

**National Bankshares, Inc. and Subsidiaries**  
**Consolidated Balance Sheets**  
(Unaudited)

(\$ in thousands, except for share and per share data)	March 31, 2018	March 31, 2017	December 31, 2017
<b>Assets</b>			
Cash and due from banks	\$ 10,598	\$ 13,654	\$ 12,926
Interest-bearing deposits	76,571	85,552	51,233
Securities available for sale, at fair value	337,211	304,376	331,387
Securities held to maturity	122,905	133,596	127,164
Restricted stock	1,221	1,200	1,200
Total securities	461,337	439,172	459,751
Mortgage loans held for sale	—	608	260
<b>Loans:</b>			
Loans, net of unearned income and deferred fees and costs	658,663	652,313	668,069
Less: allowance for loan losses	(7,391)	(8,261)	(7,925)
Loans, net	651,272	644,052	660,144
Premises and equipment, net	8,120	8,675	8,221
Accrued interest receivable	5,360	5,267	5,297
Other real estate owned, net	2,741	2,952	2,817
Intangible assets and goodwill	5,886	5,936	5,898
Bank-owned life insurance	33,984	23,141	33,756
Other assets	14,659	14,117	16,454
<b>Total assets</b>	<b>\$ 1,270,528</b>	<b>\$ 1,243,126</b>	<b>\$ 1,256,757</b>
<b>Liabilities and Stockholders' Equity</b>			
Noninterest-bearing deposits	\$ 190,746	\$ 182,750	\$ 182,511
Interest-bearing demand deposits	628,540	599,936	622,189
Savings deposits	142,019	138,940	140,150
Time deposits	111,635	124,854	114,884
Total deposits	1,072,940	1,046,480	1,059,734
Accrued interest payable	55	45	62
Other liabilities	11,996	13,614	12,065
<b>Total liabilities</b>	<b>1,084,991</b>	<b>1,060,139</b>	<b>1,071,861</b>
<b>Stockholders' Equity</b>			
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 at March 31, 2018, March 31, 2017 and December 31, 2017	8,698	8,698	8,698
Retained earnings	189,189	181,873	185,893
Accumulated other comprehensive loss, net	(12,350)	(7,584)	(9,695)
<b>Total stockholders' equity</b>	<b>185,537</b>	<b>182,987</b>	<b>184,896</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 1,270,528</b>	<b>\$ 1,243,126</b>	<b>\$ 1,256,757</b>

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

(\$ in thousands, except for per share data)	Three Months Ended	
	March 31, 2018	March 31, 2017
<b>Interest Income</b>		
Interest and fees on loans	\$ 7,532	\$ 7,453
Interest on interest-bearing deposits	172	148
Interest on securities - taxable	1,608	1,402
Interest on securities - nontaxable	1,172	1,235
Total interest income	10,484	10,238
<b>Interest Expense</b>		
Interest on time deposits	121	145
Interest on other deposits	960	883
Total interest expense	1,081	1,028
Net interest income	9,403	9,210
Provision for (recovery of) loan losses	(472)	59
Net interest income after provision for (recovery of) loan losses	9,875	9,151
<b>Noninterest Income</b>		
Service charges on deposit accounts	670	665
Other service charges and fees	33	69
Credit card fees	344	244
Trust income	402	401
Bank-owned life insurance	228	143
Other income	346	328
Total noninterest income	2,023	1,850
<b>Noninterest Expense</b>		
Salaries and employee benefits	3,694	3,523
Occupancy and furniture and fixtures	472	438
Data processing and ATM	730	565
FDIC assessment	91	95
Credit card processing	3	1
Intangibles and goodwill amortization	12	31
Net cost of other real estate owned	85	29
Franchise taxes	331	322
Other operating expenses	2,746	1,279
Total noninterest expense	8,164	6,283
Income before income tax expense	3,734	4,718
Income tax expense	438	1,069
<b>Net Income</b>	\$ 3,296	\$ 3,649
Basic net income per share	\$ 0.47	\$ 0.52
Fully diluted net income per share	\$ 0.47	\$ 0.52
Weighted average number of common shares outstanding		
Basic	6,957,974	6,957,974
Diluted	6,957,974	6,957,974
Dividends declared per share	—	—
Dividend payout ratio	—	—
Book value per share	\$ 26.67	\$ 26.30

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

(\$ in thousands)	Three Months Ended	
	March 31, 2018	March 31, 2017
Net income	\$ 3,296	\$ 3,649
<b>Other Comprehensive Income (Loss), net of tax</b>		
Unrealized holding gain (loss) on available for sale securities net of tax of (\$706) in 2018 and \$580 in 2017	(2,655)	1,075
Other comprehensive income (loss), net of tax of (\$706) in 2018 and \$580 in 2017	\$ (2,655)	\$ 1,075
<b>Total Comprehensive Income</b>	<b>\$ 641</b>	<b>\$ 4,724</b>

**Key Ratios and Other Data**  
(Unaudited)

(\$ in thousands)	Three Months Ended	
	March 31, 2018	March 31, 2017
<b>Average Balances</b>		
Cash and due from banks	\$ 11,246	\$ 11,111
Interest-bearing deposits	45,740	73,322
Securities available for sale	333,163	304,605
Securities held to maturity	125,045	134,477
Restricted stock	1,201	1,172
Mortgage loans held for sale	233	214
Gross Loans	665,466	650,464
Loans, net	656,930	641,406
Intangible assets	5,893	5,951
Total assets	1,246,071	1,224,870
Total deposits	1,048,929	1,032,012
Other borrowings	—	—
Stockholders' equity	185,147	180,512
Interest-earning assets	1,177,009	1,167,053
Interest-bearing liabilities	868,118	860,928
<b>Financial Ratios</b>		
Return on average assets <sup>(1)</sup>	1.32%	1.21%
Return on average equity <sup>(1)</sup>	8.85%	8.20%
Net interest margin	3.38%	3.49%
Net interest income-fully taxable equivalent	\$ 9,808	\$ 10,048
Efficiency ratio <sup>(2)</sup>	54.44%	52.81%
Average equity to average assets	14.86%	14.74%
<b>Allowance for Loan Losses</b>		
Beginning balance	\$ 7,925	\$ 8,300
Provision for losses	(472)	59
Charge-offs	(139)	(143)
Recoveries	77	45
Ending balance	\$ 7,391	\$ 8,261

(1) Return on average assets and return on average equity are calculated by annualizing net income to date. For 2018, the annualization factor was not applied to the recovery of loan losses and the insurance write-off.

(2) Efficiency ratio is calculated as noninterest expense, less non-recurring items, divided by the sum of noninterest income and net interest income on a fully taxable equivalent basis.

**Asset Quality Data**  
**(Unaudited)**

<b>(\$ in thousands)</b>	<b>March 31, 2018</b>	<b>March 31, 2017</b>
<b>Nonperforming Assets</b>		
Nonaccrual loans	\$ 6	\$ 1,040
Nonaccrual restructured loans	2,758	4,640
Total nonperforming loans	2,764	5,680
Other real estate owned	\$ 2,741	\$ 2,952
Total nonperforming assets	\$ 5,505	\$ 8,632
Accruing restructured loans	7,890	3,747
Loans 90 days or more past due	\$ 52	\$ 63
<b>Asset Quality Ratios</b>		
Nonperforming assets to loans net of unearned income and deferred fees, plus other real estate owned	0.83%	1.32%
Allowance for loans losses to total loans	1.12%	1.27%
Allowance for loan losses to nonperforming loans	267.40%	145.44%
Loans past due 90 days or more to loans net of unearned income and deferred fees	0.01%	0.01%