



Davenport & Company  
Last updated: July 16, 2010

	National Bankshares Actual & Estimated Earnings																											
	2011		2010		Fourth Quarter-E		Third Quarter-E		Second Quarter-A		First Quarter-A		2009		Fourth Quarter-A		Third Quarter-A		Second Quarter-A		First Quarter-A		2008		2007			
	Projected	Projected	Projected	Projected	Quarter-E	Quarter-E	Quarter-E	Quarter-E	Quarter-A	Quarter-A	Quarter-A	Quarter-A	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	
Income Statement:																												
Net interest income (TE)	\$41,649	\$41,367	\$38,899	\$37,478	\$9,386	\$9,334	\$9,497	\$9,497	\$9,699	\$9,699	\$9,699	\$9,699	\$38,647	\$38,647	\$38,647	\$38,647	\$38,647	\$38,647	\$38,647	\$38,647	\$38,647	\$38,647	\$38,647	\$38,647	\$38,647	\$38,647	\$38,647	\$38,647
Tax equivalent adjustment	3,950	3,769	3,769	3,769	9,386	9,334	9,497	9,497	9,699	9,699	9,699	9,699	3,950	3,950	3,950	3,950	3,950	3,950	3,950	3,950	3,950	3,950	3,950	3,950	3,950	3,950	3,950	3,950
Net interest income	37,699	37,478	34,829	34,829	0	0	0	0	0	0	0	0	34,697	34,697	34,697	34,697	34,697	34,697	34,697	34,697	34,697	34,697	34,697	34,697	34,697	34,697	34,697	34,697
Provision for loan losses	1,700	2,649	3,999	3,999	550	600	852	852	852	852	852	852	2,784	2,784	2,784	2,784	2,784	2,784	2,784	2,784	2,784	2,784	2,784	2,784	2,784	2,784	2,784	
Net interest income after provision	35,999	34,829	30,830	30,830	2,850	2,800	2,645	2,645	1,847	1,847	1,847	1,847	31,913	31,913	31,913	31,913	31,913	31,913	31,913	31,913	31,913	31,913	31,913	31,913	31,913	31,913	31,913	
Trust income	1,175	1,055	1,055	1,055	275	250	250	250	250	250	250	250	1,053	1,053	1,053	1,053	1,053	1,053	1,053	1,053	1,053	1,053	1,053	1,053	1,053	1,053	1,053	
Other	7,650	7,647	7,647	7,647	2,080	2,000	2,000	2,000	2,000	2,000	2,000	2,000	7,779	7,779	7,779	7,779	7,779	7,779	7,779	7,779	7,779	7,779	7,779	7,779	7,779	7,779	7,779	
Core non-interest income	8,825	8,702	8,702	8,702	2,355	2,250	2,250	2,250	2,250	2,250	2,250	2,250	8,832	8,832	8,832	8,832	8,832	8,832	8,832	8,832	8,832	8,832	8,832	8,832	8,832	8,832	8,832	
Gain on security transactions	0	(3)	0	0	0	0	0	0	0	0	0	0	(28)	(28)	(28)	(28)	(28)	(28)	(28)	(28)	(28)	(28)	(28)	(28)	(28)	(28)	(28)	
Gain on sales of loans	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Total non-interest income	8,825	8,699	8,699	8,699	2,355	2,250	2,250	2,250	2,250	2,250	2,250	2,250	8,804	8,804	8,804	8,804	8,804	8,804	8,804	8,804	8,804	8,804	8,804	8,804	8,804	8,804	8,804	
Salaries and benefits	11,700	11,310	11,310	11,310	3,000	2,800	2,654	2,654	2,654	2,654	2,654	2,654	11,336	11,336	11,336	11,336	11,336	11,336	11,336	11,336	11,336	11,336	11,336	11,336	11,336	11,336	11,336	
Occupancy expenses	1,900	1,878	1,878	1,878	455	455	477	477	477	477	477	477	1,792	1,792	1,792	1,792	1,792	1,792	1,792	1,792	1,792	1,792	1,792	1,792	1,792	1,792	1,792	
Amortization of intangibles	1,100	1,082	1,082	1,082	270	270	271	271	271	271	271	271	1,093	1,093	1,093	1,093	1,093	1,093	1,093	1,093	1,093	1,093	1,093	1,093	1,093	1,093	1,093	
Other operating expenses	10,450	9,711	9,711	9,711	2,650	2,600	2,295	2,295	2,295	2,295	2,295	2,295	9,632	9,632	9,632	9,632	9,632	9,632	9,632	9,632	9,632	9,632	9,632	9,632	9,632	9,632	9,632	
Core non-interest expense	25,150	23,981	23,981	23,981	6,375	6,125	5,697	5,697	5,697	5,697	5,697	5,697	23,853	23,853	23,853	23,853	23,853	23,853	23,853	23,853	23,853	23,853	23,853	23,853	23,853	23,853	23,853	
Non-recurring expenses	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Total non-interest expenses	25,150	23,981	23,981	23,981	6,375	6,125	5,697	5,697	5,697	5,697	5,697	5,697	23,853	23,853	23,853	23,853	23,853	23,853	23,853	23,853	23,853	23,853	23,853	23,853	23,853	23,853	23,853	
Pre-tax income	19,674	19,547	19,547	19,547	4,816	4,859	5,071	5,071	4,801	4,801	4,801	4,801	17,979	17,979	17,979	17,979	17,979	17,979	17,979	17,979	17,979	17,979	17,979	17,979	17,979	17,979	17,979	
Provision for taxes	4,132	4,139	4,139	4,139	1,011	1,020	1,075	1,075	1,032	1,032	1,032	1,032	3,660	3,660	3,660	3,660	3,660	3,660	3,660	3,660	3,660	3,660	3,660	3,660	3,660	3,660	3,660	
Net income	\$15,543	\$15,408	\$15,408	\$15,408	\$3,805	\$3,839	\$3,996	\$3,996	\$3,769	\$3,769	\$3,769	\$3,769	\$14,319	\$14,319	\$14,319	\$14,319	\$14,319	\$14,319	\$14,319	\$14,319	\$14,319	\$14,319	\$14,319	\$14,319	\$14,319	\$14,319	\$14,319	
Accumulative effect of accounting change	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	
Available for common	\$15,543	\$15,408	\$15,408	\$15,408	\$3,805	\$3,839	\$3,996	\$3,996	\$3,769	\$3,769	\$3,769	\$3,769	\$14,319	\$14,319	\$14,319	\$14,319	\$14,319	\$14,319	\$14,319	\$14,319	\$14,319	\$14,319	\$14,319	\$14,319	\$14,319	\$14,319	\$14,319	
Average diluted shares	6,915	6,944	6,944	6,944	6,935	6,940	6,947	6,947	6,953	6,953	6,953	6,953	6,943	6,943	6,943	6,943	6,943	6,943	6,943	6,943	6,943	6,943	6,943	6,943	6,943	6,943	6,943	
Net income	15,543	15,408	15,408	15,408	3,805	3,839	3,996	3,996	3,769	3,769	3,769	3,769	14,319	14,319	14,319	14,319	14,319	14,319	14,319	14,319	14,319	14,319	14,319	14,319	14,319	14,319	14,319	
Non-recurring items	0	(2)	0	0	0	0	7	7	(9)	(9)	(9)	(9)	(19)	(19)	(19)	(19)	(19)	(19)	(19)	(19)	(19)	(19)	(19)	(19)	(19)	(19)	(19)	
Pro forma net income	15,543	15,406	15,406	15,406	3,805	3,839	4,003	4,003	3,760	3,760	3,760	3,760	14,300	14,300	14,300	14,300	14,300	14,300	14,300	14,300	14,300	14,300	14,300	14,300	14,300	14,300	14,300	
<b>Earnings per share - diluted</b>	<b>\$2.25</b>	<b>\$2.22</b>	<b>\$2.22</b>	<b>\$2.22</b>	<b>\$0.55</b>	<b>\$0.55</b>	<b>\$0.58</b>	<b>\$0.58</b>	<b>\$0.54</b>	<b>\$0.54</b>	<b>\$0.54</b>	<b>\$0.54</b>	<b>\$2.06</b>	<b>\$2.06</b>	<b>\$2.06</b>	<b>\$2.06</b>	<b>\$2.06</b>	<b>\$2.06</b>	<b>\$2.06</b>	<b>\$2.06</b>	<b>\$2.06</b>	<b>\$2.06</b>	<b>\$2.06</b>	<b>\$2.06</b>	<b>\$2.06</b>	<b>\$2.06</b>	<b>\$2.06</b>	
<b>Pro forma earnings per share</b>	<b>\$2.25</b>	<b>\$2.22</b>	<b>\$2.22</b>	<b>\$2.22</b>	<b>\$0.55</b>	<b>\$0.55</b>	<b>\$0.58</b>	<b>\$0.58</b>	<b>\$0.54</b>	<b>\$0.54</b>	<b>\$0.54</b>	<b>\$0.54</b>	<b>\$2.06</b>	<b>\$2.06</b>	<b>\$2.06</b>	<b>\$2.06</b>	<b>\$2.06</b>	<b>\$2.06</b>	<b>\$2.06</b>	<b>\$2.06</b>	<b>\$2.06</b>	<b>\$2.06</b>	<b>\$2.06</b>	<b>\$2.06</b>	<b>\$2.06</b>	<b>\$2.06</b>	<b>\$2.06</b>	
<b>Assumptions:</b>																												
Average earning assets	\$946,570	\$919,000	\$920,519	\$915,940	0.5%	-1.5%	2.2%	2.2%	0.0%	0.0%	0.0%	0.0%	8.3%	8.3%	8.3%	8.3%	8.3%	8.3%	8.3%	8.3%	8.3%	8.3%	8.3%	8.3%	8.3%	8.3%	8.3%	
Growth - earning assets	3.0%	4.53%	4.53%	4.53%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.2%	4.2%	4.2%	4.2%	4.2%	4.2%	4.2%	4.2%	4.2%	4.2%	4.2%	4.2%	4.2%	4.2%	4.2%	
Net interest margin	4.40%	4.50%	4.50%	4.50%	93.00%	93.00%	93.00%	93.00%	93.60%	93.60%	93.60%	93.60%	93.7%	93.7%	93.7%	93.7%	93.7%	93.7%	93.7%	93.7%	93.7%	93.7%	93.7%	93.7%	93.7%	93.7%	93.7%	
Avg earning assets/avg assets	13.50%	13.10%	13.20%	13.10%	12.80%	12.90%	12.90%	12.90%	12.81%	12.81%	12.81%	12.81%	12.11%	12.11%	12.11%	12.11%	12.11%	12.11%	12.11%	12.11%	12.11%	12.11%	12.11%	12.11%	12.11%	12.11%	12.11%	
Avg equity/avg assets	21.00%	21.17%	21.00%	21.00%	21.00%	21.20%	21.20%	21.20%	21.50%	21.50%	21.50%	21.50%	20.36%	20.36%	20.36%	20.36%	20.36%	20.36%	20.36%	20.36%	20.36%	20.36%	20.36%	20.36%	20.36%	20.36%	20.36%	
Effective tax rate																												
<b>Projected:</b>																												
Average assets	\$1,017,817	\$966,579	\$989,806	\$984,981	\$130,654	\$129,019	\$127,713	\$127,713	\$124,529	\$124,529	\$124,529	\$124,529	\$973,738	\$973,738	\$973,738	\$973,738	\$973,738	\$973,738	\$973,738	\$973,738	\$973,738	\$973,738	\$973,738	\$973,738	\$973,738	\$973,738	\$973,738	
Average equity	\$137,405	\$128,289	\$134,654	\$129,019	\$13,535	\$13,567	\$13,567	\$13,567	\$12,111	\$12,111	\$12,111	\$12,111	\$117,887	\$117,887	\$117,887	\$117,887	\$117,887	\$117,887	\$117,887	\$117,887	\$117,887	\$117,887	\$117,887	\$117,887	\$117,887	\$117,887	\$117,887	
Return on average assets	11.31%	12.01%	11.65%	11.90%	4.25%	4.52%	4.52%	4.52%	4.93%	4.93%	4.93%	4.93%	12.15%	12.15%	12.15%	12.15%	12.15%	12.15%	12.15%	12.15%	12.15%	12.15%	12.15%	12.15%	12.15%	12.15%	12.15%	
Return on average equity	49.83%	47.90%	48.79%	48.79%									50.2%	50.2%	50.2%	50.2%	50.2%	50.2%	50.2%	50.2%	50.2%	50.2%	50.2%	50.2%	50.2%	50.2%	50.2%	
Efficiency ratio																												

Source: Company Reports and Davenport & Company estimates

## National Bankshares Inc.

NKSH

1) 10/16/08	2) 05/13/09
Buy \$22	Neutral NA

**Disclosure Section**

As of 06/30/10, Davenport's ratings of covered companies were distributed as follows: 56.1% Buy, 42.9% Neutral, 1.0% Sell  
 As of 06/30/10, Davenport's percentages of covered companies that were investment banking clients within the past 12 months by rating were: 13.0% Buy, 10.2% Neutral, 0.0% Sell

**Companies Mentioned in this Report and Associated Disclosures**

National Bankshares Inc. (NKSH - NASDAQ):I2

**Description of Rating System**

- Strong Buy** These shares are viewed as compelling short and long-term investment opportunities. We expect these shares to materially outperform the market over the next 12 months. Aggressive purchase is recommended at current prices.
- Buy** These shares offer attractive long-term appreciation potential from current prices. We would expect these shares to outperform the market over a longer-term horizon and long-term investors can buy at current prices.
- Neutral** These shares should perform roughly in-line with the current market. We neither encourage the purchase nor the sale of these securities at current prices.
- Reduce/Sell** These shares have more downside risk than upside potential at current prices. We expect these shares to underperform the market at current prices.

**Risk Profile Considerations**

This risk classification has been determined primarily from considering the level and predictability of earnings, the volatility of the stock relative to the market, applicable debt ratings, the composition and level of the company's capital structure, the dependence on key customers, and other relevant risk considerations.

**Description of Possible Disclosure Codes**

- A1** The Research Analyst or a member of the Analyst's household owns common stock of the subject company.
- A2** The Research Analyst or a member of the Analyst's household owns preferred stock of the subject company.
- A3** The Research Analyst or a member of the Analyst's household has options on the common stock of the subject company.
- A4** The Research Analyst or a member of the Analyst's household owns rights for the securities of the subject company.
- A5** The Research Analyst or a member of the Analyst's household owns warrants for the securities of the subject company.
- A6** The Research Analyst or a member of the Analyst's household has futures contracts on the securities of the subject company.
- A7** The Research Analyst or a member of the Analyst's household has a short position in the common stock of the subject company.
- A8** The Research Analyst or a member of the Analyst's household owns a debt security issued by the subject company.
- B** The Research Analyst or a member of the Analyst's household serves as an officer, director, or advisory board member of the subject company.
- I** Davenport or its affiliates received compensation for investment banking services from the subject company in the past 12 months.
- I2** Davenport or its affiliates expects to receive or intends to seek compensation for investment banking services from the subject company in the next 3 months.
- I/F** Davenport or its affiliates received fixed income investment banking fees from this company within the past 12 months.
- S/C** The subject company was a non-investment banking – securities related services client of Davenport or its affiliates for which compensation was received during the past 12-months.

- N/C** The subject company was a non-securities services client of Davenport or its affiliates for which compensation was received during the past 12-months.
- O** As of the end of the month immediately preceding the date of this report (or the end of the second most recent month if the report date is less than 10 calendar days after the end of the most recent month), Davenport or its affiliates beneficially owned 1% or more of any class of common equity securities of the subject company calculated in accordance with Section 13(d) of the Securities Exchange Act of 1934.
- SCC** The Research Analyst received non-investment banking related compensation from the subject company in the past 12 months.
- U** Davenport or its affiliates managed or co-managed a public offering of securities for the subject company in the past 12 months.
- C** Any other actual, material conflict of interest of the Research Analyst or Davenport and its affiliates, of which Davenport and its affiliates or the Research Analyst knows, or has reason to know, at the time of this report.

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**Additional information is available upon request.**

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**Certification**

As the primary author of this report, I hereby certify that the views and opinions expressed herein accurately reflect my personal views and opinions about the principal subject(s) of this report. Further, I hereby certify that no part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or personal views expressed here.

Allan G. Bach