



National Bankshares

March 30, 2020

Dear Fellow Stockholder:

We invite you to join us for the Annual Meeting of Stockholders of National Bankshares, Inc. on Tuesday, May 12, 2020, at 3:00 p.m., Eastern Time. Due to the current coronavirus (COVID-19) pandemic and in support of the health of our stockholders, directors and employees, the Board of Directors has determined that the Annual Meeting will be conducted exclusively as a “virtual meeting” of stockholders via online live webcast. There will be no physical location for the meeting. You will be able to attend and listen to the meeting live, submit questions and vote online during the meeting by visiting www.meetingcenter.io/221471900. For information on how to participate in the virtual Annual Meeting, please see the “General Information” section on page 1 of the accompanying proxy statement.

The attached Notice of Annual Meeting and Proxy Statement describe the formal business to be transacted at the meeting. We will be voting to elect four directors, approve on an advisory basis our named executive officer compensation and ratify the appointment of Yount, Hyde & Barbour, P.C. as our independent auditors for 2020. We also will report on the operations of National Bankshares.

YOUR VOTE IS IMPORTANT, REGARDLESS OF THE NUMBER OF SHARES YOU OWN. On behalf of the Board of Directors, I urge you to please sign, date and return the proxy in the enclosed postage-paid envelope. Please return the proxy as soon as possible, even if you plan to attend and participate in the Annual Meeting online. This will not prevent you from voting your shares electronically during the meeting, but it will ensure that your vote is counted if you are unable to attend the meeting. Alternatively, you may vote your proxy by telephone or over the Internet by following the instructions on your proxy card or voting instruction form. If your broker, bank or other nominee holds your shares, you also should contact your nominee for additional information.

Thank you for your interest and investment in National Bankshares, Inc.

Sincerely,

F. Brad Denardo
Chairman, President and
Chief Executive Officer

**NOTICE OF 2020 ANNUAL MEETING OF STOCKHOLDERS
To Be Held on May 12, 2020**

To the Stockholders of National Bankshares, Inc.:

Notice is hereby given that the 2020 Annual Meeting of Stockholders of National Bankshares, Inc. will be held as follows:

Date: Tuesday, May 12, 2020

Time: 3:00 p.m., Eastern Time

Location: The Annual Meeting will be a virtual meeting conducted exclusively via online live webcast. You will be able to attend and listen to the meeting live, submit questions and vote online during the meeting by visiting www.meetingcenter.io/221471900. If you plan to attend and participate in the virtual Annual Meeting, please see the "General Information" section on page 1 of the accompanying proxy statement for further instructions on how to access the meeting.

The meeting is for the purpose of considering and acting upon the following items of business:

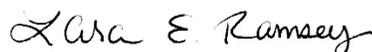
1. ***Election of Four Class 3 Directors:*** To elect four Class 3 Directors to serve a term of three years each until the 2023 Annual Meeting.
2. ***Advisory (Non-Binding) Vote to Approve Executive Compensation:*** To vote on a resolution to approve the compensation of the named executive officers disclosed in this proxy statement.
3. ***Ratification of Appointment of Independent Registered Public Accounting Firm:*** To vote on a proposal to ratify the Board of Directors' appointment of Yount, Hyde & Barbour, P.C. as the Company's independent registered public accounting firm for the year ending December 31, 2020.
4. ***Other Business:*** To consider and act on any other matters that may properly come before the Annual Meeting or any adjournment. The Board of Directors is not aware of any other business to come before the Annual Meeting.

Only stockholders of record at the close of business on March 11, 2020 are entitled to receive notice of and to vote at the meeting, or at any adjournments of the meeting.

Your attention is directed to the proxy statement accompanying this notice for a more complete statement of the matters proposed to be acted upon at the meeting.

To assure that your shares are represented at the meeting, you may vote your proxy by telephone or over the Internet or you may sign and return the form of proxy promptly, as applicable, so that if you are unable to attend and vote online during the meeting your shares can nevertheless be voted. You may revoke your proxy prior to the actual voting of the proxy.

BY ORDER OF THE BOARD OF DIRECTORS



Lara E. Ramsey
Corporate Secretary

Blacksburg, Virginia
March 30, 2020

IMPORTANT NOTICE

Please (1) vote your proxy by telephone (2) vote your proxy over the Internet or (3) mark, date, sign and promptly mail the form of proxy, as applicable, so that your shares will be represented at the meeting.

If you hold your shares in street name, it is critical that you instruct your broker, bank or other nominee how to vote if you want your vote to count in the election of directors and the advisory resolution to approve executive compensation (vote proposals 1 and 2 of this proxy statement). Under current regulations, if you hold your shares in street name and you do not instruct your broker, bank or other nominee how to vote in these matters, no votes will be cast on your behalf with respect to these matters.

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE 2020 ANNUAL MEETING OF STOCKHOLDERS TO BE HELD ON MAY 12, 2020

This proxy statement and our annual report to shareholders and annual report on Form 10-K for the year ended December 31, 2019 are available at <http://nationalbankshares.com>.

**PROXY STATEMENT
OF
NATIONAL BANKSHARES, INC.
101 HUBBARD STREET
BLACKSBURG, VA 24060
P.O. BOX 90002
BLACKSBURG, VA 24062-9002
540-951-6300
www.nationalbankshares.com**

**ANNUAL MEETING OF STOCKHOLDERS
TUESDAY, MAY 12, 2020**

GENERAL INFORMATION

This proxy statement is furnished in connection with the solicitation of proxies by and on behalf of the Board of Directors (the “Board”) of National Bankshares, Inc. to be used at the 2020 Annual Meeting of Stockholders (the “Annual Meeting”) to be held at 3:00 p.m., Eastern Time, on Tuesday, May 12, 2020, and at any adjournments of the meeting. The approximate mailing date of the proxy statement, the notice of annual meeting and the accompanying proxy is March 30, 2020. In this proxy statement, references to “NBI,” “Bankshares,” the “Company,” “we,” “us,” or “our” refer to National Bankshares, Inc. and references to “NBB,” “National Bank” or the “Bank” refer to The National Bank of Blacksburg, the Company’s wholly-owned community bank subsidiary.

Due to the current coronavirus (COVID-19) pandemic and in support of the health of stockholders, directors and employees, the Board has determined that the Annual Meeting will be conducted exclusively as a “virtual meeting” of stockholders via online live webcast. There will be no physical location for the meeting. Stockholders will be able to attend and listen to the meeting live, submit questions and vote online during the meeting by visiting www.meetingcenter.io/221471900.

A stockholder holding shares of Bankshares common stock directly in his or her name through Bankshares’ transfer agent, Computershare Trust Company, N.A. (“Computershare”), is considered the “stockholder of record” with respect to those shares. To attend the Annual Meeting virtually on the Internet, such stockholders of record should follow the instructions on the proxy card provided by Computershare.

A stockholder holding shares of Bankshares common stock through a broker, bank or other nominee or otherwise in “street name” (“broker shares”), is considered the “beneficial owner” of such shares held in street name. To attend the Annual Meeting virtually on the Internet, such beneficial owners must register in advance of the meeting. To register to attend the Annual Meeting, beneficial owners must submit proof of their proxy power (legal proxy) reflecting their holdings along with their name and email address to Computershare. Requests for registration must be labeled as “Legal Proxy” and be received no later than 5:00 p.m., Eastern Time, on or before May 8, 2020. Computershare will deliver a confirmation of registration by email after it receives the registration materials from beneficial owners. Requests for registration should be directed to Computershare as follows:

By email: Forward the email from your broker, bank or other nominee, or attach an image of the legal proxy, to legalproxy@computershare.com

By mail: Computershare
National Bankshares, Inc. Legal Proxy
P.O. Box 43001
Providence, RI 02940-3001

REVOCATION OF PROXIES

Stockholders who vote their proxies prior to the meeting retain the right to revoke them at any time prior to the actual voting of the proxies at the Annual Meeting. Proxies may be revoked by written notice received prior to the meeting, by attending the meeting and voting online at the meeting or by submitting a signed proxy with a later date. A written notice revoking a previously executed proxy should be sent to National Bankshares, Inc., P.O. Box 90002, Blacksburg, Virginia 24062-9002, Attention: F. Brad Denardo. Unless revoked, the shares represented by properly executed proxies will be voted at the meeting according to the instructions contained in the proxy.

Where no instructions are given, proxies will be voted *for* the nominees for directors set forth in Proposal 1; *for* the non-binding resolution to approve the compensation of the named executive officers described in Proposal 2; and *for* the ratification of the appointment of Yount, Hyde & Barbour, P.C. as the independent registered public accounting firm for the year ending December 31, 2020 described in Proposal 3.

An Annual Report to Stockholders, including the financial statements for the Company's fiscal year ended December 31, 2019, is being mailed to stockholders at the same time as this Proxy Statement, but should not be considered proxy solicitation material.

VOTING SECURITIES AND STOCK OWNERSHIP

As of March 11, 2020, Bankshares had 6,489,574 shares of common stock (\$1.25 par value) issued and outstanding. Each of the shares is entitled to one vote at the Annual Meeting. Only those stockholders of record at the close of business on March 11, 2020 will be entitled to vote at the meeting or at any adjournments.

A quorum of stockholders is necessary to transact business at the Annual Meeting. A quorum exists if the holders of a majority of votes entitled to be cast on matters to be considered at the Annual Meeting are present online at the Annual Meeting or represented by proxy. If a share is represented for any purpose at the Annual Meeting, it will be considered present for purposes of establishing a quorum. Abstentions and broker shares which are voted on any matter are included in determining the number of votes present online or represented by proxy at the Annual Meeting. Broker shares that are not returned and not voted on any matter will not be included in determining whether a quorum is present. If a quorum is established, directors will be elected by a plurality of votes cast by shares entitled to vote at the Annual Meeting. On all other matters, the vote of a majority of shares present online or represented by proxy and entitled to vote is required. Broker shares may not be voted in an uncontested Board election such as this one unless the beneficial owner has provided voting instructions. Votes that are withheld and broker shares that are not voted on any matter will not be included in determining the number of votes cast.

STOCK OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

Shown below is information with respect to persons or groups that beneficially own more than 5% of National Bankshares, Inc. common stock as of December 31, 2019. This share information is derived from Schedule 13G filed by such persons or groups with the Securities and Exchange Commission (the "SEC").

Name of Beneficial Owner	Shares of Common Stock Beneficially Owned as of December 31, 2019	Percentage of Class
BlackRock, Inc. 55 East 52 nd Street New York, NY 10055	470,411 ⁽¹⁾	7.2%
Royce & Associates, LLC 745 Fifth Avenue New York, NY 10151	467,789 ⁽²⁾	7.21%

⁽¹⁾ Sole dispositive power for 470,411 shares and sole voting power for 458,031 have been reported.

⁽²⁾ Sole dispositive and sole voting power for 467,789 shares have been reported.

STOCK OWNERSHIP OF DIRECTORS AND EXECUTIVE OFFICERS

The following table presents the beneficial ownership of National Bankshares, Inc. common stock as of March 11, 2020, by each director, nominee and executive officer named in the Summary Compensation Table, and all directors and executive officers as a group. Except as otherwise noted, the named individual has sole voting and investment power with respect to the stock.

Name of Beneficial Owner	Shares of Common Stock Beneficially Owned as of March 11, 2020	Percentage of Class
Lawrence J. Ball	8,000	*
F. Brad Denardo	34,003 ⁽¹⁾ ⁽²⁾	*
John E. Dooley	6,100 ⁽²⁾	*
Michael E. Dye	2,717 ⁽²⁾	*
Norman V. Fitzwater, III	5,668 ⁽²⁾	*
Charles E. Green, III	42,238 ⁽²⁾ ⁽³⁾	*
Mildred R. Johnson	2,009 ⁽³⁾	*
Rebecca M. Melton	---	*
Mary G. Miller	4,257	*
Paul M. Mylum	724 ⁽¹⁾	*
William A. Peery	12,998 ⁽³⁾	*
Lara E. Ramsey	4,686 ⁽¹⁾	*
Glenn P. Reynolds	7,409 ⁽³⁾	*
David K. Skeens	8,831 ⁽¹⁾	*
James C. Thompson	8,222	*
J. Lewis Webb, Jr.	7,218	*
All current directors and executive officers as a group (16 persons)	155,080	2.39%

* Represents less than 1% of the Company's outstanding common stock.

⁽¹⁾ Includes shares owned through the National Bankshares, Inc. Employee Stock Ownership Plan as follows:

Mr. Denardo, 17,010 shares; Mr. Mylum, 724 shares; Ms. Ramsey, 4,686 shares; and Mr. Skeens, 8,769 shares.

⁽²⁾ Includes shares owned jointly with spouse: Mr. Denardo, 485 shares; Dr. Dooley, 6,100 shares; Mr. Dye, 1,717 shares; Mr. Fitzwater, 5,668 shares; and Mr. Green, 8,658 shares.

⁽³⁾ Includes shares held by affiliated companies, spouses and dependent children, or as custodians or trustees, as follows: Mr. Green, 12,480 shares; Ms. Johnson, 1,002 shares; Mr. Peery, 7,332 shares; and Mr. Reynolds, 2,078 shares.

Stock Ownership Guidelines

While many of the Company's directors and executive officers hold Bankshares stock, the Company does not have specific policy regarding stock ownership and retention for its directors and executive officers at this time. The Compensation Committee, however, will continue to periodically review best practices and re-evaluate whether stock ownership guidelines are consistent with the compensation philosophy of Bankshares and with the stockholders' interests.

Anti-Hedging and Pledging Policy

The Company has adopted an Anti-Hedging and Pledging Policy. Under the policy, Company directors and named executive officers are prohibited from engaging in short sales of Bankshares stock and from engaging in transactions in publicly-traded options, such as puts, calls and other derivative securities based on Bankshares stock including any hedging, monetization or similar transactions designed to decrease the risks associated with holding Bankshares stock such as zero-cost dollars and forward sales contracts. In addition, Company directors and named executive officers are prohibited from pledging Bankshares stock as collateral for any loan or holding Bankshares stock in a margin account.

ELECTION OF DIRECTORS

The Company's articles of incorporation provide that the directors will be divided into three classes (1, 2 and 3) with each class as nearly equal in number as possible and the term of office of each class ending in successive years. The articles of incorporation also provide that the number of directors shall be set by the bylaws but shall not be less than nine or more than 26. On March 13, 2019, the Board of Directors amended the bylaws to set the number of directors from 14 to 12. For the purpose of the election of directors at the Annual Meeting, the number of directors set forth in the bylaws remains 12. The current term of office of the Class 3 directors expires at this 2020 Annual Meeting of Stockholders. The terms of Class 1 and Class 2 directors will expire in 2021 and 2022, respectively. In the future, the Board may consider adjustment of the size of each class of directors. All directors of the Company also serve as directors of NBB.

The Board of Directors has nominated four serving Class 3 directors, **Charles E. Green, III, Mildred R. Johnson, William A. Peery** and **James C. Thompson**, to serve a three-year term to expire at the Annual Meeting of Stockholders in 2023.

It is the intention of the persons named as proxies, unless instructed otherwise, to vote for the election of the four nominees for Class 3 director. Each nominee has agreed to serve if elected. If any of the nominees is unexpectedly unable to serve, the shares represented by all valid proxies will be voted for the remaining nominees and any other person or persons who may be designated by the Board. At this time, the Board knows of no reason why any nominee might be unable to serve.

THE BOARD OF DIRECTORS RECOMMENDS THAT THE STOCKHOLDERS VOTE “FOR” ALL OF THE NOMINEES SET FORTH BELOW.

PROPOSAL 1

ELECTION OF FOUR CLASS 3 DIRECTORS

Class 3 Nominees for Directors (Nominated to serve until the 2023 Annual Meeting):

Charles E. Green, III (Age 69): Mr. Green has served on the National Bankshares, Inc. Board of Directors since 2011. Previously, Mr. Green served as a member of the Board of Directors of NBB. He has over 30 years of experience as a community bank director having been elected to the NBB Board in 2006 and to the board of a predecessor bank in 1986. Mr. Green has experience in small business management, as well as insurance and investment matters, all of which benefit the Company. He resides in, and was formerly the mayor of, Tazewell, Virginia, and possesses in-depth knowledge of that portion of the Company's market area and community.

Mildred R. Johnson (Age: 65): Ms. Johnson has served on the National Bankshares, Inc. Board of Directors since 2017. As of September 1, 2019, Ms. Johnson retired as the Dean of Admissions at Radford University. For 22 years prior to her retirement at Radford University, she served in various roles at Virginia Tech, most recently as the Associate Vice Provost for Enrollment Management and Director of Undergraduate Admissions. She is a recognized leader in higher education with a career which spans over 44 years, primarily in college admissions. Ms. Johnson has served in leadership positions and on academic boards in both Virginia and nationally. She joined the NBB Board in 2012 and brings valuable experience in higher education and management to the Company. She also serves on the Lewis Gale Hospital Montgomery Board of Trustees.

William A. Peery (Age 68): Mr. Peery has served on the National Bankshares, Inc. Board of Directors since 2005. As President of Cargo Oil Co., Inc. in Tazewell, Virginia, Mr. Peery has business management experience, including experience in financial management. Cargo Oil Co., Inc. operates convenience stores and sells petroleum products. The firm is headquartered in Tazewell, Virginia where Mr. Peery resides. Mr. Peery brings small business management experience to the Board. The Company considers small businesses to be a key component of its customer market.

James C. Thompson (Age 63): Mr. Thompson has served on the National Bankshares, Inc. Board of Directors since 2017. Mr. Thompson joined the NBB Board of Directors in 2006 with the merger of NBB and the Bank of Tazewell County. Prior to the merger he served on the Bank of Tazewell County Board of Directors since 2005. He served as the Chairman of the Board of Directors of Thompson & Litton, Inc. for 13 years and he is currently the Director of Strategic Initiatives for the firm. He has served on its Board of Directors for 33 years and has been employed by the firm full-time since 1981. Thompson & Litton, Inc. is engaged in the business of engineering, architecture, and construction in seven Mid-Atlantic states. Mr. Thompson brings extensive experience in executive management,

finance and strategic planning. He serves as Chairman of the Board of Carilion Tazewell Community Hospital, and on the Carilion Clinic Board of Directors in Roanoke, Virginia, and the Tazewell Community Foundation Board of Directors.

DIRECTORS CONTINUING IN OFFICE

Class 1 Directors (Serving until 2021 Annual Meeting)

Lawrence J. Ball (Age 65): Mr. Ball has served on the National Bankshares, Inc. Board of Directors since 2006. He is retired President of Moog Components Group, a part of Moog, Inc., which is an international corporation. Prior to being named President, Mr. Ball was the Vice President and General Manager of Moog Components Group. Moog Components Group is headquartered in Blacksburg, Virginia, and the company designs and manufactures products in motion, electronics and fiber optics. Mr. Ball has extensive experience in management and financial reporting. Mr. Ball's experience as a senior manager with a large corporation is considered valuable in adding to the Board of Directors' understanding of larger business operations.

Michael E. Dye (Age 65): Mr. Dye has served on the National Bankshares, Inc. Board of Directors since 2017. He became a member of the NBB Board in 2006 with the merger of NBB and the Bank of Tazewell County. Prior to the merger, he had served on the Bank of Tazewell County Board of Directors since 2005. Mr. Dye is a Pharmacist and owner of New Graham Pharmacy (since 1979), Cornerstone Gifts, The Last Fountain and New Graham Knives, all located in Bluefield, Virginia. He possesses an extensive knowledge of the business activity and community life in the Company's important Bluefield market area. Mr. Dye is past president of the Bluefield, Virginia Downtown Development Corporation and is a member of the Bluefield, Virginia Business and Professional Association and the Bluefield Chamber of Commerce.

Mary G. Miller (Age 69): Dr. Miller has served on the National Bankshares, Inc. Board of Directors since 2003. For 30 years, she owned and operated Interactive Design & Development, Inc. ("IDD"), a custom software development company. After selling IDD in 2016, Dr. Miller accepted the position of Director of the Regional Acceleration and Mentoring Program ("RAMP"), which provides programs for technology businesses in the Roanoke-Blacksburg-Lynchburg, Virginia region. In her role at RAMP, she is building a mentor network in the region, conducting business development clinics and directing a residential program for promising technology companies. Dr. Miller brings in-depth knowledge of the region's developing technology sector and technology issues to her service on the Board of Directors. She also serves on the Board of Directors of the Roanoke-Blacksburg Technology Council.

Glenn P. Reynolds (Age 67): Mr. Reynolds has served on the National Bankshares, Inc. Board of Directors since 2006. He is the founder and President of Reynolds Architects Incorporated, an architecture firm located in Blacksburg, Virginia. Mr. Reynolds' familiarity with the area's construction and development projects and his experience with local building firms are useful to the Board. In addition, Mr. Reynolds has small business management experience and a network of contacts in the local business and academic communities. He also serves on several area boards and Virginia Tech organizations.

Dr. J. Lewis Webb, Jr. (Age 71): Dr. Webb has served on the National Bankshares, Inc. Board of Directors since 2017. He was elected to the NBB Board of Directors in 1994 after serving on NBB's Giles County Advisory Board since 1988. He is a retired dentist after 35 years of practice in Narrows, Virginia. Dr. Webb is a past member of the Giles County School Board, where he served as Chairman for two years and helped manage a \$26 million annual budget. He is also a past member of the New River Community College ("NRCC") Board and is a current member of the NRCC Educational Foundation Board. Dr. Webb has been a Managing Partner for Buchanan Coal Group since 1980, and is currently Lead Manager for the group. Dr. Webb has considerable professional, personal and civic experience and longstanding ties in the Company's Giles County market.

Class 2 Directors (Serving until 2022 Annual Meeting)

F. Brad Denardo (Age 67): Mr. Denardo has served on the National Bankshares, Inc. Board of Directors since 2017. He joined National Bank as a Vice President in 1983 and was promoted to Executive Vice President of Loans in 1989. In 2002, he was named Executive Vice President and Chief Operating Officer of National Bank and was also elected to the National Bank Board of Directors. He was named President and Chief Executive Officer of NBB in May 2014 and named Chairman, President and Chief Executive Officer ("CEO") of NBB in September 2017. He was Treasurer of National Bankshares Financial Services, Inc. ("NBFS") from 2001 until 2017. He currently serves as Chairman, President and CEO of NBFS and has served as a director since 2001. He served as Executive Vice President of the Company from 2008 until August 31, 2017. Mr. Denardo was named President and CEO of the Company on

September 1, 2017 and named Chairman, President and CEO of the Company on May 15, 2019. In addition to Mr. Denardo's considerable banking experience, his community and professional involvement bring a valuable perspective to the Board. Mr. Denardo is a Board Member of the Virginia Tech Corporate Research Center, the Community Foundation of the New River Valley, the Blacksburg Partnership, Bankers Insurance, LLC, and Virginia Bankers Association Management Services, Inc. He is Assistant Treasurer of Blacksburg United Methodist Church.

John E. Dooley (Age 65): Dr. Dooley has served on the National Bankshares, Inc. Board of Directors since 2012. He is CEO and Secretary-Treasurer of the Virginia Tech Foundation, Inc., where he oversees the leadership and management of Virginia Tech's private assets in support of university programs and initiatives which total assets exceed \$2.1 billion. Prior to becoming CEO of the Foundation in July 2012, Dr. Dooley served as Virginia Tech's Vice President for Outreach and International Affairs for ten years. Dr. Dooley is an active member of the Virginia Tech community through several committees and special projects. He also serves on the boards of several community and state organizations, including Go Virginia Region 2 Council and The Virginia Chamber of Commerce. He brings extensive financial knowledge and management capabilities to the Board as well as a significant network of contacts in the regional business and academic communities.

Norman V. Fitzwater, III (Age 69): Mr. Fitzwater has served on the National Bankshares, Inc. Board of Directors since 2017. He retired as President of A Cleaner World dry cleaning in Blacksburg, Virginia. Prior to opening the Blacksburg dry cleaning business in 1992, he was involved in the management and operation of several furniture manufacturing companies in Virginia and North Carolina. Mr. Fitzwater joined NBB's Board in 2013 and contributes extensive small business and manufacturing experience to the Board. He is President of the Blacksburg Hokie Club and is a member of the Blacksburg Partnership, the Montgomery County Chamber of Commerce and the Blacksburg United Methodist Church.

All information is provided as of March 11, 2020, and employment information is provided for the past five years. No director or nominee is related by blood, marriage or adoption to any other director, nominee or executive officer. No director or nominee currently serves or has served within the past five years, as a director of any company which has a class of securities registered pursuant to Section 12 of the Exchange Act, or is subject to the requirements of Section 15(d) of the Exchange Act, or of any company registered as an investment company under the Investment Company Act of 1940. Mr. Denardo currently serves as a director on both of the wholly-owned subsidiaries of the Company, National Bank and NBFS. Except for Mr. Denardo, no other director has been employed by a subsidiary affiliate of the Company during the last five years. Each director and nominee, except for Mr. Denardo, has been determined to be independent by the Board of Directors using the definition of "independent director" that is used for determining compliance with the applicable listing standards for The Nasdaq Stock Market ("Nasdaq"), the national securities exchange on which the Company's common stock is listed. (See also "Director Independence and Certain Transactions with Officers and Directors.")

PROPOSAL 2

ADVISORY (NON-BINDING) VOTE TO APPROVE EXECUTIVE COMPENSATION

Under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act") and rules adopted by the SEC under the Dodd-Frank Act, at least once every three years, our stockholders have the opportunity to vote, on a non-binding, advisory basis, to approve the compensation of the Company's named executive officers, as described in the disclosures and discussion regarding executive compensation in this proxy statement (often referred to as a "say-on-pay" vote). Our performance-related compensation philosophy is the basis for all of our compensation decisions. Please refer to the "Executive Compensation" section for an overview of the compensation of the Company's named executive officers, as required by SEC rules. At the 2017 Annual Meeting, stockholders voted in favor to hold this non-binding, advisory vote annually. Accordingly, the Company is asking stockholders to approve our named executive officers compensation through the following resolution:

"RESOLVED, that the stockholders approve the compensation of executive officers as disclosed in the proxy statement for the 2020 Annual Meeting of Stockholders of National Bankshares, Inc. pursuant to the rules of the Securities and Exchange Commission."

The vote is not intended to address any specific item of compensation, but rather the overall compensation of our named executive officers and the compensation policies and practices discussed in this proxy statement. Because the vote is advisory, it will not be binding on the Company or its Board of Directors. However, the Compensation Committee will take into account the outcome of the vote when considering future executive compensation arrangements.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE “FOR” APPROVAL
OF THE COMPANY’S EXECUTIVE COMPENSATION.**

PROPOSAL 3

**RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED
PUBLIC ACCOUNTING FIRM**

For the year ending December 31, 2020, the Audit Committee of the Board of Directors has appointed Yount, Hyde & Barbour, P.C., (“YHB”) as the independent registered public accounting firm to audit the Company’s financial statements and its internal controls over financial reporting, subject to ratification by the Company’s stockholders. YHB has acted as the Company’s independent registered public accounting firm for many years.

The selection of YHB as the Company’s independent auditors is not required to be submitted to a vote of the stockholders for ratification. The Company is doing so because it believes that it is a matter of good corporate practice. If the stockholders fail to vote on an advisory basis in favor of the selection of YHB, the Audit Committee will reconsider whether to retain YHB, and may retain that firm or another firm without re-submitting the matter to the stockholders. Even if the stockholders ratify the appointment, the Audit Committee may, in its discretion, direct the appointment of a different independent registered public accounting firm at any time during the year if it determines that a change would be in the Company’s best interests.

Representatives of YHB are expected to be at the Annual Meeting of Stockholders. Those representatives will have the opportunity to make a statement at the meeting and to respond to appropriate questions from stockholders.

**THE BOARD OF DIRECTORS RECOMMENDS THAT THE STOCKHOLDERS VOTE “FOR”
RATIFICATION OF THE APPOINTMENT OF YOUNT, HYDE & BARBOUR, P.C. AS THE
COMPANY’S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
FOR THE YEAR ENDING DECEMBER 31, 2020.**

OTHER BUSINESS

Management knows of no other matters to be presented for consideration at the Annual Meeting or any adjournments thereof. If any other matters shall properly come before the Annual Meeting, it is intended that the proxy holders named in the enclosed form of proxy will vote the shares represented thereby in accordance with their judgment, pursuant to the discretionary authority granted therein.

CORPORATE GOVERNANCE MATTERS

The Board and Board of Directors Meetings

Each director is expected to devote sufficient time, energy and attention to ensure diligent performance of the director’s duties and to attend all regularly scheduled Board, committee, and stockholder’s meetings. The Company’s Board of Directors meets monthly. In 2019, there were 12 regular Board meetings. During 2019, each incumbent director attended 75% or more of the total number of meetings of the Board of Directors of Bankshares and of the Board committees on which he or she served. All directors except for Dr. Dooley and Mr. Thompson attended the Company’s 2019 Annual Meeting. The Board does not have a formal policy regarding directors’ attendance at the Annual Meeting of Stockholders.

Board Leadership Structure

In past years, the Company chose to combine the position of chairman of the board and principal executive officer. Mr. Denardo, who has served as the Company’s President and Chief Executive Officer since September 1, 2017, first was elected as the Chairman of the Board of Directors in May 2019. He served as the Company’s Executive Vice President from 2008 until August 31, 2017 and has served as President and Chief Executive Officer of the Company’s primary subsidiary, The National Bank of Blacksburg, where nearly all of the Company’s business operations occur, since May 2014. He was named Chairman, President and CEO September 2017. Prior thereto, Mr. Denardo served as Executive Vice President of NBB. Mr. Denardo has spent his long career in banking and has held leadership positions in both state and national banking trade organizations. The Board of Directors determined that Mr. Denardo’s knowledge of NBB and the banking industry, combined with his Board experience, make him the

logical and natural choice to serve as Chairman of the Board of the Company. We believe the Board also benefitted from the continuity that Mr. Denardo provided in chairing the Board.

The Board does not have a lead director designated as such. However, the Board of Directors believes that at times it is important for the independent directors to deliberate and act without having Company management present. To ensure that it has experienced leadership in these situations, the Board annually elects a Vice Chairman, who has the responsibility of chairing meetings when the Chairman is absent or when the Board wishes to meet without any representative of management being present. Mr. Green has served as Vice Chairman since May 2019. We believe this structure provides the Board with independent leadership in situations where the Chairman is excused from acting as such due to his prior management position.

Board Committees

The Company's Board has standing Executive, Audit, Compensation, Nominating and Risk Committees. The purpose of these committees is outlined below.

The **Executive Committee** did not meet in 2019. From January 1, 2019 through May 14, 2019, James G. Rakes, retired Chairman, President and Chief Executive Officer of the Company, Dr. Jack M. Lewis, retired director, and Charles E. Green, III served on the committee. Since May 15, 2019, Mr. Denardo, Mr. Ball, Dr. Dooley and Mr. Green have served on the committee. The committee, which is subject to the supervision and control of the Board of Directors, has been delegated substantially all of the powers of the Board of Directors to act between meetings of the Board, except for certain matters reserved to the Board by law. Mr. Denardo serves as Chairman of the Executive Committee because of his past roles with the Company. Given his past experience with the Company's management responsibilities, he is able to identify issues that require either the involvement of the Executive Committee or the full Board during interim periods between regularly scheduled Board meetings. Mr. Denardo is well suited to convene such meetings with proper notices in an expeditious and efficient manner.

The **Audit Committee** met five times in 2019. From January 1, 2019 through March 2019, Dr. Lewis, Mr. Ball, Dr. Dooley, Mr. Reynolds and Dr. Webb served on the committee. In March 2019, Mr. Reynolds left the Audit Committee. Since May 15, 2019, Mr. Ball (Chair), Dr. Dooley, Mr. Fitzwater, Mr. Green and Dr. Webb have served on the committee. The committee reviews significant audit, accounting and financial reporting principles, policies and practices; is directly responsible for engaging and monitoring the independent auditors of the Company; and provides oversight of the financial reporting and internal auditing functions. A more detailed description of the functions of this committee is contained under the heading "Audit Committee Report". Mr. Ball is qualified as our audit committee financial expert within the meaning of SEC regulations and the Board has determined that he has the accounting and related financial management expertise within the meaning of the listing standards of Nasdaq.

The **Compensation Committee** met two times in 2019. From January 1, 2019 through May 14, 2019, Mr. Green (Chair), Mr. Ball, Dr. Dooley, Ms. Johnson, Dr. Lewis and Mr. Thompson served on the committee. Since May 15, 2019, Mr. Green (Chair), Mr. Ball, Dr. Dooley, Ms. Johnson, Mr. Reynolds and Mr. Thompson have served on the committee. This committee is responsible for establishing and approving the compensation of executive officers of the Company. Reference is made to the "Compensation Discussion and Analysis" section of this proxy statement for further information on the duties and responsibilities of this committee. All members of this committee are considered independent within the meaning of SEC regulations and the listing standards of Nasdaq.

The **Nominating Committee** met one time in 2019. From January 1, 2019 through May 14, 2019, Dr. Miller (Chair), Mr. Dye, Mr. Peery and Dr. Webb served on the committee. Since May 15, 2019, Dr. Miller (Chair), Mr. Dye, Ms. Johnson, Mr. Peery, and Dr. Webb have served on the committee. The committee is responsible for developing and reviewing background information on candidates for the Board and makes recommendations to the Board regarding such candidates. All the members of this Committee are considered independent within the meaning of SEC regulations and the listing standards of Nasdaq.

The **Risk Committee** met two times in 2019. From January 1, 2019 through May 14, 2019, Dr. Miller (Chair), Mr. Denardo, Mr. Fitzwater, Ms. Johnson, Mr. Peery and Mr. Reynolds served on the committee. Since May 15, 2019, Dr. Miller (Chair), Mr. Denardo, Mr. Fitzwater, Mr. Peery and Mr. Reynolds have served on the committee. The committee is responsible for overseeing the Company's overall risk framework and risk appetite, and to oversee and approve the Company's practices for risk identification, measurement, monitoring and control.

The charters of the Audit, Compensation, Nominating, and Risk Committees are available on the Company's website, www.nationalbankshares.com. For access to the charters, select the "Corporate Governance" tab.

Board Compensation

In 2019, the members of the NBI Board of Directors received \$1,250 for each regular or special Board meeting they attended. They were paid \$800 for each committee meeting unless the committee meeting was held concurrently with the regular board meeting. Directors were also paid an annual retainer fee of \$22,000. The Company's directors receive no other forms of compensation, except as described in the table and paragraph below.

	Fees Earned or Paid in Cash (\$)	Other (\$)	Total (\$)
Lawrence J. Ball	39,400		39,400
John E. Dooley	38,150		38,150
Michael E. Dye	37,000		37,000
Norman V. Fitzwater, III	38,600		38,600
Charles E. Green, III	36,550		36,550
Mildred R. Johnson	37,000		37,000
Jack M. Lewis ⁽²⁾	7,050		7,050
Mary G. Miller	35,750		35,750
William A. Peery	34,500		34,500
James G. Rakes ⁽²⁾	5,000	36,274 ^{(3) (4)}	41,274
Glenn P. Reynolds	37,800		37,800
James C. Thompson	35,750		35,750
J. Lewis Webb, Jr.	39,400		39,400

⁽¹⁾ Directors fees paid to Mr. Denardo are disclosed in the Summary Compensation Table in "Executive Compensation."

⁽²⁾ Dr. Lewis' and Mr. Rakes' terms of service on the Board of Directors expired at the 2019 Annual Meeting held on May 14, 2019.

⁽³⁾ Includes a \$25,000 retainer paid in semi-annual installments to Mr. Rakes pursuant to the Continued Service Agreement dated May 9, 2017 with the Company in order for the Company to continue to benefit from his long years of service, expertise, and experience. This agreement expired in May 2019.

⁽⁴⁾ Includes \$11,274 paid to Mr. Rakes from the Bank Directors' Deferred Compensation Plan (see "Nonqualified Retirement Plans" below). The last payment to Mr. Rakes was made in July 2019.

Director Independence and Certain Transactions with Officers and Directors

As has been mentioned, each director of the Company, except for Mr. Denardo, is independent, as defined by the listing standards for Nasdaq, the national securities exchange on which the Company's common stock is listed, and none of them is a present or past employee or officer of the Company or its subsidiaries.

In determining that each director meets the Nasdaq listing standards for independence, the Board of Directors recognized that NBB extends credit to the Company's directors and executive officers, and business organizations and persons with whom Company directors and executive officers are associated or related. All loans extended to directors, executive officers and members of their immediate families, and corporations, partnerships and other entities with which such persons are affiliated, are made in the ordinary course of business upon substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with persons not affiliated with the Company, and do not involve more than the normal risk of collectability or present other unfavorable features. In making the determination that all of the directors are independent, except for Mr. Denardo, the Board of Directors considered that Mr. Green rents a small office space at a National Bank office. He has a lease with the Bank and pays market rate rent of \$4,560 each year, including in 2018 and 2019. In 2019, NBB paid Mr. Reynolds's firm \$27,512 for architectural services. On April 3, 2018, M2 Holdings, LLC sold to NBB certain real property that NBB acquired for administrative offices for a purchase price of \$800,000. At the time of the sale, the real property had a tax assessed value of \$790,500. M2 Holdings, LLC is owned and controlled by Ms. Miller. Except for Mr. Denardo, the transactions listed in this paragraph and the directors' fees, no director received direct or indirect compensation from the Company in 2018 and 2019 that is required to be reported.

Board Tenure

The Company does not have a formal board tenure policy. However, in order to promote director succession planning, the Company's by-laws state that directors reaching the age of 73 shall be ineligible for re-nomination to the Board at the expiration of the term of office during which the director becomes 73 years of age.

Risk Oversight Practices

In a financial institution, the role of the board of directors is critical to the organization. To fulfill its responsibility to oversee the Company's risk management processes, the full Board of Directors receives extensive and regular reports from management outlining the status of financial, operational, credit, interest rate, liquidity, information technology (including cyber risk), capital, reputation, strategic, legal, compliance and other risks. The Company's Treasurer and Chief Financial Officer, who serves as the subsidiary bank's Senior Vice President/Operations & Risk Management, attends most meetings of the Board of Directors, is readily available to report to the directors, to answer the directors' questions and is responsible, along with the Risk Committee, for raising any material risk management concerns with the Board.

The Risk Committee of the Board of Directors is responsible for assisting the Board in its oversight of the above-identified risks and for overseeing the Company's enterprise risk management framework. Although risk management is primarily the responsibility of the Company's management, the Risk Committee actively engages with management to establish risk management principles and to determine risk appetite and tolerance. In addition to the Company's Treasurer and Chief Financial Officer being available at Board meetings, the chairperson of the Risk Committee also provides reports to the Board of Directors on various matters relating to risk. These reports are often the result of the committee meeting with such officers and other members of management regularly to discuss major risk exposures.

In addition to the efforts of the Risk Committee, other committees of the Board consider risk within their areas of responsibility. The Audit Committee has responsibility for oversight of risks associated with financial accounting and reporting, including the internal audits completed at both the parent company and subsidiary levels and the system of internal control. This oversight includes reviewing and discussing with management the Company's major financial risk exposures and the procedures utilized by management to monitor and control such exposure. The Compensation Committee oversees risks relating to the Company's compensation plans and programs.

Executive Officers

Information on the Company's executive officers as of December 31, 2019 who are not directors is disclosed in Part I, Item 1, of the Company's Annual Report on Form 10-K for the year ended December 31, 2019, which was mailed with this proxy statement.

Code of Ethics

We expect all of our directors, executive officers and employees to adhere to the highest standards of ethics and business conduct with each other, customers, stockholders and the communities we serve, and to comply with all applicable laws, rules and regulations that govern our business. The Board of Directors has adopted a Directors' Code of Ethics and an Employees' Code of Ethics. A portion of the Code of Ethics contains special provisions for the principal executive officer and senior financial officers of the Company or person performing similar functions for the Company. The Code of Ethics for senior financial officers meets the requirements of a "code of ethics" as defined by Item 406 of the SEC's Regulation S-K. The Code of Ethics is available on the Company's website, www.nationalbankshares.com. Select the "Corporate Governance" tab. The respective Codes of Ethics are reviewed on an annual basis by the Board and the executive officers.

Stockholder Communication

Stockholders may communicate with all or any member of the Board of Directors by addressing correspondence to the "Board of Directors" or to the individual director and addressing such correspondence to National Bankshares, Inc., P. O. Box 90002, Blacksburg, Virginia 24062-9002, Attention: Board of Directors (in the case of correspondence addressed to the "Board of Directors"), or to the individual director. All stockholder communications are forwarded to the Board or to the specified directors.

COMPENSATION COMMITTEE REPORT

The Compensation Committee of the Board of Directors reviewed and discussed with management the following Compensation Discussion and Analysis. Based on this review and discussion, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this proxy statement and incorporated by reference into the Company's Annual Report on Form 10-K for the year ended December 31, 2019. This report was prepared by the following independent directors who compose the Compensation Committee:

Charles E. Green, III (Chair)
Lawrence J. Ball
John E. Dooley
Mildred R. Johnson
Glenn P. Reynolds
James C. Thompson

COMPENSATION DISCUSSION AND ANALYSIS

What are the objectives of the Company's compensation program for its named executive officers?

National Bankshares, Inc. has four goals for its compensation program for named executive officers. In 2019, these officers were: F. Brad Denardo, Chairman, President & CEO; David K. Skeens, Senior Vice President, Treasurer and Chief Financial Officer ("CFO"); Paul M. Mylum, Executive Vice President/Chief Lending Officer; Lara E. Ramsey, Senior Vice President/Administration and Corporate Secretary; and Rebecca M. Melton, Senior Vice President/Chief Credit Officer. The four goals are:

- To offer salaries and bonuses to fairly reward executive officers for their individual contributions in meeting short-term and long-term corporate strategic and financial goals.
- To offer retirement and post-retirement benefits which incent executive officers to remain in leadership roles and which recognize and reward long tenure with the Company.
- To offer total compensation that allows the Company to retain and recruit executive talent and which is competitive with peer financial institutions, but which fits within the Company's conservative approach to managing overhead expense.
- To offer a compensation program that does not increase, or have the potential to increase, material risk to the Company.

The Compensation Committee considers the results of the stockholder advisory "say-on-pay" vote in its deliberations regarding compensation of the named executive officers. At the Company's 2019 Annual Meeting, the stockholders voted to approve, on an advisory basis, the compensation of the Company's named executive officers, as described in the Compensation Discussion and Analysis set forth in the Company's 2019 Annual Meeting proxy statement. The vote was 3,720,961 shares "For" (90.27% of the shares voted) and 401,087 shares "Against" (9.73% of the shares voted).

What is the program designed to reward?

The compensation program for the President & CEO is designed to reward the profitable operation of the Company compared to its peers, particularly as measured by return on assets and return on equity. In addition, the program rewards the President & CEO when the Company's short- and long-term strategic goals are met. Inherent in meeting strategic goals is the ability to recognize and manage risks to the Company. Named executive officers other than the President & CEO are rewarded for the Company's success in meeting its performance goals and particularly for success in those areas for which they have individual management responsibility. One measure of the officers' success is their ability to recognize and manage risk in their areas of responsibility.

Has the Compensation Committee engaged a compensation consultant?

In the second half of 2016, the Compensation Committee retained the services of Pearl Meyer & Partners, LLC ("PM&P"), an independent executive compensation consulting firm, to provide consulting services in connection with developing the Company's compensation philosophy and providing a competitive compensation review and incentive plan with respect to executive management, a larger group than the named executive officers. With the assistance of

PM&P, the Compensation Committee also developed a peer group of similarly-sized financial institutions.

The compensation review encompassed (i) an assessment of the Company's executive compensation as compared to market (similar executives in the peer group); (ii) a high-level assessment of the Company's performance relative to peers; and (iii) establishing a basis for discussing potential pay or other compensation changes in future periods.

PM&P was not engaged by the Compensation Committee during 2019.

What was the Company's peer group for 2019?

For 2019, the Compensation Committee, without the assistance of PM&P, updated the Company's peer group of comparable financial institutions that was established in 2016. The 2019 peer group consisted of the following companies with assets ranging from approximately \$2.5 billion to \$1.1 billion:

American National Bankshares Inc.	Select Bancorp, Inc.
Mid Penn Bancorp, Inc.	Shore Bancshares, Inc.
CapStar Financial Holdings, Inc.	First United Corporation
Reliant Bancorp. Inc.	Limestone Bancorp, Inc.
Codorus Valley Bancorp, Inc.	Franklin Financial Services Corporation
ACNB Corporation	AmeriServ Financial, Inc.
Premier Financial Bancorp, Inc.	Peoples Bancorp of North Carolina, Inc.
Penns Woods Bancorp, Inc.	Riverview Financial Corporation
C&F Financial Corporation	Old Point Financial Corporation
Community Bankers Trust Corporation	

What is each element of compensation?

The elements of compensation are:

- Salary (all named executive officers)
- Non-equity (cash) incentive plan (all named executive officers)
- Qualified retirement plans, including defined benefit, 401(k) and employee stock ownership plan (all named executive officers)
- Nonqualified officers salary continuation plan (all named executive officers except Ms. Melton)
- Board of Directors fees (President & CEO)
- Perquisites and other personal benefits (President & CEO)

Why does the Company choose to pay each element of compensation?

During 2019, the Company used salary as the cornerstone of its compensation program because it believes that the focus of executive officers, particularly of those below the level of the President & CEO, should be on the Company's long-term growth and performance. Annual increases are awarded based upon individual performance in meeting stated goals for that review period. Because salary rather than some form of annual incentive has been the major component of their compensation through 2019, executive officers have sufficient personal economic security to make and support management decisions that may trade immediate gain for greater long-term corporate success. In addition, limiting compensation primarily to salary inhibits the incentive to take unreasonable short-term risks at the expense of reaching long-term goals.

The Company has an annual incentive plan designed to reward achievements of annual corporate financial goals and individual performance goals that are consistent with the Company's strategic plan and focused on growing return to stockholders. The plan provides a method for the Company to motivate, attract and retain qualified executives. Incentive compensation under the plan is paid in the form of a cash bonus and is based on an incentive target for each participant's position. Each of the named executive officers participates in the plan. More information is contained in "Annual Incentive Plan" discussed below.

Each named executive officer, along with all other eligible Company employees, participates in three qualified retirement plans. NBI sponsors a defined benefit pension plan, the National Bankshares, Inc. Retirement Income Plan. The Company also sponsors The National Bankshares, Inc. Retirement Accumulation Plan, which is a 401(k) plan,

and the National Bankshares, Inc. Employee Stock Ownership Plan. The Company believes that it is important to assist its long-term employees, including its executive officers, in assuring financial security in retirement for themselves and their families. National Bankshares, Inc. also believes that its Employee Stock Ownership Plan helps to align the interests of all employees, including executive officers, with the interests of its stockholders. More information is contained in “Qualified Retirement Plans.”

The Company established a nonqualified salary continuation plan that is designed to provide certain key Company officers, including certain named executive officers, with supplemental retirement income. This plan was established to enhance the Company’s ability to retain key decision-makers and to supplement the retirement benefits of those more highly compensated executives who, because of legal limitations, are unable to participate fully in the qualified retirement plans. There is further discussion in “Nonqualified Retirement Plans.”

In 2019, Mr. Denardo served as a paid director of the Company and/or of one of its subsidiaries. He received the same compensation as outside directors. The Company believes that this is an appropriate practice because this executive officer devotes additional time to his Board of Directors’ responsibilities, and all directors, both internal and external, share the same fiduciary obligations and liability risk.

The perquisites and personal benefits that are provided to Mr. Denardo are defined in his employment agreement. These items were agreed to for two reasons. First, they are typical benefits for individuals holding the respective positions in peer banks and financial holding companies. As such, they are part of a total compensation package that is competitive in the Company’s operating environment. Second, certain perquisites that offer a degree of personal benefit are also directly related to job performance. The perquisites that are available to any of the other named executive officers are limited in nature and available to all employees of the Company. See “Executive Compensation” and “Employment Agreements and Change in Control Arrangements.”

How does the Company determine the amount for each element?

Salary: The salaries of National Bankshares’ named executive officers, except for the President & CEO, are within the Company’s established salary ranges for each officer position. The ranges are developed after considering an annual salary survey published by the Virginia Bankers Association as well as publicly available salary information about comparable positions at institutions in the Company’s peer group and in the locations in which Bankshares and its subsidiaries do business. The annual increase in base salary for these individuals is determined by the President & CEO. In making the determination, Mr. Denardo considers the nature and responsibility of the position; the competitiveness of the market for the executive’s services; the expertise of the individual executive; and to what degree the executive has achieved annual performance goals. Individual annual performance goals support the Company’s business strategy, but are not tied to objective performance measures. The President & CEO reports changes to the executive officer salaries to the Compensation Committee at least annually.

Mr. Denardo’s base salary of at least \$360,000 was set in the amended and restated employment agreement dated March 11, 2015, effective January 1, 2015. The base salary was increased to its current level primarily as a result of Mr. Denardo being named President & CEO of the Company and assuming these roles and responsibilities, as well as his continuing in those positions.

The base salary for Mr. Denardo was determined after considering compensation for this position reported in the Virginia Bankers Association’s annual salary survey and from the public documents of peer group institutions that disclose salaries paid to other individuals holding similar positions. The Compensation Committee determines annual salary increases for Mr. Denardo after assessing his contributions to the success of the Company. In measuring the Company’s success, the Committee compares NBI’s financial results to the peer group listed above. Specifically, the Compensation Committee compares Bankshares’ return on assets (“ROA”) and return on equity (“ROE”) with the average ROA and ROE of the peer bank holding companies. Based on the Company’s performance relative to its peers in 2018, the Compensation Committee set Mr. Denardo’s 2019 salary at \$476,833, which was an increase over his salary in 2018. The Committee also considered Mr. Denardo’s extensive tenure and long track record of success in profitably leading the Company and NBB and in managing risks to the Company and NBB encountered in a challenging economic environment. Although the Committee weighs the peer comparison heavily in determining Mr. Denardo’s salary increase, it does not utilize an objective formula. The Committee considers the Company’s progress in meeting budget goals for the year, but it does not utilize a quantitative assessment of budget goals in determining the amount of annual salary increase. Likewise, although there are no objective measures utilized, the Committee considers stock performance and the level of stockholder dividends, among other criteria, in establishing salary. In assessing Bankshares’ stock performance, the Compensation Committee looks at its price, the price to earnings ratio and dividend yield as compared with the stock of the Company’s identified peers. The Committee validates salary increases by referring to the Virginia

Bankers Association salary survey and to public documents from peer institutions. As mentioned above, the annual increase in base salary for all other executive officers is determined by the President & CEO, who reports such increases to the Board.

Annual Incentive Plan Bonus: An annual incentive cash bonus paid to each of the named executive officers for 2019 was determined pursuant to the Company's Annual Incentive Plan. This plan is discussed in greater detail under "Annual Incentive Plan."

Qualified Retirement Plans: The named executive officers participate with other eligible employees in the Company's three qualified retirement plans. Every participant's benefits are determined under the specific provisions of each of the plans. These plans are discussed in greater detail under "Qualified Retirement Plans."

Nonqualified Salary Continuation Plan: In early 2006, the Company's subsidiaries entered into salary continuation plan agreements, which may be amended from time to time, with a group of selected senior officers. Assuming retirement at normal retirement age (as defined in the plan), contributions to the Salary Continuation Plan are sufficient to provide a minimum of 15 annual supplemental retirement income payments of 25.0% of 2008 annual compensation (adjusted by a pre-retirement inflation factor of 4%) for Mr. Denardo, 25.0% of 2013 annual compensation (adjusted by a pre-retirement inflation factor of 4%) for Mr. Skeens, 20.0% of 2012 annual compensation (adjusted by a pre-retirement inflation factor of 4%) for Mr. Mylum, and 23.1% of 2016 annual compensation (adjusted by a pre-retirement inflation factor of 4%) for Ms. Ramsey. Ms. Melton does not participate in the plan.

Board of Directors Fees: Mr. Denardo received the same compensation as outside directors for serving as a director of the Company. See also "Corporate Governance Matters."

Perquisites and Other Personal Benefits: The Compensation Committee has determined that Mr. Denardo, as President & CEO, should receive a comprehensive and competitive total compensation package, including perquisites. During 2019, these perquisites were limited to a Company-owned automobile, which facilitates business travel, as well as sports tickets and club memberships which assist Mr. Denardo with marketing and business development efforts. Mr. Denardo, with approval of the Compensation Committee, determines perquisites available to the other named executive officers, if any, and reports annually to the Compensation Committee on these items.

How does each element and the Company's decisions regarding that element fit into the Company's overall compensation objectives and affect the decisions regarding other elements?

As noted above, each compensation element supports retention, the achievement of short- and long-term corporate goals, and provides reasonable financial security to the employee. Each year, the Compensation Committee assesses the total compensation package for each named executive officer to determine that it is appropriate. The Compensation Committee also reviews each element of the compensation package and determines that each is satisfactory in relation to the other.

Annual Incentive Plan for 2019

As described above, during 2016, the Compensation Committee retained the services of PM&P, an independent executive compensation consulting firm, to assist the Compensation Committee in its review of executive compensation and to develop an Annual Incentive Plan (the "Incentive Plan") for certain executive officers, which the Compensation Committee approved and adopted in 2016. The Compensation Committee believes that the Incentive Plan demonstrates that the Board and management recognize current trends and best practices with respect to executive compensation, and provides a focus for management to create value for stockholders.

Plan Purpose

The purpose of the Incentive Plan is to reward the achievements of annual corporate financial goals and individual performance goals that are consistent with the Company's strategic plan and focused on growing return to stockholders. The Incentive Plan is further intended to assist the Company in its ability to motivate, attract and retain qualified executives. The Incentive Plan was in effect January 1, 2019 through December 31, 2019, and will continue to renew for successive one-year periods (each year called a "Plan Year") as determined by the Compensation Committee.

Plan Participation

Incentive Plan participation is limited to the President & CEO and those executive officers, including the named executive officers, that the President & CEO recommends and that the Committee approves during the first 90 days of each Plan Year. Any incentive compensation is paid in the form of a cash bonus and is based on an incentive target for each participant's position that is approved at the beginning of each Plan Year by the Compensation Committee. The Compensation Committee determines the amount of any incentive compensation award to be paid, following a review of the recommendations of the President & CEO.

How are Incentive Plan awards calculated?

Awards under the Incentive Plan are paid out of a pool calculated on both the individual incentive targets of each participant in the Incentive Plan and of the Company's level of performance achieved in one or more financial objectives that the Compensation Committee approves at the beginning of each Plan Year. Target annual incentive awards for each named executive officer is expressed as a percentage of base salary, as follows:

Named Executive Officer	Target Annual Incentive (As a % of Base Salary)
F. Brad Denardo	30%
David K. Skeens	20%
Rebecca M. Melton	20%
Paul M. Mylum	20%
Lara E. Ramsey	20%

One-half (50%) of an executive officer's target incentive award is based on the achievement of pre-determined corporate financial goals. The financial goals are established by the Compensation Committee. The remaining one-half (50%) is based on individual performance. For Mr. Denardo, such assessment is performed by the Compensation Committee, and for the other named executive officers such assessment is performed by the Compensation Committee and Mr. Denardo. The assessments take into account both quantitative and qualitative factors.

Award Components

Corporate Financial Component: Cash awards under the Incentive Plan are paid out of the plan's incentive pool after a Plan Year. At the beginning of the Plan Year, the Compensation Committee establishes threshold, target and superior levels of corporate financial performance. The ultimate value of the incentive pool can increase based on actual performance and is funded based on year-end results as follows:

Level of Performance	Incentive Pool Funding
Superior	150%
Target	100%
Threshold	50%
Below Threshold	0%

The Compensation Committee also retains the discretion to consider other factors (including, for example, our performance relative to peers, market conditions, the interest rate environment or any unusual expenses) in determining the overall corporate financial component payout. For the 2019 Plan Year, the incentive pool was funded based on the achievement of pre-determined company-wide Net Income goals for 2019 established by the Compensation Committee, as follows:

Corporate Financial Goal	Level of Performance			Actual
	Threshold	Target	Superior	
Net Income (in thousands)	\$8,565	\$17,129	\$25,694	\$17,466

Based on the Net Income achieved by the Company in 2019, the incentive pool was not funded at 100% of target, because of two one-time income occurrences which caused actual Net Income to be above the target. The Compensation Committee determined that it was not appropriate to reduce the participants awards for such an event.

Individual Performance Component: At the beginning of the Plan Year, individual performance criteria for each of the named executive officers is presented to the Compensation Committee by the President & CEO. The Company considers the individual goals confidential strategic information, and does not publicly disclose such information for competitive reasons.

In February 2020, the Compensation Committee reviewed and considered each named executive officer's performance during the 2019 Plan Year, including recommendations and performance summaries from the President & CEO for each of the other named executive officers. The Compensation Committee reviewed the President & CEO's 2019 Plan Year performance independently.

2019 Award Payouts

Based on the corporate financial component and individual performance component determinations described above, the actual cash incentive awards received by each of our named executive officers for 2019 were as follows:

Named Executive Officer	Corporate Component (50% of Total Award)		Individual Component (50% of Total Award)		Actual Award Payout	
	As of % Target	\$	As of % Target	\$	As of % Target	\$
F. Brad Denardo	14.54%	67,029	15%	69,150	29.54%	136,179
David K. Skeens	9.69%	16,492	8.5%	14,467	18.19%	30,959
Becky M. Melton	9.69%	17,442	10%	18,000	19.69%	35,442
Paul M. Mylum	9.69%	15,504	10%	16,000	19.69%	31,504
Lara E. Ramsey	9.69%	12,209	10%	12,600	19.69%	24,809

The Incentive Plan awards paid to the named executive officers in early 2020 for fiscal 2019 performance are also provided in the Summary Compensation Table.

How are the Corporate Financial and Individual Performance components of the Incentive Plan determined?

The President & CEO recommends corporate financial goals for a Plan Year to the Compensation Committee within the first 90 days of a Plan Year, which the Compensation Committee reviews and, if in agreement, approves in writing.

How is the Incentive Plan administered?

The Compensation Committee is responsible for the oversight, supervision and existence of the Incentive Plan and for any modification or termination of the Incentive Plan. As mentioned above, the Compensation Committee also retains the discretion to consider other factors (including, for example, our performance relative to peers, market conditions, the interest rate environment or any unusual expenses) in determining the overall corporate financial component payout. The President & CEO monitors the individual performance component for each participant and makes recommendations to the Compensation Committee concerning award opportunities and the amount of a participant's awards under the Incentive Plan. The President & CEO has been delegated discretion to interpret the terms of the Incentive Plan, to determine eligibility for benefits, and to calculate the incentive compensation awards under the Incentive Plan, with the exception of matters concerning his own eligibility or awards under the Incentive Plan. The Compensation Committee will make decisions concerning all matters concerning the President & CEO's award, approve all opportunities, goals and award payments made to the named executive officers and approve the aggregate value of opportunities and award payout under the Incentive Plan. The Compensation Committee, in its discretion, makes all final determinations which may be necessary or desirable for the effective administration of the Incentive Plan.

Unless the Compensation Committee deems otherwise, awards will not be earned or paid, regardless of corporate financial or individual performance, if (1) any regulatory agency issues a formal, written enforcement action, memorandum of understanding or other negative directive action where the Compensation Committee considers it imprudent to provide awards under the Incentive Plan, or (2) after a review of the Company's credit quality measures, the Compensation Committee considers it imprudent to provide awards under the Incentive Plan.

The Compensation Committee may withhold or adjust any incentive compensation award in its sole discretion as it deems appropriate and will have the President & CEO notify each participant of its decision to withhold or adjust an incentive compensation award.

The Incentive Plan has provisions for prorated payments to a participant in the event of the participant's death, permanent disability or retirement. If a participant's employment ceases for any other reason, including, without limitation, a voluntary termination of employment by a participant as defined by the Company's personnel policies, or an involuntary termination with or without cause, the participant will not be eligible for any incentive compensation award under the Incentive Plan.

Payments under the Incentive Plan are subject to the Company's Clawback Policy described below.

Compensation Clawback

The Company has adopted a clawback policy applicable to our named executive officers. Under the clawback policy, the Compensation Committee may, in its reasonable discretion, require an executive officer to reimburse the Company for the amount of any payment previously received by such officer under a cash bonus plan as well as an equity compensation plan. This type of reimbursement is often called a "clawback." The clawback would apply if the Company is required to restate financial statements for any year in the three-year period preceding the date on which the Company would be required to prepare a restatement, regardless of whether such restatement was a result of an officer's intentional misconduct or gross negligence. Once the SEC and Nasdaq adopt and implement a final rule for clawback policies as mandated by the Dodd-Frank Act, the Company will modify its existing policy as necessary.

COMPENSATION COMMITTEE PROCEDURES

Pursuant to its charter, the Compensation Committee is charged with annually evaluating the performance of the Company's President & CEO and determining the appropriate compensation and benefits package for him. As authorized by its charter, the Compensation Committee has delegated to Mr. Denardo the responsibility for evaluating the performance and setting the compensation of the other named executive officers, and he reports to the Compensation Committee at least annually about those matters.

In carrying out its responsibilities, the Compensation Committee meets at least once each year. There are no officers or employees present at the Compensation Committee's annual meeting to evaluate the performance of the President & CEO and to determine his compensation. The Compensation Committee considers the Company's financial performance data; information about the financial performance of peer institutions; and salary data from salary surveys and publicly available sources. The Compensation Committee also monitors the results of the annual advisory "say-on-pay" vote and incorporates such results as one of many factors considered in connection with the discharge of its responsibilities, although no such factor is assigned a quantitative weighting. Because a substantial majority of our stockholders approved the compensation program described in the Company's proxy statement in 2019, the Compensation Committee did not implement changes to the Company's executive compensation program as a result of the stockholder advisory vote. At the conclusion of the Compensation Committee's meeting or at a separate meeting, the President & CEO provides the Compensation Committee with a report on the performance and compensation of the other named executive officers.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

No director who serves on the Compensation Committee is an officer or employee of Bankshares or any Bankshares' subsidiary. No executive officer of Bankshares, NBB or NBFS serves as a director of another entity which has an executive officer serving on the Compensation Committee. No executive officer of Bankshares, NBB or NBFS serves as a member of the compensation committee of another entity which has an executive officer who serves as a director or member of our Compensation Committee. None of the members of the Compensation Committee, or any business organizations or persons with whom they may be associated, has had any transactions with Bankshares or its subsidiaries, except as explained in "Director Independence and Certain Transactions with Officers and Directors."

EXECUTIVE COMPENSATION

Summary Compensation Table

The following table sets forth information concerning total compensation earned or paid to the individuals who served as Bankshares' named executive officers during 2019.

Summary Compensation Table			
<u>Name and Principal Position</u>	<u>Year</u>	<u>Salary (\$)</u>	<u>Bonus (\$)</u>
F. Brad Denardo	2019	476,833	---
Chairman, President & CEO - NBI ⁽¹⁾	2018	460,375	---
(Principal Executive Officer)	2017	444,750	---
Chairman, President & CEO – NBB			
Chairman, President & CEO – NBFS			
<hr/>			
David K. Skeens	2019	174,783	---
Treasurer & CFO – NBI	2018	169,908	---
(Principal Financial Officer)	2017	166,183	---
Senior Vice President/Operations & Risk Management & CFO – NBB			
<hr/>			
Rebecca M. Melton	2019	180,917	---
Senior Vice President/Chief Credit Officer – NBB ⁽²⁾	2018	28,707	---
	2017	---	---
<hr/>			
Paul M. Mylum	2019	164,192	---
Executive Vice President/Chief Lending Officer – NBB	2018	154,192	---
	2017	146,208	---
<hr/>			
Lara E. Ramsey	2019	128,333	---
Senior Vice President/Administration – NBB	2018	132,174	---
Corporate Secretary – NBI / NBB	2017	115,883	---

⁽¹⁾ Mr. Denardo was appointed Chairman of the Board as of May 15, 2019.

⁽²⁾ Ms. Melton joined the Bank in October 2018.

Summary Compensation Table (continued)

Name	Year	Non-Equity Incentive Plan Compensation (\$) ⁽¹⁾	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$) ⁽²⁾	All Other Compensation (\$) ⁽³⁾	Total (\$)
F. Brad Denardo	2019	136,179	356,258	146,080	1,115,350
	2018	136,800	101,381	142,742	841,298
	2017	127,800	355,967	98,310	1,026,827
David K. Skeens	2019	30,959	214,091	17,514	437,347
	2018	32,090	41,281	17,203	260,482
	2017	31,040	104,197	12,473	313,893
Rebecca M. Melton	2019	35,442	22,946	4,546	243,851
	2018	---	---	---	28,707
	2017	---	---	---	---
Paul M. Mylum	2019	31,504	143,239	16,345	355,280
	2018	28,500	42,468	15,482	240,642
	2017	26,640	94,636	10,978	278,462
Lara E. Ramsey	2019	24,809	139,989	12,897	306,028
	2018	24,000	30,576	12,766	199,516
	2017	22,000	64,826	8,694	211,403

- (1) Consists of cash bonus payments earned by the officer pursuant to the Company's Incentive Plan for the respective year.
- (2) Consists of changes in the actuarial present fair value in the National Bankshares, Inc. Retirement Income Plan and in the Officers Salary Continuation Plan for each officer. All changes in values are based on reports from independent advisors, using the assumptions described in the "National Bankshares, Inc. Retirement Income Plan" and "Officer Salary Continuation Plan" sections of this proxy statement.
- (3) Additional information about "All Other Compensation" for the executive officers is provided in the following chart.

Detail of All Other Compensation

Name	Year	Directors Fees (\$) ⁽¹⁾	Matching Contribution Under National Bankshares, Inc. Retirement Accumulation Plan (\$)	Contribution Under National Bankshares, Inc. Employee Stock Ownership Plan (\$)	Perquisites (\$) ⁽²⁾	Nonqualified Deferred Compensation Plan Payments (\$) ⁽³⁾	Total All Other Compensation (\$)
F. Brad Denardo	2019	37,000	14,000	9,705	12,887	72,488	146,080
	2018	35,000	13,750	9,793	11,711	72,488	142,742
	2017	35,650	13,500	6,762	12,195	30,203	98,310
David K. Skeens	2019	---	10,344	7,170	---	---	17,514
	2018	---	10,047	7,156	---	---	17,203
	2017	---	8,309	4,164	---	---	12,473
Rebecca M. Melton	2019	---	4,546	---	---	---	4,546
	2018	---	---	---	---	---	---
	2017	---	---	---	---	---	---
Paul M. Mylum	2019	---	9,653	6,692	---	---	16,345
	2018	---	9,042	6,440	---	---	15,482
	2017	---	7,313	3,665	---	---	10,978
Lara E. Ramsey	2019	---	7,617	5,280	---	---	12,897
	2018	---	7,275	5,491	---	---	12,766
	2017	---	5,792	2,902	---	---	8,694

See "All Other Compensation" in the Summary Compensation Table above.

- (1) Director's fees for Mr. Denardo include fees from NBI and NBB.
- (2) In 2019, perquisites for Mr. Denardo's totaled \$7,132 for personal use of a Company-owned automobile and \$5,755 for club dues and sports tickets.
- (3) On August 1, 2017, at age 65, Mr. Denardo began receiving monthly payments of \$6,040.67 from the Officer Salary Continuation Plan. Please see "Nonqualified Retirement Plans" below.

Employment Agreements and Change in Control Arrangements

The Company's Chairman, President & CEO has been employed by the Company and its subsidiaries for many years. He has provided guidance in the growth and long-term development of the Company's business. His experience and knowledge of the operations and customs of Bankshares is a benefit to the future success of the Company. As an inducement to his continued employment, the Board of Directors determined that Bankshares should enter into employment and change in control agreements with Mr. Denardo. The Board implemented the change in control provisions in part to insure that Bankshares would be more likely to retain his services during periods of uncertainty resulting from significant ownership changes, should they occur.

Employment Agreement with Mr. Denardo

Mr. Denardo has an executive employment agreement with the Company that is dated December 17, 2008, and which became effective on December 31, 2008. It was amended and restated again on March 11, 2015, effective January 1, 2015 (the "employment agreement"). Mr. Denardo's employment agreement provides for his initial employment as the Company's Executive Vice President and for his service in any other executive or management position with the Company and its affiliates at an initial annual base salary of \$360,000. Mr. Denardo's employment agreement had an initial two-year term and continues for successive one-year terms unless either party provides a one year notice of termination.

Mr. Denardo's employment agreement states that compensation will be paid and benefits provided for 24 months if the Company terminates his employment "without cause" or if he resigns "for good reason," as those terms are defined in the employment agreement. "Cause" is defined in the employment agreement as (i) continual or deliberate neglect in the performance of job duties or deliberate failure to follow reasonable instructions or Company policies, (ii) conviction of or pleading no contest to a felony, a crime of moral turpitude, fraud or embezzlement or any crime for which imprisonment is a possible punishment, (iii) a material breach of the agreement, (iv) material dishonesty or breach of fiduciary duty with respect to the Company, or (v) willful conduct likely to result in material injury to the Company. The employment agreement defines "for good reason" as (i) material assignment of duties inconsistent with his position, (ii) Company action that results in a material reduction in status, authority or duties, (iii) relocation, without consent, more than 50 miles from initial place of employment, and (iv) failure by the Company or any successor to comply with the agreement.

The employment agreement does not contain the "for good reason" definition that would allow Mr. Denardo to voluntarily terminate during the 30-day period immediately following the first anniversary of a change in control.

The employment agreement also contains provisions which can have the effect of prolonging, enhancing and accelerating Mr. Denardo's benefits and compensation under certain circumstances involving a change in control of the Company. A change in control generally involves circumstances where an individual or group acquires 20% or more of the Company's stock or a merger occurs which results in a change in the majority of the Company's Board of Directors and the Company's stockholders do not constitute a majority of the stockholders in the surviving company. The sale or disposition of all or substantially all of the Company's assets is also defined as a change in control.

The term of the employment agreement is automatically extended for three years from the date of a change in control and Mr. Denardo is entitled to continue to receive all of his compensation and benefits during that period, except that he becomes entitled to minimum annual stock-based awards equal to 30% of his base salary. In addition, if within two years after a change in control, Mr. Denardo's employment is terminated by the Company "without cause" or by Mr. Denardo "for good reason," he becomes entitled to receive a lump sum salary continuation benefit equal to 2.99 times his average annual compensation includable in his annual gross income for the period of five years preceding the change in control. He also would be entitled to a continuation of certain executive benefits for 36 months and certain enhancements to his retirement benefits.

The employment agreement for Mr. Denardo includes provisions stating that all payments under the employment agreement are intended either to be outside the scope of Internal Revenue Code Section 409 or to comply with its provisions.

The employment agreement for Mr. Denardo contains provisions requiring him to maintain the confidentiality of Company information. The agreement provides that Mr. Denardo will not compete with the Company for 24 months

after ceasing employment with the Company, unless the termination is by the Company “without cause” or by the executive officer “for good reason” following a change in control.

Potential Payments Upon Termination or Change in Control

The following table provides information on the potential payments to the named executive officers upon termination of employment or a change in control of the Company, assuming the termination or change in control occurred on December 31, 2019.

Name	Benefit	Before Change in Control		After Change in Control	
		Termination Without Cause or Resignation For Good Reason (\$)	Termination Without Cause or Resignation For Good Reason (\$)	Termination Without Cause or Resignation For Good Reason (\$)	Long-Term Incapacity (\$)
F. Brad Denardo	Post-Termination Compensation	476,833	1,034,574	---	---
	Welfare & Executive Benefits Continuation	34,522	69,043	---	---
	Officers Salary Continuation Plan	82,120 ⁽¹⁾	87,738 ⁽²⁾	82,120 ⁽³⁾	90,000 ⁽⁴⁾
	Total Value:	593,475	1,191,355	82,120	90,000
David K. Skeens	Post-Termination Compensation	---	---	---	---
	Welfare & Executive Benefits Continuation	---	---	---	---
	Officers Salary Continuation Plan	30,821 ⁽¹⁾	41,456 ⁽²⁾	30,821 ⁽³⁾	65,940 ⁽⁴⁾
	Total Value:	30,821	41,456	30,821	65,940
Rebecca M. Melton	Post-Termination Compensation	---	---	---	---
	Welfare & Executive Benefits Continuation	---	---	---	---
	Officers Salary Continuation Plan	---	---	---	---
	Total Value:	---	---	---	---
Paul M. Mylum	Post-Termination Compensation	---	---	---	---
	Welfare & Executive Benefits Continuation	---	---	---	---
	Officers Salary Continuation Plan	25,081 ⁽¹⁾	31,066 ⁽²⁾	25,081 ⁽³⁾	48,772 ⁽⁴⁾
	Total Value:	25,081	31,066	25,081	48,772
Lara E. Ramsey	Post-Termination Compensation	---	---	---	---
	Welfare & Executive Benefits Continuation	---	---	---	---
	Officers Salary Continuation Plan	18,696 ⁽¹⁾	28,073 ⁽²⁾	18,696 ⁽³⁾	42,000 ⁽⁴⁾
	Total Value:	18,696	28,073	18,696	42,000

- (1) The Officers Salary Continuation Plan early termination benefit is an annual amount commencing at normal retirement payable to the officer for the longer of life or to the officer’s beneficiary for up to 15 years.
- (2) The Officers Salary Continuation Plan change in control benefit is an annual amount commencing at termination payable to the officer for the longer of life or to the officer’s beneficiary for up to 15 years.
- (3) The Officers Salary Continuation Plan disability benefit is an annual amount commencing at normal retirement payable to the officer for the longer of life or to the officer’s beneficiary for 15 years.
- (4) The Officers Salary Continuation Plan death benefit is an annual amount commencing at death payable to the officer’s beneficiary for 15 years.

The table above does not provide information on the present value of accumulated benefits for each officer under the National Bankshares, Inc. Retirement Income Plan. Such benefits are vested and are not effected upon termination of employment or a change in control of the Company. See “Pension Benefits Table” for more information.

Retirement Plans

Bankshares maintains several qualified and nonqualified employee benefit plans for employees of participating employers in the plans. These benefit plans are described below.

Qualified Retirement Plans

National Bankshares, Inc. Retirement Income Plan. Until December 31, 2001, NBB maintained a tax-qualified, noncontributory defined benefit retirement plan for qualified employees called the National Bank of Blacksburg Retirement Income Plan (the “NBB Plan”). Effective on December 31, 2001, the NBB Plan was amended; its name was changed to the National Bankshares, Inc. Retirement Income Plan (the “NBI Plan”); and the Bank of Tazewell County Employee Pension Plan (the “BTC Plan”) was merged into the NBI Plan. The NBB (now NBI) Plan became effective on February 1, 1984, when NBB amended and restated its previous pension plan. This plan covers all officers and employees of NBI and its subsidiaries who have reached age 21 and have had one year of eligible service on the January 1 or July 1 enrollment dates. Employee benefits are fully vested after five years of service, with no partial vesting. Prior to the December 31, 2001 plan amendment, retirement benefits at the normal retirement age of 65 were calculated at 66% of the employee’s average monthly compensation multiplied by the number of years of service, up to a maximum of 25 years. After December 31, 2001, retirement benefits at the normal retirement age are calculated at 1.75% of average monthly compensation multiplied by the number of years of service, up to 35 years. Added to this is .65% of “excess monthly average compensation” (defined in the NBI Plan as the amount of the average monthly compensation that is in excess of a participant’s monthly Social Security covered compensation, generally the rounded average of the Social Security taxable wage bases) multiplied by the number of years of service, up to 35 years. The benefit formula was amended again in 2008 to reduce the benefit formula for future accruals to 1.00% of monthly compensation, multiplied by the number of years of service up to 35 years. Average monthly compensation is determined by averaging compensation over the five highest paid consecutive years in the employee’s final 10 years of employment. Retirement benefits under the NBI Plan are normally payable in the form of a straight life annuity, with 10 years guaranteed; but other payment options may be elected. Benefits accrued by participants in the NBB Plan and in the BTC Plan prior to December 31, 2001, will be calculated based upon compensation and service under the old NBB and BTC Plan formulas. Benefits accrued by participants after January 1, 2002, are calculated under the NBI Plan formulas. The compensation covered by the NBI Plan includes the total of all amounts paid to a participant for personal services reported on the participant’s federal income tax withholding statement (Form W-2), except that earnings were limited to \$200,000, indexed for the cost of living, until 1994. In 1994, the earnings limit was decreased to \$150,000, which is indexed for the cost of living after 1994. For 2019, the limit on compensation was \$280,000.

National Bankshares, Inc. Employee Stock Ownership Plan. Bankshares sponsors a non-contributory Employee Stock Ownership Plan (the “ESOP”), in which NBB and NBFS were participating employers for 2019. All full-time employees who are over the age of 21 and who have been employed for one year are eligible to participate. Contributions under the ESOP are discretionary for each participating employee and participants are not permitted to make contributions to the plan. Contributions are allocated to a participant’s account based upon a participant’s covered compensation, which is W-2 compensation. The contributions are fully vested after three years.

National Bankshares, Inc. Retirement Accumulation Plan. Bankshares sponsors the NBI Retirement Accumulation Plan which qualifies under IRS Code Section 401(k) (the “401(k) plan”). For 2019, NBB and NBFS were participating employers. All full-time employees who have six months of service and who are over the age of 21 are eligible to participate. Participants may contribute up to 100% of their total annual compensation to the plan, subject to IRS deferral annual dollar limits. Employee contributions are matched by the employer at 100% for the first 4% of salary contributed and at 50% of the next 2% of salary contributed. Employees are fully vested at all times in contributions and employer match sums.

Nonqualified Retirement Plans

Officers Salary Continuation Plan. In early 2006, NBB entered into salary continuation agreements with a select group of subsidiary bank officers, including Mr. Denardo, Mr. Skeens and Ms. Ramsey. Effective May 24,

2013, NBB entered into a salary continuation agreement with Mr. Mylum. The Salary Continuation Plan benefits are funded by investments in bank subsidiary-owned life insurance policies on the lives of the participating officers. The officers and their beneficiaries are unsecured creditors of NBI and of NBB with respect to the benefits under the Salary Continuation Plan.

Each of the salary continuation agreements provides an annual benefit for the participating officer at normal retirement age (defined as age 65) while in the active service of the Company. The salary continuation agreement benefits are equal to 25.0% of 2008 annual compensation adjusted for inflation, for Mr. Denardo; 25.0% of 2012 annual compensation, adjusted for inflation, for Mr. Skeens; 20.0% of 2012 annual compensation, adjusted for inflation, for Mr. Mylum, and 23.1% of 2016 annual compensation, adjusted for inflation, for Ms. Ramsey. The benefit is payable for the greater of 15 years or the officer's lifetime. If the officer dies before receiving the annual benefit for 15 years, the benefit is paid to his or her beneficiary for the remainder of that period. A reduced benefit is available upon the officer's early termination if he or she is 50 years of age or older, upon disability or upon a change in control of the officer's employer. "Early termination," "disability" and "change in control" are defined in the salary continuation agreements. A death benefit that is equal in amount to the annual retirement benefit is paid to the officer's beneficiary for 15 years in the event of the officer's death while an active employee. No benefit is payable if the officer is terminated for "cause", as that term is defined in the agreements.

Under his salary continuation agreement, in 2017, Mr. Denardo became entitled to receive annual payments of \$72,488 as a result of his achieving his normal retirement age. On August 1, 2017, at age 65, Mr. Denardo began receiving monthly payments of \$6,040.67 based on his agreement. Mr. Skeens' agreement provides that he will be paid \$65,940 annually at his normal retirement in 2031. Mr. Mylum will be paid \$48,772 annually at his normal retirement in 2031. Ms. Ramsey's agreement provides that she will be paid \$42,000 annually at her normal retirement in 2033.

In 2016, NBB entered into a new and additional salary continuation agreement with Mr. Denardo (the "2016 Agreement"). The 2016 Agreement provides an additional annual benefit for Mr. Denardo at normal retirement age (defined as age 70) that is payable for the greater of 15 years or the executive's lifetime and provides for similar provisions related to beneficiaries and reduced or elimination of benefits upon occurrence of certain events as his 2006 Agreement. The benefit is based on a percentage (3.8%) of his projected average five year final salary at age 70 and assumes a current salary of \$426,000 with 4.0% annual increases. The benefit vests 25% beginning at December 31, 2017 and then 15% for each of the five subsequent years. The 2016 Agreement with Mr. Denardo provides that he will receive an additional annual payment of \$17,512 beginning July 2, 2022.

Pension Benefits Table

The following table provides additional information about the pension benefits from the National Bankshares, Inc. Retirement Income Plan and from the Officers Salary Continuation Plan for Mr. Denardo, Mr. Skeens, Ms. Melton, Mr. Mylum and Ms. Ramsey.

Name	Plan Name	Number of Years of Credited Service (#)	Present Value of Accumulated Benefits (\$) ⁽¹⁾	Payments During Last Fiscal Year (\$)
F. Brad Denardo	NBI Retirement Income	36	1,980,570	---
	Officers Salary Continuation	n/a	814,883	72,488
David K. Skeens	NBI Retirement Income	29	594,805	---
	Officers Salary Continuation	n/a	178,380	---
Rebecca M. Melton	NBI Retirement Income	1	22,946	---
	Officers Salary Continuation	n/a	---	---
Paul M. Mylum	NBI Retirement Income	13	348,203	---
	Officers Salary Continuation	n/a	147,839	---
Lara E. Ramsey	NBI Retirement Income	23	359,070	---
	Officers Salary Continuation	n/a	111,371	---

RISK FROM COMPENSATION POLICIES AND PRACTICES FOR ALL EMPLOYEES

National Bankshares, Inc. has determined that its conservative compensation policies and practices for all employees are unlikely to create risks that are reasonably likely to have a materially adverse effect on the Company. The Company utilizes a formal salary administration structure that limits annual salary increases to predetermined percentages within salary ranges that are established for each position. The Board has determined that the Company's adoption of the Annual Incentive Plan, which may provide bonus compensation to the President & CEO and certain executive officers, does not encourage excessive or inappropriate risk taking and is not reasonably likely to have a material adverse effect on the Company, but rather will have a positive effect on the Company and enhance the Company's success.

NOMINATING COMMITTEE

The Nominating Committee's sole function is to review and recommend nominees for the Board of Directors. A current copy of the committee's Charter is available on the Company's web site at www.nationalbankshares.com under the "Corporate Governance" tab. The Nominating Committee does not have a specific policy with regard to the consideration of any director candidates recommended by stockholders, because the committee will evaluate all candidates for directors using the same criteria, regardless of the source of the referral. Stockholders wishing to refer director candidates to the Nominating Committee should do so in writing mailed by first class mail to the committee, c/o National Bankshares, Inc., P. O. Box 90002, Blacksburg, VA 24062-9002.

In considering candidates for director, the Nominating Committee seeks individuals who meet the following minimum criteria that are set forth in the committee's Charter. The candidate must be an individual of the highest character and integrity. He or she must be able to work well with others and must be free of any conflict of interest that would violate law or regulation or interfere with the proper performance of a director's responsibilities. The candidate should be willing to devote sufficient time to the business of the Board. Finally, he or she should have the capacity to represent the best interests of the stockholders as a whole in a balanced way. The Nominating Committee insures that the Board of Directors will have a sufficient number of independent directors to fill all Board and committee positions that require independent directors. In addition, the Nominating Committee seeks directors who have good business experience as well as directors who have experience in academia and public service. The committee looks for directors who are knowledgeable about and who reside in the locations in which the Company and its subsidiaries do business and who have the ability and willingness to refer new business to the Company. While there is no formal policy regarding consideration of diversity in identifying director nominees, the Nominating Committee seeks candidates who reflect the Company's belief that gender and ethnic diversity provide additional perspectives that are helpful to the Board of Directors. As a result, the Nominating Committee considers the additional diversity a candidate may add to the overall membership mix of the Board to be a positive factor in the selection of a nominee.

The Nominating Committee actively solicits the names of potential Board candidates from the directors and officers of Bankshares and, as stated here, will consider candidates suggested by stockholders. Information about potential candidates is sought from diverse sources, and the Nominating Committee compares the experience, expertise and personal qualities of the potential candidates with the experience, expertise and personal qualities that are identified as being desirable for the Board of Directors at any given time.

AUDIT COMMITTEE REPORT

The Audit Committee has a charter that reflects standards set forth in SEC regulations and Nasdaq Listing Rules, and it is posted on the Company's web site at www.nationalbankshares.com.

The Audit Committee monitors the integrity of Bankshares' financial reporting process and its systems of internal controls concerning finance, accounting and legal compliance. Each of the Audit Committee members satisfies the definition of an independent director under SEC rules and as established in the listing standards for The Nasdaq Stock Market. Although each member of the Audit Committee has extensive business experience, the committee has identified Mr. Ball as the "audit committee financial expert" because he has a background involving significant financial oversight responsibilities.

The Audit Committee is responsible for overseeing the Company's overall financial reporting process. In fulfilling its oversight responsibilities for the financial statements for fiscal year 2019, the Audit Committee:

- Monitored the preparation of quarterly and annual financial reports by the Company’s management.
- Reviewed and discussed the annual audit process and the audited financial statements for the fiscal year ended December 31, 2019 with management and YHB, the Company’s independent registered public accountant.
- Discussed with management, YHB and the Company’s Corporate Auditor the adequacy of the system of internal controls.
- Discussed with YHB the matters required to be discussed by the applicable requirements of the Public Company Accounting Oversight Board (the “PCAOB”) and the SEC.
- Received written disclosures and a letter from YHB as required by applicable requirements of the PCAOB regarding YHB’s communications with the Audit Committee concerning independence. The Audit Committee discussed with YHB its independence.
- Conducted an assessment of the Company’s relationship with YHB and evaluated YHB’s performance and the quality of audits.

In reliance on the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors (and the Board has approved) that the Company’s audited financial statements be included in the Annual Report on Form 10-K for the year ended December 31, 2019 for filing with the SEC.

This report was prepared by the following directors who compose the Audit Committee:

Lawrence J. Ball (Chair)
 John E. Dooley
 Norman V. Fitzwater, III
 Charles E. Green, III
 Dr. J. Lewis Webb, Jr.

Principal Accounting Fees and Services

The following fees were paid to YHB for services provided to Bankshares for the years ended December 31, 2019 and December 31, 2018. The Audit Committee determined that the provision of non-audit services by YHB did not compromise the firm’s ability to maintain its independence.

	2019		2018	
	Fees (\$)	Percentage	Fees (\$)	Percentage
Audit fees	130,300	80 %	127,825	80 %
Audit-related fees	24,025	15 %	23,550	14 %
Tax fees	9,100	5 %	9,351	6 %
	<u>163,425</u>	<u>100 %</u>	<u>160,726</u>	<u>100 %</u>

Audit fees: Audit and review services and review of documents filed with the SEC and the audit of the effectiveness of the Company’s internal control over financial reporting.

Audit-related fees: Employee benefit plan audits and consultation concerning financial accounting and reporting standards.

Tax fees: Preparation of federal and state tax returns, review of quarterly estimated tax payments and consultation concerning tax compliance issues.

The Audit Committee meets and specifically approves in advance the provision of all services of YHB.

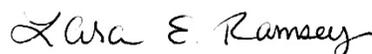
EXPENSES OF SOLICITATION

The cost of solicitation of proxies will be borne by the Company. In addition to solicitations by mail, directors, officers and regular employees of the Company, NBB and NBFS may solicit proxies personally or by telephone, facsimile, email or other electronic means without additional compensation. It is contemplated that brokerage houses and other nominees will be requested to forward proxy solicitation material to the beneficial owners of the stock held of record by such persons, and the Company may reimburse them for their charges and expenses in this connection.

STOCKHOLDER PROPOSALS

To be considered for inclusion in the proxy materials of Bankshares for the 2021 Annual Meeting of Stockholders, a stockholder proposal, including a director nomination, intended to be presented at the meeting must be delivered to or received by mail at Bankshares' headquarters at 101 Hubbard Street, Blacksburg, Virginia, 24060 no later than November 30, 2020. Such proposal also must comply with the SEC's rules regarding stockholder proposals. In addition, the Company's bylaws provide that a stockholder must give timely advance notice in writing to the President in order to bring business before an annual meeting of stockholders, if the proposal is not to be included in the Company's proxy statement. To bring business before an annual meeting of stockholders, such notice must be delivered to or received by mail at Bankshares' headquarters at 101 Hubbard Street, Blacksburg, Virginia 24060 not less than 60 nor more than 90 days prior to the meeting (or not later than 10 days after a notice or public disclosure of such meeting date if such disclosure occurs less than 70 days prior to the date of the meeting). Other than the proposals contained in this proxy statement, the Board of Directors has not received timely notice of any other matter that may come before the 2020 Annual Meeting.

BY ORDER OF THE BOARD OF DIRECTORS



Lara E. Ramsey
Corporate Secretary

Blacksburg, Virginia
March 30, 2020

BANKSHARES IS PROVIDING STOCKHOLDERS WITH A COPY OF THE ITS ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2019, INCLUDING FINANCIAL STATEMENTS (BUT NOT INCLUDING EXHIBITS), FREE OF CHARGE, WITH THIS PROXY STATEMENT. STOCKHOLDERS AS OF THE RECORD DATE MAY OBTAIN ADDITIONAL COPIES OF THE FORM 10-K AND COPIES OF EXHIBITS TO THE FORM 10-K BY MAKING A WRITTEN REQUEST TO: LARA E. RAMSEY, CORPORATE SECRETARY, NATIONAL BANKSHARES, INC., P.O. BOX 90002, BLACKSBURG, VIRGINIA 24062-9002.

The 2020 Annual Meeting of Stockholders of National Bankshares, Inc. will be held on May 12, 2020, 3:00 pm Eastern Time, virtually via the internet at www.meetingcenter.io/221471900

To access the virtual meeting you must have the number printed in the shaded bar on the reverse side of this form.
The password for the meeting is - NKSH2020

Important notice regarding the Internet availability of proxy materials for the Annual Meeting of Stockholders.
The material is available at: www.investorvote.com/NKSH

	<p>Small steps make an impact.</p> <p>Help the environment by consenting to receive electronic delivery, sign up at www.investorvote.com/NKSH</p>	
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▼ IF VOTING BY MAIL, SIGN, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE. ▼

PROXY-NATIONAL BANKSHARES, INC.



2020 Annual Meeting of Stockholders to be held May 12, 2020

This Proxy is Solicited on Behalf of the Board of Directors

Lindsay Coleman and L. Allen Bowman or either of them (each, a "Proxy"), each with the power of substitution, are hereby appointed and authorized to represent and vote the shares of the undersigned, with all the powers which the undersigned would possess if personally present, at the Annual Meeting of Stockholders of National Bankshares, Inc. to be held on May 12, 2020 3:00pm Eastern or at any postponement or adjournment thereof.

Shares represented by this proxy will be voted as directed on the reverse side by the stockholder. If no such directions are indicated, the Proxies will have authority to vote FOR all nominees listed in Proposal 1 and FOR Proposals 2 and 3.

In their discretion, the Proxies are authorized to vote upon such other business as may properly come before the meeting or at any postponement or adjournment thereof.

(Proposals to be voted upon appear on reverse side)

C Non-Voting Items

Change of Address – Please print new address below.

Comments – Please print your comments below.





National Bankshares



Using a **black ink** pen, mark your votes with an **X** as shown in this example. Please do not write outside the designated areas.



2020 Annual Meeting Proxy Card

▼ IF VOTING BY MAIL, SIGN, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE. ▼

A Proposals – The Board of Directors of National Bankshares, Inc. (the “Company”) recommends a vote **FOR** all the nominees listed in Proposal 1 and **FOR** Proposals 2 & 3. The proposals are as follows:



1. Election of Four Class 3 Directors to serve a term of three years each until the 2023 Annual Meeting.

01 - Charles E. Green, III

02 - Mildred R. Johnson

03 - William A. Peery

04 - James C. Thompson

Mark here to vote **FOR** all nominees

Mark here to **WITHHOLD** vote from all nominees

For All **EXCEPT** - To withhold authority to vote for any nominee(s), write the name(s) of such nominee(s) below.

2. Non-binding advisory vote to approve the compensation of the Company's named executive officers.

For Against Abstain

3. Ratification of the appointment of Yount, Hyde & Barbour P.C. as the Company's independent registered public accounting firm for the year ending December 31, 2020.

For Against Abstain

B Authorized Signatures – This section must be completed for your vote to count. Please date and sign below.

Please sign exactly as name(s) appears hereon. Joint owners should each sign. When signing as attorney, executor, administrator, corporate officer, trustee, guardian, or custodian, please give full title.

Date (mm/dd/yyyy) – Please print date below.

Signature 1 – Please keep signature within the box.

Signature 2 – Please keep signature within the box.

_____/_____/_____
[Signature box]

[Signature box]

[Signature box]

1 U P X 4 4 9 7 2 6



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To access the virtual meeting, please see the "General Information" section of the Proxy Statement.

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