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 June 30, 2022

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

For the transition period from ________ to ________

NATIONAL BANKSHARES, INC.

(Exact name of registrant as specified in its charter)
Commission File Number 0-15204

Virginia	54-1375874
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

101 Hubbard Street
Blacksburg, Virginia 24062-9002
(Address of principal executive offices)

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

(Not applicable)
(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $1.25 per share	**NKSH**	**Nasdaq Capital Market**

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 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, a 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 [ ] Non-accelerated filer [x] Smaller reporting company [x] 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. [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [x]

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

Outstanding shares of common stock at August 10, 2022
5,980,775

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Item 1. Financial Statements

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

(in thousands, except share and per share data)		(Unaudited) June 30, 2022		December 31, 2021
Assets				
Cash and due from banks	**$**	**11,798**	$	8,768
Interest-bearing deposits		**95,812**		130,021
Securities available for sale, at fair value		**682,251**		686,080
Restricted stock, at cost		**941**		845
Mortgage loans held for sale		**488**		615
Loans:				
Loans, net of unearned income and deferred fees and costs		**848,814**		803,248
Less allowance for loan losses		**(8,069)**		(7,674)
Loans, net		**840,745**		795,574
Premises and equipment, net		**9,773**		9,722
Accrued interest receivable		**5,506**		5,104
Other real estate owned, net		**957**		957
Goodwill		**5,848**		5,848
Bank-owned life insurance		**42,833**		42,354
Other assets		**32,636**		16,287
Total assets	**$**	**1,729,588**	$	1,702,175
Liabilities and Stockholders' Equity				
Noninterest-bearing demand deposits	**$**	**334,576**	$	317,430
Interest-bearing demand deposits		**943,574**		890,124
Savings deposits		**218,716**		208,065
Time deposits		**80,965**		78,968
Total deposits		**1,577,831**		1,494,587
Accrued interest payable		**46**		48
Other liabilities		**15,471**		15,789
Total liabilities		**1,593,348**		1,510,424
Commitments and contingencies				
Stockholders' Equity				
Preferred stock, no par value, 5,000,000 shares authorized; none issued and outstanding		**-**		-
Common stock of $1.25 par value. Authorized 10,000,000 shares; issued and outstanding 5,980,775 at June 30, 2022 and 6,063,937 shares at December 31, 2021		**7,476**		7,580
Retained earnings		**191,541**		188,229
Accumulated other comprehensive loss, net		**(62,777)**		(4,058)
Total stockholders' equity		**136,240**		191,751
Total liabilities and stockholders' equity	**$**	**1,729,588**	$	1,702,175

See accompanying notes to consolidated financial statements.

National Bankshares, Inc.
Consolidated Statements of Income
Three Months Ended June 30, 2022 and 2021
(Unaudited)

(in thousands, except share and per share data)	June 30, 2022	June 30, 2021
Interest Income		
Interest and fees on loans	**$ 8,324**	$ 8,466
Interest on interest-bearing deposits	**202**	39
Interest on securities – taxable	**2,949**	1,910
Interest on securities – nontaxable	**447**	482
Total interest income	**11,922**	10,897
Interest Expense		
Interest on deposits	**647**	834
Net interest income	**11,275**	10,063
Provision for loan losses	**310**	4
Net interest income after provision for loan losses	**10,965**	10,059
Noninterest Income		
Service charges on deposit accounts	**603**	471
Other service charges and fees	**51**	43
Credit and debit card fees, net	**535**	479
Trust income	**439**	434
BOLI income	**241**	210
Gain on sale of mortgage loans	**35**	74
Other income	**208**	230
Total noninterest income	**2,112**	1,941
Noninterest Expense		
Salaries and employee benefits	**4,011**	3,952
Occupancy, furniture and fixtures	**464**	443
Data processing and ATM	**793**	786
FDIC assessment	**111**	93
Net costs of other real estate owned	**-**	1
Franchise taxes	**371**	357
Other operating expenses	**561**	815
Total noninterest expense	**6,311**	6,447
Income before income taxes	**6,766**	5,553
Income tax expense	**1,192**	940
Net Income	**$ 5,574**	$ 4,613
Basic and fully diluted net income per common share	**$ 0.93**	$ 0.74
Weighted average number of common shares outstanding, basic and diluted	**6,004,425**	6,214,079
Dividends declared per common share	**0.72**	0.70

See accompanying notes to consolidated financial statements.

National Bankshares, Inc.
Consolidated Statements of Comprehensive (Loss) Income
Three Months Ended June 30, 2022 and 2021
(Unaudited)

(in thousands)		June 30, 2022		June 30, 2021
Net Income	**$**	**5,574**	$	4,613
Other Comprehensive (Loss) Income, Net of Tax				
Unrealized holding (loss) gain on available for sale securities net of tax of ($6,617) and $1,922 for the periods ended June 30, 2022 and June 30, 2021, respectively		**(24,893)**		7,235
Other comprehensive (loss) income, net of tax		**(24,893)**		7,235
Total Comprehensive (Loss) Income	**$**	**(19,319)**	$	11,848

See accompanying notes to consolidated financial statements.

National Bankshares, Inc.
Consolidated Statements of Income
Six Months Ended June 30, 2022 and 2021
(Unaudited)

(in thousands, except share and per share data)	June 30, 2022	June 30, 2021
Interest Income		
Interest and fees on loans	**$ 16,424**	$ 17,016
Interest on interest-bearing deposits	**251**	67
Interest on securities – taxable	**5,422**	3,693
Interest on securities – nontaxable	**875**	1,003
Total interest income	**22,972**	21,779
Interest Expense		
Interest on deposits	**1,302**	1,689
Net interest income	**21,670**	20,090
Provision for loan losses	**444**	54
Net interest income after provision for loan losses	**21,226**	20,036
Noninterest Income		
Service charges on deposit accounts	**1,165**	940
Other service charges and fees	**106**	84
Credit and debit card fees, net	**975**	913
Trust income	**882**	849
BOLI income	**479**	416
Gain on sale of mortgage loans	**96**	211
Other income	**700**	857
Realized securities gain, net	**-**	5
Total noninterest income	**4,403**	4,275
Noninterest Expense		
Salaries and employee benefits	**7,989**	7,858
Occupancy, furniture and fixtures	**956**	931
Data processing and ATM	**1,580**	1,564
FDIC assessment	**222**	176
Net costs of other real estate owned	**10**	38
Franchise taxes	**733**	692
Other operating expenses	**1,434**	1,724
Total noninterest expense	**12,924**	12,983
Income before income taxes	**12,705**	11,328
Income tax expense	**2,245**	1,949
Net Income	**$ 10,460**	$ 9,379
Basic and fully diluted net income per common share	**$ 1.74**	$ 1.49
Weighted average number of common shares outstanding, basic and diluted	**6,025,709**	6,310,347
Dividends declared per common share	**0.72**	0.70

See accompanying notes to consolidated financial statements.

National Bankshares, Inc.
Consolidated Statements of Comprehensive (Loss) Income
Six Months Ended June 30, 2022 and 2021
(Unaudited)

(in thousands)	**June 30, 2022**	**June 30, 2021**
Net Income	**$ 10,460**	$ 9,379
Other Comprehensive Loss, Net of Tax		
Unrealized holding loss on available for sale securities net of tax of ($15,609) and ($1,349) for the periods ended June 30, 2022 and June 30, 2021, respectively	**(58,719)**	(5,074)
Reclassification adjustment for gain included in net income, net of tax of ($1), for the period ended June 30, 2021, respectively	**-**	(4)
Other comprehensive loss, net of tax	**(58,719)**	(5,078)
Total Comprehensive (Loss) Income	**$ (48,259)**	$ 4,301

See accompanying notes to consolidated financial statements.

National Bankshares, Inc.
Consolidated Statements of Changes in Stockholders' Equity
(Unaudited)

Three Months Ended June 30, 2022 and 2021

(in thousands except per share and share data)	**Common Stock**	**Retained Earnings**	**Accumulated Other Comprehensive Loss**	**Total**
Balances at March 31, 2021	$ 7,900	$ 190,462	$ (9,293)	$ 189,069
Net income	-	4,613	-	4,613
Common stock repurchased, 150,130 shares	(187)	(5,176)	-	(5,363)
Cash dividend ($0.70 per share)	-	(4,319)	-	(4,319)
Other comprehensive income, net of tax of $1,922	-	-	7,235	7,235
Balances at June 30, 2021	$ 7,713	$ 185,580	$ (2,058)	$ 191,235
Balances at March 31, 2022	$ 7,528	$ 191,645	$ (37,884)	$ 161,289
Net income	-	5,574	-	5,574
Common stock repurchased, 41,977 shares	(52)	(1,354)	-	(1,406)
Cash dividend ($0.72 per share)	-	(4,324)	-	(4,324)
Other comprehensive loss, net of tax of ($6,617)	-	-	(24,893)	(24,893)
Balances at June 30, 2022	**$ 7,476**	**$ 191,541**	**$ (62,777)**	**$ 136,240**

See accompanying notes to consolidated financial statements.

Six Months Ended June 30, 2022 and 2021

(in thousands except per share and share data)	**Common Stock**	**Retained Earnings**	**Accumulated Other Comprehensive Loss**	**Total**
Balances at December 31, 2020	$ 8,040	$ 189,547	$ 3,020	$ 200,607
Net income	-	9,379	-	9,379
Common stock repurchased, 261,962 shares	(327)	(9,027)	-	(9,354)
Cash dividend ($0.70 per share)	-	(4,319)	-	(4,319)
Other comprehensive loss, net of tax of ($1,350)	-	-	(5,078)	(5,078)
Balances at June 30, 2021	$ 7,713	$ 185,580	$ (2,058)	$ 191,235
Balances at December 31, 2021	$ 7,580	$ 188,229	$ (4,058)	$ 191,751
Net income	-	10,460	-	10,460
Common stock repurchased, 83,162 shares	(104)	(2,824)	-	(2,928)
Cash dividend ($0.72 per share)	-	(4,324)	-	(4,324)
Other comprehensive loss, net of tax of ($15,609)	-	-	(58,719)	(58,719)
Balances at June 30, 2022	**$ 7,476**	**$ 191,541**	**$ (62,777)**	**$ 136,240**

See accompanying notes to consolidated financial statements.

National Bankshares, Inc.
Consolidated Statements of Cash Flows
Six Months Ended June 30, 2022 and 2021
(Unaudited)

(in thousands)	June 30, 2022	June 30, 2021
Cash Flows from Operating Activities		
Net income	**$ 10,460**	$ 9,379
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	**444**	54
Depreciation of bank premises and equipment	**298**	325
Amortization of premiums and accretion of discounts, net	**660**	846
Gain on sales and calls of securities available for sale, net	**-**	(5)
Losses and write-downs on other real estate owned, net	**-**	26
Increase in cash value of bank-owned life insurance	**(479)**	(416)
Origination of mortgage loans held for sale	**(4,342)**	(9,553)
Proceeds from sale of mortgage loans held for sale	**4,565**	10,408
Gain on sale of mortgage loans held for sale	**(96)**	(211)
Net change in:		
Accrued interest receivable	**(402)**	(247)
Other assets	**(741)**	384
Accrued interest payable	**(2)**	(8)
Other liabilities	**(317)**	227
Net cash provided by operating activities	**10,048**	11,209
Cash Flows from Investing Activities		
Net change in interest-bearing deposits	**34,209**	(29,983)
Proceeds from calls, principal payments, sales and maturities of securities available for sale	**24,182**	29,308
Purchase of securities available for sale	**(95,341)**	(107,591)
Net change in restricted stock	**(96)**	434
Purchase of loan participations	**(10,801)**	(9,446)
Collection of loan participations	**4,437**	3,668
Loan originations and principal collections, net	**(39,337)**	(31,264)
Proceeds from sale of other real estate owned	**-**	570
Proceeds from sale of repossessed assets	**-**	11
Recoveries on loans charged off	**86**	128
Purchase of bank-owned life insurance	**-**	(5,000)
Proceeds from sale and purchases of premises and equipment, net	**(349)**	(186)
Net cash used in investing activities	**(83,010)**	(149,351)

(continued)

Cash Flows from Financing Activities		
Net change in time deposits	**1,997**	(1,250)
Net change in other deposits	**81,247**	153,731
Common stock repurchased	**(2,928)**	(9,354)
Cash dividends paid	**(4,324)**	(4,319)
Net cash provided by financing activities	**75,992**	138,808
Net change in cash and due from banks	**3,030**	666
Cash and due from banks at beginning of period	**8,768**	13,147
Cash and due from banks at end of period	**$ 11,798**	$ 13,813
Supplemental Disclosures of Cash Flow Information		
Interest paid on deposits	**$ 1,304**	$ 1,697
Income taxes paid	**2,184**	1,310
Supplemental Disclosure of Noncash Activities		
Loans charged against the allowance for loan losses	**$ 135**	$ 586
Loans transferred to OREO	**-**	50
Loans transferred to repossessed assets	**-**	11
Unrealized holding loss on securities available for sale	**(74,328)**	(6,428)
Lease liabilities arising from obtaining right-of-use assets	**25**	-

See accompanying notes to consolidated financial statements.

National Bankshares, Inc.
Notes to Consolidated Financial Statements
June 30, 2022
(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 (the "Bank" or "NBB") and National Bankshares Financial Services, Inc. ("NBFS") (collectively, the "Company"), conform to accounting principles generally accepted in the United States of America ("U.S. GAAP") 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 and six month periods ended June 30, 2022 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 2021 Form 10-K. The Company posts all reports required to be filed under the Securities Exchange Act of 1934 on its web site at www.nationalbankshares.com.

Risks and Uncertainties

Since the beginning of 2020, the COVID-19 pandemic and efforts to reduce its spread have caused significant disruptions in the U.S. economy and negatively impacted financial activity in the Company's market. The Company's business is dependent upon the willingness and ability of its employees and customers to conduct banking and other financial transactions. The pandemic appears to be receding, however if the pandemic re-escalates, the Company could experience a material adverse effect on its business, financial condition, results of operations, cash flows, credit risk, asset valuations and capital position.

Recent Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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 FASB has issued multiple updates to ASU 2016-13 as codified in Topic 326, including ASU's 2019-04, 2019-05, 2019-10, 2019-11, 2020-02, and 2020-03. These ASU's have provided for various minor technical corrections and improvements to the codification as well as other transition matters. Smaller reporting companies who file with the U.S. Securities and Exchange Commission (SEC) and all other entities who do not file with the SEC are required to apply the guidance for fiscal years, and interim periods within those years, beginning after December 15, 2022. The Company is currently assessing the impact that ASU 2016-13 will have on its consolidated financial statements. The Company is working to ensure readiness and compliance with the standard. The Company has engaged with a vendor, validated data, analyzed correlations for forecasting, selected methodologies and is running parallel models. An external validation firm is currently reviewing the model. Management will continue to refine assumptions that impact the calculation prior to the effective date

Effective November 25, 2019, the SEC adopted Staff Accounting Bulletin (SAB) 119. SAB 119 updated portions of SEC interpretative guidance to align with FASB ASC 326, "Financial Instruments – Credit Losses." It covers topics including (1) measuring current expected credit losses; (2) development, governance, and documentation of a systematic methodology; (3) documenting the results of a systematic methodology; and (4) validating a systematic methodology.

In June 2022, the FASB issued ASU 2022-03, "Fair Value Measurement (Topic 820): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions". ASU 2022-03 clarifies that a contractual restriction on the sale of an equity security is not considered part of the unit of account of the equity security and, therefore, is not considered in measuring fair value. The ASU is effective for fiscal years, including interim periods within those fiscal years, beginning after December 15, 2023. Early adoption is permitted. The Company does not expect the adoption of ASU 2022-03 to have a material impact on its consolidated financial statements.

In March 2022, the FASB issued ASU No. 2022-02, "Financial Instruments-Credit Losses (Topic 326), Troubled Debt Restructurings and Vintage Disclosures." ASU 2022-02 addresses areas identified by the FASB as part of its post-implementation review of the credit losses standard (ASU 2016-13) that introduced the CECL model. The amendments eliminate the accounting guidance for troubled debt restructurings by creditors that have adopted the CECL model and enhance the disclosure requirements for loan refinancings and restructurings made with borrowers experiencing financial difficulty. In addition, the amendments require a public business entity to disclose current-period gross write-offs for financing receivables and net investment in leases by year of origination in the vintage disclosures. The amendments in this ASU should be applied prospectively, except for the transition method related to the recognition and measurement of TDRs, an entity has the option to apply a modified retrospective transition method, resulting in a cumulative-effect adjustment to retained earnings in the period of adoption. For entities that have adopted ASU 2016-13, ASU 2022-02 is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. For entities that have not yet adopted ASU 2016-13, the effective dates for ASU 2022-02 are the same as the effective dates in ASU 2016-13. Early adoption is permitted if an entity has adopted ASU 2016-13. An entity may elect to early adopt the amendments about TDRs and related disclosure enhancements separately from the amendments related to vintage disclosures. The Company is currently assessing the impact that ASU 2022-02 will have on its consolidated financial statements.

Note 2:

Loan Portfolio

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

	June 30, 2022	**December 31, 2021**
Real estate construction	**$ 69,724**	$ 48,841
Consumer real estate	**217,143**	208,977
Commercial real estate	**425,388**	405,722
Commercial non real estate	**52,338**	60,264
Public sector and IDA	**49,856**	47,899
Consumer non real estate	**34,825**	32,026
Gross loans	**849,274**	803,729
Less unearned income and deferred fees and costs	**(460)**	(481)
Loans, net of unearned income and deferred fees and costs	**$ 848,814**	$ 803,248

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 on an individual loan basis and to identify impaired loans. Please refer to the Company’s 2021 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.

Collectively-Evaluated Loans

The loan portfolio is comprised of major segments and smaller classes within each segment. Segments and classes are determined based on characteristics such as collateral type and intended use, 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. The Company's segments and classes within each segment are presented below:

Portfolio Segments and Classes

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

Real Estate Construction
- Construction, residential
- Construction, other

Consumer Real Estate
- Equity lines
- Residential closed-end first liens
- Residential closed-end junior liens
- Investor-owned residential real estate

Commercial Real Estate
- Multifamily real estate
- Commercial real estate, owner-occupied
- Commercial real estate, other

Commercial Non Real Estate
- Commercial and industrial

Public Sector and IDA
- Public sector and IDA

Consumer Non Real Estate
- Credit cards
- Automobile
- Other consumer loans

Collectively-evaluated loans within each class are further stratified by risk rating: pass-rated loans, loans rated special mention, and loans rated classified. Credit risk for collectively-evaluated loans is estimated at the class level, by risk rating, by applying historical net charge-off rates and percentages for qualitative factors that influence credit risk. Please refer to the Company's 2021 Form 10-K, Note 1: Summary of Significant Accounting Policies for a discussion of risk factors pertinent to each class.

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 Six Months Ended June 30, 2022

	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, 2021	**$ 422**	**$ 1,930**	**$ 3,121**	**$ 1,099**	**$ 297**	**$ 444**	**$ 361**	**$ 7,674**
Charge-offs	**-**	**-**	**-**	**(2)**	**-**	**(133)**	**-**	**(135)**
Recoveries	**-**	**-**	**24**	**6**	**-**	**56**	**-**	**86**
Provision for (recovery of) loan losses	**285**	**189**	**325**	**(307)**	**39**	**95**	**(182)**	**444**
Balance, June 30, 2022	**$ 707**	**$ 2,119**	**$ 3,470**	**$ 796**	**$ 336**	**$ 462**	**$ 179**	**$ 8,069**

Activity in the Allowance for Loan Losses for the Six Months Ended June 30, 2021

	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, 2020	$ 503	$ 2,165	$ 3,853	$ 670	$ 339	$ 555	$ 396	$ 8,481
Charge-offs	-	(13)	-	(485)	-	(88)	-	(586)
Recoveries	-	-	25	27	-	76	-	128
Provision for (recovery of) loan losses	(18)	(144)	(427)	655	37	(26)	(23)	54
Balance, June 30, 2021	$ 485	$ 2,008	$ 3,451	$ 867	$ 376	$ 517	$ 373	$ 8,077

Activity in the Allowance for Loan Losses for the Year Ended December 31, 2021								
	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, 2020	$ 503	$ 2,165	$ 3,853	$ 670	$ 339	$ 555	$ 396	$ 8,481
Charge-offs	-	(13)	-	(526)	-	(216)	-	(755)
Recoveries	-	20	159	33	-	134	-	346
Provision for (recovery of) loan losses	(81)	(242)	(891)	922	(42)	(29)	(35)	(398)
Balance, December 31, 2021	$ 422	$ 1,930	$ 3,121	$ 1,099	$ 297	$ 444	$ 361	$ 7,674

Allowance for Loan Losses as of June 30, 2022								
	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	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Collectively evaluated for impairment	**707**	**2,119**	**3,470**	**796**	**336**	**462**	**179**	**8,069**
Total	**$ 707**	**$ 2,119**	**$ 3,470**	**$ 796**	**$ 336**	**$ 462**	**$ 179**	**$ 8,069**

Allowance for Loan Losses as of December 31, 2021								
	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	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	422	1,930	3,121	1,099	297	444	361	7,674
Total	$ 422	$ 1,930	$ 3,121	$ 1,099	$ 297	$ 444	$ 361	$ 7,674

Loans as of June 30, 2022							
	Real Estate Construction	Consumer Real Estate	Commercial Real Estate	Commercial Non Real Estate	Public Sector and IDA	Consumer Non Real Estate	Total
Individually evaluated for impairment	**$ -**	**$ 188**	**$ 5,342**	**$ 279**	**$ -**	**$ -**	**$ 5,809**
Collectively evaluated for impairment	**69,724**	**216,955**	**420,046**	**52,059**	**49,856**	**34,825**	**843,465**
Total	**$ 69,724**	**$ 217,143**	**$ 425,388**	**$ 52,338**	**$ 49,856**	**$ 34,825**	**$ 849,274**

Loans as of December 31, 2021							
	Real Estate Construction	Consumer Real Estate	Commercial Real Estate	Commercial Non-Real Estate	Public Sector and IDA	Consumer Non-Real Estate	Total
Individually evaluated for impairment	$ -	$ 191	$ 5,386	$ 301	$ -	$ -	$ 5,878
Collectively evaluated for impairment	48,841	208,786	400,336	59,963	47,899	32,026	797,851
Total	$ 48,841	$ 208,977	$ 405,722	$ 60,264	$ 47,899	$ 32,026	$ 803,729

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

	As of and for the		
	Six Months Ended June 30,		Year Ended December 31,
	2022	2021	2021
Ratio of allowance for loan losses to the end of period loans, net of unearned income and deferred fees and costs[1]	**0.95 %**	1.00%	0.96 %
Ratio of net charge-offs to average loans, net of unearned income and deferred fees and costs[1]	**0.01 %**	0.12%	0.05 %

[1] Net charge-offs are on an annualized basis.

A summary of nonperforming assets follows.

	June 30,		December 31,
	2022	2021	2021
Nonperforming assets:			
Nonaccrual loans	**$ 168**	$ 713	$ -
Restructured loans in nonaccrual	**2,811**	3,109	2,873
Total nonperforming loans	**2,979**	3,822	2,873
Other real estate owned, net	**957**	1,007	957
Total nonperforming assets	**$ 3,936**	$ 4,829	$ 3,830
Ratio of nonperforming assets to loans, net of unearned income and deferred fees and costs, plus other real estate owned	**0.46 %**	0.60%	0.48 %
Ratio of allowance for loan losses to nonperforming loans[1]	**270.86 %**	211.33%	267.11 %

[1] The Company defines nonperforming loans as nonaccrual loans and restructured loans that are nonaccrual. Loans 90 days past due and still accruing and accruing restructured loans are excluded.

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

	June 30,		December 31,
	2022	2021	2021
Loans past due 90 days or more and still accruing	**$ 7**	$ 28	$ 90
Ratio of loans past due 90 days or more and still accruing to loans, net of unearned income and deferred fees and costs	**0.00 %**	0.00%	0.01 %
Accruing restructured loans	**$ 2,998**	$ 3,011	$ 3,005
Impaired loans:			
Impaired loans with no valuation allowance	**$ 5,809**	$ 6,774	$ 5,878
Impaired loans with a valuation allowance	**-**	-	-
Total impaired loans	**$ 5,809**	$ 6,774	$ 5,878
Valuation allowance	**-**	-	-
Impaired loans, net of allowance	**$ 5,809**	$ 6,774	$ 5,878
Average recorded investment in impaired loans[1]	**$ 5,820**	$ 6,796	$ 5,901
Interest income recognized on impaired loans, after designation as impaired	**$ 43**	$ 105	$ 137
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.

No interest income was recognized on nonaccrual loans for the six months ended June 30, 2022 or June 30, 2021 or for the year ended December 31, 2021.

A detailed analysis of investment in impaired loans and associated reserves, segregated by loan class follows. Only classes with impaired loans are presented.

	Impaired Loans as of June 30, 2022				
	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					
Investor-owned residential real estate	**$ 188**	**$ 188**	**$ 188**	**$ -**	**$ -**
Commercial Real Estate					
Commercial real estate, owner-occupied	**3,252**	**2,624**	**2,624**	**-**	**-**
Commercial real estate, other	**2,718**	**2,718**	**2,718**	**-**	**-**
Commercial Non Real Estate					
Commercial and industrial	**295**	**279**	**279**	**-**	**-**
Total	**$ 6,453**	**$ 5,809**	**$ 5,809**	**$ -**	**$ -**

	Impaired Loans as of December 31, 2021				
	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					
Investor-owned residential real estate	$ 191	$ 191	$ 191	$ -	$ -
Commercial Real Estate					
Commercial real estate, owner occupied	3,256	2,665	2,665	-	-
Commercial real estate, other	2,721	2,721	2,721	-	-
Commercial Non-Real Estate					
Commercial and industrial	310	301	301	-	-
Total	$ 6,478	$ 5,878	$ 5,878	$ -	$ -

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

The following tables show the average recorded investment and interest income recognized for impaired loans. Only classes with impaired loans are presented.

	For the Six Months Ended June 30, 2022	
	Average Recorded Investment(1)	Interest Income Recognized
Consumer Real Estate		
Investor-owned residential real estate	**$ 189**	**$ 6**
Commercial Real Estate		
Commercial real estate, owner occupied	**2,626**	**3**
Commercial real estate, other	**2,719**	**34**
Commercial Non Real Estate		
Commercial and industrial	**286**	**-**
Total	**$ 5,820**	**$ 43**

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

	For the Six Months Ended June 30, 2021	
	Average Recorded Investment[1]	Interest Income Recognized
Consumer Real Estate		
Investor-owned residential real estate	$ 193	$ 6
Commercial Real Estate		
Commercial real estate, owner occupied	2,890	7
Commercial real estate, other	3,378	84
Commercial Non Real Estate		
Commercial and industrial	334	8
Consumer Non Real Estate		
Automobile	1	-
Total	$ 6,796	$ 105

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

	For the Year Ended December 31, 2021	
	Average Recorded Investment[1]	Interest Income Recognized
Consumer Real Estate		
Investor-owned residential real estate	$ 192	$ 13
Commercial Real Estate		
Commercial real estate, owner occupied	2,668	9
Commercial real estate, other	2,723	100
Commercial Non-Real Estate		
Commercial and industrial	317	15
Consumer Non-Real Estate		
Automobile	1	-
Total	$ 5,901	$ 137

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

An analysis of past due and nonaccrual loans, including impaired and collectively-evaluated loans, follows. Nonaccrual loans include those in both current and past due status. Only classes with past due or nonaccrual loans are shown.

June 30, 2022

	30 – 89 Days Past Due and Accruing	90 or More Days Past Due (1)	90 or More Days Past Due and Accruing	Nonaccruals
Consumer Real Estate				
Residential closed-end first liens	$ 641	$ 137	$ -	$ 137
Equity lines	-	29	-	29
Commercial Real Estate				
Commercial real estate, owner-occupied	19	258	-	2,532
Commercial Non Real Estate				
Commercial and industrial	37	-	-	279
Consumer Non Real Estate				
Automobile	35	-	-	-
Credit cards	2			
Other consumer loans	136	7	7	2
Total	$ 870	$ 431	$ 7	$ 2,979

December 31, 2021

	30 – 89 Days Past Due and Accruing	90 or More Days Past Due(1)	90 or More Days Past Due and Accruing	Nonaccruals
Real Estate Construction				
Construction, other	$ 14	$ -	$ -	$ -
Consumer Real Estate				
Equity lines	50	29	29	-
Residential closed-end first liens	715	58	58	-
Commercial Real Estate				
Commercial real estate, owner occupied	12	266	-	2,572
Commercial Non-Real Estate				
Commercial and industrial	13	-	-	301
Consumer Non-Real Estate				
Credit cards	2	2	2	-
Automobile	93	-	-	-
Other consumer loans	88	1	1	-
Total	$ 987	$ 356	$ 90	$ 2,873

(1) Includes accruing and nonaccrual loans past due 90 days or more.

The following displays collectively-evaluated loans by credit quality indicator. Impaired loans are not included.

June 30, 2022	Pass	Special Mention	Classified
Real Estate Construction			
Construction, 1-4 family residential	$ 17,791	$ -	$ -
Construction, other	51,621	312	-
Consumer Real Estate			
Equity lines	14,165	-	29
Residential closed-end first liens	115,558	-	377
Residential closed-end junior liens	2,189	-	-
Investor-owned residential real estate	84,043	-	594
Commercial Real Estate			
Multifamily residential real estate	113,938	-	-
Commercial real estate owner-occupied	131,560	-	-
Commercial real estate, other	174,548	-	-
Commercial Non Real Estate			
Commercial and industrial	52,045	-	14
Public Sector and IDA			
States and political subdivisions	49,856	-	-
Consumer Non Real Estate			
Credit cards	4,644	-	-
Automobile	10,411	-	-
Other consumer	19,762	-	8
Total	$ 842,131	$ 312	$ 1,022

December 31, 2021	Pass	Special Mention	Classified
Real Estate Construction			
Construction, 1-4 family residential	$ 10,008	$ -	$ -
Construction, other	38,833	-	-
Consumer Real Estate			
Equity lines	13,588	-	29
Residential closed-end first liens	106,107	-	275
Residential closed-end junior liens	2,715	-	-
Investor-owned residential real estate	85,460	-	612
Commercial Real Estate			
Multifamily residential real estate	106,644	-	-
Commercial real estate owner-occupied	125,605	-	35
Commercial real estate, other	164,324	3,728	-
Commercial Non-Real Estate			
Commercial and industrial	59,953	-	10
Public Sector and IDA			
States and political subdivisions	47,899	-	-
Consumer Non-Real Estate			
Credit cards	4,531	-	-
Automobile	10,990	-	3
Other consumer	16,402	-	100
Total	$ 793,059	$ 3,728	$ 1,064

Determination of risk ratings was completed for the portfolio as of June 30, 2022 and December 31, 2021.

Troubled Debt Restructurings

Total TDRs amounted to $5,809 at June 30, 2022, $5,878 at December 31, 2021, and $6,120 at June 30, 2021. All of the Company's TDR loans are fully funded and no further increase in credit is available.

TDRs Designated During the Reporting Period

The Company did not designate any new TDRs during the three or six month periods ended June 30, 2022. During the three months ended June 30, 2021 the Company designated two loans as a TDR. The restructurings re-amortized the loans and reduced the interest rates to provide cash flow relief. No principal or interest was forgiven. The impairment measurement at June 30, 2021 was based upon the collateral method and did not result in a specific allocation.

The following table presents restructurings by class that occurred during the three month period ended June 30, 2021.

	Restructurings That Occurred During the Three Months Ended June 30, 2021		
	Number of Contracts	Pre-Modification Outstanding Principal Balance	Post-Modification Outstanding Principal Balance
Commercial Real Estate			
Commercial real estate, other	2	$ 2,724	$ 2,724
Total	2	$ 2,724	$ 2,724

During the six months ended June 30, 2021 the Company designated three loans as a TDR. One loan was modified to shift the payment structure from interest-only to amortizing and reduce the interest rate to provide cash flow relief. Two loans were re-amortized at lower interest rates to provide cash flow relief. No principal or interest was forgiven. The impairment measurement for all three loans at June 30, 2021 was based upon the collateral method and did not result in a specific allocation.

The following table presents restructurings by class that occurred during the six month period ended June 30, 2021.

	Restructurings That Occurred During the Six Months Ended June 30, 2021		
	Number of Contracts	Pre-Modification Outstanding Principal Balance	Post-Modification Outstanding Principal Balance
Commercial Real Estate			
Commercial real estate owner-occupied	1	$ 102	$ 102
Commercial real estate, other	2	2,724	2,724
Total	3	$ 2,826	$ 2,826

Defaulted TDRs

The Company analyzed its TDR portfolio for loans that defaulted during the three and six month periods ended June 30, 2022 and June 30, 2021, and that were modified within 12 months prior to default. The Company designates three circumstances that indicate default: one or more payments that occur more than 90 days past the due date, charge-off, or foreclosure after the date of restructuring.

Of the Company's TDRs at June 30, 2022 and June 30, 2021, none of the defaulted TDRs were modified within 12 months prior to default. All of the defaulted TDRs were in nonaccrual status as of June 30, 2022 and June 30, 2021.

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.

	June 30, 2022			
	Amortized Costs	Gross Unrealized Gains	Gross Unrealized Losses	Fair Values
Available for Sale:				
U.S. Treasuries	**$ 990**	**$ -**	**$ 35**	**$ 955**
U.S. Government agencies and corporations	**369,410**	**152**	**35,141**	**334,421**
States and political subdivisions	**193,019**	**103**	**29,341**	**163,781**
Mortgage-backed securities	**183,047**	**27**	**5,894**	**177,180**
Corporate debt securities	**6,500**	**-**	**586**	**5,914**
Total securities available for sale	**$ 752,966**	**$ 282**	**$ 70,997**	**$ 682,251**

	December 31, 2021			
	Amortized Costs	Gross Unrealized Gains	Gross Unrealized Losses	Fair Values
Available for Sale:				
U.S. Government agencies and corporations	$ 279,934	$ 2,795	$ 4,710	$ 278,019
States and political subdivisions	195,365	5,314	2,007	198,672
Mortgage-backed securities	204,164	2,323	313	206,174
Corporate debt securities	3,004	248	37	3,215
Total securities available for sale	$ 682,467	$ 10,680	$ 7,067	$ 686,080

The amortized cost and fair value of single maturity securities available for sale at June 30, 2022, 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.

	June 30, 2022	
	Amortized Cost	Fair Value
Available for Sale:		
Due in one year or less	**$ 3,768**	**$ 3,745**
Due after one year through five years	**104,168**	**100,560**
Due after five years through ten years	**328,929**	**298,257**
Due after ten years	**316,101**	**279,689**
Total securities available for sale	**$ 752,966**	**$ 682,251**

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.

	June 30, 2022			
	Less Than 12 Months		12 Months or More	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Treasuries	**$ 955**	**$ 35**	**$ -**	**$ -**
U.S. Government agencies and corporations	**262,561**	**22,913**	**64,695**	**12,228**
States and political subdivisions	**120,556**	**20,031**	**32,812**	**9,310**
Mortgage-backed securities	**164,176**	**5,302**	**9,442**	**592**
Corporate debt securities	**5,914**	**586**	**-**	**-**
Total temporarily impaired securities	**$ 554,162**	**$ 48,867**	**$ 106,949**	**$ 22,130**

	December 31, 2021			
	Less Than 12 Months		12 Months or More	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Government agencies and corporations	$ 201,650	$ 3,530	$ 26,792	$ 1,180
States and political subdivisions	50,659	1,214	20,542	793
Mortgage-backed securities	13,139	141	4,665	172
Corporate debt securities	966	37	-	-
Total temporarily impaired securities	$ 266,414	$ 4,922	$ 51,999	$ 2,145

The Company has 579 securities with a fair value of $661,111 that are temporarily impaired at June 30, 2022. The total unrealized loss on these securities is $70,997. Of the temporarily impaired securities, 116 securities with a fair value of $106,949 and an unrealized loss of $22,130 have been in a continuous loss position for twelve months or more. The Company determined that these securities are temporarily impaired at June 30, 2022 for the reasons set out below.

U.S. Government agencies and corporations: Unrealized losses of $12,228 on 77 securities with a fair value of $64,695 were caused by interest rate and market fluctuations. The contractual terms of the investments do not permit the issuers to settle the securities at a price less than the cost basis of the investments. 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 securities to be other-than-temporarily impaired.

States and political subdivisions: The unrealized loss of $9,310 on state and political subdivision securities stemmed from 35 securities with a fair value of $32,812. The Company reviewed financial statements and cash flows for each of the securities in a 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 issuers to settle the securities at a price less than the cost basis of each 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 amortized cost basis, which may be at maturity, the Company does not consider the investments to be other-than-temporarily impaired.

Mortgage-backed securities: The unrealized loss of $592 on mortgage-backed securities stemmed from four securities with a fair value of $9,442. The unrealized loss was caused by interest rate and market fluctuations. 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 the investments and it is not likely that the Company will be required to sell the investments before recovery of its amortized cost basis, which may be at maturity, the Company does not consider the investments to be other-than-temporarily impaired.

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.

Restricted Stock.

The Company held restricted stock of $941 as of June 30, 2022 and $845 at December 31, 2021. Restricted stock is reported separately from available for sale securities. As a member bank of the Federal Reserve system and the Federal Home Loan Bank of Atlanta ("FHLB"), 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 correspondents provide calculations that require the Company purchase or sell stock back to the correspondents. 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 $630,515 at June 30, 2022. Management reviews for impairment based upon the ultimate recoverability of the cost basis of the FHLB stock, and at June 30, 2022, management did not determine any impairment.

Note 5: Defined Benefit Plan

Components of Net Periodic Benefit Cost:

	Pension Benefits Three Months Ended June 30, 2022	2021
Service cost	**$ 324**	$ 361
Interest cost	**204**	184
Expected return on plan assets	**(629)**	(555)
Amortization of prior service cost	**-**	(3)
Recognized net actuarial loss	**110**	208
Net periodic benefit cost	**$ 9**	$ 195

	Pension Benefits Six Months Ended June 30, 2022	2021
Service cost	**$ 648**	$ 722
Interest cost	**408**	368
Expected return on plan assets	**(1,258)**	(1,110)
Amortization of prior service cost	**-**	(6)
Recognized net actuarial loss	**220**	416
Net periodic benefit cost	**$ 18**	$ 390

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. For the six months ended June 30, 2022, the Company did not make a contribution to the defined benefit plan.

Note 6: 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. GAAP requires that valuation techniques maximize the use of the observable inputs and minimize the use of the unobservable inputs. 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,
- inputs other than quoted prices that are observable, 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 by quoted market prices. However, in many instances, there are no quoted market prices for the Company's various financial instruments. When 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, 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 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 consolidated financial statements:

Financial Instruments Measured at Fair Value on a Recurring Basis

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 of Richmond and Federal Home Loan Bank of Atlanta stock approximates fair value based upon the redemption provisions of each entity and is therefore excluded from the following tables. The following tables present the balances of financial assets measured at fair value on a recurring basis as of the dates indicated.

June 30, 2022

Description	Balance	Fair Value Measurements Using Level 1	Level 2	Level 3
U.S. Treasuries	**$ 955**	**$**	**$ 955**	**$**
U.S. Government agencies and corporations	**334,421**	**-**	**334,421**	**-**
States and political subdivisions	**163,781**	**-**	**163,781**	**-**
Mortgage-backed securities	**177,180**	**-**	**177,180**	**-**
Corporate debt securities	**5,914**	**-**	**5,914**	**-**
Total securities available for sale	**$ 682,251**	**$ -**	**$ 682,251**	**$ -**

December 31, 2021

Description	Balance	Fair Value Measurements Using Level 1	Level 2	Level 3
U.S. Government agencies and corporations	$ 278,019	$ -	$ 278,019	$ -
States and political subdivisions	198,672	-	198,672	-
Mortgage-backed securities	206,174	-	206,174	-
Corporate debt securities	3,215	-	3,215	-
Total securities available for sale	$ 686,080	$ -	$ 686,080	$ -

The Company's securities portfolio is valued using Level 2 inputs. The Company relies on an independent third party vendor to provide market valuations. The inputs used to determine value include: benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data including market research publications. The third party vendor also monitors market indicators, industry activity and economic events as part of the valuation process. Central to the final valuation is the assumption that the indicators used are representative of the fair value of securities held within the Company's portfolio. Level 2 inputs are subject to a certain degree of uncertainty and changes in these assumptions or methodologies in the future, if any, may impact securities fair value, deferred tax assets or liabilities, or expense.

Financial Instruments Measured at Fair Value on a Non-Recurring Basis

Certain financial instruments are measured at fair value on a nonrecurring basis in accordance with U.S. 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 June 30, 2022 or December 31, 2021.

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 may be measured using one of three methods. Each method falls within a different level of the fair value hierarchy. 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 TDR. Loans measured using the fair value of collateral may be categorized in Level 2 or Level 3.

Loans valued using the collateral method may be secured by real estate or business assets including equipment, inventory, and accounts receivable. Real estate collateral secures most loans and valuation is based upon the "as-is" value of independent appraisals or evaluations.

Appraisals are prepared by independent, licensed appraisers using observable market data analyzed through an income or sales valuation approach. Appraisals of less than 24 months of age result in Level 2 categorization. If a current appraisal cannot be obtained prior to a reporting date and an existing appraisal is discounted to estimate value, or if declines in value are identified after the date of the appraisal, or if an appraisal is discounted for estimated selling costs, or if the appraisal uses unobservable market data, the valuation of real estate collateral is categorized as Level 3. Loans valued using an independent real estate 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). If a current appraisal uses unobservable data as part of the assessment, the value of the collateral is classified as Level 3.

At June 30, 2022 and December 31, 2021, measurement of the Company's impaired loans did not result in any specific allocations.

Other Real Estate Owned

Certain assets such as other real estate owned ("OREO") are measured at fair value less cost to sell. Valuation of OREO 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 OREO that was measured at fair value on a nonrecurring basis.

Date	Description	Balance	Level 1	Level 2	Level 3
June 30, 2022	OREO, net of valuation allowance	**$ 957**	**$ -**	**$ -**	**$ 957**
December 31, 2021	OREO, net of valuation allowance	957	-	-	957

The following table presents information about OREO and Level 3 Fair Value Measurements for the dates indicated.

Date	Valuation Technique	Unobservable Input	Range (Weighted Average)
June 30, 2022	Discounted appraised value	Selling cost	**6.20%**[(1)]
December 31, 2021	Discounted appraised value	Selling cost	6.20%[(1)]

(1) As of June 30, 2022 and December 31, 2021, OREO was composed of a single property.

At June 30, 2022 and December 31, 2021, OREO was measured using appraised value, discounted by selling cost. Discounts for selling costs are recognized when the Company markets OREO properties via local realtors. The Company works with the realtor to determine the list price, which may be set at appraised value or at a different amount based on the realtor's advice and management's judgement of marketability. Selling costs for improved land generally are estimated at 6% of the list price, and for raw land at 10% of the list price. If the final sale price is different from the list price, the amount of selling costs will also be different from those estimated.

There is uncertainty in determining discounts to appraised value. Future changes to marketability assumptions or updated appraisals may indicate in a lower fair value, with a corresponding impact to net income. Ultimate proceeds from the sale of OREO property may be less than the estimated fair value, reducing net income.

Fair Value Summary

The following presents the recorded amount, fair value, and placement in the fair value hierarchy of the Company's financial instruments as of the dates indicated. Fair values are estimated using the exit price notion.

	June 30, 2022			
	Recorded Amount	**Level 1**	**Level 2**	**Level 3**
Financial Assets:				
Cash and due from banks	**$ 11,798**	**$ 11,798**	**$ -**	**$ -**
Interest-bearing deposits	**95,812**	**95,812**	**-**	**-**
Securities available for sale	**682,251**	**-**	**682,251**	**-**
Restricted securities	**941**	**-**	**941**	**-**
Loans held for sale	**488**	**-**	**488**	**-**
Loans, net	**840,745**	**-**	**-**	**797,363**
Accrued interest receivable	**5,506**	**-**	**5,506**	**-**
Bank-owned life insurance	**42,833**	**-**	**42,833**	**-**
Financial Liabilities:				
Deposits	**$ 1,577,831**	**$ -**	**$ 1,496,866**	**$ 73,452**
Accrued interest payable	**46**	**-**	**46**	**-**

	December 31, 2021			
	Recorded Amount	**Level 1**	**Level 2**	**Level 3**
Financial Assets:				
Cash and due from banks	$ 8,768	$ 8,768	$ -	$ -
Interest-bearing deposits	130,021	130,021	-	-
Securities available for sale	686,080	-	686,080	-
Restricted securities	845	-	845	-
Loans held for sale	615	-	615	-
Loans, net	795,574	-	-	791,335
Accrued interest receivable	5,104	-	5,104	-
Bank-owned life insurance	42,354	-	42,354	-
Financial Liabilities:				
Deposits	$ 1,494,587	$ -	$ 1,415,619	$ 79,115
Accrued interest payable	48	-	48	-

Note 7: Components of Accumulated Other Comprehensive Loss

The following tables provide information about components of accumulated other comprehensive loss as of the dates indicated:

	Net Unrealized Gain (Loss) on Securities	Adjustments Related to Pension Benefits	Accumulated Other Comprehensive Loss
Balance at March 31, 2021	**$** 854	$ (10,147)	$ (9,293)
Unrealized holding gain on available for sale securities, net of tax of $1,922	7,235	-	7,235
Balance at June 30, 2021	$ 8,089	$ (10,147)	$ (2,058)
Balance at March 31, 2022	$ (30,972)	$ (6,912)	$ (37,884)
Unrealized holding loss on available for sale securities, net of tax of ($6,617)	(24,893)	-	(24,893)
Balance at June 30, 2022	**$ (55,865)**	**$ (6,912)**	**$ (62,777)**

	Net Unrealized Gain (Loss) on Securities	Adjustments Related to Pension Benefits	Accumulated Other Comprehensive Income (Loss)
Balance at December 31, 2020	**$** 13,167	$ (10,147)	$ 3,020
Unrealized holding loss on available for sale securities, net of tax of ($1,349)	(5,074)	-	(5,074)
Reclassification adjustment, net of tax of ($1)	(4)	-	(4)
Balance at June 30, 2021	$ 8,089	$ (10,147)	$ (2,058)
Balance at December 31, 2021	$ 2,854	$ (6,912)	$ (4,058)
Unrealized holding loss on available for sale securities, net of tax of ($15,609)	(58,719)	-	(58,719)
Balance at June 30, 2022	**$ (55,865)**	**$ (6,912)**	**$ (62,777)**

Note 8: Revenue Recognition

Substantially all of the Company's revenue is generated 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 are recognized in accordance with ASC Topic 606, "Revenue from Contracts with Customers". 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 and MasterCard. Merchant services income mainly represents commission fees based upon merchant processing volume. 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 estates 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 and six months ended June 30, 2022 and June 30, 2021.

	Three Months Ended June 30,	
	2022	**2021**
Noninterest Income		
In-scope of Topic 606:		
Service charges on deposit accounts	**$ 603**	$ 471
Other service charges and fees	**51**	43
Credit and debit card fees, net	**535**	479
Trust income	**439**	434
Insurance and Investment (included within Other Income on the Consolidated Statements of Income)	**141**	141
Noninterest Income (in-scope of Topic 606)	**$ 1,769**	$ 1,568
Noninterest Income (out-of-scope of Topic 606)	**343**	373
Total noninterest income	**$ 2,112**	$ 1,941

	Six Months Ended June 30,	
	2022	**2021**
Noninterest Income		
In-scope of Topic 606:		
Service charges on deposit accounts	**$ 1,165**	$ 940
Other service charges and fees	**106**	84
Credit and debit card fees, net	**975**	913
Trust income	**882**	849
Insurance and Investment (included within Other Income on the Consolidated Statements of Income)	**348**	540
Noninterest Income (in-scope of Topic 606)	**$ 3,476**	$ 3,326
Noninterest Income (out-of-scope of Topic 606)	**927**	949
Total noninterest income	**$ 4,403**	$ 4,275

Note 9: Leases

The Company's leases are recorded under ASC Topic 842, "Leases". The Company examines its contracts to determine whether they are or contain a lease. A contract with a lease is further examined to determine whether the lease is a short-term, operating or finance lease. As permitted by ASC Topic 842, the Company elected not to capitalize short-term leases, defined by the standard as leases with terms of 12 months or less. The Company also elected the practical expedient not to separate non-lease components from lease components within a single contract.

Right-of-use assets and lease liabilities are recognized for operating and finance leases. 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 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.

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 12 months are included in the determination of the lease liability. Payments may be fixed for the term of the lease or variable. Variable payments result when the lease agreement includes a clause providing for escalation of lease payments at specified dates. If the escalation factor is known, 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. One of the Company's leases provides a known escalator that is 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 operating leases, three leases provide options to extend the lease term. Two of the leases have two options of five years each. At the time of capitalization, the Company was not reasonably certain whether it would exercise the options and did not include the optional time period in the calculation of the lease liability.

One of the leases has one option to extend the term for an additional five years. At the time of capitalization, the Company was not reasonably certain whether it would exercise the option and did not include the optional time period in the calculation of the lease liability. The Company exercised a previous option in 2020 that was included 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 for All Urban Consumers ("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 Company's lease right of use asset is included in other assets and the lease liability is included in other liabilities. The following tables present information about leases:

	June 30, 2022	December 31, 2021
Lease liability	**$ 1,453**	$ 1,558
Right-of-use asset	**$ 1,427**	$ 1,532
Weighted average remaining lease term	**5.83 years**	6.33 years
Weighted average discount rate	**3.20 %**	3.21%

	For the Three Months Ended June 30,	
	2022	2021
Lease Expense		
Operating lease expense	**$ 78**	$ 94
Short-term lease expense	**-**	-
Total lease expense	**$ 78**	$ 94
Cash paid for amounts included in lease liabilities	**$ 78**	$ 92
Right-of-use assets obtained in exchange for operating lease liabilities commencing during the period	**$ -**	$ -

	For the Six Months Ended June 30,	
	2022	2021
Lease Expense		
Operating lease expense	**$ 154**	$ 187
Short-term lease expense	**1**	1
Total lease expense	**$ 155**	$ 188
Cash paid for amounts included in lease liabilities	**$ 156**	$ 184
Right-of-use assets obtained in exchange for operating lease liabilities commencing during the period	**$ 25**	$ -

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

Undiscounted Cash Flow for the Period	As of June 30, 2022
Twelve months ending June 30, 2023	**$ 307**
Twelve months ending June 30, 2024	**295**
Twelve months ending June 30, 2025	**282**
Twelve months ending June 30, 2026	**219**
Twelve months ending June 30, 2027	**195**
Thereafter	**299**
Total undiscounted cash flows	**$ 1,597**
Less: discount	**(144)**
Lease liability	**$ 1,453**

The contracts in which the Company is lessee are with parties external to the company and not related parties.

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

The purpose of this discussion and analysis is to provide information about the financial condition and results of operations of the Company. Please refer to the financial statements and other information included in this report as well as the Company's 2021 Annual Report on Form 10-K for an understanding of the following discussion and analysis. References in the following discussion and analysis to "we" or "us" refer to the Company unless the context indicates that the reference is to the Bank.

Cautionary Statement Regarding Forward-Looking Statements

We make forward-looking statements in this Form 10-Q 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 and local 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, the Consumer Financial Protection Bureau and the Federal Deposit Insurance Corporation ("FDIC"), 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 market,
- 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 market,
- the real estate market in the Company's market,
- laws, regulations and policies impacting financial institutions,
- technological risks and developments, and cyber-threats, attacks or events,
- the Company's technology initiatives,
- performance by the Company's counterparties or vendors,
- applicable accounting principles, policies and guidelines,
- business disruption and/or impact due to the coronavirus or similar pandemic diseases, and
- the duration and severity of the COVID-19 pandemic, the uncertainty regarding new variants of COVID-19, the efficacy of vaccine and treatment developments, the impact of loosening or tightening of government restrictions, and the heightened impact it has on many of the risks described herein,
- geopolitical conditions, including acts or threats of terrorism and/or military conflicts, or actions taken by the U.S. or other governments in response to acts or threats of terrorism and/or military conflicts, negatively impacting business and economic conditions in the U.S. and abroad.

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.

Cybersecurity

The Company considers cybersecurity risk to be one of the greatest risks to its business. 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. The Company also requires assurances from key vendors regarding their cybersecurity.

We control functionalities of online and mobile banking to reduce risk. We do not offer online account openings or loan originations. We do not permit customers to submit address changes or wire requests through online banking, and we limit the dollar amount of online banking transfers to other banks. We require a special vetting process for commercial customers who wish to originate ACH transfers.

Further, 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 cost of these measures was $93 for the three months ended June 30, 2022 and $95 for the three months ended June 30, 2021. For the six months ended June 30, 2022 and June 30, 2021, the expense was $187 and $193 respectively. These costs are included in various categories of noninterest expense.

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. 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.

Response to COVID-19 Pandemic

The COVID-19 pandemic has affected the global economy since the first quarter of 2020. The Company has a robust business continuity plan, and partners with vendors whom we believe also have robust business continuity plans. In implementing its business continuity plan to address the COVID-19 pandemic, the Company has not incurred material expenditures and does not anticipate material expenditures. Further, all critical functions are cross-trained as part of our business continuity preparedness. Controls over cash and physical assets have remained in place and internal controls over financial reporting and disclosure have been maintained.

Critical Accounting Policies

General

The Company's consolidated financial statements are prepared in accordance with GAAP. The financial information contained within our statements is, to a significant extent, 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 satisfying a liability. Although the economics of the Company's transactions may not change, the timing of events that would impact the transactions could change.

Presented below is a discussion of accounting policies that are the most important to the portrayal and understanding of the Company's financial condition and results of operations. Critical accounting policies require management's most difficult, subjective, and complex judgments about matters that are inherently uncertain. If conditions occur that differ from our assumptions, depending upon the severity of such differences, the Company's financial condition or results of operations may be materially impacted. The Company evaluates its critical accounting estimates and assumptions on an ongoing basis and updates them as needed. There have been no changes since December 31, 2021. Please refer to the Company's 2021 Form 10-K, Note 1: Summary of Significant Accounting Policies for additional information on the Company's accounting policies.

Allowance for Loan Losses

The Company evaluates the allowance each quarter through a methodology that estimates losses on individual impaired loans and evaluates the effect of numerous factors on the credit risk of groups of homogeneous loans (collectively-evaluated loans).

Impaired loans

Impaired loans are identified through the Company's credit risk rating process. Generally, impaired loans have risk ratings that indicate higher risk, such as "classified" or "special mention." Nonaccrual loan relationships that meet the Company's balance threshold of $250 are designated impaired. The Company also designates as impaired other loan relationships that meet the Company's balance threshold of $250 and for which a credit review identified a weakness that indicates principal and interest will not be collected according to the loan terms. All TDRs, regardless of size or past due status, are designated impaired.

TDRs

Loan modifications are reviewed to determine whether, at the time of the modification, the borrower is experiencing financial difficulty and whether the Company provided a concession that it would not otherwise consider. Modified loans that meet this criteria are designated TDRs.

Individual evaluation

At the reporting date, the fair value of each impaired loan is estimated using either the cash flow method or the collateral method.

Cash flow method

The cash flow method is applied to loans that are not collateral dependent and for which cash flows may be estimated. The cash flow method measures fair value using assumptions specific to each loan, including expected amount and timing of cash flows and discount rate. For TDR loans, the discount rate is the rate immediately prior to the modification that resulted in a TDR. If an impaired loan evaluated under the cash flow method becomes 90 days or more 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.

Collateral method

The collateral method is applied to impaired loans that are collateral-dependent, for which foreclosure is imminent or for which non-collateral repayment sources are determined not to be available or reliable. Collateral may be in the form of real estate or business assets including equipment, inventory, and accounts receivable. Fair value is based upon the "as-is" value of independent appraisals or evaluations.

Impaired loans secured by residential 1-4 family properties with outstanding principal balances greater than $250 are valued using an appraisal. Appraisals are also used to value impaired loans secured by commercial real estate with outstanding principal balances greater than $500. 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 a real estate evaluation prepared by a third party.

Appraisals must conform to the Uniform Standards of Professional Appraisal Practice 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.

Evaluations are prepared by third party providers and reviewed by Company employees 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 pertinent economic conditions. Multiple sources of data contribute to the estimate of market value, including physical inspection, independent third-party automated tools, comparable sales analysis and local market information.

Updated appraisals or evaluations are ordered when a loan becomes impaired if the appraisal or evaluation on file is more than 24 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 is reduced by selling costs if recovery is expected solely from the sale of collateral.

Nonaccrual status of impaired loans

Nonaccrual status is applied to impaired loans that are not TDRs and for which fair value measurement indicates an impairment loss. Nonaccrual status is applied to TDRs that allow the borrower to discontinue payments of principal or interest for more than 90 days, unless the modification provides reasonable assurance of repayment performance and collateral value supports regular underwriting requirements. TDRs that maintain current status for at least a six-month period, including history prior to restructuring, may accrue interest. Impaired loans with partial charge-offs are maintained as impaired until the remaining balance is satisfied.

<u>Collectively evaluated loans</u>

Non-impaired loans are grouped by portfolio segments. Portfolio segments are further divided into smaller loan classes. Loans within a segment or class have similar risk characteristics. Credit loss on collectively-evaluated loans is estimated by applying to current class balances the class historical charge-off rates and percentages for qualitative factors that affect credit risk.

Qualitative 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 qualitative factor allocations are determined for pass-rated loans. To reflect the increased risk of criticized assets, qualitative factor allocations are multiplied by 150% for special mention loans, and multiplied by 200% for classified loans.

Loss rates

Loss rates are calculated for and applied to individual classes by averaging loss rates over the most recent eight quarters. 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"). Net charge-offs in both calculations include charge-offs and recoveries for all loans within the class, including classified and non-classified loans, as well as impaired and TDR loans. If the loss rate calculation results in a recovery, the loss rate applied is zero. Class historical loss rates are applied to collectively evaluated pass-rated loan balances and special mention rated loan balances, and classified historical loss rates are applied to collectively evaluated classified loan balances.

Qualitative factor allocations

The analysis of certain factors results in standard allocations to all classes. These factors include the risk from changes in lending policies, loan officers' experience, changes in loan review, and economic factors including local unemployment levels, local bankruptcy rates, interest rate environment, and competition/legal/regulatory environments. Standard allocations for residential vacancy rates and housing inventory are applied to residential construction, investor-owned residential real estate, multifamily loans, other commercial real estate, state and political subdivision loans and all classes within the consumer real estate segment.

Qualitative factors incorporate economic data targeted to the Company's market. If market–specific information is not available on a timely basis, regional or national information that historically shows a high degree of correlation to market data may be used.

Also applied to all segments and classes during 2021 was an economic factor implemented to address COVID-19 uncertainty: national unemployment filings. Local unemployment data lags the reporting date and the Company implemented analysis of national unemployment filings to capture current effects of the COVID-19 pandemic. Historical analysis determined that local unemployment filings were closely correlated to national unemployment filings. National unemployment filings returned to pre-pandemic levels during the fourth quarter of 2021 and no allocation was made during 2022.

Factors analyzed for each class, with resultant allocations based upon the level of risk assessed for each class, include 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. High risk loans include junior liens, interest only and high loan to value loans. High risk loans within each class are analyzed and allocated additional reserves based on current trends.

Nonaccrual status

The Company reviews loans with certain risk indicators to determine whether the loans should be placed on nonaccrual status, including loans that exceed 89 days past due, loans rated classified, and loans with a modification that provides relief from payments of interest or principle for more than 90 days.

Loans in nonaccrual are reviewed on an individual loan basis to determine whether they may return to accrual status. To return to accrual status, the Company's analysis must determine that 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.

Sales, purchases and reclassification of loans

The Company finances consumer real estate 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. Mortgages held for sale are not included in the calculation of the allowance for loan losses.

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.

<u>Unallocated Surplus</u>

In addition to funding the allowance for loan losses based upon data analysis, the Company has the option to fund an unallocated surplus in excess to the calculated requirement, based upon management judgement. The Company's policy permits an unallocated surplus of between 0% and 5% of the calculated requirement.

<u>Estimation of the allowance for loan losses</u>

The estimation of the allowance involves analysis of internal and external variables, methodologies, assumptions and management's 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, management's assessment of current economic conditions, and management's estimate of the impact of qualitative factors. These judgments are inherently subjective and 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 considered market conditions as of the reporting date where possible, and the most recent available information when data was not available as of the reporting date, portfolio conditions and levels of delinquencies at the reporting date, and net charge-offs in the eight quarters prior to the reporting date. For additional discussion of the allowance, see Note 3 to the consolidated financial statements and "Asset Quality," and "Provision and Allowance for Loan Losses" of Management's Discussion and Analysis.

Goodwill

Goodwill is subject to at least an annual assessment for impairment by applying a fair value based test. The Company contracts with a third party valuation expert to perform impairment testing in the fourth quarter of each year. The Company's most recent impairment test was performed using data from September 30, 2021. 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. The analysis did not result in an impairment.

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.

Pension Plan

The Company's actuary determines plan obligations and annual pension plan 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.

Overview

National Bankshares, Inc. 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 common stock is listed on the Nasdaq Capital Market and is traded under the symbol "NKSH."

NBI has two wholly-owned subsidiaries, the National Bank of Blacksburg and National Bankshares Financial Services, Inc. NBB is a community bank and does business as National Bank from 24 office locations and two loan production offices. NBB is the source of nearly all of the Company's revenue. 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.

Non-GAAP Financial Measures

This report refers to certain financial measures that are computed under a basis other than U.S. GAAP ("non-GAAP"). Details on non-GAAP measures follow.

Return on Average Assets and Return on Average Equity

The return on average assets and return on average equity are measures of profitability, calculated by annualizing net income and dividing by average year-to-date assets or equity, respectively. Larger nonrecurring income or expenses are not annualized, in order to reduce distortion within the ratios. There were no adjustments for the three months ended June 30, 2022 or 2021. The table below presents the reconciliation of adjusted annualized net income, which is not a measurement under U.S. GAAP, for the six month periods ended June 30, 2022 and 2021.

	Six months ended June 30,	
	2022	**2021**
Net Income	**$ 10,460**	$ 9,379
Items deemed non-recurring by management:		
Less: partnership income [1], net of tax of ($77) in 2022 and ($98) in 2021	**(290)**	(369)
Securities gains, net of tax of ($1) in 2021	**-**	(4)
Adjusted net income	**10,170**	9,006
Adjusted net income, annualized	**20,509**	18,161
Items deemed non-recurring by management:		
Add: partnership income, net of tax of $77 in 2022 and $98 in 2021	**290**	369
Add: securities gains, net of tax of $1 in 2021	**-**	4
Annualized net income for ratio calculation	**$ 20,799**	$ 18,534

(1) During the first quarter of each year, the Company adjusts its basis in partnership interests. During 2022 and 2021, the adjustment resulted in recognition of a gain. During 2022 and 2021, the Company also received a payout from a partnership

interest. The gain and payout are recognized in other income. Partnership income is removed from income prior to annualization in order to avoid distortion, and added back to income after annualization.

Net Interest Margin

The Company uses the net interest margin to measure profit on interest generating activities, as a percentage of total interest-earning assets. The net interest margin is calculated by dividing annualized taxable equivalent net interest income by total average earning assets. The portion of interest income that is nontaxable is grossed up to the tax equivalent by adding the tax benefit. 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 U.S. GAAP, to net interest income, is reflected in the table below.

	Three months ended June 30,	
	2022	**2021**
GAAP measures:		
Interest and fees on loans	**$ 8,324**	$ 8,466
Interest on interest-bearing deposits	**202**	39
Interest and dividends on securities - taxable	**2,949**	1,910
Interest on securities - nontaxable	**447**	482
Total interest income	**$ 11,922**	$ 10,897
Interest on deposits	**$ 647**	$ 834
Net interest income	**$ 11,275**	$ 10,063
Non-GAAP measures:		
Tax benefit on nontaxable loan income	**$ 79**	$ 78
Tax benefit on nontaxable securities income	**151**	160
Total tax benefit on nontaxable interest income	**$ 230**	$ 238
Total tax equivalent net interest income	**$ 11,505**	$ 10,301
Total tax equivalent net interest income, annualized	**$ 46,146**	$ 41,317

	Six months ended June 30,	
	2022	**2021**
GAAP measures:		
Interest and fees on loans	**$ 16,424**	$ 17,016
Interest on interest-bearing deposits	**251**	67
Interest and dividends on securities - taxable	**5,422**	3,693
Interest on securities - nontaxable	**875**	1,003
Total interest income	**$ 22,972**	$ 21,779
Interest on deposits	**$ 1,302**	$ 1,689
Net interest income	**$ 21,670**	$ 20,090
Non-GAAP measures:		
Tax benefit on nontaxable loan income	**$ 160**	$ 153
Tax benefit on nontaxable securities income	**297**	331
Total tax benefit on nontaxable interest income	**$ 457**	$ 484
Total tax equivalent net interest income	**$ 22,127**	$ 20,574
Total tax equivalent net interest income, annualized	**$ 44,621**	$ 41,489

Efficiency Ratio

The efficiency ratio is computed by dividing noninterest expense by the sum of net interest income on a tax-equivalent basis and noninterest income, excluding certain items management deems unusual or non-recurring. The tax rate used to calculate fully taxable equivalent basis is 21%. This is a non-GAAP financial measure that the Company believes provides investors with important information regarding operational efficiency. The components of the efficiency ratio calculation are summarized in the following table.

	Three months ended June 30,	
	2022	**2021**
Noninterest expense	**$ 6,311**	$ 6,447
Taxable-equivalent net interest income	**$ 11,505**	$ 10,301
Noninterest income	**2,112**	1,941
Total income for ratio calculation	**$ 13,617**	$ 12,242
Efficiency ratio	**46.35**%	52.66%

	Six months ended June 30,	
	2022	**2021**
Noninterest expense	**$ 12,924**	$ 12,983
Taxable-equivalent net interest income	**$ 22,127**	$ 20,574
Noninterest income	**4,403**	4,275
Less: partnership income	**(367)**	(467)
Less: realized securities gains	**-**	(5)
Total income for ratio calculation	**$ 26,163**	$ 24,377
Efficiency ratio	**49.40**%	53.26%

Performance Summary

The following table presents the Company's key performance ratios for the three months ended June 30, 2022 and June 30, 2021. Income and expense items are annualized for the ratios, except for basic and fully diluted earnings per share.

	Three Months Ended	
	June 30, 2022	**June 30, 2021**
Return on average assets [(1)]	**1.30 %**	1.15%
Return on average equity [(1)] [(2)]	**15.00 %**	9.77%
Basic and fully diluted earnings per share [(2)]	**$ 0.93**	$ 0.74
Net interest margin [(1)]	**2.75 %**	2.72%
Efficiency ratio [(1)]	**46.35 %**	52.66%

(1) Ratio is a non-GAAP financial measure that the Company believes provides investors with important information. Such information is not prepared in accordance with GAAP and should not be viewed as a substitute for GAAP. See "Non-GAAP Financial Measures" above.

(2) During the three months ended June 30, 2022, the Company repurchased 41,977 shares under its publicly announced stock repurchase plan. The repurchase reduced stockholders equity by $1,406. During the three months ended June 30, 2021, the Company repurchased 150,130 shares, reducing stockholders equity by $5,363.

The following table presents the Company's key performance ratios for the six months ended June 30, 2022 and June 30, 2021 and the year ended December 31, 2021. The measures for June 30, 2022 and June 30, 2021 are annualized, except for basic and fully diluted earnings per share.

	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021	Twelve Months Ended December 31, 2021
Return on average assets (1)	**1.22 %**	1.18%	1.26%
Return on average equity (1) (2)	**12.45 %**	9.63%	10.59%
Basic and fully diluted earnings per share (2)	**$ 1.74**	$ 1.49	$ 3.28
Net interest margin (1)	**2.70 %**	2.80%	2.81%
Efficiency ratio (1)	**49.40 %**	53.26%	51.34%

(1) Ratio is a non-GAAP financial measure that the Company believes provides investors with important information. Such information is not prepared in accordance with GAAP and should not be viewed as a substitute for GAAP. See "Non-GAAP Financial Measures" above.

(2) During the six months ended June 30, 2022, the Company repurchased 83,162 shares under its publicly announced stock repurchase plan. The repurchase reduced stockholders equity by $2,928. During the six months ended June 30, 2021, the Company repurchased 261,962 shares under its publicly announced stock repurchase plan. The repurchase reduced stockholders equity by $9,354.

Growth

NBI's key assets and liabilities and their change from December 31, 2021 are shown in the following table.

	June 30, 2022	December 31, 2021	Percent Change
Interest-bearing deposits	**$ 95,812**	$ 130,021	(26.31) %
Securities available for sale and restricted stock	**683,192**	686,925	(0.54) %
Loans, net	**840,745**	795,574	5.68 %
Deposits	**1,577,831**	1,494,587	5.57 %
Total assets	**1,729,588**	1,702,175	1.61 %

Asset Quality

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

	June 30, 2022	June 30, 2021	December 31, 2021
Nonperforming loans	**$ 2,979**	$ 3,822	$ 2,873
Loans past due 90 days or more, and still accruing	**7**	28	90
Other real estate owned	**957**	1,007	957
Allowance for loan losses to loans net of unearned income and deferred fees and costs	**0.95 %**	1.00%	0.96%
Net charge-off ratio	**0.01 %**	0.12%	0.05%
Ratio of nonperforming assets to loans, net of unearned income and deferred fees and costs, plus other real estate owned	**0.46 %**	0.60%	0.48%
Ratio of allowance for loan losses to nonperforming loans	**270.86 %**	211.33%	267.11%

The Company's risk analysis at June 30, 2022 determined an allowance for loan losses of $8,069 or 0.95% of loans net of unearned income and deferred fees and costs. The allowance at June 30, 2021 was $8,077 or 1.00% of loans net of unearned income and deferred fees and costs. The allowance at December 31, 2021 was $7,674 or 0.96% of loans net of unearned income and deferred fees and costs. The determination of the appropriate level for the allowance for loan losses resulted in a provision of $444 for the six months ended June 30, 2022, compared with a provision of $54 for the six month period ended June 30, 2021, and a recovery of $398 for the 12 months ended December 31, 2021. 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

Individually evaluated impaired loans at June 30, 2022 were $5,809 gross and $5,810 net of unearned income and deferred fees and costs. There were no specific allocations to the allowance for loan losses at June 30, 2022. Individually evaluated impaired loans at December 31, 2021 were $5,878 gross and $5,880 net of unearned income and deferred fees and costs. There were no specific allocations to the allowance for loan losses as of December 31, 2021. The specific allocation is determined based on criteria particular to each impaired loan.

Collectively Evaluated Loans

Collectively evaluated loans totaled $843,465 gross and $843,004 net of unearned income and deferred fees and costs, with an allowance of $8,069 or 0.96% of collectively-evaluated loans net of unearned income and deferred fees and costs at June 30, 2022. At December 31, 2021, collectively evaluated loans totaled $797,851 gross and $797,368 net of unearned income and deferred fees and costs, with an allowance of $7,674 or 0.96% of collectively-evaluated loans net of unearned income and deferred fees and costs.

Collectively evaluated loans are divided into classes based upon risk characteristics. In order to calculate the allowance for collectively evaluated loans, the Company applies to each loan class a historical net charge-off rate for the class, 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 changes to internal Company policies and changes in management.

Net Charge-Offs

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. On a portfolio level, net charge-offs were $49 for the six months ended June 30, 2022, or 0.01% of average loans. For the six months ended June 30, 2021, net charge-offs were $458, or 0.12% of average loans. For the 12 months ended December 31, 2021, net charge-offs were $409 or 0.05% of average loans. The 8-quarter average historical loss rate was 0.03% for the six months ended June 30, 2022 and 0.07% for the six months ended June 30, 2021, and 0.05% for the 12 months ended December 31, 2021.

Economic Factors

Economic factors influence credit risk and impact the allowance for loan loss. The Company sources economic data pertinent to its market from the most recently available publications, including: unemployment, business and personal bankruptcy filings, the residential vacancy rate and the inventory of new and existing homes.

As of June 30, 2022, the unemployment rate for the Company's market area was measured as of April 30, 2022 and increased slightly from the measurement available at December 31, 2021, increasing the allocation to the allowance for loan losses.

Business and personal bankruptcy filing data was available as of March 2022. 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. Compared with data available at December 31, 2021, business bankruptcy filings and personal bankruptcy filings slightly decreased. The Company estimates that bankruptcy filings are artificially low due to a backlog in the court system and prolonged government aid. When the pandemic began, precautions for COVID-19 slowed the work of the court system. The federal government also implemented a foreclosure moratorium, provided direct payments to qualifying recipients and PPP loans to small businesses, and encouraged banks to work with borrowers who were impacted by the pandemic, all of which had a minimizing effect on bankruptcy filings. All of these measures expired by the end of 2021. Management believes bankruptcy filings will normalize and currently available data does not reflect credit risk. The allocation was based on an average of pre-pandemic filings from 2017 through 2020, which was higher than the current reported level and the level incorporated to the allowance at December 31, 2021.

Residential vacancy rates and housing inventory impact the Company's residential construction customers and the consumer real estate market. Higher levels increase credit risk. The residential vacancy rate at June 30, 2022 was measured as of the first quarter of 2022 and improved from the data incorporated into the December 31, 2021 calculation, resulting in a lower allocation. Housing inventory data was available as of June 30, 2022. The level is slightly higher than at December 31, 2021, resulting in a higher allocation.

Asset Quality Indicators

Asset quality indicators, including past due levels, nonaccrual levels and internal risk ratings, are evaluated at the class level. Loans past due and loans designated nonaccrual indicate heightened credit risk. Increases in past due and nonaccrual loans increase the required level of the allowance for loan losses and decreases in past due and nonaccrual loans reduce the required level of the allowance for loan losses.

Accruing loans past due 30-89 days were 0.10% of total loans net of unearned income and deferred fees and costs at June 30, 2022, a decrease from 0.12% at December 31, 2021. Accruing loans past due 90 days or more were 0.00% of total loans, net of unearned income and deferred fees and costs at June 30, 2022, compared with 0.01% at December 31, 2021. Nonaccrual loans as a percentage of total loans net of unearned income and deferred fees and costs were 0.35% at June 30, 2022 and 0.36% at December 31, 2021.

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. Collectively evaluated loans rated special mention at June 30, 2022 were $312, compared with $3,728 at December 31, 2021, due to credit quality improvement in a large relationship. Collectively evaluated loans rated classified were $1,022 at June 30, 2022 and $1,064 at December 31, 2021.

Other Factors

The Company considers other factors that impact credit risk, including the interest rate environment, the competitive, legal and regulatory environments, changes in lending policies and loan review, changes in management, and high risk loans.

The interest rate environment impacts variable rate loans. When interest rates increase, the payment on variable rate loans increases, which may increase credit risk. The Federal Reserve increased the target Fed Funds rate in March, May and June 2022, resulting in an increased allocation for June 30, 2022, compared with the allocation for December 31, 2021.

The competitive, legal and regulatory environments were evaluated for changes that would impact credit risk. Higher competition for loans increases credit risk, while lower competition decreases credit risk. Competition remained at similar levels to those at December 31, 2021. The legal and regulatory environments remain in a similar posture to that at December 31, 2021.

Lending policies, loan review procedures and management's experience influence credit risk. Lending policies changed to adjust appraisal requirements on residential real estate, resulting in an increased allocation. Loan review procedures remained similar to those at December 31, 2021 and no allocation was taken. During the first quarter of 2022, the Company filled the Chief Credit Officer position vacated during the last quarter of 2021, resulting in a slightly reduced allocation compared with December 31, 2021.

Levels of high risk loans are considered in the determination of the level of the allowance for loan loss. 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 increased $11,668 or 12.95% from the level at December 31, 2021, resulting in an increased allocation.

Unallocated Surplus

The unallocated surplus at June 30, 2022 is $179 or 2.27% in excess of the calculated requirement. The unallocated surplus at December 31, 2021 was $361 or 4.94% in excess of the calculated requirement. The surplus provides some mitigation of current economic uncertainty that may impact credit risk.

Conclusion

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 Company augmented the calculated requirement with an unallocated surplus. 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 as of June 30, 2022.

Other Real Estate Owned

The following table discloses the OREO in physical possession and in process at each reporting date:

Other Real Estate Owned(1)	**June 30, 2022**	**December 31, 2021**
Real estate construction	**$ 957**	$ 957
Consumer real estate	**-**	-
Total other real estate owned	**$ 957**	$ 957

(1) Net of valuation allowance.

As of June 30, 2022, loans in various stages of foreclosure totaled $224, all of which are secured by residential real estate. Loans currently in the process of foreclosure may increase OREO in future quarters. It is not possible to accurately predict the future total of OREO because property sold at foreclosure may be acquired by third parties and OREO properties are regularly marketed and sold.

The Company continues to monitor risk levels within the loan portfolio. If the Company's market experiences an economic downturn, real estate values could decline and foreclosure activity could increase. A decline in value may result in loss recognition for OREO, while an increase in foreclosures may increase the number of OREO properties.

Modifications and TDRs

Modifications

In the ordinary course of business the Company modifies loan terms on a case-by-case basis for a variety of reasons. Modifications may include rate reductions, payment extensions of varying lengths of time, a change in amortization term or method or other arrangements. Please refer to the Company's 2021 Form 10-K, Note 1: Summary of Significant Accounting Policies for information on TDR designation. 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.

Modifications to consumer loans generally involve short-term payment extensions to accommodate specific, temporary circumstances. Payment extensions provide short-term payment relief to borrowers who have demonstrated a willingness and ability to repay their loan but who are experiencing consequences of a specific unforeseen temporary hardship. 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 extension period 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. The Company codes modifications to assist in identifying TDRs.

Modifications That Are Not TDR

During the three months ended June 30, 2022, the Company provided 230 modifications for competitive reasons to loans totaling \$34,776. During the six months ended June 30, 2022, the Company provided 465 modifications to loans totaling \$73,958. The modifications were not TDRs and were not related to COVID-19. For the three months ended June 30, 2021, the Company provided non-TDR modifications for competitive reasons to 210 loans totaling \$19,595, and during the six months ended June 30, 2021, provided modifications to 454 loans totaling \$47,573 for competitive reasons. During six months ended June 30, 2021, the Company also provided 42 modifications to loans totaling \$38,471 related to COVID-19 difficulty. The modifications met the criteria under the CARES Act, the CAA and regulatory guidance and were not designated as TDRs.

TDRs

The Company's TDRs, by delinquency status, are presented below:

	TDR Status as of June 30, 2022				
		Accruing			
	Total TDR Loans	**Current**	**30-89 Days Past Due**	**90+ Days Past Due**	**Nonaccrual**
Consumer real estate	**$ 188**	**$ 188**	**$ -**	**$ -**	**$ -**
Commercial real estate	**5,342**	**2,810**	**-**	**-**	**2,532**
Commercial non-real estate	**279**	**-**	**-**	**-**	**279**
Total TDR Loans	**$ 5,809**	**$ 2,998**	**$ -**	**$ -**	**$ 2,811**

	TDR Status as of December 31, 2021				
		Accruing			
	Total TDR Loans	**Current**	**30-89 Days Past Due**	**90+ Days Past Due**	**Nonaccrual**
Consumer real estate	$ 191	$ 191	$ -	$ -	$ -
Commercial real estate	5,386	2,814	-	-	2,572
Commercial non-real estate	301	-	-	-	301
Total TDR Loans	$ 5,878	$ 3,005	$ -	$ -	$ 2,873

Please refer to Note 3: Allowance for Loan Losses, Nonperforming Assets and Impaired Loans for information on TDRs.

<u>Net Interest Income</u>

The following table shows the major categories of interest-earning assets and interest-bearing liabilities, the interest earned or paid, the average yield or rate on the daily average balance outstanding, net interest income and net yield on average interest-earning assets for the periods indicated.

	Three Months Ended					
	June 30, 2022			June 30, 2021		
	Average Balance	Interest	Average Yield/Rate	Average Balance	Interest	Average Yield/Rate
Interest-earning assets:						
Loans [1][2][4][5]	**$ 833,270**	**$ 8,403**	**4.04 %**	$ 790,533	$ 8,544	4.34 %
Taxable securities [6][7]	**676,064**	**2,949**	**1.75 %**	505,784	1,910	1.51 %
Nontaxable securities [1][6]	**76,061**	**598**	**3.15 %**	80,329	642	3.21 %
Interest-bearing deposits	**90,606**	**202**	**0.89 %**	143,812	39	0.11 %
Total interest-earning assets	**$ 1,676,001**	**$ 12,152**	**2.91 %**	$ 1,520,458	$ 11,135	2.94 %
Interest-bearing liabilities:						
Interest-bearing demand deposits	**$ 912,036**	**$ 573**	**0.25 %**	$ 795,934	$ 718	0.36 %
Savings deposits	**219,464**	**37**	**0.07 %**	189,560	44	0.09 %
Time deposits	**83,753**	**37**	**0.18 %**	89,564	72	0.32 %
Total interest-bearing liabilities	**$ 1,215,253**	**$ 647**	**0.21 %**	$ 1,075,058	$ 834	0.31 %
Net interest income and interest rate spread		**$ 11,505**	**2.70 %**		$ 10,301	2.63 %
Net yield on average interest-earning assets			**2.75 %**			2.72 %

	Six Months Ended					
	June 30, 2022			June 30, 2021		
	Average Balance	Interest	Average Yield/Rate	Average Balance	Interest	Average Yield/Rate
Interest-earning assets:						
Loans [1][3][4][5]	**$ 818,564**	**$ 16,584**	**4.09 %**	$ 780,415	$ 17,169	4.44 %
Taxable securities [6][7]	**652,319**	**5,422**	**1.68 %**	486,978	3,693	1.53 %
Nontaxable securities [1][6]	**76,383**	**1,172**	**3.09 %**	81,357	1,334	3.31 %
Interest-bearing deposits	**102,365**	**251**	**0.49 %**	131,629	67	0.10 %
Total interest-earning assets	**$ 1,649,631**	**$ 23,429**	**2.86 %**	$ 1,480,379	$ 22,263	3.03 %
Interest-bearing liabilities:						
Interest-bearing demand deposits	**$ 899,502**	**$ 1,153**	**0.26 %**	$ 779,321	$ 1,436	0.37 %
Savings deposits	**216,210**	**75**	**0.07 %**	182,121	91	0.10 %
Time deposits	**80,887**	**74**	**0.18 %**	88,837	162	0.37 %
Total interest-bearing liabilities	**$ 1,196,599**	**$ 1,302**	**0.22 %**	$ 1,050,279	$ 1,689	0.32 %
Net interest income and interest rate spread		**$ 22,127**	**2.64 %**		$ 20,574	2.71 %
Net yield on average interest-earning assets			**2.70 %**			2.80 %

(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 $25 for the three months ended June 30, 2022. For the three months ended June 30, 2021, interest income included loan fees $386, of which $344 was related to PPP loans.
(3) Included in interest income are loan fees of $113 for the six months ended June 30, 2022. For the six months ended June 30, 2021, interest income included loan fees of $944, of which $894 was related to PPP loans.
(4) Nonaccrual loans are included in average balances for yield computations.
(5) Includes loans held for sale.
(6) Daily averages are shown at amortized cost.
(7) Includes restricted stock.

Yields on taxable securities and interest-bearing deposits increased when both the three and six month periods ended June 30, 2022 are compared with the comparable periods of 2021, driven by Federal Reserve rate increases during 2022. Deposit costs fell when the three and six month periods ended June 30, 2022 are compared with the comparable periods of 2021. High levels of deposits and liquidity helped to manage pricing pressure.

Loan yields decreased when the three and six month periods ended June 30, 2022 are compared with the comparable periods of 2021, primarily due to interest and fee income on PPP loans that totaled $442 during the three months ended June 30, 2021 and $1,093 during the six months ended June 30, 2021. This compares with $1 for the three months ended June 30, 2022 and $43 for the six months ended June 30, 2022. If PPP loans and their income are excluded, loan yields for 2021 would be 4.32% for the three months ended and 4.37% for the six months ended June 30 2021. The net interest margin would have been 2.60% for the three months ended June 30, 2021 and 2.66% for the six months ended June 30, 2021. PPP fees have been fully recognized as of June 30, 2022.

Provision and Allowance for Loan Losses

The calculation of the allowance for loan losses resulted in a provision for loan losses of $310 for the three month period ended June 30, 2022, compared with $4 for the three month period ended June 30, 2021. The provision for the six month period ended June 30, 2022 was $444, compared with $54 for the six months ended June 30, 2021. The increase in provision reflects loan growth from June 30, 2021 to June 30, 2022 and changes in factors detailed in “Asset Quality” above.

Noninterest Income

	Three Months Ended		
	June 30, 2022	June 30, 2021	**Percent Change**
Service charges on deposits	**$ 603**	$ 471	**28.03 %**
Other service charges and fees	**51**	43	**18.60 %**
Credit and debit card fees, net	**535**	479	**11.69 %**
Trust fees	**439**	434	**1.15 %**
BOLI income	**241**	210	**14.76 %**
Gain on sale of mortgage loans	**35**	74	**(52.70) %**
Other income	**208**	230	**(9.57) %**
Total noninterest income	**$ 2,112**	$ 1,941	**8.81 %**

	Six Months Ended		
	June 30, 2022	June 30, 2021	**Percent Change**
Service charges on deposits	**$ 1,165**	$ 940	**23.94 %**
Other service charges and fees	**106**	84	**26.19 %**
Credit and debit card fees, net	**975**	913	**6.79 %**
Trust fees	**882**	849	**3.89 %**
BOLI income	**479**	416	**15.14 %**
Gain on sale of mortgage loans	**96**	211	**(54.50) %**
Other income	**700**	857	**(18.32) %**
Realized securities gain, net	**-**	5	**(100.00) %**
Total noninterest income	**$ 4,403**	$ 4,275	**2.99 %**

Service charges on deposits increased when the three and six month periods ended June 30, 2022 are compared with the same periods ended June 30, 2021, due to increased non-sufficient funds and overdraft fee income.

Other service charges and fees increased when the three and six month periods ended June 30, 2022 are compared with the same periods ended June 30, 2021, due to higher service charges on letters of credit and safe deposit box fee income.

Credit and debit card fees are presented net of interchange expense. Credit and debit card fees increased for the three and six month periods ended June 30, 2022, compared with the same periods last year, due to increased volume.

Income from trust fees increased for the three and six month periods ended June 30, 2022, when compared with the same periods ended June 30, 2021. Trust income varies depending on the total assets held in trust accounts, the type of accounts under management and financial market conditions.

BOLI income increased when the three and six month periods ended June 30, 2022 and June 30, 2021 are compared. The Company purchased an additional $5 million in BOLI investments during June, 2021.

Gain on sale of mortgage loans decreased when the three and six month periods ended June 30, 2022 and June 30, 2021 are compared. The Federal Reserve interest rate increases in 2022 have cooled real estate refinance and purchase financing activity.

Other income includes revenue from investment and insurance sales, adjustments to partnership basis and other miscellaneous components. These areas fluctuate with market conditions and competitive factors. Other income decreased for the three and six month periods ended June 30, 2022 when compared with the same periods ended June 30, 2021 due to decreased commissions on securities sales and decreased dividends on a partnership investment.

Noninterest Expense

	Three Months Ended		
	June 30, 2022	**June 30, 2021**	**Percent Change**
Salaries and employee benefits	**$ 4,011**	$ 3,952	**1.49 %**
Occupancy, furniture and fixtures	**464**	443	**4.74 %**
Data processing and ATM	**793**	786	**0.89 %**
FDIC assessment	**111**	93	**19.35 %**
Net costs of other real estate owned	**-**	1	**(100.00)%**
Franchise taxes	**371**	357	**3.92 %**
Other operating expenses	**561**	815	**(31.17)%**
Total noninterest expense	$ **6,311**	$ 6,447	**(2.11)%**

	Six Months Ended		
	June 30, 2022	**June 30, 2021**	**Percent Change**
Salaries and employee benefits	**$ 7,989**	$ 7,858	**1.67 %**
Occupancy, furniture and fixtures	**956**	931	**2.69 %**
Data processing and ATM	**1,580**	1,564	**1.02 %**
FDIC assessment	**222**	176	**26.14 %**
Net costs of other real estate owned	**10**	38	**(73.68)%**
Franchise taxes	**733**	692	**5.92 %**
Other operating expenses	**1,434**	1,724	**(16.82)%**
Total noninterest expense	$ **12,924**	$ 12,983	**(0.45)%**

Salaries and employee benefits includes employee salaries, payroll taxes, insurance and fringe benefits, ESOP contribution accruals, the service component of net periodic pension cost, and salary continuation expenses. The expense increased slightly when the three and six month periods ended June 30, 2022 are compared with the same periods ended June 30, 2021. Lower pension expense was offset by normal increases in salary expense and higher salary continuation expense.

Federal Deposit Insurance ("FDIC") assessment expense increased when the three and six month periods ended June 30, 2022 are compared with the same periods of 2021. 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.

Franchise tax expense increased when the three and six month periods ended June 30, 2022 and June 30, 2021 are compared. Franchise tax is primarily based on capital levels of the subsidiary bank, and is also affected by investment levels in securities issued by U.S. government agencies.

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 when the three and six month periods ended June 30, 2022 are compared with the same periods ended June 30, 2021, due to lower non-service pension cost and cost control measures.

Income Tax

Income tax expense was $1,192 for the three months ended June 30, 2022 and $940 for the same period of 2021. For the six months ended June 30, 2022 and 2021, income tax expense was $2,245 and $1,949 respectively. The Company's federal statutory tax rate is 21%. The Company's effective tax rate was 17.62% and 17.67% for the three and six month periods ended June 30, 2022, compared with 16.93% and 17.21% for the three and six month periods ended June 30, 2021.

Balance Sheet

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

Assets		June 30, 2022		December 31, 2021	Percent Change
Interest-bearing deposits	**$**	**102,365**	$	133,020	**(23.05)%**
Securities available for sale and restricted stock		**697,759**		612,636	**13.89 %**
Loans, net of unearned income and deferred fees and costs and the allowance for loan losses		**810,643**		778,920	**4.07 %**
Total assets		**1,711,248**		1,618,642	**5.72 %**
Liabilities and stockholders' equity					
Noninterest-bearing demand deposits	**$**	**331,524**	$	316,976	**4.59 %**
Interest-bearing demand deposits		**899,502**		811,661	**10.82 %**
Savings deposits		**216,210**		190,997	**13.20 %**
Time deposits		**80,887**		86,089	**(6.04)%**
Stockholders' equity		**167,072**		192,545	**(13.23)%**

The decline in interest-bearing deposits resulted as the Company invested in securities and loans to increase yields. The decline in stockholders' equity resulted from the unrealized loss in the fair value of securities. Changes in securities, loans and deposits are discussed below.

Securities

		June 30, 2022		December 31, 2021	Percent Change
Amortized cost	**$**	**752,966**	$	682,467	**10.33 %**
Unrealized gain (loss)		**(70,715)**		3,613	**NR %**
Securities available for sale	**$**	**682,251**	$	686,080	**(0.56)%**

Securities available for sale are measured at fair value as of each reporting date. During the six months ended June 30, 2022, purchases of securities resulted in an increase of $70,499 in the amortized cost of securities available for sale, while unrealized losses decreased the fair value from December 31, 2021 by $74,328. Change in the fair value of bonds is inversely related to interest rate movement. Increases during 2022 in the Federal Reserve's target interest rate, as well as expected future increases, contributed to the decline in fair value of the securities portfolio. While we do not expect significant changes in future judgements or methodologies used to determine the fair value of the securities portfolio, future rate increases or market volatility could impact the value of securities. The Company's liquidity position is strong and the Company does not intend to sell securities in an unrealized loss position. 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

	June 30, 2022	December 31, 2021	Percent Change
Real estate construction loans	**$ 69,724**	$ 48,841	**42.76 %**
Consumer real estate loans	**217,143**	208,977	**3.91 %**
Commercial real estate loans	**425,388**	405,722	**4.85 %**
Commercial non real estate loans	**52,338**	60,264	**(13.15) %**
Public sector and IDA	**49,856**	47,899	**4.09 %**
Consumer non real estate	**34,825**	32,026	**8.74 %**
Less: unearned income and deferred fees and costs	**(460)**	(481)	**4.37 %**
Loans, net of unearned income and deferred fees and costs	**$ 848,814**	$ 803,248	**5.67 %**

Loan demand continues to provide growth. Approximately half of the increase in construction loans is due to investment in participations with other banks.

Deposits

	June 30, 2022	December 31, 2021	Percent Change
Noninterest-bearing demand deposits	**$ 334,576**	$ 317,430	**5.40 %**
Interest-bearing demand deposits	**943,574**	890,124	**6.00 %**
Saving deposits	**218,716**	208,065	**5.12 %**
Time deposits	**80,965**	78,968	**2.53 %**
Total deposits	**$ 1,577,831**	$ 1,494,587	**5.57 %**

Total deposits increased from December 31, 2021 to June 30, 2022. The increase is due in large part to government stimulus funds received by municipal depositors and other depositors. 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 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 FHLB advances. At June 30, 2022, the Bank did not have any borrowings. 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. 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 June 30, 2022, 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. The Company's liquidity position has benefitted over the past two years from increased customer deposits fueled by federal stimulus payments for COVID-19 pandemic relief. At June 30, 2022, 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 June 30, 2022, 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 internally-set target range. At June 30, 2022, the loan to deposit ratio was 53.80%. 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 June 30, 2022 was $136,240, a decrease of $55,511 or 28.95%, from the $191,751 at December 31, 2021. Book value declined from $31.62 at December 31, 2021 to $22.78 at June 30, 2022. The decline in stockholders equity and book value is due to worsening of accumulated other comprehensive loss associated with the unrealized loss in fair value of securities. Accumulated other comprehensive loss is excluded from regulatory capital calculations and does not impact regulatory capital requirements or ratios.

The Company qualifies as a small bank holding company under the Federal Reserve's Small Bank Holding Company Policy Statement, which exempts bank holding companies with less than $3 billion in assets from reporting consolidated regulatory capital ratios and from minimum regulatory capital requirements. NBB is subject to various capital requirements administered by banking agencies, including an additional capital conservation buffer in order to make capital distributions or discretionary bonus payments. Risk-based capital ratios are calculated in compliance with OCC rules based on the Basel III Capital Rules. The Bank's ratios are well above the required minimums. 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	**17.26**%	4.50%	7.00 %
Tier I Capital Ratio	**17.26**%	6.00%	8.50 %
Total Capital Ratio	**18.00**%	8.00%	10.50 %
Leverage Ratio	**10.92**%	4.00%	4.00 %

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 June 30, 2022. 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 or six months ended June 30, 2022.

Contractual Obligations

The Company had no finance lease or purchase obligations and no long-term debt at June 30, 2022.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

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 June 30, 2022 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 June 30, 2022 that have materially affected, or are reasonably likely to materially affect, the Company'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 2021 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 six months ended June 30, 2022 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)
April 1, 2022 – April 30, 2022	4,100	$ 34.93	4,100	848,594
May 1, 2022 – May 31, 2022	25,508	33.78	25,508	823,086
June 1, 2022 – June 30, 2022	12,369	32.47	12,369	237,631
Total during second quarter 2022	41,977	$ 33.51	41,977	

(1) In May 2021, the Company announced the Board of Directors had authorized a 1,000,000 share repurchase program. The authorization began June 1, 2021 and expired May 31, 2022. In May 2022, the Company announced the Board of Directors had authorized a 250,000 share repurchase program. The authorization began June 1, 2022 and expires May 31, 2023. 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	
3(i)	Amended and Restated Articles of Incorporation of National Bankshares, Inc.	(incorporated herein by reference to Exhibit 3.1 of the Form 8-K for filed on March 16, 2006)
3(ii)	Amended and Restated Bylaws of National Bankshares, Inc.	(incorporated herein by reference to Exhibit 3(ii) of the Form 8-K filed on April 14, 2021)
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 10-K for fiscal year ended December 31, 1993)
+31(i)	Section 302 Certification of Chief Executive Officer	Filed herewith
+31(ii)	Section 302 Certification of Chief Financial Officer	Filed herewith
+32(i)	18 U.S.C. Section 1350 Certification of Chief Executive Officer	Filed herewith
+32(ii)	18 U.S.C. Section 1350 Certification of Chief Financial Officer	Filed herewith
+101	The following materials from National Bankshares, Inc.'s Quarterly Report on Form 10-Q for the period ended June 30, 2022 are formatted in iXBRL (Inline Extensible Business Reporting Language), furnished herewith: (i) Consolidated Balance Sheets at June 30, 2022 and December 31, 2021; (ii) Consolidated Statements of Income for the three and six month periods ended June 30, 2022 and 2021; (iii) Consolidated Statements of Comprehensive (Loss) Income for the three and six month periods ended June 30, 2022 and 2021; (iv) Consolidated Statements of Changes in Stockholders' Equity for the three and six months ended June 30, 2022 and 2021; (v) Consolidated Statements of Cash Flows for the six months ended June 30, 2022 and 2021; and (vi) Notes to Consolidated Financial Statements.	Filed herewith
104	Cover Page Interactive Data File (formatted in Inline XBRL and contained in Exhibit 101)	Filed herewith

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: August 10, 2022	/s/ F. Brad Denardo By: F. Brad Denardo Chairman, President and Chief Executive Officer (Principal Executive Officer)
Date: August 10, 2022	/s/ Lora M. Jones By: Lora M. Jones 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: August 10, 2022

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

Exhibit 31(ii)

CERTIFICATIONS

I, Lora M. Jones, 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: August 10, 2022

/s/ Lora M. Jones

Lora M. Jones
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 June 30, 2022, I, F. Brad Denardo, Chairman, 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 June 30, 2022, 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 June 30, 2022, fairly presents, in all material respects, the financial condition and results of operations of National Bankshares, Inc.

/s/ F. Brad Denardo
F. Brad Denardo
Chairman, President and Chief Executive Officer
(Principal Executive Officer)
August 10, 2022

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 June 30, 2022, I, Lora M. Jones, 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 June 30, 2022, 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 June 30, 2022, fairly presents, in all material respects, the financial condition and results of operations of National Bankshares, Inc.

/s/ Lora M. Jones
Lora M. Jones
Treasurer and
Chief Financial Officer
(Principal Financial Officer)
August 10, 2022