

NATIONAL BANKSHARES, INC.

DIRECTORS CODE OF ETHICS AND INSIDER POLICIES

National Bankshares, Inc. is fully committed to doing business in an honest and ethical manner and to complying with all applicable laws and regulations. This Code of Ethics is intended to demonstrate that the Board of Directors of National Bankshares, Inc. has carefully considered the requirements of ethical dealing. It also shows that the Board has put in place a system to ensure that business standards for Directors are clearly articulated so that each Director is accountable for his or her activities. The Code of Ethics further makes certain that the Board becomes aware of and takes prompt action against any questionable behavior.

GENERAL ETHICAL STANDARDS

INSIDE INFORMATION

Financial information regarding National Bankshares, Inc. and its subsidiaries is confidential until it has been publicly announced. Financial information and other confidential information may also be “inside” information. “Inside information” is defined as non-public information that is important enough to affect the decision of investors whether or not to buy, sell or hold a company’s stock.

It is impermissible and illegal to disclose inside information or to utilize inside information in connection with any purchase or sale of National Bankshares, Inc. stock.

CONFIDENTIAL INFORMATION

Proprietary company information and information about the transactions and accounts of the customers of the company’s subsidiaries is confidential information that a Director may not disclose and that may not be utilized for the Director’s personal gain of benefit.

CONFLICTS OF INTEREST

A potential conflict of interest exists whenever a Director, a member of the Director’s immediate family or a business in which the Director has a material involvement has an interest that could negatively affect the Director’s impartial judgment or that could conflict with the best interests of the company.

For this purpose, “immediate family” includes spouse, parents, children (whether or not residing in the same household) and other relatives residing in the Director’s home. A Director’s business interest is considered “material” for this purpose if the Director is an officer, director, partner or has an ownership interest that is greater than 5%.

SUPPLYING GOODS OR SERVICES

All transactions in which goods and services are supplied to the Company or any subsidiary by a Director, a Director’s immediate family member or by a business in which a Director has a material interest must be handled in the same manner as a transaction with any other unrelated individual or business. Transactions of this nature must be documented to demonstrate compliance with this requirement.

SUBSIDIARY BANK PRODUCTS AND SERVICES

Directors, members of their immediate families and businesses in which they have a material interest will be offered products and services, including loans, by the Company's subsidiary banks and they will be charged services and fees, on the same terms and conditions as bank customers who are not insiders.

TRANSACTIONS WITH SUBSIDIARY BANK TRUST DEPARTMENTS

It is generally prohibited for Directors, members of their immediate families and businesses in which they have a material interest from purchasing, directly or indirectly (for example, at a public auction), property from the Trust Departments of the Company's subsidiary banks. There are some limited exceptions to the prohibition. To determine if it is permissible, Directors should consult with the President in advance of any contemplated transaction with the Trust Department of a subsidiary bank.

USE OF PROPERTY AND PERSONNEL

It is a policy not to make Company or subsidiary property, equipment or personnel available for purposes that are not related to the Company's own business. The President and the Board of Directors must approve any exception to this policy.

ACCEPTING GIFTS AND FEES IN CONNECTION WITH BUSINESS

Directors should not accept money or gifts from the Company's suppliers or from the suppliers or customers of the Company's subsidiaries. An exception may be made for promotional items of nominal value (\$100 or less) or for an occasional meal.

BOARD MEETING PROCEDURES

Whenever the Board of Directors is considering an item of business in which a Director has a personal interest and/or in which the Director has a conflict of interest, the Director should:

1. Inform the Board of Directors of the Director's personal interest or potential conflict.
2. Refrain from discussing or voting on the item in which the Director has a personal interest or which presents the potential conflict. It is preferable for the Director to leave the meeting room during Board discussion of the item.
3. Always resolve any doubt about whether an issue presents a conflict of interest in favor of the position that the matter actually creates a conflict.

APPEARANCE OF IMPROPRIETY

Situations may arise in which there is not a technical conflict of interest. However, Directors should avoid those situations in which there is an appearance of impropriety.

CORPORATE OPPORTUNITIES

A Director should not take for himself or herself, or for their personal business, opportunities that are discovered through his or her position with the Company. A Director should not compete with the Company, as the Company is owed the Director's business loyalty.

SPECIFIC RESPONSIBILITIES

DUTY TO REPORT ILLEGAL OR UNETHICAL CONDUCT

A Director has an affirmative obligation to report illegal or unethical conduct to the President or to the Chairman of the Board. If the situation makes it inappropriate to report to those individuals, the Director should use his or her best judgement to notify an individual or agency (such as the Company's internal or external auditors) that will ensure that appropriate steps are taken to deal with the illegal or unethical conduct.

DUTY TO REFRAIN FROM MISLEADING THE COMPANY'S AUDITORS

A Director should not take any action to fraudulently induce, coerce, manipulate or mislead the Company's external auditors for the purpose of making the Company's financial statement materially misleading.

DUTY TO COMPLY WITH SECTION 16 OF THE SECURITIES EXCHANGE ACT OF 1934

Section 16 of the Securities Exchange Act of 19 sets out certain requirements for Directors of the Company.

REPORTS REQUIRED TO BE FILED UNDER SECTION 16(a)

Section 16(a) requires Directors to electronically file three stock ownership reports with the Securities and Exchange Commission in Washington, D.C. When a person first becomes a Director, a Form 3 is filed reporting their stock ownership. After that, a Director must file a statement of changes in stock ownership on Form 4 within two business days of the purchase or sale of stock in which the Director has a direct or indirect beneficial interest.

Examples of direct beneficial ownership include stock held in the Director's sole name or jointly with a spouse. Indirect beneficial ownership includes stock owned by a spouse or by a child (including an adult child) whose legal residence is the same as the Director's. A Director also beneficially owns stock held in the name of a trust of which the Director is a beneficiary and stock held in the name of a corporation or a partnership over which the Director has voting or investment control. Stock held in "street name" by a brokerage firm in an account owned by the Director is clearly stock in which the Director has a beneficial interest.

A Form 5 must be filed by February 15 to report stock transactions not previously reported during the previous calendar year.

It is the Director's responsibility to ensure that all Section 16(a) reports are filed on a timely basis, but the Corporate Secretary will assist the Director with filing.

CERTIFICATION

Directors will be asked to certify annually that all reports to the Securities and Exchange Commission under Section 16 have been timely filed, or, in the alternative, to disclose those forms that have not been properly filed with the Commission.

LIABILITY FOR SHORT-SWING PROFITS

To deter insiders from profiting from short-term transactions in the Company's stock, Section 16(b) sets out potential penalties for profits made by a Director from the

purchase and sale or sale and purchase of stock that take place within a period of six months. Although there are certain exemptions from these penalties, a Director should pre-clear with the Corporate Counsel any sale and purchase or purchase and sale of Company stock within a six-month period.

OTHER REQUIRED REPORTS

At least annually, the Director must file with the Corporate Secretary an updated personal financial statement and a list disclosing all businesses in which the Director has a material interest.

ACKNOWLEDGMENT

I acknowledge that I am a Director of National Bankshares, Inc.; that I have received a copy of the Directors' Code of Ethics and Insider Policies; that I agree to comply with these and any other Company policies concerning insiders, as those policies might be promulgated and amended from time to time.

Date:

Director

01/2004