UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-Q

[x] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2019

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ________ to ________
Commission File Number 0-15204

NATIONAL BANKSHARES, INC.

(Exact name of registrant as specified in its charter)

Virginia	54-1375874
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
101 Hubbard Street P. O. Box 90002 Blacksburg, VA	24062-9002
(Address of principal executive offices)	(Zip Code)

(540) 951-6300
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. [x] Yes [ ] No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). [x] Yes [ ] No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b–2 of the Exchange Act.

Large accelerated filer [ ] Accelerated filer [x] Non-accelerated filer [ ]
Smaller reporting company [ ] Emerging growth company [ ]

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange act.
[ ] Yes [ ] No

Note: the text of Form 10-Q does not, and this amendment will not, appear in the Code of Federal Regulations.
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b–2 of the Exchange Act).
[ ] Yes [x] No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Par Value	Trading Symbol	Exchange on which Registered	Outstanding shares at May 7, 2019
Common Stock	$1.25	NKSH	NASDAQ	6,505,574

(This report contains 62 pages)

NATIONAL BANKSHARES, INC. AND SUBSIDIARIES
Form 10-Q
Index

Item 1. Financial Statements

Part I
Financial Information
National Bankshares, Inc. and Subsidiaries
Consolidated Balance Sheets

(in thousands, except share and per share data)		(Unaudited) March 31, 2019		December 31, 2018
Assets				
Cash and due from banks	**$**	**15,332**	$	12,882
Interest-bearing deposits		**53,381**		43,491
Securities available for sale, at fair value		**404,645**		425,010
Restricted stock, at cost		**1,220**		1,220
Loans held for sale		**602**		72
Loans:				
Loans, net of unearned income and deferred fees and costs		**718,371**		709,799
Less allowance for loan losses		**(7,360)**		(7,390)
Loans, net		**711,011**		702,409
Premises and equipment, net		**8,830**		8,646
Operating lease right-of-use asset		**2,190**		---
Accrued interest receivable		**5,401**		5,160
Other real estate owned, net		**2,025**		2,052
Goodwill		**5,848**		5,848
Bank-owned life insurance		**34,876**		34,657
Other assets		**12,642**		14,585
Total assets	**$**	**1,258,003**	$	1,256,032
Liabilities and Stockholders' Equity				
Noninterest-bearing demand deposits	**$**	**199,449**	$	195,441
Interest-bearing demand deposits		**608,227**		616,527
Savings deposits		**142,675**		138,175
Time deposits		**109,854**		101,799
Total deposits		**1,060,205**		1,051,942
Accrued interest payable		**140**		89
Operating lease liability		**2,192**		---
Other liabilities		**14,238**		13,763
Total liabilities		**1,076,775**		1,065,794
Commitments and contingencies				

(continued)

Stockholders' Equity				
Preferred stock, no par value, 5,000,000 shares authorized; none issued and outstanding		**---**		---
Common stock of $1.25 par value. Authorized 10,000,000 shares; issued and outstanding 6,505,574 shares at March 31, 2019 and 6,957,974 shares at December 31, 2018		**8,132**		8,698
Retained earnings		**180,637**		193,625
Accumulated other comprehensive loss, net		**(7,541)**		(12,085)
Total stockholders' equity		**181,228**		190,238
Total liabilities and stockholders' equity	**$**	**1,258,003**	$	1,256,032

See accompanying notes to consolidated financial statements.

National Bankshares, Inc. and Subsidiaries
Consolidated Statements of Income
Three Months Ended March 31, 2019 and 2018
(Unaudited)

(in thousands, except share and per share data)	March 31, 2019	March 31, 2018
Interest Income		
Interest and fees on loans	**$ 8,269**	$ 7,532
Interest on interest-bearing deposits	**259**	172
Interest on securities – taxable	**1,683**	1,608
Interest on securities – nontaxable	**927**	1,172
Total interest income	**11,138**	10,484
Interest Expense		
Interest on time deposits	**297**	121
Interest on other deposits	**1,496**	960
Total interest expense	**1,793**	1,081
Net interest income	**9,345**	9,403
Provision for (recovery of) loan losses	**200**	(472)
Net interest income after provision for (recovery of) loan losses	**9,145**	9,875
Noninterest Income		
Service charges on deposit accounts	**590**	670
Other service charges and fees	**52**	33
Credit and debit card fees	**309**	344
Trust income	**397**	402
BOLI income	**219**	228
Other income	**910**	346
Realized securities gain, net	**12**	---
Total noninterest income	**2,489**	2,023
Noninterest Expense		
Salaries and employee benefits	**3,821**	3,694
Occupancy, furniture and fixtures	**465**	472
Data processing and ATM	**751**	733
FDIC assessment	**85**	91
Intangible assets amortization	**---**	12
Net costs of other real estate owned	**25**	85
Franchise taxes	**314**	331
Write-down of insurance receivable	**---**	1,724
Other operating expenses	**1,004**	1,022
Total noninterest expense	**6,465**	8,164
Income before income taxes	**5,169**	3,734
Income tax expense	**726**	438

(*continued*)

Net Income	**$**	**4,443**	$	3,296
Basic net income per common share	**$**	**0.65**	$	0.47
Fully diluted net income per common share	**$**	**0.65**	$	0.47
Weighted average number of common shares outstanding – basic and diluted		**6,839,733**		6,957,974
Dividends declared per common share		**---**		---

See accompanying notes to consolidated financial statements.

National Bankshares, Inc. and Subsidiaries
Consolidated Statements of Comprehensive Income
Three Months Ended March 31, 2019 and 2018
(Unaudited)

(in thousands)	March 31, 2019	March 31, 2018
Net Income	**$ 4,443**	$ 3,296
Other Comprehensive Income (Loss), Net of Tax		
Unrealized holding gain (loss) on available for sale securities net of tax of $1,209 and ($706) for the periods ended March 31, 2019 and 2018, respectively	**4,553**	(2,655)
Reclassification adjustment for gain included in net income, net of tax of ($3) for the period ended March 31, 2019	**(9)**	---
Other comprehensive income (loss), net of tax	**4,544**	(2,655)
Total Comprehensive Income	**$ 8,987**	$ 641

See accompanying notes to consolidated financial statements.

National Bankshares, Inc. and Subsidiaries
Consolidated Statements of Changes in Stockholders' Equity
Three Months Ended March 31, 2019 and 2018
(Unaudited)

(in thousands)	**Common Stock**	**Retained Earnings**	**Accumulated Other Comprehensive Loss**	**Total**
Balances at December 31, 2017	$ 8,698	$ 185,893	$ (9,695)	$ 184,896
Net income	---	3,296	---	3,296
Other comprehensive loss, net of tax of ($706)	---	---	(2,655)	(2,655)
Balances at March 31, 2018	$ 8,698	189,189	(12,350)	185,537
Balances at December 31, 2018	$ 8,698	$ 193,625	$ (12,085)	$ 190,238
Net income	---	4,443	---	4,443
Common stock repurchased, 452,400 shares	(566)	(17,431)	---	(17,997)
Other comprehensive income, net of tax of $1,206	---	---	4,544	4,544
Balances at March 31, 2019	**$ 8,132**	**$ 180,637**	**$ (7,541)**	**$ 181,228**

See accompanying notes to consolidated financial statements.

National Bankshares, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
Three Months Ended March 31, 2019 and 2018
(Unaudited)

(in thousands)	**March 31, 2019**	**March 31, 2018**
Cash Flows from Operating Activities		
Net income	**$ 4,443**	$ 3,296
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for (recovery of) loan losses	**200**	(472)
Depreciation of bank premises and equipment	**173**	203
Amortization of intangibles	**---**	12
Amortization of premiums and accretion of discounts, net	**14**	15
Gains on disposal of fixed assets	**(2)**	---
Gain on sales and calls of securities available for sale, net	**(12)**	---
Loss and write-down on other real estate owned, net	**5**	76
Increase in cash value of bank-owned life insurance	**(219)**	(228)
Origination of mortgage loans held for sale	**(2,604)**	(2,486)
Proceeds from sale of mortgage loans held for sale	**2,113**	2,788
Gain on sale of mortgage loans held for sale	**(39)**	(42)
Write-down of insurance receivable	**---**	1,724
Net change in:		
Accrued interest receivable	**(241)**	(63)
Other assets	**739**	777
Accrued interest payable	**51**	(7)
Other liabilities	**475**	(69)
Net cash provided by operating activities	**5,096**	5,524
Cash Flows from Investing Activities		
Net change in interest-bearing deposits	**(9,890)**	(25,338)
Proceeds from calls, principal payments, sales and maturities of securities available for sale	**26,113**	1,794
Proceeds from calls, principal payments and maturities of securities held to maturity	**---**	4,238
Purchase of securities available for sale	**---**	(10,973)
Net change in restricted stock	**---**	(21)
Purchase of loan participations	**(189)**	(1,521)
Collection of loan participations	**3,150**	16
Loan originations and principal collections, net	**(11,861)**	10,772
Proceeds from sale of other real estate owned	**22**	---
Recoveries on loans charged off	**98**	77
Proceeds from sale and purchases of premises and equipment, net	**(355)**	(102)
Net cash provided by (used in) investing activities	**7,088**	(21,058)

(continued)

Cash Flows from Financing Activities		
Net change in time deposits	**8,055**	(3,249)
Net change in other deposits	**208**	16,455
Common stock repurchased	**(17,997)**	---
Net cash (used in) provided by financing activities	**(9,734)**	13,206
Net change in cash and due from banks	**2,450**	(2,328)
Cash and due from banks at beginning of period	**12,882**	12,926
Cash and due from banks at end of period	**$ 15,332**	$ 10,598
Supplemental Disclosures of Cash Flow Information		
Interest paid on deposits	**$ 1,742**	$ 1,088
Income taxes paid	**---**	---
Supplemental Disclosure of Noncash Activities		
Loans charged against the allowance for loan losses	**$ 328**	$ 139
Loans transferred to other real estate owned	**---**	---
Unrealized net gain (loss) on securities available for sale	**5,750**	(3,361)
Increase in operating lease right-of-use asset upon adoption of ASU 2016-02	**684**	---
Increase in operating lease liability upon adoption of ASU 2016-02	**684**	---

See accompanying notes to consolidated financial statements.

National Bankshares, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
March 31, 2019
(Unaudited)

$ in thousands, except per share data

Note 1: General

The consolidated financial statements of National Bankshares, Inc. ("NBI") and its wholly-owned subsidiaries, The National Bank of Blacksburg ("NBB") and National Bankshares Financial Services, Inc. ("NBFS") (collectively, the "Company"), conform to accounting principles generally accepted in the United States of America and to general practices within the banking industry. The accompanying interim period consolidated financial statements are unaudited; however, in the opinion of management, all adjustments consisting of normal recurring adjustments, which are necessary for a fair presentation of the consolidated financial statements, have been included. The results of operations for the three month period ended March 31, 2019 are not necessarily indicative of results of operations for the full year or any other interim period. The interim period consolidated financial statements and financial information included in this Form 10-Q should be read in conjunction with the notes to consolidated financial statements included in the Company's 2018 Form 10-K. The Company posts all reports required to be filed under the Securities and Exchange Act of 1934 on its web site at www.nationalbankshares.com.

Accounting Standards Adopted in 2019

ASU No. 2016-02, "Leases (Topic 842)"

In February 2016, the FASB issued ASU No. 2016-02, *"Leases (Topic 842)."* Among other things, the standard requires lessees to recognize the following for all leases (with the exception of short-term leases) at the commencement date: (1) A lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) A right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. For financial reporting purposes, the standard provides for a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach.

Subsequent to the issuance of ASU 2016-02, the FASB issued targeted updates to clarify specific implementation issues including ASU No. 2018-01, *"Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842,"* ASU No. 2018-10, *"Codification Improvements to Topic 842, Leases,"* ASU No. 2018-11, *"Leases (Topic 842): Targeted Improvements,"* ASU No. 2018-20, *"Leases (Topic 842): Narrow-Scope Improvements for Lessors,"* and ASU No. 2019-01 *"Leases (Topic 842): Codification Improvements."* One of the amendments in ASU 2018-11 provides an additional (and optional) transition method to adopt the standard. If elected, an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. Consequently, an entity's reporting for the comparative periods presented in the financial statements in which it adopts the new leases standard will continue to be in accordance with previous GAAP (Topic 840, Leases).

Upon adoption on January 1, 2019, the Company elected the prospective application approach provided by ASU 2018-11. There was no cumulative effect adjustment at adoption. The Company also elected certain practical expedients within the standard and did not reassess whether any expired or existing contracts are or contain leases, did not reassess the lease classification for any expired or existing leases and did not reassess any initial direct costs for existing leases. The Company evaluated its existing leases as of January 1, 2019 and recognized a right-of-use asset and lease liability for leases with a remaining term greater than 12 months. The Company also recognized a right-of-use asset and lease liability for leases that commenced after January 1, 2019.

ASU No. 2017-08, "Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20), Premium Amortization on Purchased Callable Debt Securities"

In March 2017, the FASB issued ASU 2017-08, "*Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20), Premium Amortization on Purchased Callable Debt Securities*." The amendments in this ASU shorten the amortization period for certain callable debt securities purchased at a premium. Premiums on qualifying callable debt securities will be amortized to the earliest call date. Discounts on purchased debt securities will continue to be accreted to maturity. The ASU provided for adoption on a modified retrospective basis, with a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption. The Company adopted the ASU on January 1, 2019. Adoption did not have a material impact and no cumulative effect adjustment was recorded.

Note 2:

Loan Portfolio

The loan portfolio, excluding loans held for sale, was comprised of the following.

	March 31, 2019	December 31, 2018
Real estate construction	**$ 41,156**	$ 37,845
Consumer real estate	**176,846**	175,456
Commercial real estate	**361,569**	353,546
Commercial non real estate	**45,312**	46,535
Public sector and IDA	**61,075**	60,777
Consumer non real estate	**32,998**	36,238
Gross loans	**718,956**	710,397
Less unearned income and deferred fees and costs	**(585)**	(598)
Loans, net of unearned income and deferred fees and costs	**$ 718,371**	$ 709,799

Note 3: Allowance for Loan Losses, Nonperforming Assets and Impaired Loans

The allowance for loan losses methodology incorporates individual evaluation of impaired loans and collective evaluation of groups of non-impaired loans. The Company performs ongoing analysis of the loan portfolio to determine credit quality and to identify impaired loans. Credit quality is rated based on the loan's payment history, the borrower's current financial situation and value of the underlying collateral.

Impaired Loans

Loans are designated as impaired when, in the judgment of management based on current information and events, it is probable that all amounts will not be collected when due according to the contractual terms of the loan agreement. Impaired loans are those loans that have been modified in a troubled debt restructure ("TDR" or "restructure") and larger, usually non-homogeneous loans that are in nonaccrual or exhibit payment history or financial status that indicate that collection probably will not occur when due according to the loan's terms. Generally, impaired loans are given risk ratings that indicate higher risk, such as "classified" or "special mention." Impaired loans are individually evaluated to determine appropriate reserves and are measured at the lower of the invested amount or the fair value. Impaired loans that are not troubled debt restructures and for which fair value measurement indicates an impairment loss are designated nonaccrual. A restructured loan that maintains current status for at least six months may be in accrual status. Please refer to the Company's 2018 Form 10-K, Note 1: Summary of Significant Accounting Policies for additional information on evaluation of impaired loans and associated specific reserves, and policies regarding nonaccruals, past due status and charge-offs.

Troubled debt restructurings impact the estimation of the appropriate level of the allowance for loan losses. If the restructuring included forgiveness of a portion of principal or accrued interest, the charge-off is included in the historical charge-off rates applied to the collective evaluation methodology. Restructured loans are individually evaluated for impairment, and the amount of a restructured loan's book value in excess of its fair value is accrued as a specific allocation in the allowance for loan losses. If a TDR loan payment exceeds 90 days past due, it is examined to determine whether the late payment indicates collateral dependency or cash flows below those that were used in the fair value measurement. TDRs, as well as all impaired loans, that are determined to be collateral dependent are charged down to fair value. Deficiencies indicated by impairment measurements for TDRs that are not collateral dependent may be accrued in the allowance for loan losses or charged off if deemed uncollectible.

Collectively-Evaluated Loans

The Company evaluated characteristics in the loan portfolio and determined major segments and smaller classes within each segment. These characteristics include collateral type, repayment sources, and (if applicable) the borrower's business model. The methodology for calculating reserves for collectively-evaluated loans is applied at the class level.

Portfolio Segments and Classes

The segments and classes used in determining the allowance for loan losses are as follows.

Real Estate Construction	Commercial Non Real Estate
Construction, residential	Commercial and industrial
Construction, other	
	Public Sector and IDA
Consumer Real Estate	Public sector and IDA
Equity lines	
Residential closed-end first liens	Consumer Non Real Estate
Residential closed-end junior liens	Credit cards
Investor-owned residential real estate	Automobile
	Other consumer loans
Commercial Real Estate	
Multifamily real estate	
Commercial real estate, owner-occupied	
Commercial real estate, other	

Historical Loss Rates

The Company's allowance methodology for collectively-evaluated loans applies historical loss rates by class to current class balances as part of the process of determining required reserves. Class loss rates are calculated as the net charge-offs for the class as a percentage of average class balance. The Company averages loss rates for the most recent 8 quarters to determine the historical loss rate for each class.

Two loss rates for each class are calculated: total net charge-offs for the class as a percentage of average class loan balance ("class loss rate"), and total net charge-offs for the class as a percentage of average classified loans in the class ("classified loss rate"). Classified loans are those with risk ratings of "substandard" or lower. Net charge-offs in both calculations include charge-offs and recoveries of classified and non-classified loans as well as those associated with impaired loans. Class historical loss rates are applied to non-classified loan balances at the reporting date, and classified historical loss rates are applied to classified balances at the reporting date.

Risk Factors

In addition to historical loss rates, risk factors pertinent to credit risk for each class are analyzed to estimate reserves for collectively-evaluated loans. Factors include changes in national and local economic and business conditions, the nature and volume of classes within the portfolio, loan quality, loan officers' experience, lending policies and the Company's loan review system.

The analysis of certain factors results in standard allocations to all segments and classes. These factors include the risk from changes in lending policies, loan officers' average years of experience, unemployment levels, bankruptcy rates, interest rate environment, and competition/legal/regulatory environments. Factors analyzed for each class, with resultant allocations based upon the level of risk assessed for each class, include the risk from changes in loan review, levels of past due loans, levels of nonaccrual loans, current class balance as a percentage of total loans, and the percentage of high risk loans within the class. Additionally, factors specific to each segment are analyzed and result in allocations to the segment. Please refer to Note 1: Summary of Significant Accounting Policies of Form 10-K for a discussion of risk factors pertinent to each class.

Real estate construction loans are subject to general risks from changing commercial building and housing market trends and economic conditions that may impact demand for completed properties and the costs of completion. These risks are measured by market-area unemployment rates, bankruptcy rates, building market trends, and interest rates.

The credit quality of consumer real estate is subject to risks associated with the borrower's repayment ability and collateral value, measured generally by analyzing local unemployment and bankruptcy trends, local housing market trends, and interest rates.

The commercial real estate segment includes loans secured by multifamily residential real estate, commercial real estate occupied by the owner/borrower, and commercial real estate leased to non-owners. Loans in the commercial real estate segment are impacted by economic risks from changing commercial real estate markets, rental markets for multi-family housing and commercial buildings, business bankruptcy rates, local unemployment and interest rate trends that would impact the businesses housed by the commercial real estate.

Commercial non real estate loans are secured by collateral other than real estate, or are unsecured. Credit risk for commercial non real estate loans is subject to economic conditions, generally monitored by local business bankruptcy trends, and interest rates.

Public sector and IDA loans are extended to municipalities and related entities. Credit risk is based upon the entity's ability to repay and interest rate trends.

Consumer non real estate includes credit cards, automobile and other consumer loans. Credit cards and certain other consumer loans are unsecured, while collateral is obtained for automobile loans and other consumer loans. Credit risk stems primarily from the borrower's ability to repay, measured by average unemployment, average personal bankruptcy rates and interest rates.

Factor allocations applied to each class are increased for loans rated special mention and increased to a greater extent for loans rated classified. The Company allocates additional reserves for "high risk" loans. High risk loans include junior liens, interest only and high loan to value loans.

A detailed analysis showing the allowance roll-forward by portfolio segment and related loan balance by segment follows.

Activity in the Allowance for Loan Losses for the Three Months Ended March 31, 2019

	Real Estate Construction	Consumer Real Estate	Commercial Real Estate	Commercial Non Real Estate	Public Sector and IDA	Consumer Non Real Estate	Unallocated	Total
Balance, December 31, 2018	**$ 398**	**$ 2,049**	**$ 2,798**	**$ 602**	**$ 583**	**$ 750**	**$ 210**	**$ 7,390**
Charge-offs	**---**	**(16)**	**(150)**	**---**	**---**	**(162)**	**---**	**(328)**
Recoveries	**---**	**---**	**12**	**---**	**---**	**86**	**---**	**98**
Provision for (recovery of) loan losses	**70**	**58**	**327**	**(27)**	**(58)**	**---**	**(170)**	**200**
Balance, March 31, 2019	**$ 468**	**$ 2,091**	**$ 2,987**	**$ 575**	**$ 525**	**$ 674**	**$ 40**	**$ 7,360**

Activity in the Allowance for Loan Losses for the Three Months Ended March 31, 2018

	Real Estate Construction	Consumer Real Estate	Commercial Real Estate	Commercial Non Real Estate	Public Sector and IDA	Consumer Non Real Estate	Unallocated	Total
Balance, December 31, 2017	$ 337	$ 2,027	$ 3,044	$ 1,072	$ 419	$ 707	$ 319	$ 7,925
Charge-offs	---	---	---	---	---	(139)	---	(139)
Recoveries	---	---	12	7	---	58	---	77
Provision for (recovery of) loan losses	(42)	(98)	(266)	(163)	13	54	30	(472)
Balance, March 31, 2018	$ 295	$ 1,929	$ 2,790	$ 916	$ 432	$ 680	$ 349	$ 7,391

Activity in the Allowance for Loan Losses for the Year Ended December 31, 2018

	Real Estate Construction	Consumer Real Estate	Commercial Real Estate	Commercial Non Real Estate	Public Sector and IDA	Consumer Non Real Estate	Unallocated	Total
Balance, December 31, 2017	$ 337	$ 2,027	$ 3,044	$ 1,072	$ 419	$ 707	$ 319	$ 7,925
Charge-offs	---	(38)	---	(107)	---	(544)	---	(689)
Recoveries	---	3	49	22	---	161	---	235
Provision for (recovery of) loan losses	61	57	(295)	(385)	164	426	(109)	(81)
Balance, December 31, 2018	$ 398	$ 2,049	$ 2,798	$ 602	$ 583	$ 750	$ 210	$ 7,390

Allowance for Loan Losses as of March 31, 2019

	Real Estate Construction	Consumer Real Estate	Commercial Real Estate	Commercial Non Real Estate	Public Sector and IDA	Consumer Non Real Estate	Unallocated	Total
Individually evaluated for impairment	**$ ---**	**$ 3**	**$ ---**	**$ 129**	**$ ---**	**$ ---**	**$ ---**	**$ 132**
Collectively evaluated for impairment	**468**	**2,088**	**2,987**	**446**	**525**	**674**	**40**	**7,228**
Total	**$ 468**	**$ 2,091**	**$ 2,987**	**$ 575**	**$ 525**	**$ 674**	**$ 40**	**$ 7,360**

	Allowance for Loan Losses as of December 31, 2018							
	Real Estate Construction	Consumer Real Estate	Commercial Real Estate	Commercial Non Real Estate	Public Sector and IDA	Consumer Non Real Estate	Unallocated	Total
Individually evaluated for impairment	$ ---	$ 4	$ ---	$ 135	$ ---	$ ---	$ ---	$ 139
Collectively evaluated for impairment	398	2,045	2,798	467	583	750	210	7,251
Total	$ 398	$ 2,049	$ 2,798	$ 602	$ 583	$ 750	$ 210	$ 7,390

	Loans as of March 31, 2019							
	Real Estate Construction	Consumer Real Estate	Commercial Real Estate	Commercial Non Real Estate	Public Sector and IDA	Consumer Non Real Estate	Unallocated	Total
Individually evaluated for impairment	**$ ---**	**$ 1,187**	**$ 4,151**	**$ 989**	**$ ---**	**$ 10**	**$ ---**	**$ 6,337**
Collectively evaluated for impairment	**41,156**	**175,659**	**357,418**	**44,323**	**61,075**	**32,988**	**---**	**712,619**
Total	**$ 41,156**	**$ 176,846**	**$ 361,569**	**$ 45,312**	**$ 61,075**	**$ 32,998**	**$ ---**	**$ 718,956**

	Loans as of December 31, 2018							
	Real Estate Construction	Consumer Real Estate	Commercial Real Estate	Commercial Non Real Estate	Public Sector and IDA	Consumer Non Real Estate	Unallocated	Total
Individually evaluated for impairment	$ ---	$ 1,452	$ 4,340	$ 1,015	$ ---	$ 13	$ ---	$ 6,820
Collectively evaluated for impairment	37,845	174,004	349,206	45,520	60,777	36,225	---	703,577
Total	$ 37,845	$ 175,456	$ 353,546	$ 46,535	$ 60,777	$ 36,238	$ ---	$ 710,397

A summary of ratios for the allowance for loan losses follows.

	As of and for the		
	Three Months Ended March 31,		Year Ended December 31,
	2019	2018	2018
Ratio of allowance for loan losses to the end of period loans, net of unearned income and deferred fees and costs	**1.02 %**	1.12%	1.04 %
Ratio of net charge-offs to average loans, net of unearned income and deferred fees and costs[(1)]	**0.13 %**	0.04%	0.07 %

(1) Net charge-offs are on an annualized basis.

A summary of nonperforming assets follows.

	March 31, 2019	March 31, 2018	December 31, 2018
Nonperforming assets:			
Nonaccrual loans	**$ 294**	$ 6	$ 311
Restructured loans in nonaccrual	**3,440**	2,758	3,109
Total nonperforming loans	**3,734**	2,764	3,420
Other real estate owned, net	**2,025**	2,741	2,052
Total nonperforming assets	**$ 5,759**	$ 5,505	$ 5,472
Ratio of nonperforming assets to loans, net of unearned income and deferred fees and costs, plus other real estate owned	**0.80 %**	0.83%	0.77 %
Ratio of allowance for loan losses to nonperforming loans(1)	**197.11 %**	267.40%	216.08 %

(1) The Company defines nonperforming loans as nonaccrual loans and restructured loans that are nonaccrual. Nonperforming loans do not include loans 90 days past due and still accruing or accruing restructured loans.

A summary of loans past due 90 days or more and impaired loans follows.

	March 31, 2019	March 31, 2018	December 31, 2018
Loans past due 90 days or more and still accruing	**$ 55**	$ 52	$ 35
Ratio of loans past due 90 days or more and still accruing to loans, net of unearned income and deferred fees and costs	**0.01 %**	0.01%	0.00 %
Accruing restructured loans	**$ 1,995**	$ 7,890	$ 2,552
Impaired loans:			
Impaired loans with no valuation allowance	**$ 5,212**	$ 10,233	$ 5,667
Impaired loans with a valuation allowance	**1,125**	1,448	1,153
Total impaired loans	**$ 6,337**	$ 11,681	$ 6,820
Valuation allowance	**(132)**	(169)	(139)
Impaired loans, net of allowance	**$ 6,205**	$ 11,512	$ 6,681
Average recorded investment in impaired loans(1)	**$ 6,597**	$ 11,754	$ 9,788
Interest income recognized on impaired loans, after designation as impaired	**$ 49**	$ 120	$ 250
Amount of income recognized on a cash basis	**$ ---**	$ ---	$ ---

(1) Recorded investment is net of charge-offs and interest paid while a loan is in nonaccrual status.

Nonaccrual loan relationships that meet the Company's balance threshold of $250 and all TDRs are designated as impaired. The Company also designates as impaired other loan relationships that meet the Company's balance threshold of $250 and for which the Company does not expect to collect according to the note's contractual terms. No interest income was recognized on nonaccrual loans for the three months ended March 31, 2019 or March 31, 2018 or for the year ended December 31, 2018.

A detailed analysis of investment in impaired loans and associated reserves, segregated by loan class follows.

	Impaired Loans as of March 31, 2019				
	Principal Balance	Total Recorded Investment[1]	Recorded Investment[1] for Which There is No Related Allowance	Recorded Investment[1] for Which There is a Related Allowance	Related Allowance
Consumer Real Estate[2]					
Residential closed-end first liens	**$ 493**	**$ 478**	**$ 478**	**$ ---**	**$ ---**
Residential closed-end junior liens	**139**	**139**	**---**	**139**	**3**
Investor-owned residential real estate	**580**	**570**	**570**	**---**	**---**
Commercial Real Estate[2]					
Multifamily	**476**	**469**	**469**	**---**	**---**
Commercial real estate, owner-occupied	**1,201**	**1,199**	**1,199**	**---**	**---**
Commercial real estate, other	**2,867**	**2,483**	**2,483**	**---**	**---**
Commercial Non Real Estate[2]					
Commercial and industrial	**993**	**989**	**3**	**986**	**129**
Consumer Non Real Estate[2]					
Automobile	**10**	**10**	**10**	**---**	**---**
Total	**$ 6,759**	**$ 6,337**	**$ 5,212**	**$ 1,125**	**$ 132**

[1] Recorded investment is net of charge-offs and interest paid while a loan is in nonaccrual status.
[2] Only classes with impaired loans are shown.

	Impaired Loans as of December 31, 2018				
	Principal Balance	Total Recorded Investment[1]	Recorded Investment[1] for Which There is No Related Allowance	Recorded Investment[1] for Which There is a Related Allowance	Related Allowance
Consumer Real Estate[2]					
Residential closed-end first liens	$ 728	$ 719	$ 719	$ ---	$ ---
Residential closed-end junior liens	144	143	---	143	4
Investor-owned residential real estate	593	590	590	---	---
Commercial Real Estate[2]					
Multifamily real estate	485	483	483	---	---
Commercial real estate, owner occupied	1,363	1,363	1,363	---	---
Commercial real estate, other	2,867	2,494	2,494	---	---
Commercial Non Real Estate[2]					
Commercial and industrial	1,018	1,015	5	1,010	135
Consumer Non Real Estate[2]					
Automobile	13	13	13	---	---
Total	$ 7,211	$ 6,820	$ 5,667	$ 1,153	$ 139

[1] Recorded investment is net of charge-offs and interest paid while a loan is in nonaccrual status.
[2] Only classes with impaired loans are shown.

The following tables show the average recorded investment and interest income recognized for impaired loans.

	For the Three Months Ended March 31, 2019	
	Average Recorded Investment[(1)]	Interest Income Recognized
Consumer Real Estate[(2)]		
Residential closed-end first liens	**$ 710**	**$ 9**
Residential closed-end junior liens	**142**	**2**
Investor-owned residential real estate	**570**	**9**
Commercial Real Estate[(2)]		
Multifamily real estate	**471**	**7**
Commercial real estate, owner occupied	**1,207**	**5**
Commercial real estate, other	**2,484**	**11**
Commercial Non Real Estate[(2)]		
Commercial and industrial	**1,002**	**6**
Consumer Non Real Estate[(2)]		
Automobile	**11**	**---**
Total	**$ 6,597**	**$ 49**

(1) Recorded investment is net of charge-offs and interest paid while a loan is in nonaccrual status.
(2) Only classes with impaired loans are shown.

	For the Three Months Ended March 31, 2018	
	Average Recorded Investment[(1)]	Interest Income Recognized
Real Estate Construction[(2)]		
Construction 1-4 family residential	$ 839	$ 38
Consumer Real Estate[(2)]		
Residential closed-end first liens	3,387	10
Residential closed-end junior liens	253	3
Investor-owned residential real estate	323	4
Commercial Real Estate[(2)]		
Multifamily real estate	372	4
Commercial real estate, owner occupied	2,648	50
Commercial real estate, other	2,384	---
Commercial Non Real Estate[(2)]		
Commercial and industrial	939	11
Consumer Non Real Estate		
Automobile	609	---
Total	$ 11,754	$ 120

(1) Recorded investment is net of charge-offs and interest paid while a loan is in nonaccrual status.
(2) Only classes with impaired loans are shown.

	For the Year Ended December 31, 2018	
	Average Recorded Investment[1]	Interest Income Recognized
Consumer Real Estate[2]		
Residential closed-end first liens	$ 1,202	$ 41
Residential closed-end junior liens	159	9
Investor-owned residential real estate	808	23
Commercial Real Estate[2]		
Multifamily real estate	491	20
Commercial real estate, owner occupied	3,038	75
Commercial real estate, other	2,744	54
Commercial Non Real Estate[2]		
Commercial and industrial	1,326	27
Consumer Non Real Estate[2]		
Automobile	20	1
Total	$ 9,788	$ 250

(1) Recorded investment is net of charge-offs and interest paid while a loan is in nonaccrual status.
(2) Only classes with impaired loans are shown.

The Company reviews nonaccrual loans on an individual loan basis to determine whether future payments are reasonably assured. To satisfy this criteria, the Company's evaluation must determine that the underlying cause of the original delinquency or weakness that indicated nonaccrual status has been resolved, such as receipt of new guarantees, increased cash flows that cover the debt service or other resolution. Nonaccrual loans that demonstrate reasonable assurance of future payments and that have made at least six consecutive payments in accordance with repayment terms and timeframes may be returned to accrual status.

An analysis of past due and nonaccrual loans follows.

March 31, 2019

	30 – 89 Days Past Due and Accruing	90 or More Days Past Due	90 or More Days Past Due and Accruing	Nonaccruals[2]
Real Estate Construction[1]				
Construction, other	**$ 20**	**$ ---**	**$ ---**	**$ ---**
Consumer Real Estate[1]				
Residential closed-end first liens	**1,225**	**41**	**19**	**270**
Residential closed-end junior liens	**176**	**---**	**---**	**---**
Investor-owned residential real estate	**---**	**240**	**---**	**240**
Commercial Real Estate[1]				
Multifamily real estate	**---**	**---**	**---**	**181**
Commercial real estate, owner-occupied	**---**	**262**	**---**	**560**
Commercial real estate, other	**---**	**---**	**---**	**2,483**
Commercial Non Real Estate[1]				
Commercial and industrial	**91**	**1**	**1**	**---**
Consumer Non Real Estate[1]				
Credit cards	**6**	**3**	**3**	**---**
Automobile	**261**	**31**	**31**	**---**
Other consumer loans	**43**	**1**	**1**	**---**
Total	**$ 1,822**	**$ 579**	**$ 55**	**$ 3,734**

(1) Only classes with past-due or nonaccrual loans are shown.
(2) Includes current and past due loans in nonaccrual status. Includes impaired loans in nonaccrual status.

December 31, 2018

	30 – 89 Days Past Due and Accruing	90 or More Days Past Due	90 or More Days Past Due and Accruing	Nonaccruals[2]
Consumer Real Estate[1]				
Residential closed-end first liens	$ 647	$ 119	$ ---	$ 278
Residential closed-end junior liens	11	---	---	---
Investor-owned residential real estate	---	---	---	451
Commercial Real Estate[1]				
Multifamily real estate	291	192	---	192
Commercial real estate, owner occupied	325	---	---	---
Commercial real estate, other	---	---	---	2,494
Commercial Non Real Estate[1]				
Commercial and industrial	10	2	2	5
Consumer Non Real Estate[1]				
Credit cards	5	---	---	---
Automobile	296	29	29	---
Other consumer loans	50	4	4	---
Total	$ 1,635	$ 346	$ 35	$ 3,420

(1) Only classes with past-due or nonaccrual loans are shown.
(2) Includes current and past due loans in nonaccrual status. Includes impaired loans in nonaccrual status.

The estimate of credit risk for non-impaired loans is obtained by applying allocations for internal and external factors. The allocations are increased for loans that exhibit greater credit quality risk.

Credit quality indicators, which the Company terms risk grades, are assigned through the Company's credit review function for larger loans and selective review of loans that fall below credit review thresholds. Loans that do not indicate heightened risk are graded as "pass." Loans that appear to have elevated credit risk because of frequent or persistent past due status, which is less than 75 days, or that show weakness in the borrower's financial condition are risk graded "special mention." Loans with frequent or persistent delinquency exceeding 75 days or that have a higher level of weakness in the borrower's financial condition are graded "classified." Classified loans have regulatory risk ratings of "substandard" and "doubtful." Allocations are increased by 50% and by 100% for loans with grades of "special mention" and "classified," respectively.

Determination of risk grades was completed for the portfolio as of March 31, 2019 and December 31, 2018.

The following displays collectively-evaluated loans by credit quality indicator.

March 31, 2019

	Pass[1]	Special Mention[1]	Classified[1]
Real Estate Construction			
Construction, 1-4 family residential	$ 8,436	$ ---	$ ---
Construction, other	32,700	20	---
Consumer Real Estate			
Equity lines	16,290	39	97
Closed-end first liens	91,442	1,085	1,116
Closed-end junior liens	4,075	---	---
Investor-owned residential real estate	61,508	7	---
Commercial Real Estate			
Multifamily residential real estate	98,155	---	---
Commercial real estate owner-occupied	125,961	72	32
Commercial real estate, other	133,198	---	---
Commercial Non Real Estate			
Commercial and industrial	44,193	86	44
Public Sector and IDA			
States and political subdivisions	61,075	---	---
Consumer Non Real Estate			
Credit cards	5,445	---	---
Automobile	15,615	71	53
Other consumer	11,785	11	8
Total	$ 709,878	$ 1,391	$ 1,350

[1] Excludes impaired, if any.

The following displays collectively-evaluated loans by credit quality indicator.

December 31, 2018

	Pass[1]	Special Mention[1]	Classified[1]
Real Estate Construction			
Construction, 1-4 family residential	$ 9,264	$ ---	$ ---
Construction, other	28,560	21	---
Consumer Real Estate			
Equity lines	16,026	38	---
Closed-end first liens	92,253	994	582
Closed-end junior liens	3,954	---	---
Investor-owned residential real estate	60,157	---	---
Commercial Real Estate			
Multifamily residential real estate	98,582	---	---
Commercial real estate owner-occupied	123,225	211	32
Commercial real estate, other	127,156	---	---
Commercial Non Real Estate			
Commercial and industrial	45,420	54	46
Public Sector and IDA			
States and political subdivisions	60,777	---	---
Consumer Non Real Estate			
Credit cards	5,724	---	---
Automobile	18,598	133	71
Other consumer	11,691	4	4
Total	$ 701,387	$ 1,455	$ 735

[1] Excludes impaired, if any.

Sales, Purchases and Reclassification of Loans

The Company finances mortgages under “best efforts” contracts with mortgage purchasers. The mortgages are designated as held for sale upon initiation. There have been no major reclassifications from portfolio loans to held for sale. Occasionally, the Company purchases or sells participations in loans. All participation loans purchased met the Company’s normal underwriting standards at the time the participation was entered. Participation loans are included in the appropriate portfolio balances to which the allowance methodology is applied.

Troubled Debt Restructurings

From time to time the Company modifies loans in troubled debt restructurings. Total troubled debt restructurings amounted to $5,435 at March 31, 2019, $5,661 at December 31, 2018, and $10,648 at March 31, 2018.

During the three month period ended March 31, 2019, no loans were modified into a troubled debt restructuring.

The following table presents restructurings by class that occurred during the three month period ended March 31, 2018.

	Restructurings That Occurred During the Three Months Ended March 31, 2018		
	Number of Contracts	Pre-Modification Outstanding Principal Balance	Post-Modification Outstanding Principal Balance
Real Estate Construction			
Construction, other	2	$ 2,882	$ 2,882
Total	2	$ 2,882	$ 2,882

Each of the restructurings completed during the three-month period ended March 31, 2018 provided payment relief to the borrowers without forgiving principal or interest. The two real estate construction loans were restructured to provide debt relief by extending the maturity and interest-only period for each loan. Impairment measurement, based on the fair value of the collateral, did not indicate a specific reserve for each of the real estate construction loans.

The Company analyzed its TDR portfolio for loans that defaulted during the three month periods ended March 31, 2019 and March 31, 2018, and that were modified within 12 months prior to default. The Company defines default as one or more payments that occur more than 90 days past the due date, charge-offs, or foreclosure after the date of restructuring. Of the Company's TDRs at March 31, 2019, seven consumer real estate loans totaling $263, all part of one relationship, defaulted within 12 months of modification. The impairment measurement is based upon the fair value of collateral, less estimated cost to sell, and resulted in no allocation. One commercial real estate loan defaulted within 12 months of modification. The impairment measurement is based upon the fair value of collateral, less estimated cost to sell, and resulted in no allocation. All of the defaulted loans are in nonaccrual status and the Company is working with the borrowers to recover its investment. Of the restructured loans that defaulted during the three month periods ended March 31, 2018, none were modified within 12 months prior to default.

Note 4: Securities

The amortized costs, gross unrealized gains, gross unrealized losses and fair values for securities available for sale by major security type are as follows.

	March 31, 2019			
	Amortized Costs	Gross Unrealized Gains	Gross Unrealized Losses	Fair Values
Available for Sale:				
U.S. Government agencies and corporations	$ 291,215	$ 987	$ 2,860	$ 289,342
States and political subdivisions	109,556	1,506	248	110,814
Mortgage-backed securities	550	46	---	596
Corporate debt securities	3,992	1	100	3,893
Total securities available for sale	$ 405,313	$ 2,540	$ 3,208	$ 404,645

	December 31, 2018			
	Amortized Costs	Gross Unrealized Gains	Gross Unrealized Losses	Fair Values
Available for Sale:				
U.S. Government agencies and corporations	$ 306,264	$ 449	$ 6,666	$ 300,047
States and political subdivisions	118,564	1,218	1,166	118,616
Mortgage-backed securities	586	42	---	628
Corporate debt securities	6,014	---	295	5,719
Total securities available for sale	$ 431,428	$ 1,709	$ 8,127	$ 425,010

The amortized cost and fair value of single maturity securities available for sale at March 31, 2019, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Mortgage-backed securities included in these totals are categorized by final maturity.

	March 31, 2019	
	Amortized Cost	Fair Value
Available for Sale:		
Due in one year or less	**$ 62,607**	**$ 62,459**
Due after one year through five years	**174,190**	**172,334**
Due after five years through ten years	**82,061**	**82,551**
Due after ten years	**86,455**	**87,301**
Total securities available for sale	**$ 405,313**	**$ 404,645**

Prior to the second quarter of 2018, the Company designated securities in its portfolio as either available for sale or held to maturity. During the second quarter of 2018, the Company re-designated all of its held to maturity securities to available for sale. The securities were re-designated to provide opportunities to maximize asset utilization. At the time of transfer, the securities had a fair value of $119,790 and an amortized cost of $118,662, resulting in an unrealized gain of $1,128 which was added to accumulated other comprehensive income.

The amortized costs, gross unrealized gains, gross unrealized losses and fair values for securities held to maturity as of March 31, 2018 follows:

	March 31, 2018			
	Amortized Costs	Gross Unrealized Gains	Gross Unrealized Losses	Fair Values
Held to Maturity:				
U.S. Government agencies and corporations	$ 3,934	$ 99	$ 1	$ 4,032
States and political subdivisions	117,791	2,184	649	119,326
Mortgage-backed securities	196	18	---	214
Corporate debt securities	984	---	7	977
Total securities held to maturity	$ 122,905	$ 2,301	$ 657	$ 124,549

Information pertaining to securities with gross unrealized losses aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows.

	March 31, 2019							
	Less Than 12 Months				12 Months or More			
		Fair Value		Unrealized Loss		Fair Value		Unrealized Loss
Temporarily Impaired Securities:								
U.S. Government agencies and corporations	**$**	**941**	**$**	**1**	**$**	**235,610**	**$**	**2,859**
States and political subdivisions		**556**		**84**		**12,300**		**164**
Corporate debt securities		**---**		**---**		**2,893**		**100**
Total	**$**	**1,497**	**$**	**85**	**$**	**250,803**	**$**	**3,123**

	December 31, 2018							
	Less Than 12 Months				12 Months or More			
		Fair Value		Unrealized Loss		Fair Value		Unrealized Loss
Temporarily Impaired Securities:								
U.S. Government agencies and corporations	$	17,730	$	216	$	259,992	$	6,450
States and political subdivisions		16,882		352		20,758		814
Corporate debt securities		4,842		194		876		101
Total	$	39,454	$	762	$	281,626	$	7,365

The Company had 266 securities with a fair value of $252,300 that were temporarily impaired at March 31, 2019. The total unrealized loss on these securities was $3,208. Of the temporarily impaired total, 264 securities with a fair value of $250,803 and an unrealized loss of $3,123 have been in a continuous loss position for twelve months or more. The Company has determined that these securities are temporarily impaired at March 31, 2019 for the reasons set out below.

U.S. Government agencies. The unrealized losses of $2,859 on US Government agency securities stemmed from 239 securities with a fair value of $235,610. The unrealized losses were caused by interest rate and market fluctuations. The contractual term of the investment does not permit the issuer to settle the security at a price less than the cost basis of the investment. The Company is monitoring bond market trends to develop strategies to address unrealized losses. Because the Company does not intend to sell the investments and it is not likely that the Company will be required to sell the investments before recovery of the amortized cost basis, which may be at maturity, the Company does not consider these investments to be other-than-temporarily impaired.

States and political subdivisions. This category's unrealized loss of $164 on 22 securities with a fair value of $12,300 is primarily the result of interest rate and market fluctuations. The Company reviewed financial statements and cash flows for each of the securities in continuous loss position for more than 12 months. The Company's analysis determined that the unrealized losses are primarily the result of interest rate and market fluctuations and not associated with impaired financial status. The contractual terms of the investments do not permit the issuer to settle the securities at a price less than the cost basis of each investment. Because the Company does not intend to sell any of the investments and it is not likely that the Company will be required to sell any of the investments before recovery of its amortized cost basis, which may be at maturity, the Company does not consider these investments to be other-than-temporarily impaired.

Corporate debt securities. The unrealized loss of $100 on three corporate debt securities with a fair value of $2,893 was caused by market and interest rate fluctuations and is not associated with impaired financial status. The contractual terms of the investments do not permit the issuers to settle the securities at a price less than the cost basis of each investment. Because the Company does not intend to sell the investments and it is not likely that the Company will be required to sell the investments before recovery of their amortized cost basis, which may be at maturity, the Company does not consider the investments to be other-than-temporarily impaired.

Restricted stock. The Company held restricted stock of $1,220 as of March 31, 2019 and December 31, 2018. Restricted stock is reported separately from available-for-sale securities and held-to-maturity securities. As a member of the Federal Reserve and the Federal Home Loan Bank ("FHLB") of Atlanta, NBB is required to maintain certain minimum investments in the common stock of those entities. Required levels of investment are based upon NBB's capital, current borrowings, and a percentage of qualifying assets. The Company purchases stock from or sells stock back to the correspondents based on their calculations. The stock is held by member institutions only and is not actively traded.

Redemption of FHLB stock is subject to certain limitations and conditions. At its discretion, the FHLB may declare dividends on the stock. In addition to dividends, NBB also benefits from its membership with FHLB through eligibility to borrow from the FHLB, using as collateral NBB's capital stock investment in the FHLB and qualifying NBB real estate mortgage loans totaling $522,582 at March 31, 2019. Management reviews for impairment based upon the ultimate recoverability of the cost basis of the FHLB stock, and at March 31, 2019, management did not determine any impairment.

Management regularly monitors the credit quality of the investment portfolio. Changes in ratings are noted and follow-up research on the issuer is undertaken when warranted. Management intends to carefully monitor any changes in bond quality.

Note 5: Recent Accounting Pronouncements

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." The amendments in this ASU, among other things, require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. In addition, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The amendments in this ASU are effective for SEC filers for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The Company is currently assessing the impact that ASU 2016-13 will have on its consolidated financial statements. The Company has formed a working group to address information requirements, determine methodology, research forecasts and ensure readiness and compliance with the standard. The Company has begun calculating and refining concurrent models using CECL methodology. The Company will continue to fine tune assumptions prior to the effective date.

In January 2017, the FASB issued ASU No. 2017-04, "Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment". The amendments in this ASU simplify how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. Instead, under the amendments in this ASU, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. Public business entities that are U.S. Securities and Exchange Commission (SEC) filers should adopt the amendments in this ASU for annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company does not expect the adoption of ASU 2017-04 to have a material impact on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, "Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement." The amendments modify the disclosure requirements in Topic 820 to add disclosures regarding changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements and the narrative description of measurement uncertainty. Certain disclosure requirements in Topic 820 are also removed or modified. The amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Certain of the amendments are to be applied prospectively while others are to be applied retrospectively. Early adoption is permitted. The Company does not expect the adoption of ASU 2018-13 to have a material impact on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-14, "Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans." These amendments modify the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. Certain disclosure requirements have been deleted while the following disclosure requirements have been added: the weighted-average interest crediting rates for cash balance plans and other plans with promised interest crediting rates and an explanation of the reasons for significant gains and losses related to changes in the benefit obligation for the period. The amendments also clarify the disclosure requirements in paragraph 715-20-50-3, which state that the following information for defined benefit pension plans should be disclosed: The projected benefit obligation (PBO) and fair value of plan assets for plans with PBOs in excess of plan assets and the accumulated benefit obligation (ABO) and fair value of plan assets for plans with ABOs in excess of plan assets. The amendments are effective for fiscal years ending after December 15, 2020. Early adoption is permitted. The Company does not expect the adoption of ASU 2018-14 to have a material impact on its consolidated financial statements.

Note 6: Defined Benefit Plan

Components of Net Periodic Benefit Cost

	Pension Benefits Three Months Ended March,	
	2019	**2018**
Service cost	**$ 200**	$ 217
Interest cost	**221**	200
Expected return on plan assets	**(365)**	(400)
Amortization of prior service cost	**(27)**	(27)
Recognized net actuarial loss	**158**	146
Net periodic benefit cost	**$ 187**	$ 136

The service cost component of net periodic benefit cost is included in salaries and employee benefits expense in the consolidated statements of income. All other components are included in other noninterest expense in the consolidated statements of income.

2019 Plan Year Employer Contribution

For the three months ended March 31, 2019, the Company did not make a contribution to the Plan.

Note 7: Fair Value Measurements

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. U.S. GAAP requires that valuation techniques maximize the use of the observable inputs and minimize the use of the unobservable inputs. U.S. GAAP also establishes a fair value hierarchy which prioritizes the valuation inputs into three broad levels. Based on the underlying inputs, each fair value measurement in its entirety is reported in one of the three levels. These levels are:

Level 1 – Valuation is based on quoted prices in active markets for identical assets and liabilities.

Level 2 – Valuation is based on observable inputs including quoted prices in active markets for similar assets and liabilities, quoted prices for identical or similar assets and liabilities in less active markets, and model-based valuation techniques for which significant assumptions can be derived primarily from or corroborated by observable data in the market.

Level 3 – Valuation is based on model-based techniques that use one or more significant inputs or assumptions that are unobservable in the market.

Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. Accounting guidance for fair value excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Consequently, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Company. The following describes the valuation techniques used by the Company to measure certain financial assets and liabilities recorded at fair value on a recurring basis in the financial statements:

Securities Available for Sale

Securities available for sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted market prices, when available (Level 1). If quoted market prices are not available, fair values are measured utilizing independent valuation techniques of identical or similar securities for which significant assumptions are derived primarily from or corroborated by observable market data. Third party vendors compile prices from various sources and may determine the fair value of identical or similar securities by using pricing models that consider observable market data (Level 2). The carrying value of restricted Federal Reserve Bank and Federal Home Loan Bank stock approximates fair value based upon the redemption provisions of each entity and is therefore excluded from the following table.

The following tables present the balances of financial assets measured at fair value on a recurring basis as of March 31, 2019 and December 31, 2018.

Description	Balance as of March 31, 2019	Fair Value Measurements at March 31, 2019 Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Government agencies and corporations	**$ 289,342**	**$ ---**	**$ 289,342**	**$ ---**
States and political subdivisions	**110,814**	**---**	**110,814**	**---**
Mortgage-backed securities	**596**	**---**	**596**	**---**
Corporate debt securities	**3,893**	**---**	**3,893**	**---**
Total securities available for sale	**$ 404,645**	**$ ---**	**$ 404,645**	**$ ---**

Description	Balance as of December 31, 2018	Fair Value Measurements at December 31, 2018 Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Government agencies and corporations	$ 300,047	$ ---	$ 300,047	$ ---
States and political subdivisions	118,616	---	118,616	---
Mortgage-backed securities	628	---	628	---
Corporate debt securities	5,719	---	5,719	---
Total securities available for sale	$ 425,010	$ ---	$ 425,010	$ ---

Certain assets are measured at fair value on a nonrecurring basis in accordance with GAAP. Adjustments to the fair value of these assets usually result from the application of lower-of-cost-or-market accounting or write-downs of individual assets.

The following describes the valuation techniques used by the Company to measure certain assets recorded at fair value on a nonrecurring basis in the financial statements.

Loans Held for Sale

Loans held for sale are carried at the lower of cost or fair value. These loans currently consist of one-to-four family residential loans originated for sale in the secondary market. Fair value is based on the price secondary markets are currently offering for similar loans using observable market data which is not materially different than cost due to the short duration between origination and sale (Level 2). As such, the Company records any fair value adjustments on a nonrecurring basis. No nonrecurring fair value adjustments were recorded on loans held for sale at March 31, 2019 or December 31, 2018.

Impaired Loans

Loans are designated as impaired when, in the judgment of management based on current information and events, it is probable that all amounts due will not be collected according to the contractual terms of the loan agreement. Troubled debt restructurings are impaired loans. Impaired loans are measured at fair value on a nonrecurring basis. If an individually-evaluated impaired loan's balance exceeds fair value, the amount is allocated to the allowance for loan losses. Any fair value adjustments are recorded in the period incurred as provision for loan losses on the Consolidated Statements of Income.

The fair value of an impaired loan and measurement of associated loss is based on one of three methods: the observable market price of the loan, the present value of projected cash flows, or the fair value of the collateral. The observable market price of a loan is categorized as a Level 1 input. The present value of projected cash flows method results in a Level 3 categorization because the calculation relies on the Company's judgment to determine projected cash flows, which are then discounted at the current rate of the loan, or the rate prior to modification if the loan is a troubled debt restructure.

Loans measured using the fair value of collateral method may be categorized in Level 2 or Level 3. Collateral may be in the form of real estate or business assets including equipment, inventory, and accounts receivable. Most collateral is real estate. The Company bases collateral method fair valuation upon the "as-is" value of independent appraisals or evaluations. Valuations for impaired loans secured by residential 1-4 family properties with outstanding principal balances greater than $250 are based on an appraisal. Appraisals are also used to value impaired loans secured by commercial real estate with outstanding principal balances greater than $500. Collateral-method impaired loans secured by residential 1-4 family property with outstanding principal balances of $250 or less, or secured by commercial real estate with outstanding principal balances of $500 or less, are valued using an internal evaluation.

The value of real estate collateral is determined by a current (less than 24 months of age) appraisal or internal evaluation utilizing an income or market valuation approach. Appraisals conducted by an independent, licensed appraiser outside of the Company using observable market data is categorized as Level 2. If a current appraisal cannot be obtained prior to a reporting date and an existing appraisal is discounted to obtain an estimated value, or if declines in value are identified after the date of the appraisal, or if an appraisal is discounted for estimated selling costs, the valuation of real estate collateral is categorized as Level 3. Valuations derived from internal evaluations are categorized as Level 3. The value of business equipment is based upon an outside appraisal (Level 2) if deemed significant, or the net book value on the applicable business' financial statements (Level 3) if not considered significant. Likewise, values for inventory and accounts receivables collateral are based on financial statement balances or aging reports (Level 3).

The following table summarizes the Company's impaired loans that were measured at fair value on a nonrecurring basis at March 31, 2019 and at December 31, 2018.

			Carrying Value		
Date	**Description**	**Balance**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
	Assets:				
March 31, 2019	Impaired loans net of valuation allowance	**$ 993**	**$ ---**	**$ ---**	**$ 993**
December 31, 2018	Impaired loans net of valuation allowance	1,014	---	---	1,014

The following tables present information about Level 3 Fair Value Measurements for March 31, 2019 and December 31, 2018.

Impaired Loans	**Valuation Technique**	**Unobservable Input**	**Range (Weighted Average)**
March 31, 2019	Present value of cash flows	Discount rate	**5.50% – 7.25% (5.82%)**
December 31, 2018	Present value of cash flows	Discount rate	5.50% –7.25% (6.05%)

Other Real Estate Owned

Certain assets such as other real estate owned (OREO) are measured at fair value less cost to sell. Valuation of other real estate owned is determined using current appraisals from independent parties, a Level 2 input. If current appraisals cannot be obtained prior to reporting dates, or if declines in value are identified after a recent appraisal is received, appraisal values are discounted, resulting in Level 3 estimates. If the Company markets the property with a realtor, estimated selling costs reduce the fair value, resulting in a valuation based on Level 3 inputs.

The following table summarizes the Company's other real estate owned that was measured at fair value on a nonrecurring basis.

			Carrying Value		
Date	**Description**	**Balance**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
	Assets:				
March 31, 2019	Other real estate owned net of valuation allowance	**$ 2,025**	**$ ---**	**$ ---**	**$ 2,025**
December 31, 2018	Other real estate owned net of valuation allowance	2,052	---	---	2,052

The following tables present information about Level 3 Fair Value Measurements for March 31, 2018 and December 31, 2018.

March 31, 2019	**Valuation Technique**	**Unobservable Input**	**Range (Weighted Average)**
Other real estate owned	Discounted appraised value	Selling cost	**0.00%(1) – 6.00% (0.04%)**
Other real estate owned	Discounted appraised value	Discount for lack of marketability and age of appraisal	**0.00% – 10.67% (0.08%)**

December 31, 2018	**Valuation Technique**	**Unobservable Input**	**Range (Weighted Average)**
Other real estate owned	Discounted appraised value	Selling cost	0.00%(1) – 6.00% (0.12%)
Other real estate owned	Discounted appraised value	Discount for lack of marketability and age of appraisal	0.00% – 50.05% (1.45%)

(1) The Company markets other real estate owned both independently and with local realtors. Properties marketed by realtors are discounted by selling costs. Properties that the Company markets independently are not discounted by selling costs.

The following presents the carrying amount, fair value, and placement in the fair value hierarchy of the Company's financial instruments as of March 31, 2019 and December 31, 2018. For short-term financial assets such as cash and cash equivalents, the carrying amount is a reasonable estimate of fair value due to the relatively short time between the origination of the instrument and its expected realization. For non-marketable equity securities such as Federal Home Loan Bank and Federal Reserve Bank stock, the carrying amount is a reasonable estimate of fair value as these securities can only be redeemed or sold at their par value and only to the respective issuing government-supported institution or to another member institution. For financial liabilities such as noninterest-bearing demand, interest-bearing demand, and savings deposits, the carrying amount is a reasonable estimate of fair value due to these products having no stated maturity. Fair values are estimated using the exit price notion.

	March 31, 2019			
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Financial Assets:				
Cash and due from banks	$ 15,332	$ 15,332	$ ---	$ ---
Interest-bearing deposits	53,381	53,381	---	---
Securities	404,645	---	404,645	---
Restricted securities	1,220	---	1,220	---
Loans held for sale	602	---	602	---
Loans, net	711,011	---	---	694,716
Accrued interest receivable	5,401	---	5,401	---
Bank-owned life insurance	34,876	---	34,876	---
Financial Liabilities:				
Deposits	$ 1,060,205	$ ---	$ 930,351	$ 109,801
Accrued interest payable	140	---	140	---

	December 31, 2018			
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Financial Assets:				
Cash and due from banks	$ 12,882	$ 12,882	$ ---	$ ---
Interest-bearing deposits	43,491	43,491	---	---
Securities	425,010	---	425,010	---
Restricted securities	1,220	---	1,220	---
Loans held for sale	72	---	72	---
Loans, net	702,409	---	---	684,565
Accrued interest receivable	5,160	---	5,160	---
Bank-owned life insurance	34,657	---	34,657	---
Financial Liabilities:				
Deposits	$ 1,051,942	$ ---	$ 950,143	$ 101,749
Accrued interest payable	89	---	89	---

Note 8: Components of Accumulated Other Comprehensive Loss

	Net Unrealized Gain (Loss) on Securities	Adjustments Related to Pension Benefits	Accumulated Other Comprehensive Loss
Balance at December 31, 2017	**$** (3,704)	$ (5,991)	$ (9,695)
Unrealized holding loss on available for sale securities, net of tax of ($706)	(2,655)	---	(2,655)
Balance at March 31, 2018	$ (6,359)	$ (5,991)	$ (12,350)
Balance at December 31, 2018	$ (5,072)	$ (7,013)	$ (12,085)
Unrealized holding gain on available for sale securities net of tax of $1,209	4,553	---	4,553
Reclassification adjustment, net of tax of ($3)	(9)		(9)
Balance at March 31, 2019	**$ (528)**	**$ (7,013)**	**$ (7,541)**

Note 9: Revenue Recognition

The Company recognizes revenue from contracts with customers. Noninterest revenue streams such as service charges on deposit accounts, other service charges and fees, credit and debit card fees, trust income, and annuity and insurance commissions is recognized in accordance with ASC Topic 606. Topic 606 does not apply to revenue associated with financial instruments, including revenue from loans and securities. In addition, certain noninterest income streams such as financial guarantees, derivatives, and certain credit card fees are outside the scope of the guidance. Noninterest revenue streams within the scope of Topic 606 are discussed below.

Service Charges on Deposit Accounts

Service charges on deposit accounts consist of monthly service fees, overdraft and nonsufficient funds fees, ATM fees, wire transfer fees, and other deposit account related fees. The Company's performance obligation for monthly service fees is generally satisfied, and the related revenue recognized, over the period in which the service is provided. Payment for service charges on deposit accounts is primarily received immediately or in the following month through a direct charge to customers' accounts. ATM fees are primarily generated when a Company cardholder uses a non-Company ATM or a non-Company cardholder uses a Company ATM. Wire transfer fees, overdraft and nonsufficient funds fees and other deposit account related fees are transactional based, and therefore, the Company's performance obligation is satisfied, and related revenue recognized, at a point in time.

Other Service Charges and Fees

Other service charges include safety deposit box rental fees, check ordering charges, and other service charges. Safe deposit box rental fees are charged to the customer on an annual basis and recognized upon receipt of payment. The Company determined that since rentals and renewals occur fairly consistently over time, revenue is recognized on a basis consistent with the duration of the performance obligation. Check ordering charges are transactional based, and therefore, the Company's performance obligation is satisfied, and related revenue recognized, at a point in time.

Credit and Debit Card Fees

Credit and debit card fees are primarily comprised of interchange fee income and merchant services income. Interchange fees are earned whenever the Company's debit and credit cards are processed through card payment networks such as Visa. Merchant services income mainly represents fees charged to merchants to process their debit and credit card transactions, in addition to account management fees. The Company's performance obligation for interchange fee income and merchant services income are largely satisfied, and related revenue recognized, when the services are rendered or upon completion. Payment is typically received immediately or in the following month. In compliance with Topic 606, credit and debit card fee income is presented net of associated expense.

Trust Income

Trust income is primarily comprised of fees earned from the management and administration of trusts and other customer assets. The Company's performance obligation is generally satisfied over time and the resulting fees are recognized monthly, based upon the month-end market value of the assets under management and the applicable fee rate. Payment is generally received a few days after month end through a direct charge to customers' accounts. The Company does not earn performance-based incentives. Estate management fees are based upon the size of the estate. A partial fee is recognized half-way through the estate administration and the remainder of the fee is recognized when remaining assets are distributed and the estate is closed.

Insurance and Investment

Insurance income primarily consists of commissions received on insurance product sales. The Company acts as an intermediary between the Company's customer and the insurance carrier. The Company's performance obligation is generally satisfied upon the issuance of the insurance policy. Shortly after the insurance policy is issued, the carrier remits the commission payment to the Company, and the Company recognizes the revenue.

Investment income consists of recurring revenue streams such as commissions from sales of mutual funds and other investments. Commissions from the sale of mutual funds and other investments are recognized on trade date, which is when the Company has satisfied its performance obligation. The Company also receives periodic service fees (i.e., trailers) from mutual fund companies typically based on a percentage of net asset value. Trailer revenue is recorded over time, usually monthly or quarterly, as net asset value is determined.

The following presents noninterest income, segregated by revenue streams in-scope and out-of-scope of Topic 606, for the three months ended March 31, 2019 and 2018.

		March 31, 2019		March 31, 2018
Noninterest Income				
In-scope of Topic 606:				
Service charges on deposit accounts	**$**	**590**	$	670
Other service charges and fees		**52**		33
Credit and debit card fees		**309**		344
Trust income		**397**		402
Insurance and Investment (included within Other Income on the Consolidated Statements of Income)		**136**		91
Noninterest Income (in-scope of Topic 606)	**$**	**1,484**	$	1,540
Noninterest Income (out-of-scope of Topic 606)		**1,005**		483
Total noninterest income	**$**	**2,489**	$	2,023

Note 10: Leases

On January 1, 2019, the Company adopted ASU No. 2016-02 *"Leases (Topic 842)"* and all subsequent ASUs that modified Topic 842. The Company elected the prospective application approach provided by ASU 2018-11 and did not adjust prior periods for ASC 842. There was no cumulative effect adjustment at adoption. The Company also elected certain practical expedients within the standard and did not reassess whether any expired or existing contracts are or contain leases, did not reassess the lease classification for any expired or existing leases and did not reassess any initial direct costs for existing leases. Prior to adoption, all of the Company's leases were classified as operating leases and remain operating leases at adoption. As stated in to the Company's 2018 Form 10-K, Note 1 Summary of Significant Accounting Policies, the implementation of the new standard resulted in recognition of a right-of-use asset and offsetting lease liability of $684 for leases existing at the date of adoption.

Contracts that commence subsequent to adoption are evaluated to determine whether they are or contain a lease in accordance with Topic 842. The Company has elected the practical expedient provided by Topic 842 not to allocate consideration in a contract between lease and non-lease components. The Company also elected, as provided by the standard, not to recognize right-of-use assets and lease liabilities for short-term leases, defined by the standard as leases with terms of 12 months or less. Since adoption, the Company entered into three new operating leases and recognized right-of-use assets and lease liabilities.

Lease liabilities represent the Company's obligation to make lease payments and are presented at each reporting date as the net present value of the remaining contractual cash flows. Cash flows are discounted at the Company's incremental borrowing rate in effect at the commencement date of the lease. Right-of-use assets represent the Company's right to use the underlying asset for the lease term and are calculated as the sum of the lease liability and if applicable, prepaid rent, initial direct costs and any incentives received from the lessor.

Lease payments

Lease payments for short-term leases are recognized as lease expense on a straight-line basis over the lease term, or for variable lease payments, in the period in which the obligation was incurred. Payments for leases with terms longer than twelve months are included in the determination of the lease liability. Payments may be fixed for the term of the lease or variable. If the lease agreement provides a known escalator, such as a specified percentage increase per year or a stated increase at a specified time, the variable payment is included in the cash flows used to determine the lease liability. If the variable payment is based upon an unknown escalator, such as the consumer price index at a future date, the increase is not included in the cash flows used to determine the lease liability. Two of the Company's leases provide known escalators that are included in the determination of the lease liability. The remaining leases do not have variable payments during the term of the lease.

Options to Extend, Residual Value Guarantees, and Restrictions and Covenants

Of the Company's five leases, three leases offer the option to extend the lease term. Each of the three leases provides two options of five years each. For one of the leases, the Company is reasonably certain it will exercise one option of five years and has included the additional time and lease payments in the calculation of the lease liability. The lease agreement provides that the lease payment will increase at the exercise date based on the consumer price index-urban ("CPI-U"). Because the CPI-U at the exercise date is unknown, the increase is not included in the cash flows determining the lease liability. None of the Company's leases provide for residual value guarantees and none provide restrictions or covenants that would impact dividends or require incurring additional financial obligations.

The following tables present information about leases:

		March 31, 2019
Lease liability	**$**	**2,192**
Right-of-use asset	**$**	**2,190**
Weighted average remaining lease term		**7.83 years**
Weighted average discount rate		**3.19 %**

	For the Three Months Ended March 31,			
	2019		2018	
Lease Expense				
Operating lease expense	**$**	**59**	$	NR
Short-term lease expense		**39**		NR
Total lease expense	**$**	**98**	$	75
Cash paid for amounts included in lease liabilities	**$**	**56**	$	NR
Right-of-use assets obtained in exchange for operating lease liabilities commencing during the period	**$**	**1,553**	$	NR

The following table presents a maturity schedule of undiscounted cash flows that contribute to the lease liability:

Undiscounted Cash Flow the Period	**As of March 31, 2019**	
Nine months ending December 31, 2019	**$**	**224**
Twelve months ending December 31, 2020		**294**
Twelve months ending December 31, 2021		**286**
Twelve months ending December 31, 2022		**289**
Twelve months ending December 31, 2023		**291**
Twelve months ending December 31, 2024		**294**
Thereafter		**848**
Total undiscounted cash flows	**$**	**2,526**
Less: discount		**(334)**
Lease liability	**$**	**2,192**

The contracts in which the Company is lessee are with parties external to the company and not related parties. The Company has a small lease relationship with a director in which the Company is lessor.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations
Dollars in thousands, except per share data

The purpose of this discussion and analysis is to provide information about the financial condition and results of operations of National Bankshares, Inc. and its wholly-owned subsidiaries (the “Company”), which are not otherwise apparent from the consolidated financial statements and other information included in this report. Please refer to the financial statements and other information included in this report as well as the 2018 Annual Report on Form 10-K for an understanding of the following discussion and analysis.

Cautionary Statement Regarding Forward-Looking Statements

We make forward-looking statements in this Form 10-K that are subject to significant risks and uncertainties. These forward-looking statements include statements regarding our profitability, liquidity, allowance for loan losses, interest rate sensitivity, market risk, growth strategy, and financial and other goals, and are based upon our management’s views and assumptions as of the date of this report. The words “believes,” “expects,” “may,” “will,” “should,” “projects,” “contemplates,” “anticipates,” “forecasts,” “intends,” or other similar words or terms are intended to identify forward-looking statements.

These forward-looking statements are based upon or are affected by factors that could cause our actual results to differ materially from historical results or from any results expressed or implied by such forward-looking statements. These factors include, but are not limited to, changes in:

- interest rates,
- general economic conditions,
- the legislative/regulatory climate,
- monetary and fiscal policies of the U.S. Government, including policies of the U.S. Treasury, the Office of the Comptroller of the Currency, the Federal Reserve Board, the Consumer Financial Protection Bureau and the Federal Deposit Insurance Corporation, and the impact of any policies or programs implemented pursuant to financial reform legislation,
- unanticipated increases in the level of unemployment in the Company’s trade area,
- the quality or composition of the loan and/or investment portfolios,
- demand for loan products,
- deposit flows,
- competition,
- demand for financial services in the Company’s trade area,
- the real estate market in the Company’s trade area,
- the Company’s technology initiatives, and
- applicable accounting principles, policies and guidelines.

These risks and uncertainties should be considered in evaluating the forward-looking statements contained in this report. We caution readers not to place undue reliance on those statements, which speak only as of the date of this report. This discussion and analysis should be read in conjunction with the description of our “Risk Factors” in Item 1A. of the most recently filed Form 10-K.

If the national economy or the Company’s market area experience a downturn, it is likely that unemployment will rise and that other economic indicators will negatively impact the Company’s trade area. Because of the importance to the Company’s markets of state-funded universities, cutbacks in the funding provided by the Commonwealth could also negatively impact employment. This could lead to a higher rate of delinquent loans and a greater number of real estate foreclosures. Higher unemployment and the fear of layoffs causes reduced consumer demand for goods and services, which negatively impacts the Company’s business and professional customers. An economic downturn could have an adverse effect on all financial institutions, including the Company.

Cybersecurity

As a financial institution holding company, NBI is subject to cybersecurity risks and has suffered two cybersecurity incidents. To manage and mitigate cybersecurity risk, the Company limits certain transactions and interactions with customers. The Company does not offer online account openings or loan originations, limits the dollar amount of online banking transfers to other banks, does not permit customers to submit address changes or wire requests through online banking, requires a special vetting process for commercial customers who wish to originate ACH transfers, and limits certain functionalities of mobile banking. The Company also requires assurances from key vendors regarding their cybersecurity. While these measures reduce the likelihood and scope of the risk of further cybersecurity breaches, in light of the evolving sophistication of system intruders, the risk of such breaches continues to exist. We maintain insurance for these risks but insurance policies are subject to exceptions, exclusions and terms whose applications have not been widely interpreted in litigation. Accordingly, insurance can provide less than complete protection against the losses that result from cybersecurity breaches and pursuing recovery from insurers can result in significant expense. In addition, some risks such as reputational damage and loss of customer goodwill, which can result from cybersecurity breaches, cannot be insured against. For information on incidents experienced by the Company, please refer to the section entitled “Cybersecurity Risks and Incidents.”

Non-GAAP Financial Measures

This report refers to certain financial measures that are computed under a basis other than GAAP ("non-GAAP"), including the net interest margin and the noninterest margin.

The net interest margin is calculated by dividing annualized taxable equivalent net interest income by total average earning assets. Because a portion of interest income earned by the Company is nontaxable, the tax equivalent net interest income is considered in the calculation of this ratio. Tax equivalent net interest income is calculated by adding the tax benefit realized from interest income that is nontaxable to total interest income then subtracting total interest expense. The tax rate utilized in calculating the tax benefit is 21%. The reconciliation of tax equivalent net interest income, which is not a measurement under GAAP, to net interest income, is reflected in the table below.

$ in thousands	Three months ended March 31,			
		2019		**2018**
GAAP measures:				
Interest and fees on loans	**$**	**8,269**	$	7,532
Interest on interest-bearing deposits		**259**		172
Interest and dividends on securities - taxable		**1,683**		1,608
Interest on securities - nontaxable		**927**		1,172
Total interest income	**$**	**11,138**	$	10,484
Interest on deposits	**$**	**1,793**	$	1,081
Net interest income	**$**	**9,345**	$	9,403
Non-GAAP measures:				
Tax benefit on nontaxable loan income	**$**	**116**	$	88
Tax benefit on nontaxable securities income		**251**		317
Total tax benefit on nontaxable interest income	**$**	**367**	$	405
Total tax-equivalent net interest income	**$**	**9,712**	$	9,808
Total tax-equivalent net interest income, annualized	**$**	**39,388**	$	39,777

The noninterest margin is calculated by dividing noninterest expense (excluding the write-down of insurance receivable) less noninterest income (excluding recovery of insurance receivable and realized securities gain/loss, net), annualized, by average year-to-date assets. The reconciliation of adjusted noninterest income and adjusted noninterest expense, which are not measurements under GAAP, is reflected in the table below.

$ in thousands	Three months ended March 31,			
		2019		**2018**
Noninterest expense under GAAP	**$**	**6,465**	$	8,164
Less: write-down of insurance receivable		**---**		(1,724)
Noninterest expense for ratio calculation, non-GAAP	**$**	**6,465**	$	6,440
Noninterest income under GAAP	**$**	**2,489**	$	2,023
Less: recovery of insurance receivable		**(538)**		---
Less: realized securities gains, net		**(12)**		---
Noninterest income for ratio calculation, non-GAAP	**$**	**1,939**	$	2,023
Net noninterest expense, non-GAAP	**$**	**4,526**	$	4,417
Net noninterest expense, non-GAAP, annualized		**18,355**		17,913
Average assets	**$**	**1,249,052**	$	1,246,071
Noninterest margin		**1.47%**		1.44%

The return on average assets and return on average equity are calculated by annualizing net income and dividing by average year-to-date assets or equity, respectively. When net income includes larger nonrecurring items, the annualization magnifies their effect. In order to reduce distortion within the ratios, the company adjusts net income for larger non-recurring items prior to annualization, and then nets the items against the annualized net income. The reconciliation of adjusted annualized net income, which is not a measurement under GAAP, is reflected in the table below.

The following table details the calculation of annualized net income for the return on average assets and the return on average equity:

	Three months ended March 31,	
	2019	**2018**
Net Income	**$ 4,443**	$ 3,296
Items deemed non-recurring by management:		
Insurance write-down in 2018, net of tax of $362	**---**	1,362
Provision reversal in 2018, net of tax of $99	**---**	(373)
Insurance recovery in 2019, net of tax of $113	**(425)**	---
Adjusted net income	**4,018**	4,285
Adjusted net income, annualized	**16,295**	17,378
Items deemed non-recurring by management:		
Insurance write-down in 2018, net of tax of $362	**---**	(1,362)
Provision reversal in 2018, net of tax of $99	**---**	373
Insurance recovery in 2019, net of tax of $113	**425**	---
Annualized net income for ratio calculation	**$ 16,720**	$ 16,389

Critical Accounting Policies

General

The Company's financial statements are prepared in accordance with accounting principles generally accepted in the United States (GAAP). The financial information contained within our statements is, to a significant extent, financial information based on measures of the financial effects of transactions and events that have already occurred. A variety of factors could affect the ultimate value obtained when earning income, recognizing an expense, recovering an asset or relieving a liability. Although the economics of the Company's transactions may not change, the timing of events that would impact the transactions could change.

Allowance for Loan Losses

The allowance for loan losses is an estimate of probable losses inherent in our loan portfolio. The allowance is funded by the provision for loan losses, reduced by charge-offs of loans and increased by recoveries of previously charged-off loans. The determination of the allowance is based on two accounting principles, Accounting Standards Codification ("ASC") Topic 450-20 (Contingencies) which requires that losses be accrued when occurrence is probable and the amount of the loss is reasonably estimable, and ASC Topic 310-10 (Receivables) which requires accrual of losses on impaired loans if the recorded investment exceeds fair value.

Probable losses are accrued through two calculations, individual evaluation of impaired loans and collective evaluation of the remainder of the portfolio. Impaired loans are larger non-homogeneous loans for which there is a probability that collection will not occur according to the loan terms, as well as loans whose terms have been modified in a troubled debt restructuring. Impaired loans that are not TDR's with an estimated impairment loss are placed on nonaccrual status. TDR's with an impairment loss may accrue interest if they have demonstrated six months of timely payment performance.

Impaired loans

Impaired loans are identified through the Company's credit risk rating process. Estimated loss for an impaired loan is the amount of recorded investment that exceeds the loan's fair value. Fair value of an impaired loan is measured by one of three methods: the fair value of collateral ("collateral method"), the present value of future cash flows ("cash flow method"), or observable market price. The Company applies the collateral method to collateral-dependent loans, loans for which foreclosure is imminent and to loans for which the fair value of collateral is a more reliable estimate of fair value. The cash flow method is applied to loans that are not collateral dependent and for which cash flows may be estimated.

The Company bases collateral method fair valuation upon the "as-is" value of independent appraisals or evaluations. Valuations for impaired loans secured by residential 1-4 family properties with outstanding principal balances greater than $250 are based on an appraisal. Appraisals are also used to value impaired loans secured by commercial real estate with outstanding principal balances greater than $500. Collateral-method impaired loans secured by residential 1-4 family property with outstanding principal balances of $250 or less, or secured by commercial real estate with outstanding principal balances of $500 or less, are valued using an internal evaluation.

Appraisals and internal valuations provide an estimate of market value. Appraisals must conform to the Uniform Standards of Professional Appraisal Practice ("USPAP") and are prepared by an independent third-party appraiser who is certified and licensed and who is approved by the Company. Appraisals may incorporate market analysis, comparable sales analysis, cash flow analysis and market data pertinent to the property to determine market value.

Internal evaluations are prepared by third party providers and reviewed by employees of the Company who are independent of the loan origination, operation, management and collection functions. Evaluations provide a property's market value based on the property's current physical condition and characteristics and the economic market conditions that affect the collateral's market value. Evaluations incorporate multiple sources of data to arrive at a property's market value, including physical inspection, independent third-party automated tools, comparable sales analysis and local market information.

Updated appraisals or evaluations are ordered when the loan becomes impaired if the appraisal or evaluation on file is more than twenty-four months old. Appraisals and evaluations are reviewed for propriety and reasonableness and may be discounted if the Company determines that the value exceeds reasonable levels. If an updated appraisal or evaluation has been ordered but has not been received by a reporting date, the fair value may be based on the most recent available appraisal or evaluation, discounted for age.

The appraisal or evaluation value for a collateral-dependent loan for which recovery is expected solely from the sale of collateral is reduced by estimated selling costs. Estimated losses on collateral-dependent loans, as well as any other impairment loss considered uncollectible, are charged against the allowance for loan losses. Impairment losses that are not considered uncollectible or for loans that are not collateral dependent are accrued in the allowance. Impaired loans with partial charge-offs are maintained as impaired until the remaining balance is satisfied. Smaller homogeneous impaired loans that are not troubled debt restructurings and are not part of a larger impaired relationship are collectively evaluated.

Troubled debt restructurings are impaired loans and are measured for impairment under the same valuation methods as other impaired loans. Troubled debt restructurings are maintained in nonaccrual status until the loan has demonstrated reasonable assurance of repayment with at least six months of consecutive timely payment performance. Troubled debt restructurings may be removed from TDR status, and therefore from individual evaluation, if the restructuring agreement specifies a contractual interest rate that is a market interest rate at the time of restructuring and the loan is in compliance with its modified terms one year after the restructure was completed.

Collectively-evaluated loans

Non-impaired loans and smaller homogeneous impaired loans that are not troubled debt restructurings and not part of a larger impaired relationship are grouped by portfolio segments. Portfolio segments are further divided into smaller loan classes. Loans within a segment or class have similar risk characteristics.

Probable loss is determined by applying historical net charge-off rates as well as additional percentages for trends and current levels of quantitative and qualitative factors. Loss rates are calculated for and applied to individual classes by averaging loss rates over the most recent 8 quarters. The look-back period of 8 quarters is applied consistently among all classes.

Two loss rates for each class are calculated: total net charge-offs for the class as a percentage of average class loan balance ("class loss rate"), and total net charge-offs for the class as a percentage of average classified loans in the class ("classified loss rate"). Classified loans are those with risk ratings that indicate credit quality is "substandard", "doubtful" or "loss". Net charge-offs in both calculations include charge-offs and recoveries of classified and non-classified loans as well as those associated with impaired loans. Class historical loss rates are applied to collectively-evaluated non-classified loan balances, and classified historical loss rates are applied to collectively-evaluated classified loan balances.

Qualitative factors are evaluated and allocations are applied to each class. Qualitative factors include delinquency rates, loan quality and concentrations, loan officers' experience, changes in lending policies and changes in the loan review process. Economic factors such as unemployment rates, bankruptcy rates and others are evaluated, with standard allocations applied consistently to relevant classes.

The Company accrues additional allocations for criticized loans within each class and for loans designated high risk. Criticized loans include classified loans as well as loans rated "special mention". Loans rated special mention indicate weakened credit quality but to a lesser degree than classified loans. High risk loans are defined as junior lien mortgages, loans with high loan-to-value ratios and loans with terms that require interest only payments. Both criticized loans and high risk loans are included in the base risk analysis for each class and are allocated additional reserves.

Estimation of the allowance for loan losses

The estimation of the allowance involves analysis of internal and external variables, methodologies, assumptions and our judgment and experience. Key judgments used in determining the allowance for loan losses include internal risk rating determinations, market and collateral values, discount rates, loss rates, and our view of current economic conditions. These judgments are inherently subjective and our actual losses could be greater or less than the estimate. Future estimates of the allowance could increase or decrease based on changes in the financial condition of individual borrowers, concentrations of various types of loans, economic conditions or the markets in which collateral may be sold. The estimate of the allowance accrual determines the amount of provision expense and directly affects our financial results.

The estimate of the allowance for March 31, 2019 considered market and portfolio conditions during the first three months of 2019 as well as the levels of delinquencies and net charge-offs in the eight quarters prior to the quarter ended March 31, 2019. If the economy experiences a downturn, the ultimate amount of loss could vary from that estimate. For additional discussion of the allowance, see Note 3 to the consolidated financial statements and "Asset Quality," and "Provision and Allowance for Loan Losses."

Goodwill

Goodwill is subject to at least an annual assessment for impairment by applying a fair value based test. The Company performs impairment testing in the fourth quarter of each year. The Company's most recent impairment test was performed using data from September 30, 2018. Accounting guidance provides the option of performing preliminary assessment of qualitative factors before performing more substantial testing for impairment. The Company opted not to perform the preliminary assessment. The Company's goodwill impairment analysis considered three valuation techniques appropriate to the measurement. The first technique uses the Company's market capitalization as an estimate of fair value; the second technique estimates fair value using current market pricing multiples for companies comparable to the Company; while the third technique uses current market pricing multiples for change-of-control transactions involving companies comparable to the Company. Each measure indicated that the Company's fair value exceeded its book value, validating that goodwill is not impaired.

Certain key judgments were used in the valuation measurement. Goodwill is held by the Company's bank subsidiary. The bank subsidiary is 100% owned by the Company, and no market capitalization is available. Because most of the Company's assets are comprised of the subsidiary bank's equity, the Company's market capitalization was used to estimate the Bank's market capitalization. Other judgments include the assumption that the companies and transactions used as comparables for the second and third technique were appropriate to the estimate of the Company's fair value, and that the comparable multiples are appropriate indicators of fair value, and compliant with accounting guidance.

Other Real Estate Owned ("OREO")

Real estate acquired through, or in lieu of, foreclosure is held for sale and is stated at fair value of the property, less estimated disposal costs, if any. Any excess of cost over the fair value less costs to sell at the time of acquisition is charged to the allowance for loan losses. The fair value is reviewed periodically by management and any write-downs are charged against current earnings. Accounting policy and treatment is consistent with accounting for impaired loans described above.

Pension Plan

The Company's actuary determines plan obligations and annual pension expense using a number of key assumptions. Key assumptions may include the discount rate, the estimated return on plan assets and the anticipated rate of compensation increases. Changes in these assumptions in the future, if any, or in the method under which benefits are calculated may impact pension assets, liabilities or expense.

Other Than Temporary Impairment of Securities ("OTTI")

Impairment of securities occurs when the fair value of a security is less than its amortized cost. For debt securities, impairment is considered other-than-temporary and recognized in its entirety in net income if either (i) the Company intends to sell the security or (ii) it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis. If, however, the Company does not intend to sell the security and it is not more likely than not that the Company will be required to sell the security before recovery, the Company must determine what portion of the impairment is attributable to a credit loss, which occurs when the amortized cost basis of the security exceeds the present value of the cash flows expected to be collected from the security. If there is no credit loss, there is no other-than-temporary impairment. If there is a credit loss, other-than-temporary impairment exists, and the credit loss must be recognized in net income and the remaining portion of impairment must be recognized in other comprehensive income (loss). The Company regularly reviews each investment security for other-than-temporary impairment based on criteria that include the extent to which cost exceeds market price, the duration of that market decline, the financial health of and specific prospects for the issuer, the Company's best estimate of the present value of cash flows expected to be collected from debt securities, the Company's intention with regard to holding the security to maturity and the likelihood that the Company would be required to sell the security before recovery.

Overview

National Bankshares, Inc. (the "Company" or "NBI") is a financial holding company that was organized in 1986 under the laws of Virginia and is registered under the Bank Holding Company Act of 1956. NBI has two wholly-owned subsidiaries, the National Bank of Blacksburg and National Bankshares Financial Services, Inc. The National Bank of Blacksburg ("NBB"), which does business as National Bank from twenty-five office locations and one loan production office, is a community bank. NBB is the source of nearly all of the Company's revenue. National Bankshares Financial Services, Inc. ("NBFS") does business as National Bankshares Investment Services and National Bankshares Insurance Services. Income from NBFS is not significant at this time, nor is it expected to be so in the near future.

NBI common stock is listed on the NASDAQ Capital Market and is traded under the symbol "NKSH." National Bankshares, Inc. has been included in the Russell Investments Russell 3000 and Russell 2000 Indexes since September 29, 2009.

Lending

The National Bank of Blacksburg, which does business as National Bank, was originally chartered in 1891 as the Bank of Blacksburg. Its state charter was converted to a national charter in 1922 and it became the National Bank of Blacksburg. In 2004, NBB purchased Community National Bank of Pulaski, Virginia. In May, 2006, Bank of Tazewell County, a Virginia bank which since 1996 was a wholly-owned subsidiary of NBI, was merged with and into NBB.

NBB is community-oriented and offers a full range of retail and commercial banking services to individuals, businesses, non-profits and local governments from its headquarters in Blacksburg, Virginia and its twenty-four branch offices throughout southwest Virginia and one loan production office in Roanoke Virginia. NBB has telephone, mobile and internet banking and it operates twenty-three automated teller machines in its service area.

The Bank's primary source of revenue stems from lending activities. The Bank focuses lending on small and mid-sized businesses and individuals. Loan types include commercial and agricultural, commercial real estate, construction for commercial and residential properties, residential real estate, home equity and various consumer loan products. The Bank believes its prudent lending policies align its underwriting and portfolio management with its risk tolerance and income strategies. Underwriting and documentation requirements are tailored to the unique characteristics and inherent risks of each loan category.

The Bank's loan policy is updated and approved by the Board of Directors annually and disseminated to lending and loan portfolio management personnel to ensure consistent lending practices. The policy communicates the Company's risk tolerance by prescribing underwriting guidelines and procedures, including approval limits and hierarchy, documentation standards, requirements for collateral and loan-to-value limits, debt coverage, overall credit-worthiness and guarantor support.

Of primary consideration is the repayment ability of the borrowers and (if secured) the collateral value in relation to the principal balance. Collateral lowers risk and may be used as a secondary source of repayment. The credit decision must be supported by documentation appropriate to the type of loan, including current financial information, income verification or cash flow analysis, tax returns, credit reports, collateral information, guarantor verification, title reports, appraisals (where appropriate) and other documents. A discussion of underwriting policies and procedures specific to the major loan products follows.

Commercial Loans. Commercial and agricultural loans primarily finance equipment acquisition, expansion, working capital, and other general business purposes. Because these loans have a higher degree of risk, the Bank generally obtains collateral such as inventory, accounts receivables or equipment and personal guarantees from the borrowing entity's principal owners. The Bank's policy limits lending up to 60% of the appraised value for inventory, up to 90% of the lower of cost of market value of equipment and up to 70% for accounts receivables less than 90 days old. Credit decisions are based upon an assessment of the financial capacity of the applicant, including the primary borrower's ability to repay within proposed terms, a risk assessment, financial strength of guarantors and adequacy of collateral. Credit agency reports of individual owners' credit history supplement the analysis.

Commercial Real Estate Loans. Commercial mortgages and construction loans are offered to investors, developers and builders primarily within the Bank's market area in southwest Virginia. These loans generally are secured by first mortgages on real estate. The loan amount is generally limited to 80% of the collateral value and is individually determined based on the property type, quality, location and financial strength of any guarantors. Commercial properties financed include retail centers, office space, hotels and motels, apartments, and industrial properties.

Underwriting decisions are based upon an analysis of the economic viability of the collateral and creditworthiness of the borrower. The Bank obtains appraisals from qualified certified independent appraisers to establish the value of collateral properties. The property's projected net cash flows compared to the debt service requirement (the "debt service coverage ratio" or "DSCR") is required to be 115% or greater and is computed after deduction for a vacancy factor and property expenses, as appropriate. Borrower cash flow may be supplemented by a personal guarantee from the principal(s) of the borrower and guarantees from other parties. The Bank requires title insurance, fire, extended coverage casualty insurance and flood insurance, if appropriate, in order to protect the security interest in the underlying property. In addition, the Bank may employ stress testing techniques on higher balance loans to determine repayment ability in a changing rate environment before granting loan approval.

Public Sector and Industrial Development Loans. The Company provides both long and short term loans to municipalities and other governmental entities within its geographical footprint. Borrowers include general taxing authorities such as a city or county, industrial/economic development authorities or utility authorities. Repayment sources are derived from taxation, such as property taxes and sales taxes, or revenue from the project financed with the loan. The Company's underwriting considers local economic and population trends, reserves and liabilities, including pension liabilities.

Construction Loans. Construction loans are underwritten against projected cash flows from rental income, business and/or personal income from an owner-occupant or the sale of the property to an end-user. Associated risks may be mitigated by requiring fixed-price construction contracts, performance and payment bonding, controlled disbursements, and pre-sale contracts or pre-lease agreements.

Consumer Real Estate Loans. The Bank offers a variety of first mortgage and junior lien loans secured by primary residences to individuals within our markets. Credit decisions are primarily based on loan-to-value ("LTV") ratios, debt-to-income ("DTI") ratios, liquidity and net worth. Income and financial information is obtained from personal tax returns, personal financial statements and employment documentation. A maximum LTV ratio of 80% is generally required, although higher levels are permitted. The DTI ratio is limited to 43% of gross income.

Consumer real estate mortgages may have fixed interest rates for the entire term of the loan or variable interest rates subject to change after the first, third, or fifth year. Variable rates are based on the weekly average yield of United States Treasury Securities and are underwritten at fully-indexed rates. We do not offer certain high risk loan products such as interest-only consumer mortgage loans, hybrid loans, payment option ARMs, reverse mortgage loans, loans with initial teaser rates or any product with negative amortization. Hybrid loans are loans that start out as a fixed rate mortgage, but after a set number of years they automatically adjust to an adjustable rate mortgage. Payment option ARMs usually have adjustable rates, for which borrowers choose their monthly payment of either a full payment, interest only, or a minimum payment which may be lower than the payment required to reduce the balance of the loan in accordance with the originally underwritten amortization.

Home equity loans are secured primarily by second mortgages on residential property. The underwriting policy for home equity loans generally permits aggregate (the total of all liens secured by the collateral property) borrowing availability up to 80% of the appraised value of the collateral. We offer both fixed rate and variable rate home equity loans, with variable rate loans underwritten at fully-indexed rates. Decisions are primarily based on LTV ratios, DTI ratios, liquidity and credit history. We do not offer home equity loan products with reduced documentation.

Consumer Loans. Consumer loans include loans secured by automobiles, loans to consumers secured by other non-real estate collateral and loans to consumers that are unsecured. Automobile loans include loans secured by new or used automobiles. We originate automobile loans on a direct basis. During 2018 and years prior, automobile loans were also originated on an indirect basis through selected dealerships. This program was discontinued in 2019. We require borrowers to maintain collision insurance on automobiles securing consumer loans. Our procedures for underwriting consumer loans include an assessment of an applicant's overall financial capacity, including credit history and the ability to meet existing obligations and payments on the proposed loan. An applicant's creditworthiness is the primary consideration, and if the loan is secured by an automobile or other collateral, the underwriting process also includes a comparison of the value of the collateral security to the proposed loan amount.

Other Products and Services

Deposit products offered by the Bank include interest-bearing and non-interest bearing demand deposit accounts, money market deposit accounts, savings accounts, certificates of deposit, health savings accounts and individual retirement accounts. Deposit accounts are offered to both individuals and commercial businesses. Business and consumer debit and credit cards are available. NBB offers other miscellaneous services normally provided by commercial banks, such as letters of credit, night depository, safe deposit boxes, utility payment services and automatic funds transfer. NBB conducts a general trust business that has wealth management, trust and estate services for individual and business customers.

Performance Summary

The following table presents the Company's key performance ratios for the three months ended March 31, 2019 and March 31, 2018 and the year ended December 31, 2018. The measures for March 31, 2019 and March 31, 2018 are annualized, except for basic earnings per share and fully diluted earnings per share.

	Three Months Ended March 31, 2019	Three Months Ended March 31, 2018	Twelve Months Ended December 31, 2018
Return on average assets [(1)]	**1.34 %**	1.32%	1.29 %
Return on average equity [(1)] [(4)]	**8.92 %**	8.85%	8.65 %
Basic earnings per share [(4)]	**$ 0.65**	$ 0.47	$ 2.32
Fully diluted earnings per share	**$ 0.65**	$ 0.47	$ 2.32
Net interest margin [(2)]	**3.34 %**	3.38%	3.36 %
Noninterest margin [(3)]	**1.47 %**	1.44%	1.40 %

(1) Return on average assets and return on average equity are non-GAAP measures. Components of GAAP net income that are deemed non-recurring by management are removed prior to annualizing the adjusted net income. The adjusted net income is annualized. Items deemed non-recurring by management are added back to the annualized adjusted net income, and the total is divided by average assets for return on average assets, or divided by average equity for return on average equity.

(2) Net interest margin: Year-to-date tax-equivalent net interest income divided by year-to-date average earning assets.

(3) Noninterest margin: Noninterest expense (excluding non-recurring items, the provision for loan losses and income taxes) less noninterest income (excluding nonrecurring items and securities gains and losses) divided by average year-to-date assets.

(4) During March 2019, The Company repurchased 452,400 shares under its publicly announced stock repurchase plan. The repurchase

reduced shareholders equity by $17,997.

The annualized return on average assets increased 2 basis points for the three months ended March 31, 2019 compared with the three months ended March 31, 2018. The annualized return on average equity increased 7 basis points for the three months ended March 31, 2019 compared with the three months ended March 31, 2018.

The annualized net interest margin was 3.34% for the three months ended March 31, 2019, down 4 basis points from the 3.38% reported for the three months ended March 31, 2018. The primary factor driving the decrease in the net interest margin was the increase in interest expense for interest-bearing liabilities. Please refer to the discussion under Net Interest Income for further information.

The annualized noninterest margin worsened by 3 basis points when compared with the three month period ended March 31, 2018. Please refer to the discussions under noninterest income and noninterest expense for further information.

Growth

NBI's key growth indicators are shown in the following table.

	March 31, 2019	December 31, 2018	Percent Change
Interest-bearing deposits	**$ 53,381**	$ 43,491	22.74 %
Securities and restricted stock	**405,865**	426,230	(4.78) %
Loans, net	**711,011**	702,409	1.22 %
Deposits	**1,060,205**	1,051,942	0.79 %
Total assets	**1,258,003**	1,256,032	0.16 %

Asset Quality

Key indicators of the Company's asset quality are presented in the following table.

	March 31, 2019	March 31, 2018	December 31, 2018
Nonperforming loans	**$ 3,734**	$ 2,764	$ 3,420
Loans past due 90 days or more, and still accruing	**55**	52	35
Other real estate owned	**2,025**	2,741	2,052
Allowance for loan losses to loans	**1.02 %**	1.12%	1.04 %
Net charge-off ratio	**0.13 %**	0.04%	0.07 %
Ratio of nonperforming assets to loans, net of unearned income and deferred fees and costs, plus other real estate owned	**0.80 %**	0.83%	0.77 %
Ratio of allowance for loan losses to nonperforming loans	**197.11 %**	267.40%	216.08 %

The Company's risk analysis at March 31, 2019 determined an allowance for loan losses of $7,360 or 1.02% of loans net of unearned income and deferred fees and costs, a decrease from $7,390 or 1.04% at December 31, 2018. The determination of the appropriate level for the allowance for loan losses resulted in a provision of $200 for the three months ended March 31, 2019, compared with a recovery for the three month period ended March 31, 2018 of $472. To determine the appropriate level of the allowance for loan losses, the Company considers credit risk for certain loans designated as impaired and for non-impaired ("collectively evaluated") loans.

Individually evaluated impaired loans totaled $6,337 on a gross basis and $6,338 net of unearned income and deferred fees and costs, with specific allocations to the allowance for loan losses totaling $132 at March 31, 2019. Individually evaluated impaired loans at December 31, 2018 were $6,820 on a gross basis and $6,820 net of unearned income and deferred fees and costs, with specific allocations to the allowance for loan losses of $139. The specific allocation is determined based on criteria particular to each impaired loan.

Collectively evaluated loans totaled $712,619 on a gross basis and $712,033 net of unearned income and deferred fees and costs, with an allowance of $7,228 or 1.02% at March 31, 2019. At December 31, 2018, collectively evaluated loans totaled $703,577 on a gross basis and $702,979 net of unearned income and deferred fees and costs, with an allowance of $7,251 or 1.03%.

For collectively evaluated loans, the Company applies to each loan class a historical net charge-off rate, adjusted for qualitative factors that influence credit risk. Qualitative factors evaluated for impact to credit risk include economic measures, asset quality indicators, loan characteristics, and internal Bank policies and management.

Net charge-off rates for each class are averaged over 8 quarters (2 years) to determine the historical net charge off rate applied to each class of collectively evaluated loans. Net charge-offs for the three months ended March 31, 2019 were $230 or 0.13% (annualized) of average loans, an increase from $62 or 0.04% (annualized) for the three months ended March 31, 2018. The 8-quarter average historical loss rate applied to the calculation was 0.08% for March 31, 2019, .07% for December 31, 2018 and 0.14% for March 31, 2018. Increases in the net charge-off rate increase the required allowance for collectively-evaluated loans, while decreases in the net charge-off rate decrease the required allowance for collectively-evaluated loans.

Economic factors influence credit risk and impact the allowance for loan loss. The Company considers economic indicators within its market area, including: unemployment, personal bankruptcy filings, business bankruptcy filings, the interest rate environment, residential vacancy rates, housing inventory for sale, and the competitive environment. Lower unemployment lowers credit risk and the allowance for loan losses, while higher unemployment increases credit risk. Higher bankruptcy filings indicate heightened credit risk and increase the allowance for loan losses, while lower bankruptcy filings have a beneficial impact on credit risk. The interest rate environment impacts variable rate loans. As interest rates increase, the payment on variable rate loans increases, which may increase credit risk. However the effect of gradual, measured interest rate changes does not affect credit risk as much as a volatile interest rate environment. Residential vacancy rates and housing inventory for sale impact the Company’s residential construction customers and the consumer real estate market. Higher levels increase credit risk. Higher competition for loans increases credit risk, while lower competition decreases credit risk.

Within the Company’s market area, the unemployment rate, the inventory of new and existing homes, and the number of business bankruptcy filings increased slightly from December 31, 2018, assessed as a slight negative impact to credit risk. The competitive, legal and regulatory environments remained at similar levels to December 31, 2018. The residential vacancy rate and personal bankruptcy filings improved slightly when compared to December 31, 2018.

The interest rate environment remained at the same level as at December 31, 2018. The Federal Reserve has raised rates 8 times between September 2016 and September 2018, in increments of 25 basis points. Through June 2018 the Company allocated to the ALLL an additional 2 basis points for each increase to account for the credit risk of increased debt service on adjustable rate loans. However, charge-off rates have dropped since 2016 and criticized assets have fallen substantially. The Federal Reserve's gradual and measured rate increases did not increase volatility and appear to have been absorbed by adjustable rate loans with no negative effect to credit risk. The allocation for credit risk was reduced to reflect the portfolio’s absorption of prior increases.

The Company considers other factors that impact credit risk, including the risk from changes in the legal and regulatory environments, changes to lending policies and loan review, and changes in management’s experience. Each of the factors remained at similar levels to December 31, 2018. Management examined the allocation to the allowance for the risk from changes in lending policies. The allocation reduced the allowance due to tightened underwriting standards implemented in 2017. Management deemed that the benefit from changes in 2017 would now be reflected in the historical loss rates and removed the allocation.

Asset quality indicators affect the level of the allowance for loan losses. Accruing loans past due 30-89 days were 0.25% of total loans, net of unearned income and deferred fees and costs at March 31, 2019, slightly above 0.23% at December 31, 2018. Accruing loans past due 90 days or more were 0.01% of total loans, net of unearned income and deferred fees and costs at March 31, 2019, and 0.0% at December 31, 2018. Nonaccrual loans at March 31, 2019 were 0.52% of total loans, net of unearned income and deferred fees and costs, an increase from 0.48% at December 31, 2018. Decreases in past due and nonaccrual loans reduce the required level of the allowance for loan losses, while increases in past due and nonaccrual loans increase the required level of the allowance for loan losses.

Levels of high risk loans are considered in the determination of the level of the allowance for loan loss. High risk loans are defined by the Company as loans secured by junior liens, interest-only loans and loans with a high loan-to-value ratio. A decrease in the level of high risk loans within a class decreases the required allocation for the loan class, and an increase in the level of high risk loans within a class increases the required allocation for the loan class. Total high risk loans rose $1,043 or 0.66% from the level at December 31, 2018, resulting in an increased allocation.

Loans rated “special mention” and “classified” (together, “criticized assets”) indicate heightened credit risk. Higher levels of criticized assets increase the required level of the allowance for collectively-evaluated loans, while lower levels of criticized assets reduce the required level of the allowance for collectively-evaluated loans. Loans rated special mention receive a 50% greater allocation for qualitative risk factors, and loans rated classified receive a 100% greater allocation for qualitative risk factors. A classified loss rate is also applied to classified loans, calculated as net charge offs divided by classified loans. Collectively evaluated loans rated “special mention” were $1,391 at March 31, 2019 and $1,455 at December 31, 2018. Collectively evaluated loans rated classified were $1,350 at March 31, 2019 and $735 at December 31, 2018.

The calculation of the appropriate level for the allowance for loan losses incorporates analysis of multiple factors and requires management’s prudent and informed judgment. The ratio of the allowance for loan losses to total loans, net of unearned income and deferred fees and costs at March 31, 2019 is 1.02%, a decrease from 1.04% at December 31, 2018. The ratio of the allowance for collectively-evaluated loan losses to collectively-evaluated loans, net of unearned income and deferred fees and costs was 1.02%, compared with 1.03% at December 31, 2018. Improvements from December 31, 2018 in the personal bankruptcy rate, residential vacancy and loans rated special mention, as well as a reduced allocation for the interest rate environment decreased the required level of the allowance for loan losses. Other indicators slightly offset the improvements, including a slight worsening in the unemployment levels, business bankruptcy, the inventory of homes, the level of classified loans, past due and nonaccrual loans and removal of a benefit for prior underwriting changes that are deemed to have been incorporated in other measures. Based on analysis of historical indicators, asset quality and economic factors, management believes the level of allowance for loan losses is reasonable for the credit risk in the loan portfolio.

The following table discloses the other real estate owned in physical possession and in process at each reporting date:

Other Real Estate Owned[1]	March 31, 2019	March 31, 2018	December 31, 2018
Real estate construction	**$ 2,012**	$ 2,425	$ 2,012
Consumer real estate	**13**	42	13
Commercial real estate	**---**	274	27
Total other real estate owned	**$ 2,025**	$ 2,741	$ 2,052
Loans in process of foreclosure	**$ 496**	$ 46	$ 140

(1) Net of valuation allowance.

Other real estate owned decreased $27 from December 31, 2018 and $716 from March 31, 2018. As of March 31, 2019, loans secured by residential real estate totaling $496 are in various stages of foreclosure and may impact other real estate owned in future quarters. It is not possible to accurately predict the future total of other real estate owned because property sold at foreclosure may be acquired by third parties and NBB's other real estate owned properties are regularly marketed and sold.

The Company continues to monitor risk levels within the loan portfolio. Please refer to Note 3: Allowance for Loan Losses, Nonperforming Assets and Impaired Loans for further information on collectively-evaluated loans, individually-evaluated impaired loans and the unallocated portion of the allowance for loan losses.

Modifications and Troubled Debt Restructurings ("TDRs")

In the ordinary course of business the Company modifies loan terms on a case-by-case basis, including both consumer and commercial loans, for a variety of reasons. Modifications to consumer loans generally involve short-term deferrals to accommodate specific, temporary circumstances. The Company may grant extensions to borrowers who have demonstrated a willingness and ability to repay their loan but who are experiencing consequences of a specific unforeseen temporary hardship.

An extension defers monthly payments and requires a balloon payment at the original contractual maturity. If the temporary event is not expected to impact a borrower's ability to repay the debt, and if the Company expects to collect all amounts due including interest accrued at the contractual interest rate for the period of delay at contractual maturity, the modification is not designated a TDR.

Modifications to commercial loans may include, but are not limited to, changes in interest rate, maturity, amortization and financial covenants. In the original underwriting, loan terms are established that represent the then-current and projected financial condition of the borrower. If the modified terms are consistent with competitive market conditions and representative of terms the borrower could otherwise obtain in the open market, the modified loan is not categorized as a TDR.

The Company codes modifications to assist in identifying troubled debt restructurings. The majority of modifications were granted for competitive reasons and did not constitute troubled debt restructurings. A description of modifications that did not result in troubled debt restructurings follows:

Three Months Ended March 31, 2019		
Modifications To Borrowers Not Experiencing Financial Difficulty	**Number of Loans Modified**	**Amount Modified (in thousands)**
Rate reductions for competitive purposes	**1**	**$ 842**
Payment extensions for less than 3 months	**23**	**536**
Maturity date extensions of more than 3 months and up to 6 months	**26**	**5,331**
Maturity date extensions of more than 6 months and up to 12 months	**80**	**7,280**
Maturity date extensions of more than 12 months	**1**	**304**
Advances on non-revolving loans or capitalization	**---**	**---**
Change in amortization term or method	**1**	**90**
Change or release of collateral	**10**	**270**
Renewal of expired Home Equity Line of Credit loans for additional 10 years	**5**	**95**
Renewal of single-payment notes	**35**	**946**
Total modifications that do not constitute TDRs	**182**	**$ 15,694**

Three Months Ended March 31, 2018		
Modifications To Borrowers Not Experiencing Financial Difficulty	**Number of Loans Modified**	**Amount Modified (in thousands)**
Rate reductions for competitive purposes	---	$ ---
Payment extensions for less than 3 months	9	75
Maturity date extensions of more than 3 months and up to 6 months	30	3,931
Maturity date extensions of more than 6 months and up to 12 months	69	3,965
Maturity date extensions of more than 12 months	6	1,253
Advances on non-revolving loans or capitalization	3	685
Change in amortization term or method	4	786
Change or release of collateral	24	419
Renewal of expired Home Equity Line of Credit loans for additional 10 years	3	14
Renewal of single-payment notes	42	689
Total modifications that do not constitute TDRs	190	$ 11,817

Twelve Months Ended December 31, 2018		
Modifications To Borrowers Not Experiencing Financial Difficulty	**Number of Loans Modified**	**Amount Modified (in thousands)**
Rate reductions for competitive purposes	18	$ 8,384
Payment extensions for less than 3 months	61	646
Maturity date extensions of more than 3 months and up to 6 months	134	22,663
Maturity date extensions of more than 6 months and up to 12 months	308	11,777
Maturity date extensions of more than 12 months	17	2,304
Advances on non-revolving loans or recapitalization	8	2,076
Change in amortization term or method	11	1,542
Change or release of collateral	43	783
Renewal of expired Home Equity Line of Credit loans for additional 10 years	20	300
Renewal of single-payment notes	138	2,862
Total modifications that do not constitute TDRs	758	$ 53,337

Modifications in which the borrower is experiencing financial difficulty and for which the Company makes a concession to the original contractual loan terms are designated troubled debt restructurings.

Modifications of loan terms to borrowers experiencing financial difficulty are made in an attempt to protect as much of the Company's investment in the loan as possible. The determination of whether a modification should be accounted for as a TDR requires significant judgment after consideration of all facts and circumstances surrounding the transaction.

Assuming all other TDR criteria are met, the Company considers one or a combination of the following concessions to the loan terms to indicate TDR status: a reduction of the stated interest rate, an extension of the maturity date at an interest rate lower than the current market rate for a new loan with a similar term and similar risk, restructuring an amortizing loan to interest only for a period, or forgiveness of principal or accrued interest.

The Company has restructured loan terms for certain qualified financially distressed borrowers who have agreed to work in good faith and have demonstrated the ability to make the restructured payments in order to avoid a foreclosure. All TDR loans are individually evaluated for impairment for purposes of determining the allowance for loan losses. TDR loans with an impairment loss or that do not demonstrate current payments for at least six months are maintained on nonaccrual until the borrower demonstrates sustained repayment history under the restructured terms and continued repayment is not in doubt. Otherwise, interest income is recognized using a cost recovery method.

The Company's TDRs were $5,435 at March 31, 2019, a decrease from $5,661 at December 31, 2018. Accruing TDR loans amounted to $1,995 at March 31, 2019 and $2,552 at December 31, 2018. TDRs with at least six months of current payment history may accrue interest.

	TDR Status as of March 31, 2019				
		Accruing			
	Total TDR Loans	Current	30-89 Days Past Due	90+ Days Past Due	Nonaccrual
Real estate construction	$ ---	$ ---	$ ---	$ ---	$ ---
Consumer real estate	**1,000**	**464**	**139**	**---**	**397**
Commercial real estate	**3,436**	**393**	**---**	**---**	**3,043**
Commercial non real estate	**989**	**989**	**---**	**---**	**---**
Consumer non real estate	**10**	**6**	**---**	**4**	**---**
Total TDR Loans	**$ 5,435**	**$ 1,852**	**$ 139**	**$ 4**	**$ 3,440**

	TDR Status as of December 31, 2018				
		Accruing			
	Total TDR Loans	Current	30-89 Days Past Due	90+ Days Past Due	Nonaccrual
Consumer real estate	$ 1,027	$ 417	$ ---	$ ---	$ 610
Commercial real estate	3,606	1,112	---	---	2,494
Commercial non real estate	1,015	1,010	---	---	5
Consumer non real estate	13	9	4	---	---
Total TDR Loans	$ 5,661	$ 2,548	$ 4	$ ---	$ 3,109

Restructuring generally results in a loan with either lower payments or a maturity extended beyond that originally required, and is expected to result in a lower risk of loss associated with nonperformance than the pre-modified loan. The Company did not modify any during the three month period ended March 31, 2019 and modified two loans during the two month period ended March 31, 2018. Please refer to Note 3 for information on troubled debt restructurings.

Net Interest Income

The net interest income analysis for the three months ended March 31, 2019 and 2018 follows:

	Three Months Ended					
	March 31, 2019			March 31, 2018		
	Average Balance	Interest	Average Yield/ Rate	Average Balance	Interest	Average Yield/ Rate
Interest-earning assets:						
Loans, net [1][2][3][4]	**$ 710,291**	**$ 8,385**	**4.79 %**	$ 665,089	$ 7,620	4.65 %
Taxable securities [5][6]	**315,221**	**1,683**	**2.17 %**	334,849	1,608	1.95 %
Nontaxable securities [1][5]	**108,152**	**1,178**	**4.42 %**	131,331	1,489	4.60 %
Interest-bearing deposits	**44,246**	**259**	**2.37 %**	45,740	172	1.53 %
Total interest-earning assets	**$ 1,177,910**	**$ 11,505**	**3.96 %**	$ 1,177,009	$ 10,889	3.75 %
Interest-bearing liabilities:						
Interest-bearing demand deposits	**$ 608,266**	**$ 1,404**	**0.94 %**	$ 612,831	$ 905	0.60 %
Savings deposits	**139,730**	**92**	**0.27 %**	141,171	55	0.16 %
Time deposits	**106,618**	**297**	**1.13 %**	114,116	121	0.43 %
Total interest-bearing liabilities	**$ 854,614**	**$ 1,793**	**0.85 %**	$ 868,118	$ 1,081	0.51 %
Net interest income and interest rate spread		**$ 9,712**	**3.11 %**		$ 9,808	3.24 %
Net yield on average interest-earning assets			**3.34 %**			3.38 %

(1) Interest on nontaxable loans and securities is computed on a fully taxable equivalent basis using a Federal income tax rate of 21%.
(2) Included in interest income are loan fees of $37 and $42 for the three months ended March 31, 2019 and 2018, respectively.
(3) Nonaccrual loans are included in average balances for yield computations.
(4) Includes loans held for sale.
(5) Daily averages are shown at amortized cost.
(6) Includes restricted stock.

The net interest margin decreased 4 basis points when the three month periods ended March 31, 2019 and March 31, 2018 are compared. The decrease in interest rate spread resulted from an increase in the cost of interest-bearing liabilities of 34 basis points, partially offset by an increase in tax-equivalent yield on interest-earning assets of 21 basis points when the three month periods ended March 31, 2019 and March 31, 2018 are compared.

The tax-equivalent yield on loans increased 14 basis point when the three month period ended March 31, 2019 is compared with the same period ended March 31, 2018. The yield on taxable securities increased 22 basis points when the three month period ended March 31, 2019 is compared with the same period ended March 31, 2018. The yield on nontaxable securities decreased 18 basis points when the three month periods ended March 31, 2019 and March 31, 2018 are compared.

The increase in the cost of interest-bearing liabilities came from an increase in deposit offering rates. The cost of interest-bearing demand deposits increased 34 basis points for the three month period ending March 31, 2019 when compared with the same period ended March 31, 2018. The cost of savings deposits increased 11 basis points and the cost of time deposits increased 70 basis points when the three month periods ended March 31, 2019 and March 31, 2018 are compared. The Company's yield on earning assets and cost of funds are largely dependent on the interest rate environment.

Provision and Allowance for Loan Losses

The calculation of the allowance for loan losses resulted in a provision for loan losses of $200 for the three month period ended March 31, 2019, compared with a recovery of loan losses of $472, for the same period ended March 31, 2018. The provision for loan losses is the result of a detailed analysis to estimate an adequate allowance for loan losses. The ratio of the allowance for loan losses to total loans at March 31, 2019 was 1.02%, compared with 1.04% at December 31, 2018 and 1.12% at March 31, 2018. The net charge-off ratio was 0.13% (annualized) for the three months ended March 31, 2019, 0.04% (annualized) for the three months ended March 31, 2018 and 0.07% for the year ended December 31, 2018. See "Asset Quality" for additional information.

Noninterest Income

	Three Months Ended		
	March 31, 2019	**March 31, 2018**	**Percent Change**
Service charges on deposits	**$ 590**	$ 670	**(11.94) %**
Other service charges and fees	**52**	33	**57.58 %**
Credit and debit card fees	**309**	344	**(10.17) %**
Trust fees	**397**	402	**(1.24) %**
BOLI income	**219**	228	**(3.95) %**
Other income	**910**	346	**163.01 %**
Realized securities gain, net	**12**	---	**100.00 %**

Service charges on deposit accounts decreased 11.94% for the three month period ended March 31, 2019 when compared with the same period ended March 31, 2018. Other service charges and fees increased 57.58% when the three period ended March 31, 2019 is compared with the same period ended March 31, 2018. Other service charges include charges for official checks, income from the sale of checks to customers, safe deposit box rent, fees for letters of credit and the income earned from commissions on the sale of credit life, accident and health insurance. Increased volume in letters of credit provided most of the increase. Service charges on deposits and other service charges and fees are subject to normal business fluctuation and are not due to changes in fee structure.

Credit and debit card fees are presented net of interchange expense. Credit and debit card fees decreased $35 for the three month period ended March 31, 2019 when compared with the same period last year. Credit and debit card fees are based on volume and other factors.

Income from trust fees decreased $5 for the three month period ended March 31, 2019, compared with the same period ended March 31, 2018. Trust income varies depending on the total assets held in trust accounts, the type of accounts under management and financial market conditions.

BOLI income decreased $9 for the three month period ended March 31, 2019 compared with the same period ended March 31, 2018.

Other income includes fees on the sale of secondary-market mortgages, net gains from the sale of fixed assets, revenue from investment and insurance sales and other miscellaneous components. These areas fluctuate with market conditions and competitive factors. Other income increased $564 for the three months ended March 31, 2019 when compared with the same period ended March 31, 2018. The Company recognized a recovery of $538 on a previously recognized insurance loss.

The Company realized a gain of $12 on the call and sale of securities during the three month period ended March 31, 2019. No gains on securities were realized during the first quarter of 2018. Net realized securities gains and losses are market driven.

Noninterest Expense

	Three Months Ended		
	March 31, 2019	**March 31, 2018**	**Percent Change**
Salaries and employee benefits	**$ 3,821**	$ 3,694	**3.44 %**
Occupancy, furniture and fixtures	**465**	472	**(1.48)%**
Data processing and ATM	**751**	733	**2.46 %**
FDIC assessment	**85**	91	**(6.59)%**
Intangibles amortization	**---**	12	**(100.00)%**
Net costs of other real estate owned	**25**	85	**(70.59)%**
Franchise taxes	**314**	331	**(5.14)%**
Write-down of insurance receivable	**---**	1,724	**(100.00)%**
Other operating expenses	**1,004**	1,022	**(1.76)%**

Total noninterest expense decreased $1,699 or 20.81% for the three month period ended March 31, 2019 when compared with the same period of 2018. The decrease was largely driven by the write-down of the insurance receivable in the first quarter of 2018.

Salaries and employee benefits increased $127 or 3.44% for the three month period ended March 31, 2019 when compared with the same period in 2018. This expense category includes employee salaries, payroll taxes, insurance and fringe benefits, ESOP contribution accruals, the service component of net periodic pension cost, and salary continuation expenses.

Occupancy, furniture and fixtures expense decreased $7 or 1.48% when the three month periods ended March 31, 2019 and March 31, 2018 are compared.

Data processing and ATM expense increased $18 for the three month period ended March 31, 2019, compared with the same period in 2018, due to infrastructure upgrades.

FDIC assessment expense decreased $6 for the three month period ended March 31, 2019 when compared with the same period of 2018. The FDIC assessment is accrued based on a method provided by the FDIC. The calculation is based on average assets divided by average tangible equity and incorporates risk-based factors to determine the amount of the assessment.

Core deposit intangibles are the result of prior merger and acquisition activity and are amortized over a period of years. Amortization of the Company's intangible assets was completed in 2018. This accounted for the decline in intangibles amortization expense of $12 for the three month period ended March 31, 2019, compared with the same period of 2018.

Net costs of other real estate owned decreased $60 for the three month period ended March 31, 2019, compared with the same period in 2018. The cost of other real estate owned includes maintenance costs as well as valuation write-downs and gains and losses on the sale of properties. The expense varies with the number of properties, the maintenance required and changes in the real estate market. OREO properties are accounted for at fair value less cost to sell upon foreclosure and are thereafter periodically appraised to determine market value. Declines in market value are recognized through valuation expense. There were no write downs on OREO properties during the three months ended March 31, 2019, compared with $76 for the three months ended March 31, 2018. The Company recognized a loss on the sale of OREO of $5 for the three months ended March 31, 2019. There were no losses on OREO sales for the same period in 2018.

Franchise tax expense decreased $17 or 5.14% when the three month period ended March 31, 2019 is compared with the three month period ended March 31, 2018. Franchise tax is primarily based on capital levels of the subsidiary bank.

The Company recognized an expense of $1,724 during the three month period ended March 31, 2018 to reduce and insurance receivable related to a cybersecurity breach. Please see the discussion under the section "Cybersecurity Risks and Incidents" below.

The category of other operating expenses includes noninterest expense items such as professional services, stationery and supplies, telephone costs, postage, charitable donations, losses and other expenses. Other operating expense decreased $18 or 1.76% for the three month period ended March 31, 2019, compared with the same period of 2018.

Cybersecurity Risks and Incidents

The Company treats cybersecurity risk seriously. The Company has a program to identify, mitigate and manage its cybersecurity risks. The program includes penetration testing and vulnerability assessment, technological defenses such as antivirus software, patch management, firewall management, email and web protections, an intrusion prevention system, a cybersecurity insurance policy which covers some but not all losses arising from cybersecurity breaches, as well as ongoing employee training. The costs of these measures were $67 for the three months ended March 31, 2019 and $48 for the three months ended March 31, 2018. These costs are included in various categories of noninterest expense.

As disclosed in the Company's December 31, 2018 10-K, the Company experienced two intrusions to its digital systems, one in May 2016 and one in January 2017. The Company retained two nationally recognized firms to investigate and remediate the intrusions and has adopted and implemented all of the recommendations provided through the investigations.

The financial impact of the attacks include the amount of the theft, as well as costs of investigation, remediation and litigation the Company pursued against the insurance carrier. During the first quarter of 2018, the Company recognized a write-down of the insurance receivable of $1,724. Costs for legal consultation totaled $58 for the first three months of 2019 and $7 for the first three months of 2018. The Company's litigation against the insurance carrier was settled during the first quarter of 2019, subject to a non-disclosure agreement. There has been no litigation against the Company to date associated with the breaches.

We have deployed a multi-faceted approach to limit the risk and impact of unauthorized access to customer accounts and to information relevant to customer accounts. We use digital technology safeguards, internal policies and procedures, and employee training to reduce the exposure of our systems to cyber-intrusions. However, it is not possible to fully eliminate exposure. The potential for financial and reputational losses due to cyber-breaches is increased by the possibility of human error, unknown system susceptibilities, and the rising sophistication of cyber-criminals to attack systems, disable safeguards and gain access to accounts and related information. The Company maintains insurance which provides a degree of coverage depending on the nature and circumstances of any cyber penetration but cannot be relied upon to reimburse fully the Company for all losses that may arise. The Company has adopted new protections and invested additional resources to increase its security.

<u>Income Tax</u>

Income tax expense for the first three months of 2019 was $726, compared with $438 for the first three months of 2018. The Company's statutory tax rate is 21%. The Company's effective tax rate for the three month period ended March 31, 2019 was 14.05%, compared with 11.73% for the three month period ended March 31, 2018.

Balance Sheet

Year-to-date daily averages for the major balance sheet categories are as follows:

Assets		March 31, 2019		December 31, 2018	Percent Change
Interest-bearing deposits	$	**44,246**	$	36,562	**21.02 %**
Securities available for sale and restricted stock		**417,970**		400,694	**4.31 %**
Securities held to maturity		**---**		55,116	**(100.00)%**
Loans, net		**702,716**		675,647	**4.01 %**
Total assets		**1,249,052**		1,251,843	**(0.22)%**
Liabilities and stockholders' equity					
Noninterest-bearing demand deposits	$	**191,389**	$	192,440	**(0.55)%**
Interest-bearing demand deposits		**608,266**		606,766	**0.25 %**
Savings deposits		**139,730**		140,918	**(0.84)%**
Time deposits		**106,618**		105,674	**0.89 %**
Stockholders' equity		**187,429**		186,637	**0.42 %**

Securities

During the second quarter of 2018, the Company reclassified all held to maturity securities as available for sale. At the time of transfer, the securities were recorded at fair value of $119,790 and an unrealized gain of $891, net of tax was recorded in accumulated other comprehensive income.

Management regularly monitors the quality of the securities portfolio and closely follows the uncertainty in the economy and the volatility of financial markets. The value of individual securities will be written down if the decline in fair value is considered to be other than temporary based upon the totality of circumstances. See Note 4: Securities for additional information.

Loans

		March 31, 2019		December 31, 2018	Percent Change
Real estate construction loans	$	**41,156**	$	37,845	**8.75 %**
Consumer real estate loans		**176,846**		175,456	**0.79 %**
Commercial real estate loans		**361,569**		353,546	**2.27 %**
Commercial non real estate loans		**45,312**		46,535	**(2.63)%**
Public sector and IDA		**61,075**		60,777	**0.49 %**
Consumer non real estate		**32,998**		36,238	**(8.94)%**
Less: unearned income and deferred fees and costs		**(585)**		(598)	**(2.17)%**
Loans, net of unearned income and deferred fees and costs	**$**	**718,371**	$	709,799	**1.21 %**

The Company's loans, net of unearned income and deferred fees and costs increased $8,572 or 1.21% from $709,799 at December 31, 2018 to $718,371 at March 31, 2019. Real estate construction, consumer real estate, commercial real estate and public sector and IDA loans increased from December 31, 2018, while commercial non real estate and consumer non real estate loans decreased.

Deposits

	March 31, 2019	December 31, 2018	Percent Change
Noninterest-bearing demand deposits	**$ 199,449**	$ 195,441	**2.05 %**
Interest-bearing demand deposits	**608,227**	616,527	**(1.35)%**
Saving deposits	**142,675**	138,175	**3.26 %**
Time deposits	**109,854**	101,799	**7.91 %**
Total deposits	**$ 1,060,205**	$ 1,051,942	**0.79 %**

Total deposits increased $8,263 or 0.79% from $1,051,942 at December 31, 2018 to $1,060,205 at March 31, 2019. Increases in noninterest-bearing demand, savings deposits, and time deposits totaled $16,563 when March 31, 2019 is compared with December 31, 2018. These increases were offset by a decrease in interest-bearing demand deposits of $8,300 when March 31, 2019 is compared with December 31, 2018. The Company increased its offering rates during the fourth quarter of 2018. Deposits do not include any brokered deposits.

Liquidity

Liquidity measures the Company's ability to meet its financial commitments at a reasonable cost. Demands on the Company's liquidity include funding additional loan demand and accepting withdrawals of existing deposits. The Company has diverse liquidity sources, including customer and purchased deposits, customer repayments of loan principal and interest, sales, calls and maturities of securities, Federal Reserve discount window borrowing, short-term borrowing, and Federal Home Loan Bank advances. At March 31, 2019, the bank did not have discount window borrowings, short-term borrowings, or FHLB advances. To assure that short-term borrowing is readily available, the Company tests accessibility annually.

The Company considers its security portfolio for typical liquidity needs, within accounting, legal and strategic parameters. Prior to the second quarter of 2018, the securities portfolio was segregated into available-for-sale and held-to-maturity. During the second quarter of 2018, the Company re-classified all its held-to-maturity securities to available-for-sale. Portions of the securities portfolio are pledged to meet state requirements for public funds deposits. Discount window borrowings also require pledged securities. Increased/decreased liquidity from public funds deposits or discount window borrowings results in increased/decreased liquidity from pledging requirements. The Company monitors public funds pledging requirements and unpledged available-for-sale securities accessible for liquidity needs.

Regulatory capital levels at the subsidiary bank determine the Bank's ability to use purchased deposits and the Federal Reserve discount window. At March 31, 2019, the Bank is considered well capitalized and does not have any restrictions on purchased deposits or borrowing ability at the Federal Reserve discount window.

The Company monitors factors that may increase its liquidity needs. Some of these factors include deposit trends, large depositor activity, maturing deposit promotions, interest rate sensitivity, maturity and repricing timing gaps between assets and liabilities, the level of unfunded loan commitments, loan growth and share repurchase activity within the Company's own stock. At March 31, 2019, the Company's liquidity is sufficient to meet projected trends in these areas.

To monitor and estimate liquidity levels, the Company performs stress testing under varying assumptions on credit sensitive liabilities and the sources and amounts of balance sheet and external liquidity available to replace outflows. The Company's Contingency Funding Plan sets forth avenues for rectifying liquidity shortfalls. At March 31, 2019, the analysis indicated adequate liquidity under the tested scenarios.

The Company utilizes several other strategies to maintain sufficient liquidity. Loan and deposit growth are managed to keep the loan to deposit ratio within the Company's own policy range of 65% to 75%. At March 31, 2019, the loan to deposit ratio was 67.76%. The investment strategy takes into consideration the term of the investment, and securities in the available for sale portfolio are laddered based upon projected funding needs.

Capital Resources

Total stockholders' equity at March 31, 2019 was $181,228, a decrease of $9,010 or 4.74%, from the $190,238 at December 31, 2018. In May 2018, the Company's Board of Directors authorized a 100,000 share repurchase program and subsequently increased the authorization in February 2019 to a total of one million shares. The program does not require any specific number of share repurchases and expires May 31, 2019. During March 2019, the Company repurchased 452,400 shares under the program. The repurchase reduced shareholders equity by $17,997.

The Company's subsidiary bank is subject to various capital requirements administered by banking agencies. Risk based capital ratios for the Bank are shown in the following tables.

	NBB	Regulatory Capital Minimum Ratios	Regulatory Capital Minimum Ratios with Capital Conservation Buffer
Common Equity Tier I Capital Ratio	**21.76**%	4.50 %	7.00 %
Tier I Capital Ratio	**21.76**%	6.00 %	8.50 %
Total Capital Ratio	**22.66**%	8.00 %	10.50 %
Leverage Ratio	**14.39**%	4.00 %	4.00 %

Risk-based capital ratios are calculated in compliance with FDIC rules based on Basel III capital requirements. Banks are subject to an additional capital conservation buffer in order to make capital distributions or discretionary bonus payments. The Bank's ratios are well above the required minimums and the capital conservation buffer at March 31, 2019.

Off-Balance Sheet Arrangements

In the normal course of business, NBB extends lines of credit and letters of credit to its customers. Depending on their needs, customers may draw upon lines of credit at any time in any amount up to a pre-approved limit. Standby letters of credit are issued for two purposes. Financial letters of credit guarantee payments to facilitate customer purchases. Performance letters of credit guarantee payment if the customer fails to complete a specific obligation.

Historically, the full approved amount of letters and lines of credit has not been drawn at any one time. The Company has developed plans to meet a sudden and substantial funding demand. These plans include accessing a line of credit with a correspondent bank, borrowing from the FHLB, selling available for sale investments or loans and raising additional deposits.

The Company sells mortgages on the secondary market. Our agreement with the purchaser provides for strict underwriting and documentation requirements. Violation of the representations and warranties of the agreement would entitle the purchaser to recourse provisions. The Company has determined that its risk in this area is not significant because of a low volume of secondary market mortgage loans and high underwriting standards. The Company estimates a potential loss reserve for recourse provisions that is not material as of March 31, 2019. To date, no recourse provisions have been invoked. If funds were needed, the Company would access the same sources as noted above for funding lines and letters of credit.

There were no material changes in off-balance sheet arrangements during the three months ended March 31, 2019, except for normal seasonal fluctuations in the total of mortgage loan commitments.

Contractual Obligations

The Company had no finance lease or purchase obligations and no long-term debt at March 31, 2019. The Company adopted ASC 842, Leases, as of January 1, 2019. Operating lease right-of-use assets and liabilities, which are for buildings used in the Company's day-to-day operations are recognized on the Consolidated Balance Sheet and have not changed materially from those which were disclosed in the Company's 2018 Form 10-K.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company considers interest rate risk to be a significant market risk and has systems in place to measure the exposure of net interest income to adverse movement in interest rates. Interest rate shock analyses provide management with an indication of potential economic loss due to future rate changes. There have not been any changes which would significantly alter the results disclosed as of December 31, 2018 in the Company's 2018 Form 10-K.

Item 4. Controls and Procedures

The Company's management evaluated, with the participation of the Company's principal executive officer and principal financial officer, the effectiveness of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. Based on that evaluation, the Company's principal executive officer and principal financial officer concluded that the Company's disclosure controls and procedures are effective as of March 31, 2019 to ensure that information required to be disclosed in the reports that the Company files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified by the Company's management, including the Company's principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

There were no changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) during the three months ended March 31, 2019 that have materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

Because of the inherent limitations in all control systems, the Company believes that no system of controls, no matter how well designed and operated, can provide absolute assurance that all control issues have been detected.

Part II

Other Information

Item 1. Legal Proceedings

There are no pending or threatened legal proceedings to which the Company or any of its subsidiaries is a party or to which the property of the Company or any of its subsidiaries is subject that, in the opinion of management, may materially impact the financial condition of the Company.

Item 1A. Risk Factors

Please refer to the "Risk Factors" previously disclosed in Item 1A of our 2018 Annual Report on Form 10-K and the factors discussed under "Cautionary Statement Regarding Forward-Looking Statements" in Part I. Item 2 of this Form 10-Q.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Purchases of Equity Securities by the Issuer

Share repurchase activity during the three months ended March 31, 2019 was as follows:

Period	Total Number of Shares Purchased(1)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Program(1)	Number of Shares that May Yet Be Purchased Under the Program(1)
January 1, 2019 – January 31, 2019	---	---	---	250,000
February 1, 2019 – February 28, 2019	---	---	---	1,000,000
March 1, 2019 – March 31, 2019	452,400	39.78	452,400	547,600
Total	452,400	39.78	452,400	

(1) In May 2018, the Company announced the Board of Directors had authorized a 100,000 share repurchase program. In November 2018, the Company announced that the Board of Directors increased its authorization to repurchase up to 250,000 shares. In February 2019, the Company announced that the Board of Directors increased its authorization to repurchase up to 1,000,000 shares. The program expires May 31, 2019. The Company's share repurchase program does not obligate it to acquire any specific number of shares.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Index of Exhibits

Exhibit No.	Description	Page No. in Sequential System
3(i)	Amended and Restated Articles of Incorporation of National Bankshares, Inc.	(incorporated herein by reference to Exhibit 3.1 of the Form 8K for filed on March 16, 2006)
3(ii)	Amended By-laws of National Bankshares, Inc.	(incorporated herein by reference to Exhibit 3(ii) of the Form 8K filed on July 9, 2014)
4	Specimen copy of certificate for National Bankshares, Inc. common stock	(incorporated herein by reference to Exhibit 4(a) of the Annual Report on Form 10K for fiscal year ended December 31, 1993)
*10(i)	National Bankshares, Inc. 1999 Stock Option Plan	(incorporated herein by reference to Exhibit 4.3 of the Form S-8, filed as Registration No. 333-79979 with the Commission on June 4, 1999)
*10(ii)	Executive Employment Agreement dated March 11, 2015, between National Bankshares, Inc. and James G. Rakes	(incorporated herein by reference to Exhibit 10.1 of the Form 8K filed on March 11, 2015)
*10(iii)	Employee Lease Agreement dated August 14, 2002, between National Bankshares, Inc. and The National Bank of Blacksburg	(incorporated herein by reference to Exhibit 10 of Form 10Q for the period ended September 30, 2002)
*10(iv)	Executive Employment Agreement dated March 11, 2015, between National Bankshares, Inc. and F. Brad Denardo	(incorporated herein by reference to Exhibit 10.2 of the Form 8K filed on March 11, 2015)
*10(v)	Salary Continuation Agreement dated February 8, 2006, between The National Bank of Blacksburg and James G. Rakes	(incorporated herein by reference to Exhibit 99 of the Form 8K filed on February 8, 2006)
*10(vi)	Salary Continuation Agreement dated February 8, 2006, between The National Bank of Blacksburg and F. Brad Denardo	(incorporated herein by reference to Exhibit 99 of the Form 8K filed on February 8, 2006)
*10(vii)	Salary Continuation Agreement dated February 8, 2006, between The National Bank of Blacksburg and David K. Skeens	(incorporated herein by reference to Exhibit 10.2 of the Form 8K filed on January 25, 2012)
*10(viii)	First Amendment, dated December 19, 2007, to The National Bank of Blacksburg Salary Continuation Agreement for James G. Rakes	(incorporated herein by reference to Exhibit 10 of the Form 8K filed on December 19, 2007)
*10(ix)	First Amendment, dated December 19, 2007, to The National Bank of Blacksburg Salary Continuation Agreement for F. Brad Denardo	(incorporated herein by reference to Exhibit 10 of the Form 8K filed on December 19, 2007)
*10(x)	First Amendment, dated December 19, 2007, to The National Bank of Blacksburg Salary Continuation Agreement for David K. Skeens	(incorporated herein by reference to Exhibit 10.2 of the Form 8K filed on January 25, 2012)
*10(xi)	Second Amendment, dated June 12, 2008, to The National Bank of Blacksburg Salary Continuation Agreement for F. Brad Denardo	(incorporated herein by reference to Exhibit 10 of the Form 8K filed on June 12, 2008)
*10(xii)	Second Amendment, dated December 17, 2008, to The National Bank of Blacksburg Salary Continuation Agreement for James G. Rakes	(incorporated herein by reference to Exhibit 10(iii) of the Annual Report on Form 10K for fiscal year ended December 31, 2008)
*10(xiii)	Second Amendment, dated September 12, 2008, to The National Bank of Blacksburg Salary Continuation Agreement for David K. Skeens	(incorporated herein by reference to Exhibit 10.2 of the Form 8K filed on January 25, 2012)

*10(xiv)	Third Amendment, dated December 17, 2008, to The National Bank of Blacksburg Salary Continuation Agreement for F. Brad Denardo	(incorporated herein by reference to Exhibit 10(iii) of the Annual Report on Form 10K for fiscal year ended December 31, 2008)
*10(xv)	Third Amendment, dated January 20 2012, to The National Bank of Blacksburg Salary Continuation Agreement for David K. Skeens	(incorporated herein by reference to Exhibit 10.2 of the Form 8K filed on January 25, 2012)
*10(xvi)	Salary Continuation Agreement dated May 24, 2013 between The National Bank of Blacksburg and Paul A. Mylum	(incorporated herein by reference to Exhibit 10.1 of the Form 8K filed on March 8, 2018)
*10(xvii)	Second Salary Continuation Agreement dated July 1, 2016 between The National Bank of Blacksburg and F. Brad Denardo	(incorporated herein by reference to Exhibit 10.1 of the Form 8K filed on July 20, 2016)
*10(xviii)	Salary Continuation Agreement dated February 6, 2006 between The National Bankshares, Inc. and Lara E. Ramsey	(incorporated herein by reference to Exhibit 10.1 of the Form 8K filed on March 6, 2017)
*10(xix)	First Amendment, dated December 19, 2007, to National Bankshares, Inc. Salary Continuation Agreement for Lara E. Ramsey	(incorporated herein by reference to Exhibit 10.1 of the Form 8K filed on March 6, 2017)
*10(xx)	Second Amendment, dated September 12, 2008, to National Bankshares, Inc. Salary Continuation Agreement for Lara E. Ramsey	(incorporated herein by reference to Exhibit 10.1 of the Form 8K filed on March 6, 2017)
*10(xxi)	Third Amendment, dated September 22, 2016, to National Bankshares, Inc. Salary Continuation Agreement for Lara E. Ramsey	(incorporated herein by reference to Exhibit 10.1 of the Form 8K filed on March 6, 2017)
+23	Consent of Yount, Hyde & Barbour, P.C. to incorporation by reference of independent auditor's report included in this Form 10-K, into registrant's registration statement on Form S-8	(incorporated herein by reference to Exhibit 23 of the Annual Report on Form 10K for fiscal year ended December 31, 2018)
+31(i)	Section 906 Certification of Chief Executive Officer	(included herewith)
+31(ii)	Section 906 Certification of Chief Financial Officer	(included herewith)
+32(i)	18 U.S.C. Section 1350 Certification of Chief Executive Officer	(included herewith)
+32(ii)	18 U.S.C. Section 1350 Certification of Chief Financial Officer	(included herewith)
+101	The following materials from National Bankshares, Inc.'s Quarterly Report on Form 10-Q for the period ended March 31, 2019 are formatted in XBRL (Extensible Business Reporting Language), furnished herewith: (i) Consolidated Statements of Income for the three month periods ended March 31, 2019 and 2018; (ii) Consolidated Statements of Comprehensive Income for the three month periods ended March 31, 2019 and 2018; (iii)Consolidated Balance Sheets at March 31, 2019 and December 31, 2018; (iv) Consolidated Statements of Changes in Stockholders' Equity for the three months ended March 31, 2019 and 2018; (v) Consolidated Statements of Cash Flows for the three months ended March 31, 2019 and 2018; and (vi) Notes to Consolidated Financial Statements.	(included herewith)

* Indicates a management contract or compensatory plan.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NATIONAL BANKSHARES, INC.

Date: May 8, 2019

/s/ F. Brad Denardo
F. Brad Denardo
President and
Chief Executive Officer
(Principal Executive Officer)

Date: May 8, 2019

/s/ David K. Skeens
David K. Skeens
Treasurer and
Chief Financial Officer
(Principal Financial Officer)
(Principal Accounting Officer)

Exhibit 31(i)

CERTIFICATIONS

I, F. Brad Denardo, certify that:

1. I have reviewed this quarterly report on Form 10-Q of National Bankshares, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a–15(e) and 15d–15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a–15(f) and 15d–15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 8, 2019

/s/ F. Brad Denardo
F. Brad Denardo
President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31(ii)

CERTIFICATIONS

I, David K. Skeens, certify that:

1. I have reviewed this quarterly report on Form 10-Q of National Bankshares, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a–15(e) and 15d–15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a–15(f) and 15d–15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 8, 2019

/s/ David K. Skeens
David K. Skeens
Treasurer and
Chief Financial Officer
(Principal Financial Officer)

Exhibit 32 (i)

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350

In connection with the Form 10-Q of National Bankshares, Inc. for the quarter ended March 31, 2019, I, F. Brad Denardo, President and Chief Executive Officer (Principal Executive Officer) of National Bankshares, Inc., hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge and belief, that:

(1) such Form 10-Q for the quarter ended March 31, 2019, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in such Form 10-Q for the quarter ended March 31, 2019, fairly presents, in all material respects, the financial condition and results of operations of National Bankshares, Inc.

/s/ F. Brad Denardo

F. Brad Denardo
President and Chief Executive Officer
(Principal Executive Officer)
May 8, 2019

Exhibit 32 (ii)

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350

In connection with the Form 10-Q of National Bankshares, Inc. for the quarter ended March 31, 2019, I, David K. Skeens, Treasurer and Chief Financial Officer (Principal Financial Officer) of National Bankshares, Inc., hereby certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge and belief, that:

(1) such Form 10-Q for the quarter ended March 31, 2019, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in such Form 10-Q for the quarter ended March 31, 2019, fairly presents, in all material respects, the financial condition and results of operations of National Bankshares, Inc.

/s/ David K. Skeens

David K. Skeens
Treasurer and
Chief Financial Officer
(Principal Financial Officer)
May 8, 2019