



Davenport & Company  
Last updated: October 15, 2010

National Bankshares  
Actual & Estimated Earnings

	2011 Projected	2010 Actual	2009 Actual	2008 Actual
<b>Income Statement:</b>				
Net interest income (TE)	\$41,585	\$38,647	\$38,647	\$34,693
Tax equivalent adjustment	3,600	3,985	3,985	3,388
Net interest income	37,985	34,662	34,662	31,281
Provision for loan losses	2,400	1,634	1,634	1,119
Net interest income after provision	35,585	33,028	33,028	30,175
Trust income	1,100	1,053	1,053	1,231
Other	7,950	7,779	7,779	7,874
Core non-interest income	9,050	8,832	8,832	9,105
Gain on security transactions	0	(28)	(28)	(18)
Gain on sales of loans	0	0	0	0
Other	0	0	0	0
Total non-interest income	9,050	8,804	8,804	9,087
Salaries and benefits	2,950	2,927	2,927	2,831
Occupancy expenses	1,820	1,792	1,792	1,751
Amortization of intangibles	1,080	1,093	1,093	1,120
Other operating expenses	2,550	2,506	2,506	2,485
Core non-interest expense	6,400	6,318	6,318	6,227
Non-recurring expenses	0	0	0	0
Total non-interest expenses	6,400	6,318	6,318	6,227
Pre-tax income	29,185	26,710	26,710	23,948
Provision for taxes	4,239	3,660	3,660	3,645
Net income	\$15,946	\$13,050	\$13,050	\$10,303
Cumulative effect of accounting change	0	0	0	0
Available for common	\$15,946	\$13,050	\$13,050	\$10,303
Average diluted shares	6,935	6,943	6,943	6,932
Net income	15,946	13,553	13,553	11,553
Non-recurring items	0	(11)	(11)	(11)
Pro forma net income	15,946	13,532	13,532	11,532
<b>Earnings per share - diluted</b>	<b>\$2.30</b>	<b>\$2.25</b>	<b>\$2.06</b>	<b>\$1.96</b>
<b>Pro forma earnings per share</b>	<b>\$2.30</b>	<b>\$2.25</b>	<b>\$2.06</b>	<b>\$1.96</b>
<b>Assumptions:</b>				
Average earning assets	\$939,800	\$923,956	\$923,956	\$909,654
Growth - earning assets	1.7%	1.2%	0.0%	8.3%
Net interest margin	4.40%	4.52%	4.48%	4.24%
Avg earning assets/avg assets	93.00%	93.10%	93.00%	93.73%
Avg equity/avg assets	13.20%	13.00%	13.10%	12.11%
Effective tax rate	21.00%	21.43%	21.00%	20.36%
<b>Projected:</b>				
Average assets	\$1,010,538	\$991,899	\$989,000	\$973,738
Average equity	\$133,391	\$128,981	\$131,736	\$117,687
Return on average assets	1.57%	1.58%	1.57%	1.47%
Return on average equity	11.95%	12.18%	11.84%	12.51%
Efficiency ratio	48.86%	48.07%	47.61%	48.96%

Source: Company Reports and Davenport & Company estimates

## National Bankshares Inc.

NKSH

1) 10/16/08	2) 05/13/09	3) 07/16/10
Buy \$22	Neutral NA	Buy \$28

**Disclosure Section**

As of 09/30/10, Davenport's ratings of covered companies were distributed as follows: 57.2% Buy, 41.7% Neutral, 1.1% Sell  
 As of 09/30/10, Davenport's percentages of covered companies that were investment banking clients within the past 12 months by rating were: 12.6% Buy, 9.3% Neutral, 50.0% 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.

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- 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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