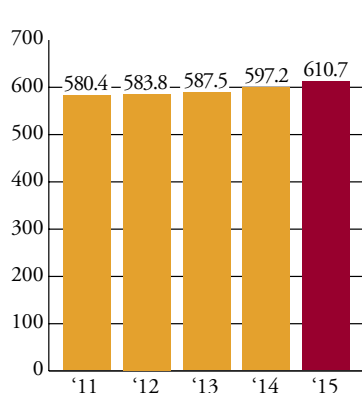
Cash dividends per share (\$)



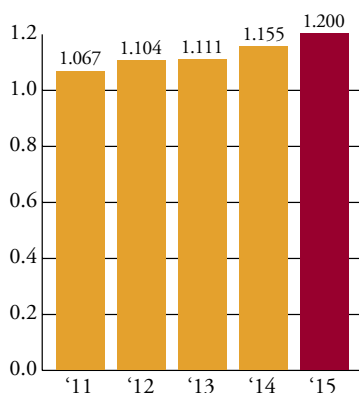
Efficiency ratio (%)



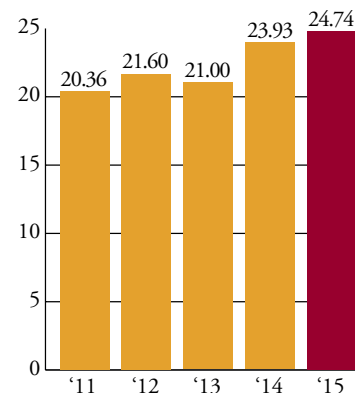
Loans, net (\$ millions)



Total assets (\$ billions)



Book value per share (\$)



## TO OUR SHAREHOLDERS

During 2016, we will be celebrating National Bank's 125th year. Since the opening in May 1891, National Bank has shared experiences with our customers, stockholders and the communities we serve, surviving and thriving through various economic cycles. We have grown in many measurable ways, including asset size, loan amounts, profitability, and number of employees and branch offices.

Throughout its 125 years, National Bank has experienced tremendous growth, from the size of the Bank and the number of employees who call NBB home to the number of customers and markets that we serve. With continued changes in technology and in the banking industry, many so-called experts believe that relationship banking is a thing of the past. But we say "to the contrary". For it is through the many relationships our bankers have developed over the years along with our ability to make decisions locally that have allowed us to contribute to and share in the successes of our customers. Through these relationships, our continued goal will be to deliver on our promise of providing quality community banking services for the benefit of our customers, our employees, our communities and our stockholders.

The Company remains a strong and well capitalized organization. Turning to some of the financial aspects of 2015, net income after taxes was \$15.83 million, a decrease from the \$16.91 million earned in 2014. The most obvious impacts on net income for 2015 were unanticipated loan write-downs during the fourth quarter and another write-down earlier in 2015 affecting other real estate owned. Despite the fact that net income decreased, National Bankshares continued to be a high-performing banking company in 2015 based on standard banking measurements. The 2015 return on average assets and return on average equity were 1.37% and 9.22%, respectively. The Company's basic earnings per share in 2015 were \$2.28. Stockholders' equity was \$172 million at year-end 2015, an increase of 3.49% from year-end 2014. Total assets at almost \$1.20 billion grew over \$45 million, or 3.90%, during 2015.

The competition for loans remains very strong. While maintaining our credit standards, we increased our net

loans approximately \$13 million, or 2.26%, in 2015. We will continue to focus on asset quality. In 2015, our nonperforming assets decreased by over \$3.1 million, or 22.69% from the end of 2014. Our allowance for loan losses, at year end, was \$8.30 million, or 1.34% of loans.

The full detail of our financial performance is discussed in Management's Discussion and Analysis section found in the attached U.S. Securities and Exchange Commission Form 10-K. Please take the opportunity to read this information as it provides additional insights and discussion related to our 2015 financial performance.

Based on the Company's earnings and strong capital position, your Board of Directors were pleased to return profits to stockholders by declaring dividends in 2015 totaling \$1.14 compared to \$1.13 in 2014 and \$1.12 in 2013. The dividend payments in 2015 equate to returning 50.09% of earnings to our stockholders.

As we celebrate National Bank's 125th anniversary, your support as stockholders, customers and friends has never been more important and for your support we are most appreciative. We invite you to join us for our Annual Meeting of Stockholders to be held at 3:00 p.m., Tuesday, May 10, 2016 at the Custom Catering Center, 902 Patrick Henry Drive (at the intersection of North Main Street), in Blacksburg.



James G. Rakes  
Chairman, President and  
Chief Executive Officer



## NATIONAL BANKSHARES, INC. BOARD OF DIRECTORS



**FROM LEFT:**

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

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

**Dr. James M. Shuler**  
Vice-Chairman  
National Bankshares, Inc.  
Delegate, Retired  
Virginia House of Delegates

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

**James G. Rakes**  
Chairman, President and Chief  
Executive Officer  
National Bankshares, Inc.  
Executive Chairman  
National Bank  
Chairman, President and Chief  
Executive Officer  
National Bankshares Financial  
Services, Inc.

**Lawrence J. Ball**  
President  
Moog Components Group

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

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

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



**NATIONAL BANKSHARES  
1986 INAUGURAL BOARD**

STANDING FROM LEFT:  
R.E. CHRISTOPHER, JR.  
L.A. BOWMAN  
M.A. LAWRENCE  
J.G. RAKES  
J.R. STEWART  
T.D. FRITH, JR.  
W.M. STERRETT

SEATED FROM LEFT:  
L.L. HOBBS  
RUTH C. HORTON  
P.A. DUNCAN  
J.M. BARRINGER  
W.B. MATTHEWS  
C.L. BOATWRIGHT

## CONSOLIDATED BALANCE SHEETS

\$ in thousands, except share and per share data	December 31, 2015		December 31, 2014	
<b>Assets</b>				
Cash and due from banks	\$	12,152	\$	12,894
Interest-bearing deposits		130,811		102,548
Securities available for sale, at fair value		236,131		222,844
Securities held to maturity (fair value of \$158,032 at December 31, 2015 and \$167,703 at December 31, 2014)		152,028		161,452
Restricted stock		1,129		1,089
Total securities		389,288		385,385
Mortgage loans held for sale		634		291
Loans:				
Real estate construction loans		48,251		45,562
Consumer real estate loans		143,504		147,039
Commercial real estate loans		309,378		310,762
Commercial non real estate loans		37,571		33,413
Public sector and IDA loans		51,335		41,361
Consumer non real estate loans		29,845		28,182
Total loans		619,884		606,319
Less unearned income and deferred fees		(876)		(853)
Loans, net of unearned income and deferred fees		619,008		605,466
Less allowance for loan losses		(8,297)		(8,263)
Loans, net		610,711		597,203
Premises and equipment, net		9,020		9,131
Accrued interest receivable		5,769		5,748
Other real estate owned, net		4,165		4,744
Intangible assets and goodwill		6,224		7,223
Bank-owned life insurance (BOLI)		22,401		21,797
Other assets		8,564		7,767
Total assets	\$	1,199,739	\$	1,154,731
<b>Liabilities and Stockholders' Equity</b>				
Noninterest-bearing demand deposits	\$	166,453	\$	150,744
Interest-bearing demand deposits		569,787		533,641
Savings deposits		90,236		81,297
Time deposits		192,383		216,746
Total deposits		1,018,859		982,428
Accrued interest payable		56		68
Other liabilities		8,710		5,932
Total liabilities		1,027,625		988,428
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, 6,957,974 shares in 2015 and 6,950,474 shares in 2014		8,698		8,688
Retained earnings		171,353		163,287
Accumulated other comprehensive loss, net		(7,937)		(5,672)
Total stockholders' equity		172,114		166,303
Total liabilities and stockholders' equity	\$	1,199,739	\$	1,154,731

## CONSOLIDATED STATEMENTS OF INCOME

\$ in thousands, except share and per share data	Years ended December 31,		
	2015	2014	2013
<b>Interest Income</b>			
Interest and fees on loans	\$ 30,446	\$ 31,058	\$ 32,484
Interest on interest-bearing deposits	254	262	213
Interest on securities – taxable	6,776	6,798	6,585
Interest on securities – nontaxable	5,438	5,826	6,388
Total interest income	42,914	43,944	45,670
<b>Interest Expense</b>			
Interest on deposits	4,183	4,899	5,955
Total interest expense	4,183	4,899	5,955
Net interest income	38,731	39,045	39,715
Provision for loan losses	2,009	1,641	1,531
Net interest income after provision for loan losses	36,722	37,404	38,184
<b>Noninterest Income</b>			
Service charges on deposit accounts	2,250	2,434	2,563
Other service charges and fees	215	187	225
Credit card fees	3,861	3,631	3,330
Trust income	1,229	1,213	1,150
BOLI income	603	616	658
Other income	1,295	1,037	1,342
Realized securities gains (losses), net	33	2	(46)
Total noninterest income	9,486	9,120	9,222
<b>Noninterest Expense</b>			
Salaries and employee benefits	12,522	11,606	11,907
Occupancy and furniture and fixtures	1,728	1,703	1,616
Data processing and ATM	1,657	1,650	1,700
FDIC assessment	546	533	554
Credit card processing	2,692	2,593	2,546
Intangible assets amortization	999	1,075	1,078
Net costs of other real estate owned	608	369	296
Franchise taxes	1,288	1,182	1,083
Other operating expenses	3,595	3,721	3,519
Total noninterest expense	25,635	24,432	24,299
Income before income tax expense	20,573	22,092	23,107
Income tax expense	4,740	5,178	5,317
Net income	\$ 15,833	\$ 16,914	\$ 17,790
Basic net income per common share	\$ 2.28	\$ 2.43	\$ 2.56
Fully diluted net income per common share	\$ 2.28	\$ 2.43	\$ 2.55

## NATIONAL BANK BOARD OF DIRECTORS



**FROM LEFT TO RIGHT:**

**Dr. J. Lewis Webb, Jr.**  
Retired Dentist

**Mildred R. Johnson**  
Associate Vice Provost for  
Enrollment Management and  
Director of Undergraduate  
Admissions  
Virginia Polytechnic Institute  
and State University

**Michael E. Dye**  
Pharmacist/Owner  
New Graham Pharmacy

**F. Brad Denardo**  
Executive Vice President  
National Bankshares, Inc.  
President and Chief Executive  
Officer  
National Bank  
Treasurer  
National Bankshares Financial  
Services, Inc.

**James C. Thompson**  
Chairman  
Thompson & Litton, Inc.

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

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

**Norman V. Fitzwater**  
President  
A Cleaner World, Blacksburg

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





## YEARS OF GIVING BACK

We believe that it is a privilege to be a community bank. That is why we are dedicated to not only providing the best in financial services, but to giving back to the communities we call home. Through charitable donations, bank programs and countless hours of volunteer time, we strive to improve the lives of our friends and neighbors. Whether it's a donation to a local rescue squad, a banking lesson at an elementary school, or giving out free lemonade at a summer festival, you will find National Bank and its employees committed to service in the spirit of community banking.

## 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, May 10, 2016 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](mailto: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](mailto:bhunter@nbbank.com)

or

Computershare, Inc.  
P.O. Box 30170  
College Station, TX 77842  
800-368-5948  
[www.computershare.com](http://www.computershare.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](http://www.nationalbankshares.com). Proxy materials for the Annual Meeting of Stockholders are available at [www.nationalbanksharesproxy.com](http://www.nationalbanksharesproxy.com).

### Corporate Office

National Bankshares, Inc.  
101 Hubbard Street  
Blacksburg, Virginia 24060  
P.O. Box 90002  
Blacksburg, Virginia 24062-9002  
[www.nationalbankshares.com](http://www.nationalbankshares.com)  
(540) 951-6300 or (800) 552-4123



Company headquarters through the years, from left: Green Hotel (1891), 1st Main Office (1942), Main Office downtown (1962), Hubbard Street Office (1999).





National Bankshares

101 Hubbard Street  
Blacksburg, Virginia 24060