

NATIONAL BANKSHARES, INC.
PRINCIPAL EXECUTIVE OFFICER
AND
SENIOR FINANCIAL OFFICERS
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 National Bankshares, Inc. has carefully considered the importance of ethical dealing by its Principal Executive Officer and Senior Financial Officers (referred to as “employees”). It also shows that the Company has put in place a system to ensure that ethical standards for these employees are clearly articulated so that each employee is accountable for his or her activities. The Code of Ethics further makes certain that the Company becomes aware of and takes prompt action against any questionable behavior.

Employees are also bound to adhere to the Employee’s Code of Conduct, the provisions of which complement this Code of Ethics.

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 an employee may not disclose and that may not be utilized for the employee’s personal gain or benefit.

CONFLICTS OF INTEREST

Employees must avoid conflicts of interest. A conflict of interest exists whenever an employee, a member of the employee’s immediate family or a business in which the employee has a material involvement, has an interest that negatively affects the employee’s decisions on the job, affects the time devoted to the job, negatively impacts the employee’s quality of work, adversely affects his or her business judgement, competes with the Company’s activities, or conflicts 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 employee’s home. An employee’s business interest is considered “material” for this purpose if the

employee is an officer, director, partner or has an ownership interest that is greater than 5%.

SPECIFIC RESPONSIBILITIES

DUTY TO REPORT ILLEGAL OR UNETHICAL CONDUCT

An employee has an affirmative obligation to promptly report illegal or unethical conduct to the President or to the Chairman of the Board of Directors Audit Committee, if the situation makes it inappropriate to report to the President. Failure to report illegal or unethical conduct shall be in itself a violation of this Code of Conduct.

DUTY TO MAKE FULL DISCLOSURES IN SECURITIES AND EXCHANGE COMMISSION FILINGS AND PUBLIC COMMUNICATIONS

An employee must make, or insure are made, full, fair, accurate, timely, and understandable disclosures in reports and documents that the Company files with or submits to the Securities and Exchange Commission and in all other public communications.

DUTY TO REFRAIN FROM MISLEADING THE COMPANY'S AUDITORS

An employee shall 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 LAWS

An employee has the duty to personally comply with all applicable governmental laws, rules and regulations and to insure that the Company complies these laws, rules and regulations.

VIOLATIONS OF CODE OF ETHICS

Each employee will be held accountable for violations of this Code of Ethics. Violations may result in discipline or termination of employment.