# + Company Note

# National Bankshares Inc.

**BANK** 

**NASDAQ: NKSH - \$39.70** 

**RATING: BUY** 12-Month Price Target: \$46.00

## February 26, 2018

MARKET DATA	
Market Cap.	\$277.9 Mil.
52-Week High	\$47.70
Price/Book	149%
Price/Tang. Book	154%
52-Week Low	\$36.05
3-Mo. Avg. Daily Volume	7,119
Dividend Yield	2.95%
Total Assets	\$1.3 Bil.
ROE	6.53%
ROTE	6.60%
Shares Outstanding (Mil)	7.0
Annual Dividend	\$1.17
Institutional Ownership	36.8%
Insider Ownership	3.7%
Market data as of most recently a	vailable data.



National Bankshares, Inc. is the Blacksburg, Virginia-based financial holding company of the National Bank of Blacksburg, a community bank operating 25 branches in Southwest Virginia. For historical perspective, the National Bank of Blacksburg was first chartered in 1891 as the Bank of Blacksburg.

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# NKSH 4Q17 Earnings Review: Upgrading Shares to BUY

EPS								
	Mar	Jun	Sep	Dec	Year	Growth	Est. Change	P/E
2017A	\$0.52	\$0.51	\$0.54	\$0.44	\$2.03	(5.6)%	_	19.6x
2018E	\$0.63	\$0.68	\$0.71	\$0.72	\$2.74	35.0%	\$0.11	14.5x
2019E	\$0.67	\$0.71	\$0.74	\$0.76	\$2.88	5.1%	\$0.12	13.8x

Click here for our First Look note.

Reported: \$0.44 Core: \$0.66

SOP Estimate: \$0.56

Consensus Estimate: \$0.56

Core EPS above our estimate: NKSH reported 4Q17 EPS of \$0.44. We estimate core EPS of \$0.66, as compared to our estimate of \$0.56. Our First Look note called core \$0.67 - we now exclude the estimated gain on sale of a branch. We are the only estimate on the street. Please see our core EPS reconciliation at the end of the report for further detail.

Variance to our expectations: NKSH's 4Q results were better than expected for the provision (\$0.08/sh better), NII (\$0.01/sh better, and expenses (\$0.01/ sh better).

Raising EPS estimates. For 2018, we are taking our EPS estimate from \$2.63 to \$2.74 (+4.3%). For 2019, we are taking our EPS estimate from \$2.76 to \$2.88 (+4.3%). Please see the attached exhibit further detailing where we altered our forward expectations.

Upgrading shares of NKSH to BUY following strong 4Q and improved outlook. Following NKSH's 4Q17 earnings release and our conversation with management, we are upgrading shares from HOLD to BUY. Overall, we viewed the 4Q favorably, as the company outperformed in a number of areas. Importantly, pre-tax, pre-provision net revenue (PPNR) came in ahead of our forecast. Our updated model places a few percentage points of upward pressure

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on our estimates, which coupled with a discounted valuation led us to get more constructive on the shares. As a result, we are upgrading the shares to BUY for the following five reasons:

- First, NKSH remains one of the country's highest performing community banks quarter-in and quarter-out. NKSH has not reported an ROAA below 1.00% since 1995, which is as far back as our data set goes. Adjusting for this Q's DTA impairment, core ROAA came to 1.44% (~1.25% with our forecasted level of provisioning). The fact of the matter is that NKSH delivers top-tier performance on a continual basis with little flair to the business model. We attribute the company's long history of success to (1) a strong management team with decades of bank experience, (2) a highly efficient operating model, (3) a conservative balance sheet/ credit profile, and (4) a stable economic footprint anchored by the presence of Virginia Tech in the company's hometown. We expect pre-tax, pre-provision (PPNR) ROAA to advance from an avg. of 1.94% over the prior 8Qs to 2.08% by 4Q18 and 2.14% by 4Q19.
- Second, the NIM appears to have reached an inflection point. Investors will recall that chronic NIM compression in recent years has pressured returns, as well as the bottom line. Thankfully, our belief is that margin erosion is a thing of the past. NKSH's NIM has advanced from a 4Q16 low of 3.39% to 3.47% today, and we foresee continued expansion ahead. Aside from some 1Q18 noise related to a lower FTE adjustment, we look for a modest, but steady ramp in the margin to 3.51% by year-end 2018 and 3.57% by year-end 2019. The improving margin dynamic is visible in bottom line returns, as well. 2017 marked the first year since 2013 that EPS did not decline, and future NIM expansion should only help further in the years ahead.
- Third, NKSH has ample balance sheet capacity in a rising rate environment, coupled with a stellar deposit base. NKSH's balance sheet has incredible potential, particularly in a rising rate environment. With a loan to deposit ratio of 63.0%, a low loan to asset level of 53.2%, low level of RWAs to GAAP assets (64.3%), and ample capital levels, NKSH's balance sheet is both strong and full of potential. As loans continue to grow and become a larger part of the earning asset base, the NIM and return profile should benefit. Plus, the asset side of NKSH's balance sheet is funded entirely with its strong deposit base (17% noninterest-bearing, 89% core, 39 bps cost of deposits), thanks to the company's 20%+ market share in Montgomery and Tazewell counties. Finally, while we do not view NKSH as a seller, we readily acknowledge that the above balance sheet complexion is quite attractive to potential acquirers.
- Fourth, credit quality remains solid. Through the cycle, NKSH charged-off 3.2% of 4Q07 loan balances, which is in-line with high performing peers and compares favorably to the industry average of 5.7%. Credit quality remains strong today with NPAs to assets of 85 bps, or only 44 bps excluding accruing TDRs (48% of total NPAs). Plus, the company continues to have solid reserve coverage of 1.19%, even after this Q's reserve release. While reserve releases of this quarter's magnitude are unlikely going forward and we expect provision to slowly normalize, we do not sense anything on management's part that would indicate credit issues ahead.
- Fifth, shares have underperformed meaningfully this year, and trade at a steep discount to peers. YTD, shares of NKSH are down 12.7%, vs. a 4.4% increase in the Nasdaq Bank Index and median 1.8% decline for high-performing peers. While some of the recent underperformance can be attributed to the shares' strong run in the final four months of 2017, the recent decline has left shares trading at a steep discount to peers at a time when the fundamental outlook for the company is brighter. As the chart below illustrates, NKSH is trading basically in-line with high-performing peers on a P/E basis, but at a deep discount on TBVPS. Adjusting for NKSH's substantial excess capital position narrows the discount on TBV, but places the P/E discount at 2.5x. We simply do not believe a ~30% discount on fully-levered TBV and 2.5x multiple on levered earnings is reasonable at this time.

N	NKSH Valuation vs Peers											
		NKSH	NKSH @ 10% TCE	_	Geographic Peers							
	P/18E	14.5x	11.7x	15.1x	14.1x							
	P/19E	13.8x	11.1x	13.7x	12.8x							
	P/TBV	154%	178%	244%	160%							

#### Peer median used

Geographic peers defined as major-exchange traded banks with assets between \$750 mil. and \$5.0 bil. located in VA, WV, NC, E. TN & E. KY

High-performing peers defined as \$750 mil. to \$5.0 bil. in assets with a core ROAA>1% in 18 of the past 20Qs, no significant mortgage contribution, and traditional bank-like business models

The story is not without pushbacks; capital deployment remains the largest stumbling block. We believe the thesis we lay out above argues for upside to the shares and warrants a BUY rating. With that said, capital deployment remains the largest stumbling block to our favorable outlook. The company's TCE ratio has been in excess of 13% since 1Q15 and currently stands at 14.31%. Regulatory ratios are even higher, with a CET1 ratio of 23.6%. Our sense is that management's strategy has been to retain dry powder for organic growth and M&A while paying out ~50% of earnings via dividends. Unfortunately, loan growth has not been strong enough to lever the capital base, and a deal has not materialized. We applaud management's organic focus and discipline, but also acknowledge that the right transaction could solve the capital issue while also augmenting the earnings stream of NKSH's slower-growth markets. An increased dividend and/or special dividend could also make sense until growth picks up or the right opportunity crosses management's desk. We do believe management remains interested in M&A, but that a deal has to "make sense"; cultural considerations are key, as is location. Our belief is that an institution within a three hour drive is in management's sweet spot.

Even so, retaining dry powder for this long has pressured returns on equity and introduced a valid pushback into an otherwise strong story. Our position is this: first, if a community bank is going to have something to pick at, modest excess capital is probably the best problem to have; second, after years of compressing EPS and ROAA, NKSH is poised to deliver its second straight year of improvement in 2018; third, NKSH's enviable deposit base and balance sheet complexion should provide downside support around the current valuation.

#### National Bankshares, Inc. (NKSH): Core EPS Reconciliation

One-Time Items - \$mil.						Change	From:			One-Time	e-Time Items - Per Share				Change From:		
	4Q17	3Q17	20	217	1Q17	4Q16	4Q17	4Q16		4Q17	3Q17	2Q17	1Q17	4Q16	4Q17	4Q16	
	3.088	3.785	3.5	70	3.649	3.470	-18.4%	-11.0%		3.088	3.785	3.570	3.649	3.470	-18.4%	-11.0%	
	6.958	6.958	6.9	58	6.958	6.958	0.0%	0.0%		6.958	6.958	6.958	6.958	6.958	0.0%	0.0%	
\$	0.44 \$	0.54	\$ 0.	.51 \$	0.52 \$	0.50	-18.4%	-11.0%	\$	0.44 \$	0.54 \$	0.51 \$	0.52 \$	0.50	-18.4%	-11.0%	
\$	0.66 \$	0.54	\$ 0.	.51 \$	0.52 \$	0.50	21.3%	33.1%	\$	0.66 \$	0.54 \$	0.51 \$	0.52 \$	0.50	21.3%	33.1%	
\$	0.66 \$	0.54	\$ 0.	.51 \$	0.52 \$	0.50	21.3%	33.1%	\$	0.66 \$	0.54 \$	0.51 \$	0.52 \$	0.50	21.3%	33.1%	
	0.006	0.004	0.0	04	-	0.033				\$0.00	\$0.00	\$0.00	\$0.00	\$0.00			
	0.130	-	-		-	-				\$0.01	\$0.00	\$0.00	\$0.00	\$0.00			
										\$0.00	\$0.00	\$0.00	\$0.00	\$0.00			
	0.136	0.004	0.0	004	-	0.033				\$0.01	\$0.00	\$0.00	\$0.00	\$0.00			
						-				\$0.00	\$0.00	\$0.00	\$0.00	\$0.00			
	-	-	-		-	-				\$0.00	\$0.00	\$0.00	\$0.00	\$0.00			
	-	-	-		-	-				\$0.00	\$0.00	\$0.00	\$0.00	\$0.00			
										\$0.00	\$0.00	\$0.00	\$0.00	\$0.00			
	-	-	-		-	-				\$0.00	\$0.00	\$0.00	\$0.00	\$0.00			
		-	-							\$0.00	\$0.00	\$0.00	\$0.00	\$0.00			
	-	=	-	-	-	-				\$0.00	\$0.00	\$0.00	\$0.00	\$0.00			
	1.590	-	-		-	-				(\$0.23)	\$0.00	\$0.00	\$0.00	\$0.00			
		<u> </u>		<u> </u>	<u> </u>					\$0.00	\$0.00	\$0.00	\$0.00	\$0.00			
	1.590	-	-		-	-				(\$0.23)	\$0.00	\$0.00	\$0.00	\$0.00			
	_	-			_	-				\$0.00	\$0.00	\$0.00	\$0.00	\$0.00			
	-	=	-			-				\$0.00	\$0.00	\$0.00	\$0.00	\$0.00			
	\$ \$ \$	\$ 0.66	4Q17   3Q17   3.088   3.785   6.958   6.958   6.958   6.958   6.958   5.54	4Q17   3Q17   2C	4Q17   3Q17   2Q17	4Q17   3Q17   2Q17   1Q17     3.088   3.785   3.570   3.649     6.958   6.958   6.958   6.958     \$ 0.44   \$ 0.54   \$ 0.51   \$ 0.52   \$ \$ 0.66   \$ 0.54   \$ 0.51   \$ 0.52   \$ \$ \$ 0.66   \$ 0.54   \$ 0.51   \$ 0.52   \$ \$ \$ 0.66   \$ 0.54   \$ 0.51   \$ 0.52   \$ \$ \$ 0.66   \$ 0.54   \$ 0.51   \$ 0.52   \$ \$ \$ 0.66   \$ 0.54   \$ 0.51   \$ 0.52   \$ \$ \$ 0.66   \$ 0.004   0.004   - 0.130   - 0.004   - 0.130   - 0.004   - 0.136   0.004   0.004   - 0.0	4Q17   3Q17   2Q17   1Q17   4Q16	4Q17   3Q17   2Q17   1Q17   4Q16   4Q17	4Q17         3Q17         2Q17         1Q17         4Q16         4Q17         4Q16           3.088         3.785         3.570         3.649         3.470         -18.4%         -11.0%           6.958         6.958         6.958         6.958         0.0%         0.0%         0.0%           \$ 0.44         \$ 0.54         \$ 0.51         \$ 0.52         \$ 0.50         -18.4%         -11.0%           \$ 0.66         \$ 0.54         \$ 0.51         \$ 0.52         \$ 0.50         21.3%         33.1%           0.006         0.004         0.004         -         0.033         -	4Q17   3Q17   2Q17   1Q17   4Q16   4Q17   4Q16	AQ17   3Q17   2Q17   1Q17   4Q16   4Q17   4Q16   4Q17	AQ17   3Q17   2Q17   1Q17   4Q16   4Q17   4Q16   4Q17   3Q17	4Q17   3Q17   2Q17   1Q17   4Q16   4Q17   4Q16   4Q17   3Q17   2Q17     3.088   3.785   3.570   3.649   3.470   -18.4%   -11.0%   3.088   3.785   3.570     6.958   6.958   6.958   6.958   6.958   6.958   6.958     \$ 0.44   \$ 0.54   \$ 0.51   \$ 0.52   \$ 0.50   -18.4%   -11.0%   \$ 0.44   \$ 0.54   \$ 0.51   \$   \$ 0.66   \$ 0.54   \$ 0.51   \$ 0.52   \$ 0.50   21.3%   33.1%   \$ 0.66   \$ 0.54   \$ 0.51   \$   \$ 0.66   \$ 0.54   \$ 0.51   \$ 0.52   \$ 0.50   21.3%   33.1%   \$ 0.66   \$ 0.54   \$ 0.51   \$   \$ 0.66   \$ 0.54   \$ 0.51   \$ 0.52   \$ 0.50   21.3%   33.1%   \$ 0.66   \$ 0.54   \$ 0.51   \$   \$ 0.006   0.004   0.004   - 0.033   - 0.003   - 0.000   \$0.00   \$0.00     \$ 0.130   - 0.004   0.004   - 0.033   - 0.003   \$0.00   \$0.00   \$0.00     \$ 0.136   0.004   0.004   - 0.033   - 0.003   \$0.00   \$0.00   \$0.00     \$ 0.136   0.004   0.004   - 0.033   - 0.003   \$0.00   \$0.00   \$0.00     \$ 0.006   0.004   0.004   - 0.0033   - 0.003   \$0.00   \$0.00   \$0.00     \$ 0.006   0.006   0.006   0.006   - 0.006   0.006   0.006   0.006     \$ 0.007   0.008   0.009   0.009   0.009   0.009     \$ 0.008   0.009   0.009   0.009   0.009   0.009     \$ 0.009   0.009   0.009   0.009   0.009   0.009     \$ 0.009   0.009   0.009   0.009   0.009   0.009     \$ 0.009   0.009   0.009   0.009   0.009   0.009     \$ 0.009   0.009   0.009   0.009   0.009   0.009     \$ 0.009   0.009   0.009   0.009   0.009   0.009     \$ 0.009   0.009   0.009   0.009   0.009   0.009     \$ 0.009   0.009   0.009   0.009   0.009   0.009     \$ 0.009   0.009   0.009   0.009   0.009   0.009     \$ 0.009   0.009   0.009   0.009   0.009   0.009     \$ 0.009   0.009   0.009   0.009   0.009     \$ 0.009   0.009   0.009   0.009   0.009   0.009     \$ 0.009   0.009   0.009   0.009   0.009   0.009     \$ 0.009   0.009   0.009   0.009   0.009   0.009     \$ 0.009   0.009   0.009   0.009   0.009   0.009     \$ 0.009   0.009   0.009   0.009   0.009   0.009     \$ 0.009   0.009   0.009   0.009   0.009   0.009     \$ 0.009   0.009   0.009   0.009   0.009   0.009   0.009   0.009     \$ 0.009   0.009   0.009   0.0	4Q17   3Q17   2Q17   1Q17   4Q16   4Q17   4Q16   4Q17   3Q17   2Q17   1Q17	4Q17   3Q17   2Q17   1Q17   4Q16   4Q17   4Q16   3Q17   3Q17   2Q17   1Q17   4Q16   3.088   3.785   3.570   3.649   3.470   -18.4%   -11.0%   3.088   3.785   3.570   3.649   3.470   -18.4%   -11.0%   3.088   3.785   3.570   3.649   3.470   -18.4%   -11.0%   5.088   5.785   5.570   3.649   3.470   -18.4%   -11.0%   5.088   5.785   5.570   3.649   3.470   -18.4%   -11.0%   5.084   5.058   5.958   6.958	4Q17   3Q17   2Q17   1Q17   4Q16   4Q17   4Q16   4Q17   3Q17   2Q17   1Q17   4Q16   4Q17   3Q17   2Q17   1Q17   4Q16   4Q17   3,088   3,785   3,570   3,649   3,470   -1,84%   -1,0%   3,088   3,785   3,570   3,649   3,470   -1,84%   -1,0%   5,044   5,054   5,051   5,052   5,050   -1,84%   -1,10%   5,044   5,054   5,051   5,052   5,050   -1,84%   -1,10%   5,044   5,054   5,051   5,052   5,050   -1,84%   -1,10%   5,044   5,054   5,051   5,052   5,050   -1,84%   -1,10%   5,044   5,054   5,051   5,052   5,050   -1,84%   -1,10%   5,044   5,054   5,051   5,052   5,050   -1,84%   -1,10%   5,044   5,054   5,051   5,052   5,050   -1,84%   -1,10%   5,066   5,054   5,051   5,052   5,050   -1,84%   -1,10%   5,066   5,054   5,051   5,052   5,050   21,3%   5,066   5,054   5,051   5,052   5,050   21,3%   5,066   5,054   5,051   5,052   5,050   21,3%   5,066   5,054   5,051   5,052   5,050   21,3%   5,066   5,054   5,051   5,052   5,050   21,3%   5,066   5,054   5,051   5,052   5,050   21,3%   5,066   5,054   5,051   5,052   5,050   21,3%   5,066   5,054   5,051   5,052   5,050   21,3%   5,066   5,054   5,051   5,052   5,050   21,3%   5,066   5,054   5,051   5,052   5,050   21,3%   5,066   5,054   5,051   5,052   5,050   21,3%   5,050   5,00	

		Historic	al Results		4Q17 Variance to Estimate			nate	Q/Q Chg.	. (%/bps)	Y/Y Chg. (%/bps)		
	4Q16	1Q17	2Q17	3Q17	Actual	Expected	▲/▼ than Exp.	(\$mil.)	(per sh.)		Expected	Actual	Expected
PER SHARE INFO		-4		<u> </u>	Actual	Expecteu	than Exp.	(4)	(per 5111)	Actual	Lxpecteu	Actual	Lxpecteu
Reported EPS	\$ 0.50	\$ 0.52	\$ 0.51	\$ 0.54	\$ 0.44	\$ 0.56	_		\$ (0.12)	-18.4%	3.5%	-11.0%	12.9%
Core EPS	\$ 0.50	\$ 0.52	\$ 0.51	\$ 0.54	\$ 0.67	\$ 0.56	<b>A</b>		\$ 0.11	23.3%	3.5%	35.2%	13.6%
Book Value Per Share	\$ 25.62		\$ 26.49	\$ 26.97	\$ 26.57	\$ 26.92			\$ (0.35)	-1.5%	-0.2%	3.7%	5.1%
Tangible Book Value Per Share Dividend Per Share	\$ 24.76 \$ 0.61		\$ 25.63 \$ 0.56	\$ 26.12 \$ -	\$ 25.73 \$ 0.61	\$ 26.08 \$ 0.61	▼		\$ (0.35) \$ -	-1.5%	-0.2%	3.9% 0.0%	5.3% 0.0%
Avg. Diluted Shares	6.96	6.96	6.96	6.96	6.96	6.96		-	*	0.0%	0.0%	0.0%	0.0%
EOP Shares	6.96	6.96	6.96	6.96	6.96	6.96		-		0.0%	0.0%	0.0%	0.0%
AVG. BALANCE SHEET (\$mil.)													
Avg. Loans Avg. Securities	637.8 516.0	650.5 516.6	652.6 528.8	651.6 511.5	661.4 508.6	658.1 514.1	<b>*</b>	3.3 (5.4)		1.5% -0.6%	1.0% 0.5%	3.7% -1.4%	3.2% -0.4%
Avg. Earning Assets	1,153.8	1,167.1	1,181.4	1,163.1	1,170.0	1,172.1	Ť	(2.1)		0.6%	0.3%	1.4%	1.6%
Ann'l Growth Rate: Avg. Loans					6.0%	4.0%	<b>A</b>						
Ann'l Growth Rate: Avg. Securities					-2.2%	2.0%	<b>V</b>						
Ann'l Growth Rate: Avg. Earning Assets					2.4%	3.1%	<b>*</b>						
INCOME STATEMENT (\$mil.)		400	404	404	40.0	400		0.4			0.007	4.00/	2.50/
Net Interest Income (FTE)	9.8	10.0	10.1	10.1	10.2	10.2	_	0.1	\$ 0.01	1.4%	0.8%	4.2%	3.5%
Service charges on deposit accounts	0.7	0.7	0.7	0.7	0.7	0.7	<b>V</b>	(0.0)	\$ (0.00)	-0.1%	3.0%	4.3%	7.5%
Other service charges and fees Credit card fees	0.0 1.0	0.1	0.0 1.0	0.0 1.0	0.1 1.0	0.0 1.1	<b>_</b>	0.0 (0.1)	\$ 0.00 \$ (0.01)	31.7% -2.8%	0.0% 4.0%	14.9% 0.5%	-12.8% 7.6%
Trust income	0.3	0.4	0.4	0.4	0.4	0.4	Ă	0.0	\$ 0.00	10.4%	3.0%	18.9%	10.9%
Bank-owned life insurance	0.2	0.1	0.1	0.2	0.2	0.2	<b>A</b>	0.0	\$ 0.00	1.3%	0.0%	57.3%	55.3%
<u>Other</u>	0.2	0.3	0.2	0.2	0.3	0.2	<b>A</b>	0.1	\$ 0.01	31.6%	0.0%	14.6%	<u>-13.0%</u>
Total Noninterest Income	2.5	2.5	2.5	2.6	2.7	2.7	<b>A</b>	0.0	\$ 0.00	3.5%	2.8%	9.2%	8.5%
Operating Revenue	12.3	12.6	12.5	12.7	12.9	12.8	_	0.1	\$ 0.01	1.9%	1.2%	5.2%	4.5%
Noninterest Expense Goodwill	6.6	6.9	6.7	6.7	6.6	6.7	•	(0.1)	\$ 0.01 \$ -	<u>-2.3%</u> -	<u>-1.0%</u> -	0.1%	<u>1.4%</u>
Other Intangible Amortization	0.0	0.0	0.0	0.0	0.0	0.0	▼	(0.0)	\$ 0.00	<u>-7.7%</u>	0.0%	<u>-69.2%</u>	<u>-66.7%</u>
Total Noninterest Expense	6.6	6.9	6.7	6.7	6.6	6.7	▼	(0.1)	\$ 0.01	-2.3%	-1.0%	-0.3%	1.0%
Pretax Preprovision Net Revenue	5.7	5.6	5.8	5.9	6.3	6.2	<b>A</b>	0.2	\$ 0.02	6.6%	3.7%	11.6%	8.6%
Provision for Loan Loss	0.5	0.1	0.5	0.2	(0.6)	0.3	▼	(0.8)	\$ 0.08	<u>-382.1%</u>	<u>31.2%</u>	<u>-212.9%</u>	<u>-47.5%</u>
Pretax Operating Income	5.2	5.6	5.4	5.7	6.9	5.9	<b>A</b>	1.0	\$ 0.09	20.2%	2.8%	33.4%	14.0%
Net Securities Gains Net Nonrecurring Items	0.0	-	0.0	0.0	0.0 0.1	-		0.0 0.1	\$ 0.00 \$ 0.01				
Pretax Income	5.2	5.6	5.4	5.7	7.0	5.9	<b>A</b>	1.1	\$ 0.11	22.5%	2.7%	35.1%	13.3%
Income Taxes (incl. FTE adjustment)	1.7	1.9	1.8	1.9	3.9	2.0	<b>A</b>	2.0	\$ (0.28)	102.0%	1.2%	127.8%	14.2%
Net Income	3.5	3.6	3.6	3.8	3.1	3.9	•	(0.8)	\$ (0.12)	<u>-18.4%</u>	<u>3.5%</u>	-11.0%	12.9%
Income to Noncontrolling Interests <u>Preferred Dividends</u>	-	-	-	-	-	-		-	\$ - \$ -	-	-	-	-
Net Income avail. to Common	3.5	3.6	3.6	3.8	3.1	3.9	_	(0.8)	\$ (0.12)	-18.4%	3.5%	-11.0%	12.9%
PERFORMANCE METRICS	3.3	5.0	5.0	3.0	3.2	3.3	<u> </u>	(0.0)	\$ (0.1L)	20.170	5.570	11.070	22.570
Core ROAA	1.11%	1.18%	1.12%	1.21%	1.44%	1.26%				24	3	34	15
Core ROAE	7.35%	8.00%	7.57%	8.01%	6.46%	8.35%				(155)	22	(89)	100
Core ROATCE	7.60%			8.27%	9.86%	8.63%				159	22	226	102
PPNR ROAA NIM	1.87% 3.39%			1.92% 3.44%	2.04% 3.47%	1.98% 3.44%				12 3	6	17 8	11 5
NIM L/Q Δ (bps)	3.337	3.1370	5.1270	5.1170	3	0				,			,
Fee Income / Operating Revenue	20.0%			20.5%	20.8%	20.8%				34	33	77	76
Efficiency Ratio	53.5%			53.1%	51.0%	51.9%				(216)	(116)	(257)	(158)
Expenses / Avg. Assets Operating Revenue / Avg. Assets	2.18% 4.04%			2.18% 4.11%	2.12% 4.16%	2.15% 4.12%				( <u>6)</u> 6	( <del>4</del> ) 2	(5) 12	( <del>3</del> ) 8
TCE/TA	14.03%			14.82%	14.31%	14.68%				(51)	(14)	28	65
Effective Tax Rate	33.2%	34.3%	33.5%	34.0%	56.0%	33.5%				2,205	(49)	2,280	26
CREDIT QUALITY (\$mil.)													
Loan Loss Reserve Net Charge-Offs	8.3 0.5	8.3 0.1	8.4 0.4	8.5 0.1	7.9 (0.0)	8.4 0.3	<b>*</b>	(0.5) (0.3)		-6.5%	-0.8%	-4.5%	1.3%
Nonaccrual Loans	5.9	5.7	3.2	3.2	2.8	_				-12.3%	_	-52.7%	_
Restructured Loans	3.8	3.7	3.7	4.8	5.1	-				6.6%	-	36.2%	-
Foreclosed Assets	3.2	3.0	3.0	2.9	2.8					<u>-3.6%</u>	=	<u>-10.7%</u>	=
Nonperforming Assets	12.8	12.4	9.9	10.9	10.7	10.9	▼	(0.2)		-1.6%	0.0%	-16.1%	-14.8%
NALs / Loans	0.90%			0.48%	0.41%	-							
NPAs (av-TDPs) / Accets	1.04%			0.88%	0.85%	0.88%				(3)	(1)	(18)	(16)
NPAs (ex-TDRs)/ Assets TDRs / NPAs	0.73% 29.5%			0.49% 44.2%	0.44% 47.9%	-							
Reserve / Loan	1.28%			1.28%	1.19%	1.26%				(10)	(2)	(10)	(2)
NCO Ratio	0.32%	0.06%	0.22%	0.06%	-0.01%	0.20%				(7)	14	(33)	(12)
Provision / Avg. Loans	0.31%	0.04%	0.28%	0.12%	-0.34%	0.16%				(47)	4	(66)	(15)

2019

Dollar values in \$mil.

Dollar values in \$mil.	!						r					
	New	Prior	Revision	Diff. (\$)	Diff. (%/BPS)	EPS Impact	New	Prior	Revision	Diff. (\$)	Diff. (%/BPS)	EPS Impact
PER SHARE INFO												
Reported EPS	\$ 2.74	\$ 2.63	<b>A</b>	\$ 0.11	4.3%		\$ 2.88	\$ 2.76	<b>A</b>	\$ 0.12	4.3%	
Core EPS	\$ 2.74	\$ 2.63	<b>A</b>	\$ 0.11	4.3%		\$ 2.88	\$ 2.76	<b>A</b>	\$ 0.12	4.3%	
Book Value Per Share	\$ 28.15		_	\$ (0.24)	-0.8%		1 1	\$ 29.97	•	\$ (0.12)	-0.4%	
Tangible Book Value Per Share	\$ 27.30		_	\$ (0.24)	-0.9%		\$ 29.02		<b>V</b>	\$ (0.12)	-0.4%	
Dividend Per Share	\$ 1.17	\$ 1.17		\$ -	0.0%		\$ 1.17			\$ -	0.0%	
Avg. Diluted Shares EOP Shares	6.96 6.96	6.96 6.96		-	0.0% 0.0%		6.96 6.96	6.96 6.96		-	0.0% 0.0%	
AVG. BALANCE SHEET												
Avg. Loans	678.1	674.7	<b>A</b>	3.4	0.5%		710.0	706.5	<b>A</b>	3.6	0.5%	
Avg. Securities	515.0	520.5	<b>V</b>	(5.5)	-1.1%		522.1	527.7	<b>V</b>	(5.6)	-1.1%	
Avg. Earning Assets	1,193.1	1,195.2	•	(2.1)	-0.2%		1,232.2	1,234.2	•	(2.0)	-0.2%	
Ann'l Growth Rate: Avg. Loans	3.7%	3.3%			0.4%		4.7%	4.7%			0.0%	
Ann'l Growth Rate: Avg. Securities	-0.3%	0.5%			-0.8%		1.4%	1.4%			0.0%	
Ann'l Growth Rate: Avg. Earning Assets	1.9%	2.1%			-0.1%		3.3%	3.3%			0.0%	
INCOME STATEMENT												
Net Interest Income (FTE)	41.5	41.1	<b>A</b>	0.5	1.1%	\$ 0.04	43.7	43.0	<b>A</b>	0.8	1.8%	\$ 0.07
Service charges on deposit accounts	2.9	3.0	▼	(0.1)	-3.0%	\$ (0.01)	3.1	3.2	▼	(0.1)	-3.0%	\$ (0.01)
Other service charges and fees	0.2	0.2	<b>A</b>	0.1	31.7%	\$ 0.01	0.2	0.2	<b>A</b>	0.1	31.7%	\$ 0.01
Credit card fees	3.9	4.2	_	(0.3)	-6.6%	\$ (0.03)	4.0	4.3	<b>V</b>	(0.3)	-6.6%	\$ (0.03)
Trust income	1.7	1.5	<b>A</b>	0.1	7.2%		1.7	1.6	<b>A</b>	0.1	7.2%	
Bank-owned life insurance	0.9	0.9	<u> </u>	0.0	1.3%		0.9	0.9	<u> </u>	0.0	1.3%	
<u>Other</u>	1.2	1.0	<u> </u>	0.2	14.5%		1.3	1.1	<u> </u>	0.2	14.5%	
Total Noninterest Income	10.8	10.9	<b>▼</b>	(0.0)	-0.3%		11.3	11.3	<b>▼</b>	(0.0)		
Operating Revenue	52.4	51.9	<u> </u>	0.4	0.8%		55.0	54.2	<b>A</b>	0.7	1.3%	
Noninterest Expense Goodwill	27.3	27.6	•	(0.2)	<u>-0.9%</u> -	\$ 0.02 \$ -	28.2	28.3	▼	(0.1)	<u>-0.4%</u>	\$ 0.01 \$ -
Other Intangible Amortization	0.0	0.1	•	(0.0)		\$ 0.00	0.0	0.1	▼	(0.0)	-7.7%	\$ 0.00
Total Noninterest Expense	27.4	27.6	▼	(0.2)	-0.9%	\$ 0.02	28.3	28.4	▼	(0.1)	-0.4%	\$ 0.01
Pretax Preprovision Net Revenue	25.0	24.3	<u> </u>	0.7	2.8%		26.7	25.8	<u> </u>	0.8	3.3%	
Provision for Loan Loss	1.1	<u>1.4</u> 22.9	<b>V</b>	(0.3)	- <u>19.2</u> %	\$ 0.03	1.6	1.8	<b>V</b>	(0.2)	- <u>9.1</u> %	\$ 0.02
Pretax Operating Income	23.9	22.9	<b>A</b>	1.0	4.2%		25.1	24.0	<b>A</b>	1.0	4.2%	
Net Securities Gains Net Nonrecurring Items	-	-		-	-	\$ - \$ -	-	-		-	-	\$ - \$ -
Pretax Income	23.9	22.9	•	1.0	4.2%	\$ 0.09	25.1	24.0	<b>A</b>	1.0	4.2%	\$ 0.09
Income Taxes (incl. FTE adjustment)	4.8	4.6	<u> </u>	0.2		\$ (0.02)	5.0	4.8	<u> </u>	0.2	3.7%	\$ (0.03)
Net Income	19.1	18.3	<b>A</b>	0.8	4.3%		20.0	19.2	<b>A</b>	0.8	4.3%	\$ 0.12
Income to Noncontrolling Interests		-				\$ -	_	_			-	\$ -
Preferred Dividends		-			=	<u>\$ -</u>					=	_
Net Income avail. to Common	19.1	18.3	<b>A</b>	0.8	4.3%	\$ 0.11	20.0	19.2	<b>A</b>	0.8	4.3%	\$ 0.12
PERFORMANCE METRICS												
Core ROAA	1.49%	1.44%	<b>A</b>		5		1.51%	1.47%	<b>A</b>		5	
Core ROAE	9.85%	9.47%	<b>A</b>		39		9.77%	9.42%	<b>A</b>		34	
Core ROATCE	10.17%	9.76%	<b>A</b>		40		10.05%	9.70%	<b>A</b>		36	
PPNR ROAA	1.97%	1.92%	<b>A</b>		6		2.04%	1.97%	<b>A</b>		7	
NIM	3.48%		<b>A</b>		5		3.55%	3.48%			7	
Fee Income / Operating Revenue	20.7%				(24)		20.5%	20.8%			(34)	
Efficiency Ratio	52.2%	•			(91)		51.4%	52.3%			(89)	
Expenses / Avg. Assets	2.16%		<b>Y</b>		( <u>1</u> ) 5		2.16%	2.17%			( <mark>0)</mark> 7	
Operating Revenue / Avg. Assets TCE/TA	4.14% 14.72%				(31)		4.21% 15.14%	4.14% 15.39%			(25)	
Effective Tax Rate	20.0%				(10)		20.0%	20.1%			(10)	
CREDIT QUALITY					. ,						. ,	
Loan Loss Reserve	8.0	8.5	▼	(0.4)			8.2	8.5	▼	(0.2)		
Net Charge-Offs	1.0	1.4	<u> </u>	(0.3)			1.4	1.8	<u> </u>	(0.3)		
Nonperforming Assets	10.7	10.9	<b>V</b>	(0.2)			10.7	10.9	▼	(0.2)		
NPAs / Assets	0.83%	0.85%	•		(2)		0.80%	0.82%	•		(2)	
Reserve / Loan	1.16%		▼		(6)		1.13%	1.16%			(3)	
NCO Ratio	0.15%				(5)		0.20% 0.23%	0.25%			(5)	
Provision / Avg. Loans	0.17%	0.21%	_		(4)			0.25%	. 🔻		(2)	

		_	
National	Bankshares,	Inc.	(NKSH)

National Bankshares, Inc. (NK	SH)																									
	1Q17	2Q17	3Q17	4Q17	2017	17 %Δ	L/Q % ∆ (E)	1Q18E	L/Q % ∆ (E)	2Q18E	L/Q % ∆ (E)	3Q18E	/Q % ∆ (E)	4Q18E	201 2018E	8Ε %Δ	L/Q % ∆ (E)	1Q19E	L/Q % ∆ (E)	2Q19E	L/Q % ∆ (E)	3Q19E	L/Q % ∆ (E)	4Q19E	2019E	θE %Δ
EPS																										
Reported EPS	\$ 0.52				\$ 2.03	-5.7%		\$ 0.63		0.68		\$ 0.71			\$ 2.74	35.4%		\$ 0.67		\$ 0.71		0.74			\$ 2.88	5.0%
Core EPS	\$ 0.52	\$ 0.51	\$ 0.54	\$ 0.67	\$ 2.25	5.9%		\$ 0.63		0.68	:	\$ 0.71	\$	0.72	\$ 2.74	21.8%		\$ 0.67		\$ 0.71	5	0.74	:	\$ 0.76	\$ 2.88	5.0%
EARNINGS DRIVERS																										
Avg. Loans	650.5	652.6	651.6	661.4	654.0	5.1%	1.0%	668.0	1.0%	674.7	1.0%	681.4	1.0%	688.3	678.1	3.7%	1.3%	696.9	1.3%	705.6	1.3%	714.4	1.3%	723.3	710.0	4.7%
Avg. Securities Avg. Earning Assets	516.6 1.167.1	528.8 1,181.4	511.5 1.163.1	508.6 1.170.0	516.4 1.170.4	-1.2% 2.2%	0.5%	511.2 1.179.2	0.5%	513.7 1.188.4	0.5%	516.3 1.197.7	0.5%	518.9 1,207.1	515.0 1.193.1	-0.3% 1.9%	0.3%	520.2 1,217.0	0.3%	521.5 1.227.0	0.3%	522.8 1,237.2	0.3%	524.1 1.247.4	522.1 1.232.2	1.4% 3.3%
Average Assets	1,224.9	1,242.2	1,234.8	1,241.0	1,235.7	2.6%	94.3%	1,250.7	94.3%	1,260.5	94.3%	1,270.4		1,280.3	1,265.5	2.4%	94.3%	1,290.8	94.3%	1,301.4		1,312.2	94.3%	1,323.0	1,306.9	3.3%
Average Equity	180.5	184.1	186.0	187.5	184.5	2.5%		187.1		189.7		192.6		195.4	191.2	3.6%		198.2		201.0		204.2		207.2	202.7	6.0%
Net Interest Margin Fee Income Growth	3.49%	3.42%	3.44%	3.47%	3.45%	(6 bps)		3.45%		3.48%		3.48%		3.51% 2.7%	3.48%	+3 bps		3.54%		3.54%		3.54%		3.57%	3.55% 4.0%	+7 bps
Expense Growth	1.8% 5.1%	-2.1% -3.2%	5.8% 0.7%	3.5% -2.3%	5.5% 3.1%			-4.0% 5.0%		6.1% -2.5%		-0.6% 2.0%		-1.0%	5.8% 1.5%			-3.5% 5.0%		5.2% -2.5%		-0.4% 2.0%		2.7% -1.0%	3.4%	
NCO Ratio	0.06%	0.22%	0.06%	-0.01%	0.08%	(18 bps) (24 bps)		0.10%		0.20%		0.10%		0.20%	0.15%	+7 bps +14 bps		0.15%		0.25%		0.15%		0.25%	0.20%	+5 bps
Provision / Avg. Loans	0.04%	0.28%	0.12%	-0.34%	0.02%	(24 DDS)		0.12%		0.22%		0.12%		0.22%	0.17%	+14 bps		0.18%		0.28%		0.18%		0.28%	0.23%	+6 bps
INCOME STATEMENT (\$mil.)																										
Interest Income Interest Expense	11.1 1.0	11.1 1.0	11.1 1.0	11.3 1.0																						
Net Interest Income (FTE)	10.0	10.1	10.1	10.2	40.4	0.6%	3.45%	10.0	3.48%	10.3	3.48%	10.5	3.51%	10.7	41.5	2.7%	3.54%	10.6	3.54%	10.8	3.54%	11.0	3.57%	11.2	43.7	5.3%
Ci	0.7	0.7	0.7	0.7	2.8	12 9%	-1.9% -4.0%	0.7	2.8%	0.7	1.9% 5.0%	0.7	1.7%	0.8	2.9	3.6%	-0.5% -4.0%	0.7	1.9% 3.0%	0.7	1.9% 5.0%	0.8	1.7% 3.0%	0.8	3.1	6.9%
Service charges on deposit accounts Other service charges and fees	0.7	0.7	0.7	0.7	0.2	-3.3%	40.0%	0.7	-30.0%	0.7	5.0%	0.7	0.0%	0.8	0.2	16.9%	40.0%	0.7	-30.0%	0.7	5.0%	0.8	0.0%	0.8	0.2	2.9%
Credit card fees	0.9 0.4	1.0 0.4	1.0 0.4	1.0 0.4	3.9	3.9%	-10.0% 1.0%	0.9	12.0% 5.0%	1.0	-2.0% -5.0%	1.0	4.0%	1.0	3.9	-0.5%	-10.0% 1.0%	0.9	12.0% 5.0%	1.0	-2.0% -5.0%	1.0	4.0% 3.0%	1.1	4.0 1.7	2.7%
Trust income Bank-owned life insurance	0.4	0.4	0.4	0.4	1.5 0.8	13.7% 27.0%	-2.0%	0.4	1.0%	0.4	-1.0%	0.4	0.0%	0.4	1.7 0.9	8.4% 22.3%	0.0%	0.4	0.0%	0.4	0.0%	0.4	0.0%	0.4	0.9	3.8% -0.3%
Other	0.3	0.2	0.2	0.3	1.0	-21.0%	0.0%	0.3	10.0%	0.3	-3.0%	0.3	0.0%	0.3	1.2	17.7%	3.0%	0.3	3.0%	0.3	-3.0%	0.3	0.0%	0.3	1.3	4.6%
Total Noninterest Income	2.5	2.5	2.6	2.7	10.2	5.5%	-4.0%	2.6	6.1%	2.7	-0.6%	2.7	2.7%	2.8	10.8	5.8%	-3.5%	2.7	5.2%	2.8	-0.4%	2.8	2.7%	2.9	11.3	4.0%
Operating Revenue	12.6	12.5	12.7	12.9	50.7	1.5%	-2.4%	12.6	3.5%	13.0	1.4%	13.2	1.9%	13.5	52.4	3.3%	-1.1%	13.3	2.6%	13.7	1.4%	13.9	1.9%	14.1	55.0	5.0%
Salaries and employee benefits	3.5	3.4	3.5	3.3																						
Occupancy, furniture and fixtures  Data processing and ATM	0.4 0.6	0.5 0.5	0.5	0.5 0.6																						
FDIC assessment	0.1	0.1	0.1	0.1																						
Credit card processing OREO expenses, net	0.7 0.0	0.7 0.1	0.7 0.1	0.7 0.1																						
Franchise taxes	0.0	0.1	0.1	0.1																						
Other	1.3	1.0	1.0	1.1																						
Noninterest Expense	6.9	6.7	6.7	6.6	26.9	3.9%	5.0%	6.9	-2.5%	6.7	2.0%	6.9	-1.0%	6.8	27.3	1.5%	5.0%	7.1	-2.5%	7.0	2.0%	7.1	-1.0%	7.0	28.2	3.4%
Goodwill Other Intangible Amortization	0.0	0.0	0.0	0.0	0.1	-73.5%		0.0		0.0		0.0		0.0	0.0	-29.4%		0.0		0.0		0.0		0.0	0.0	0.0%
Total Noninterest Expense	6.9	6.7	6.7	6.6	27.0	3.1%	5.0%	6.9	-2.5%	6.7	2.0%	6.9	-1.0%	6.8	27.4	1.5%	5.0%	7.2	-2.5%	7.0	2.0%	7.1	-1.0%	7.0	28.3	3.4%
Pretax Preprovision Net Revenue	5.6	5.8	5.9	6.3	23.7	-0.2%		5.7		6.3		6.3		6.7	25.0	5.5%		6.2		6.7		6.7		7.1	26.7	6.8%
Provision for Loan Loss	0.1	0.5	0.2	(0.6)	0.2	-90.5%	0.10%	0.2	0.20%	0.4	0.10%	0.2	0.20%	0.4	1.1	624.6%	0.15%	0.3	0.25%	0.5	0.15%	0.3	0.25%	0.5	1.6	43.1%
Pretax Operating Income	5.6	5.4	5.7	6.9	23.5	6.5%		5.5		5.9		6.1		6.3	23.9	1.3%		5.9		6.2		6.4		6.6	25.1	5.0%
Net Securities Gains	-	0.0	0.0	0.0	0.0			-		-		-		-	-			-		-		-		-	-	
Net Nonrecurring Items	-	-	-	0.1	0.1			-		-		-		-	-			-		-		-		-	-	
Pretax Income Income Taxes (incl. FTE adjustment)	5.6 1.9	5.4 1.8	5.7 1.9	7.0 3.9	23.7 9.6	6.1% 29.8%	20.0%	5.5 1.1	20.0%	5.9 1.2	20.0%	6.1 1.2	20.0%	6.3 1.3	23.9 4.8	0.7% -50.3%	20.0%	5.9 1.2	20.0%	6.2 1.2	20.0%	6.4 1.3	20.0%	6.6 1.3	25.1 5.0	5.0% 5.0%
Net Income	3.6	3.6	3.8	3.1	14.1	-5.7%		4.4		4.7		4.9	-	5.0	19.1	35.4%		4.7		5.0		5.1		5.3	20.0	5.0%
Income to Noncontrolling Interests	-	-	-	-	-	-		-		-		-		-	-	-		-		-		-		-	-	-
Preferred Dividends  Net Income avail. to Common	3.649	3.570	3.785	3.088	14.092	-5.7%		4.394		4.745		4.914	-	5.028	19.081	35.4%		4.682		4.958		5.142		5.261	20.044	5.0%
PER SHARE INFO																										
Reported EPS	\$ 0.52	\$ 0.51	\$ 0.54	\$ 0.44	\$ 2.03	-5.7%		\$ 0.63		0.68		\$ 0.71	\$	0.72	\$ 2.74	35.4%		\$ 0.67		\$ 0.71	5	0.74		\$ 0.76	\$ 2.88	5.0%
Core EPS	\$ 0.52			\$ 0.67	\$ 2.25	5.9%		\$ 0.63		0.68		\$ 0.71	\$	0.72	\$ 2.74	21.8%		\$ 0.67		\$ 0.71	9	0.74		\$ 0.76	\$ 2.88	5.0%
Book Value Per Share	\$ 26.30	\$ 26.49	\$ 26.97	\$ 26.57	\$ 26.57	3.7%	2.4%	\$ 27.20	0.4%	\$ 27.33	2.6%	\$ 28.03	0.4%	\$ 28.15	\$ 28.15	5.9%	2.4%	\$ 28.82	0.5%	\$ 28.97	2.6%	\$ 29.71	0.5%	\$ 29.86	\$ 29.86	6.1%
Tangible Book Value Per Share Dividend Per Share		\$ 25.63			\$ 25.73	3.9% 0.9%		\$ 26.36		\$ 26.48 \$ 0.56		\$ 27.19	0.4%		\$ 27.30 \$ 1.17	6.1% 0.0%		\$ 27.98		\$ 28.13 \$ 0.56	2.6%				\$ 29.02 \$ 1.17	6.3%
Dividend Per Share Dividend Payout Ratio	\$ - 0.0%	109.1%	0.0%		\$ 1.17 57.8%	0.9%		0.0%		82.1%		0.0%	3	84.4%	42.7%	0.0%		0.0%		78.6%	9	0.0%		80.7%	40.6%	0.0%
Total Payout Ratio								0.0%		82.1%		0.0%		84.4%				0.0%		78.6%		0.0%		80.7%		
Avg. Diluted Shares	7.0	7.0	7.0	7.0	7.0	0.0%	0.0%	7.0	0.0%	7.0	0.0%	7.0	0.0%	7.0	7.0	0.0%	0.0%	7.0	0.0%	7.0	0.0%	7.0	0.0%	7.0	7.0	0.0%
EOP Shares	7.0	7.0	7.0	7.0	7.0	0.0%	0.0%	7.0	0.0%	7.0	0.0%	7.0	0.0%	7.0	7.0	0.0%	0.0%	7.0	0.0%	7.0	0.0%	7.0	0.0%	7.0	7.0	0.0%
PERFORMANCE METRICS																										
Core ROAA	1.18%	1.12%	1.21%	1.44%	1.24%			1.39%		1.49%		1.53%		1.55%	1.49%			1.43%		1.50%		1.55%		1.57%	1.51%	
Reported ROAA Core ROAE	1.21% 8.00%	1.15% 7.57%	1.22% 8.01%	0.99% 6.46%	8.29%			9.28%		9.88%		10.08%		10.16%	9.85%			9.33%		9.74%		9.95%		10.03%	9.77%	
Reported ROAE	8.20%	7.78%	8.07%	6.00%																						
ROATCE Core ROATCE	8.36% 8.27%	8.01% 7.83%	8.41% 8.27%	6.80% 9.86%	8.57%			9.58%		10.19%		10.39%		10.47%	10.17%			9.62%		10.03%		10.24%		10.32%	10.05%	
PPNR ROAA	1.83%	1.88%	1.92%	2.04%	1.92%			1.82%		2.00%		2.00%		2.08%	1.97%			1.91%		2.06%		2.06%		2.14%	2.04%	
OTHER NIM	3.49%	3.42%	3.44%	3.47%	3.45%			3.45%		3.48%		3.48%		3.51%	3.48%			3.54%		3.54%		3.54%		3.57%	3.55%	
Yield on Earning Assets	3.86%	3.79%	3.80%	3.83%	3.4370			5.4570		J1070		3.1070		J.J170	3.4070			J.J470		5.5470		J.J470		3.3170	3.3376	
Cost of IBLs	0.49%	0.49%	0.47%	0.48%	20.20			20.40		21.00/		20.50		20.70	20.70			20.20/		20.00/		20.40		20.50	20.50	
Fee Income / Operating Revenue Efficiency Ratio	19.9% 55.0%	19.6% 53.4%	20.5% 53.1%	20.8% 51.0%	20.2% 53.1%			20.4% 54.8%		21.0% 51.6%		20.6% 52.0%		20.7% 50.5%	20.7% 52.2%			20.2% 53.6%		20.8% 51.0%		20.4% 51.2%		20.5% 49.8%	20.5% 51.4%	
L/Q Operating Leverage	-2.7%	3.2%	0.5%	4.1%	-1.6%			-7.3%		6.0%		-0.6%		2.9%	1.9%			-6.1%		5.1%		-0.6%		2.9%	1.6%	
Expenses / Avg. Assets Fee Income / Avg. Assets	2.27% 0.82%	2.16% 0.79%	2.18% 0.84%	2.12% 0.87%	2.18% 0.83%			2.21% 0.82%		2.14% 0.87%		2.17% 0.86%		2.13% 0.87%	2.16% 0.86%			2.22% 0.84%		2.14% 0.87%		2.17% 0.86%		2.13% 0.88%	2.16% 0.86%	
Operating Revenue / Avg. Assets	4.1%	4.0%	4.1%	4.2%	4.1%			4.0%		4.1%		4.2%		4.2%	4.1%			4.1%		4.2%		4.2%		4.3%	4.2%	
TCE/TA Effective Tax Rate	14.31% 34.3%	14.23% 33.5%	14.82% 34.0%	14.31% 56.0%	14.31% 40.5%			14.55% 20.0%		14.50% 20.0%		14.77% 20.0%		14.72% 20.0%	14.72% 20.0%			14.96% 20.0%		14.92% 20.0%		15.19% 20.0%		15.14% 20.0%	15.14% 20.0%	
Day Count	90	91	92	92	365			90		91		92		92	365			90		91		92		92	365	
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# **APPENDIX**

Time of dissemination: February 26, 2018, 07:26 ET.

I attest that all of the views expressed in this report accurately reflect my personal views about the security and/or industry covered by this report as of the date of this report, and that no part of my compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed by me in this report. S/ Brendan Nosal

#### IMPORTANT DISCLOSURES:



#### **Price Target**

Our 12 month price target is \$46.00.

#### Valuation Methodology

Our price target of \$46.00 assumes shares of NKSH will trade at 16.0x our 2019E EPS in one year's time.

#### **Risk Factors**

The primary risks to our price target include key man risk, NKSH's geographically concentrated SW VA footprint, weakness in the local economy, illiquidity, cyber-security risks, and lower bank equity valuations in general.

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IB Serv./Past 12 Mos.

Rating	Count	Percent	Count	Percent
BUY [B]	159	48.48	55	34.59
HOLD [H]	165	50.30	38	23.03
SELL [S]	4	1.22	1	25.00

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