



# National Bankshares

## **FOR IMMEDIATE RELEASE**

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## **NATIONAL BANKSHARES, INC. POSTS HIGHER THIRD QUARTER EARNINGS**

BLACKSBURG, VA, October 15, 2009: **National Bankshares, Inc.** (NASDAQ Capital Market: **NKSH**) reported today that the Company had total net income of \$3.78 million for the three months ended September 30, 2009. This compares with net income of nearly \$3.62 million for the same period in 2008. Year-to-date net income for September 30, 2009, was \$10.52 million, up over the \$10.27 million that National Bankshares, Inc. reported at the end of the third quarter in 2008. This translates to quarterly basic net income per share of \$0.55 and year-to-date net income per share of \$1.52, as compared with \$0.52 and \$1.48, respectively, last year. Net loans at the end of the third quarter of 2009 totaled \$575.19 million, a 6.24% increase over the total on September 30, 2008. The Company, a financial holding company that is the parent of the National Bank of Blacksburg of Blacksburg, Virginia, ended the third quarter with total assets of nearly \$965.89 million, up by 7.05% over the same period in 2009.

The Company's Chairman, President and CEO, James G. Rakes, said, "I am very pleased to report that National Bankshares, Inc. posted higher third quarter and year-to-date net income. This is a real achievement in a difficult economy, especially when the Company's FDIC Deposit Insurance Fund assessments increased from \$90,000 at September 30, 2008 to nearly \$1.43 million at September 30, 2009. Even though the FDIC assessments have negatively affected all banks' earnings, it is important that the banking industry take whatever steps are necessary to be certain that the Deposit Insurance Fund remains strong." Mr. Rakes continued, "Because of its conservative and traditional approach to banking and financial services, National Bankshares, Inc. has been successful to date in negotiating the challenges of the economic downturn. As you would expect, we have experienced an increase in nonperforming assets as an effect of the slow economy. However, nonperforming assets remain manageable, and the total compares well with peers. At National Bankshares, Inc., we understand that we are likely to face more challenges before the economy fully recovers. In the meantime, we are prepared to help our customers and our communities by continuing to make good loans and by safeguarding their deposits in a sound and very well-capitalized bank."

National Bankshares, Inc. is the parent of the 118 year-old National Bank of Blacksburg, which does business as National Bank from 25 offices in Southwest Virginia. The Company has a financial services subsidiary that serves the same markets as National Bankshares Investment Services and National Bankshares Insurance Services. Company stock is traded on the NASDAQ Capital Market under the symbol “NKSH”. Additional information can be found at [www.nationalbankshares.com](http://www.nationalbankshares.com).

#### *Forward-Looking Statements*

*Certain statements in this press release may be “forward-looking statements.” Forward-looking statements are statements that include projections, predictions, expectations or beliefs about future events or results that are not statements of historical fact and that involve significant risks and uncertainties. Although the Company believes that its expectations with regard to forward-looking statements are based upon reasonable assumptions within the bounds of its existing knowledge of its business and operations, there can be no assurance that actual Company results will not differ materially from any future results implied by the forward-looking statements. Actual results may be materially different from past or anticipated results because of many factors, some of which may include changes in economic conditions, the interest rate environment, legislative and regulatory requirements, new products, competition, changes in the stock and bond markets and technology. The Company does not update any forward-looking statements that it may make.*

**National Bankshares, Inc. and Subsidiaries**  
**Consolidated Balance Sheet**

(\$ in thousands, except for per share data)	(Unaudited) September 30, 2009	(Unaudited) September 30, 2008	December 31, 2008
<b>Assets</b>			
Cash and due from banks	\$ 11,891	\$ 16,511	\$ 16,316
Interest-bearing deposits	22,935	12,257	29,656
Federal funds sold	---	---	---
Securities available for sale	169,457	151,592	147,227
Securities held to maturity	132,786	127,108	117,772
Total securities	302,243	278,700	264,999
Mortgage loans held for sale	628	95	348
Loans:			
Real estate construction loans	47,671	63,880	60,798
Real estate mortgage loans	167,589	144,510	162,757
Commercial and industrial loans	268,868	232,648	246,218
Consumer loans	98,632	106,914	106,907
Total loans	582,760	547,952	576,680
Less: unearned income and deferred fees	(1,119)	(1,113)	(1,123)
Loans, net of unearned income and deferred fees	581,641	546,839	575,557
Less: allowance for loan losses	(6,453)	(5,435)	(5,858)
Loans, net	575,188	541,404	569,699
Bank premises and equipment, net	10,734	11,470	11,204
Accrued interest receivable	6,322	6,001	5,760
Other real estate owned	1,944	1,037	1,984
Intangible assets	12,897	13,997	13,719
Other assets	21,106	20,811	21,689
<b>Total assets</b>	<b>\$ 965,888</b>	<b>\$ 902,283</b>	<b>\$ 935,374</b>
<b>Liabilities and Stockholders' Equity</b>			
Noninterest-bearing deposits	\$ 122,519	\$ 113,936	\$ 109,630
Interest-bearing demand deposits	277,884	235,809	256,416
Savings deposits	50,241	46,453	45,329
Time deposits	385,229	389,788	406,473
Total deposits	835,873	785,986	817,848
Other borrowed funds	46	56	54
Accrued interest payable	473	636	655
Other liabilities	8,025	6,132	6,709
<b>Total liabilities</b>	<b>844,417</b>	<b>792,810</b>	<b>825,266</b>
<b>Stockholders' Equity</b>			
Preferred stock of no par value. Authorized 5,000,000 shares; none issued and outstanding.	---	---	---
Common stock of \$1.25 par value. Authorized 10,000,000 shares; issued and outstanding 6,933,474 shares at September 30, 2009, 6,926,974 shares at September 30, 2008 and 6,929,474 shares at December 31, 2008	8,667	8,659	8,662
Retained earnings	113,087	104,843	105,356
Accumulated comprehensive income	(283)	(4,029)	(3,910)
<b>Total stockholders' equity</b>	<b>121,471</b>	<b>109,473</b>	<b>110,108</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 965,888</b>	<b>\$ 902,283</b>	<b>\$ 935,374</b>

**National Bankshares, Inc. and Subsidiaries**  
**Consolidated Statements of Income**  
(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
(\$ in thousands, except for per share data)				
<b>Interest Income</b>				
Interest and fees on loans	\$ 9,316	\$ 9,196	\$ 28,170	\$ 27,682
Interest on federal funds	---	---	---	---
Interest on interest-bearing deposits	23	36	73	426
Interest on securities - taxable	1,600	1,726	4,766	5,175
Interest on securities - nontaxable	1,677	1,451	4,896	4,309
Total interest income	<u>12,616</u>	<u>12,409</u>	<u>37,905</u>	<u>37,592</u>
<b>Interest Expense</b>				
Interest on time deposits	1,379	1,323	4,363	4,502
Interest on other deposits	2,496	2,865	8,197	9,904
Interest on borrowed funds	1	7	2	11
Total interest expense	<u>3,876</u>	<u>4,195</u>	<u>12,562</u>	<u>14,417</u>
Net interest income	<u>8,740</u>	<u>8,214</u>	<u>25,343</u>	<u>23,175</u>
Provision for loan losses	305	280	953	515
Net interest income after provision for loan losses	<u>8,435</u>	<u>7,934</u>	<u>24,390</u>	<u>22,660</u>
<b>Noninterest Income</b>				
Service charges on deposit accounts	865	930	2,506	2,502
Other service charges and fees	107	88	263	250
Credit card fees	723	728	2,060	2,101
Trust income	255	307	792	929
Bank owned life insurance	201	144	554	446
Other income	78	87	263	314
Realized securities gains/(losses), net	(17)	(76)	53	189
Total noninterest income	<u>2,212</u>	<u>2,208</u>	<u>6,491</u>	<u>6,731</u>
<b>Noninterest Expense</b>				
Salaries and employee benefits	2,784	2,792	8,409	8,395
Occupancy and furniture and fixtures	450	437	1,344	1,328
Data processing and ATM	380	355	1,016	1,033
FDIC assessment	423	47	1,429	90
Credit card processing	550	546	1,551	1,570
Intangibles and goodwill amortization	271	279	822	841
Net costs of other real estate owned	29	52	100	64
Franchise taxes	221	208	666	619
Other operating expenses	783	815	2,364	2,354
Total noninterest expense	<u>5,891</u>	<u>5,531</u>	<u>17,701</u>	<u>16,294</u>
Income before income tax expense	<u>4,756</u>	<u>4,611</u>	<u>13,180</u>	<u>13,097</u>
Income tax expense	976	996	2,656	2,832
<b>Net income</b>	<u>\$ 3,780</u>	<u>\$ 3,615</u>	<u>\$ 10,524</u>	<u>\$ 10,265</u>
Basic net income per share	<u>\$ 0.55</u>	<u>\$ 0.52</u>	<u>\$ 1.52</u>	<u>\$ 1.48</u>
Fully diluted net income per share	<u>\$ 0.54</u>	<u>\$ 0.52</u>	<u>\$ 1.52</u>	<u>\$ 1.48</u>
Weighted average outstanding number of common shares				
Basic	<u>6,933,474</u>	<u>6,926,974</u>	<u>6,931,672</u>	<u>6,930,133</u>
Diluted	<u>6,948,083</u>	<u>6,932,438</u>	<u>6,942,712</u>	<u>6,937,018</u>
Dividends declared per share	---	---	\$ 0.41	\$ 0.39
Dividend payout ratio	---	---	27.01	26.32
Book value per share	---	---	\$ 17.52	\$ 15.80

## Key Ratios and Other Data (Unaudited)

Average Balances	Three Months Ended		Nine Months Ended	
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
Cash and due from banks	\$ 11,368	\$ 12,789	\$ 11,886	\$ 12,848
Interest-bearing deposits	34,418	7,607	38,706	22,011
Securities available for sale	169,149	156,309	166,446	160,312
Securities held to maturity	135,419	128,915	131,888	123,590
Mortgage loans held for sale	636	356	901	391
Gross loans	579,248	540,911	577,262	531,914
Loans, net	571,837	534,504	570,014	525,577
Intangible assets	13,053	14,158	13,324	14,436
Total assets	974,574	892,260	972,363	894,544
Total deposits	848,836	775,614	849,255	779,078
Other borrowings	48	1,004	50	379
Stockholders' equity	117,868	108,974	115,337	108,297
Interest-earning assets	916,773	831,899	914,332	836,105
Interest-bearing liabilities	730,628	661,912	735,764	666,185
<b>Financial ratios</b>				
Return on average assets	1.56%	1.61%	1.45%	1.53%
Return on average equity	12.86%	13.20%	12.20%	12.66%
Net interest margin	4.26%	4.34%	4.13%	4.11%
Net interest income - fully taxable equivalent	\$ 9,735	\$ 9,084	\$ 28,265	\$ 25,743
Efficiency ratio	49.24%	48.65%	50.93%	50.17%
Average equity to average assets	12.09%	12.21%	11.86%	12.11%
<b>Allowance for loan losses</b>				
Beginning balance	\$ 6,284	\$ 5,267	\$ 5,858	\$ 5,219
Provision for losses	305	280	953	515
Charge-offs	(168)	(127)	(422)	(409)
Recoveries	32	15	64	110
Ending balance	\$ 6,453	\$ 5,435	\$ 6,453	\$ 5,435

## Asset Quality Data (Unaudited)

	September 30, 2009	September 30, 2008
<b>Nonperforming assets</b>		
Nonaccrual loans	\$ 3,888	\$ 2,003
Restructured loans	---	---
Total nonperforming loans	3,888	2,003
Other real estate owned	1,944	1,037
Total nonperforming assets	\$ 5,832	\$ 3,040
Loans 90 days or more past due	\$ 2,153	\$ 1,324
<b>Asset quality ratios</b>		
Nonperforming loans to loans net of unearned income and deferred fees, plus other real estate owned	0.67 %	0.37 %
Allowance for loan losses to total loans	1.11%	0.99%
Allowance for loan losses to nonperforming loans	165.97%	271.34%
Loans past due 90 days or more to loans net of unearned income and deferred fees	0.37%	0.24%