

**NATIONAL BANKSHARES, INC.
HEDGING AND PLEDGING POLICY**

Purpose. The Board of Directors (the “Board”) of National Bankshares, Inc. (the “Company”) seeks to establish certain prohibitions against trading in the Company’s securities for executive officers, directors and employees who are equity grant recipients (“Covered Individuals”).

It is the Board’s position that hedging and pledging transactions are inconsistent with shareholder objectives. Hedging transactions compromise the full risks and rewards of owning Company stock, and individuals who participate in such transactions may not be incented to improve the Company’s performance. Certain pledging commitments may involve a sale of Company stock without the individual’s consent at a time when the pledger is aware of material nonpublic information or otherwise is not permitted to trade in the Company securities.

A. Definitions

Hedging. Hedging transactions include any monetization strategy involving exchange funds, prepaid variable forward contracts, equity swaps, puts, calls, collars, forwards and other derivative instruments. This definition also includes the establishment of a short position/sale in the Company’s stock (i.e., the sale of a security that the seller does not own).

Pledging. Pledging includes holding Company stock in a margin account as collateral for a margin loan or committing (or hypothecating) Company stock as collateral for a loan, which may be sold in foreclosure if the borrower defaults on the loan.

B. Covered Individuals

This Policy applies to the Named Executive Officers and directors of the Company.

C. Policy

This Policy prohibits:

- (1) Directly or indirectly engaging in hedging or monetization transactions, through transactions in the Company’s securities or through the use of financial instruments designed for such purpose;
- (2) Engaging in short sale transactions in the Company’s securities; and
- (3) Pledging the Company’s securities as collateral for a loan, including through the use of traditional margin accounts with a broker.

Adopted October 6, 2016
Reviewed January, 2017