

# Successfully Executing Strategy to Drive Long-Term Value for All Shareholders



National Bankshares

National Bankshares Investor Presentation - 2<sup>nd</sup> Quarter 2023



# Forward-Looking Statements

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This presentation of National Bankshares, Inc. (the “Company”) contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are subject to significant risks and uncertainties and are based upon our management’s views and assumptions as of the date of this presentation. The words “believes,” “expects,” “may,” “will,” “should,” “projects,” “contemplates,” “anticipates,” “forecasts,” “intends,” or other similar words or terms are intended to identify forward-looking statements. These forward-looking statements are based upon or are affected by factors that could cause our actual results to differ materially from historical results or from any results expressed or implied by such forward-looking statements. These factors include, but are not limited to, effects of or changes in: interest rates; general and local economic conditions; monetary and fiscal policies of the U.S. Government, including policies of the U.S. Treasury, the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Consumer Financial Protection Bureau and the Federal Deposit Insurance Corporation, and the impact of any policies or programs implemented pursuant to financial reform legislation; unanticipated increases in the level of unemployment in the Company’s market; the quality or composition of the loan and/or investment portfolios; demand for loan products; deposit flows; competition; demand for financial services in the Company’s market; the real estate market in the Company’s market; laws, regulations and policies impacting financial institutions; technological risks and developments, and cyber-threats, attacks or events; the Company’s technology initiatives; geopolitical conditions, including acts or threats of terrorism and/or military conflicts, or actions taken by the U.S. or other governments in response to acts or threats of terrorism and/or military conflicts; the occurrence of significant natural disasters, including severe weather conditions, floods, health related issues, and other catastrophic events; the Company’s ability to identify, attract, and retain experienced management, relationship managers, and support personnel, particularly in a competitive labor environment; performance by the Company’s counterparties or vendors; applicable accounting principles, policies and guidelines; and the impact of the COVID-19 pandemic, including the adverse impact on our business and operations and on our customers. For details on other factors that could affect these forward-looking statements, see the risk factors and other cautionary language included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2022 and in the Company’s other periodic and current reports filed with the Securities and Exchange Commission. These risks and uncertainties should be considered in evaluating the forward-looking statements contained in this presentation. We caution readers not to place undue reliance on forward-looking statements, which speak only as of the date of this presentation.

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# Non-GAAP Financial Measures

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This presentation contains financial information determined by methods other than in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The Company's management uses these non-GAAP financial measures in its analysis of the Company's performance. These measures typically adjust GAAP performance measures to exclude the effects of the amortization of intangibles and include the tax benefit associated with revenue items that are tax-exempt, as well as adjust income available to common shareholders for certain significant activities or transactions that are infrequent in nature. Management believes presentations of these non-GAAP financial measures provide useful supplemental information that is essential to a proper understanding of the operating results of the Company's core businesses. These non-GAAP disclosures should not be viewed as a substitute for operating results determined in accordance with GAAP, nor are they necessarily comparable to non-GAAP performance measures that may be presented by other companies.

# Q2 2023 Highlights

	<b>EPS</b>	<b>ROAA</b>	<b>ROATCE</b>	<b>Efficiency Ratio</b>
<b>UNADJUSTED<sup>(1)</sup></b>	<b>\$0.66</b>	<b>0.96%</b>	<b>12.63%</b>	<b>61.86%</b>
<b>CORE<sup>(1)</sup></b>	<b>\$0.58</b>	<b>0.84%</b>	<b>11.06%</b>	<b>62.58%</b>

- ✓ Reported net income for the quarter of \$3.90 million or \$0.66 per common share and core net income of \$3.42 million or \$0.58 per common share<sup>(1)</sup>
- ✓ Responded to deposit pressures by implementing competitive pricing on CDs and raising rates on other products
- ✓ Maintained well-diversified deposit base with no brokered deposits and only 22% uninsured non-municipal deposits
- ✓ Maintained solid liquidity position with 57.0% loan-to-deposit ratio - sold \$26 million of securities to reinforce liquidity
- ✓ Maintained stellar credit quality, with net charge-offs of \$34 thousand
- ✓ Announced construction of new branch in Roanoke, VA beginning in the third quarter of 2023
- ✓ Paid semiannual dividend of \$0.73, representing a payout ratio of 51% of unadjusted earnings per share for the first half of 2023 - 121% including the \$1.00 special dividend paid in Q1 2023

Source: Company filings; (1) Unadjusted figures prepared in accordance with GAAP. Core figures are non-GAAP measures and exclude non-recurring items. See appendix for non-GAAP reconciliations

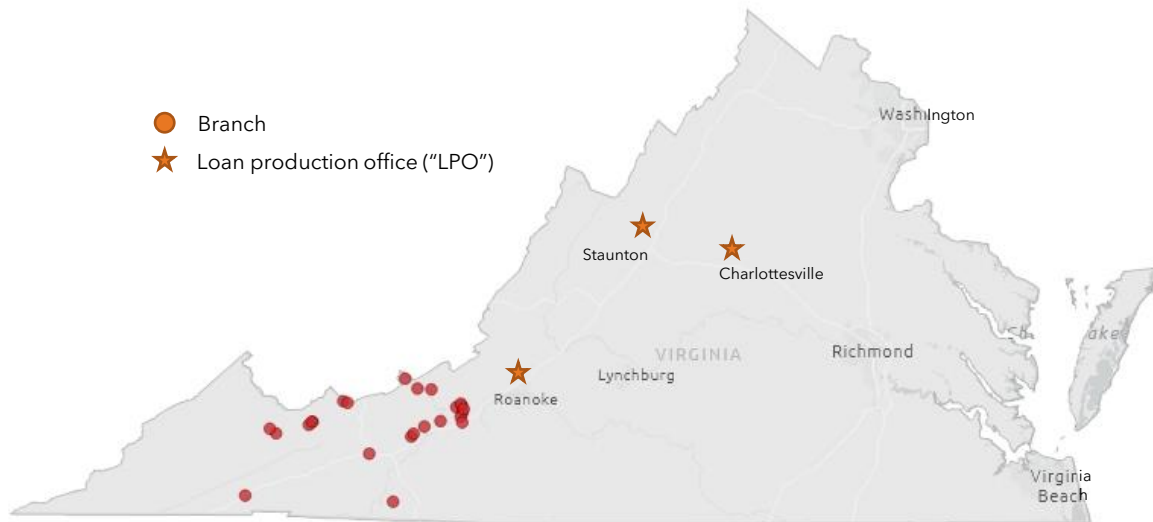
# NKSH at a Glance

Founded: 1891 - The National Bank of Blacksburg ("NBB")

Headquarters: Blacksburg, VA

Ticker: NKSH (NASDAQ)

Branches / LPOs: 24 branches / 3 LPOs



## Financial Highlights (as of or for the quarter ended 6/30/2023)

Assets	\$1.6 billion
Gross Loans	\$847 million
Deposits	\$1.5 billion
Shareholders' Equity	\$128 million
TCE / TA <sup>(1)</sup>	7.6%
GAAP Net Income	\$3.9 million
Core ROAA <sup>(1)</sup>	0.84%
Core ROATCE <sup>(1)</sup>	11.06%
Core Efficiency Ratio <sup>(1)</sup>	62.58%

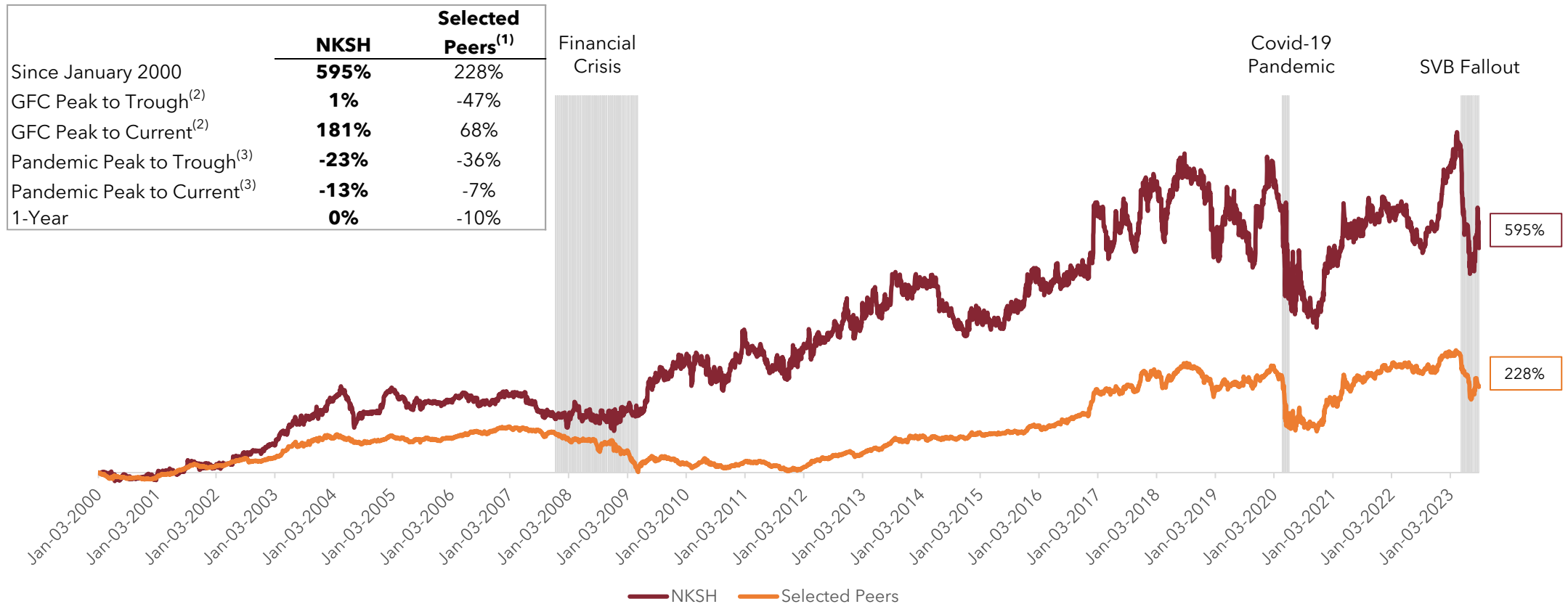
## Valuation Highlights (as of 7/21/2023)

Market Capitalization	\$180 million
Price / Tangible Book Value <sup>(1)</sup>	1.47x
Price / 2023E EPS <sup>(2)</sup>	12.4x
Dividend Yield <sup>(3)</sup>	4.8%

Sources: S&P Capital IQ Pro, Company filings; (1) Unadjusted figures prepared in accordance with GAAP. Core figures are non-GAAP measures and exclude non-recurring items. See appendix for non-GAAP reconciliations; (2) Based on mean of Wall Street research estimates for NKSH; (3) Based on 6/1/2023 semiannual dividend of \$0.73 (\$1.46 annualized)

# Delivering Exceptional Returns to Our Shareholders

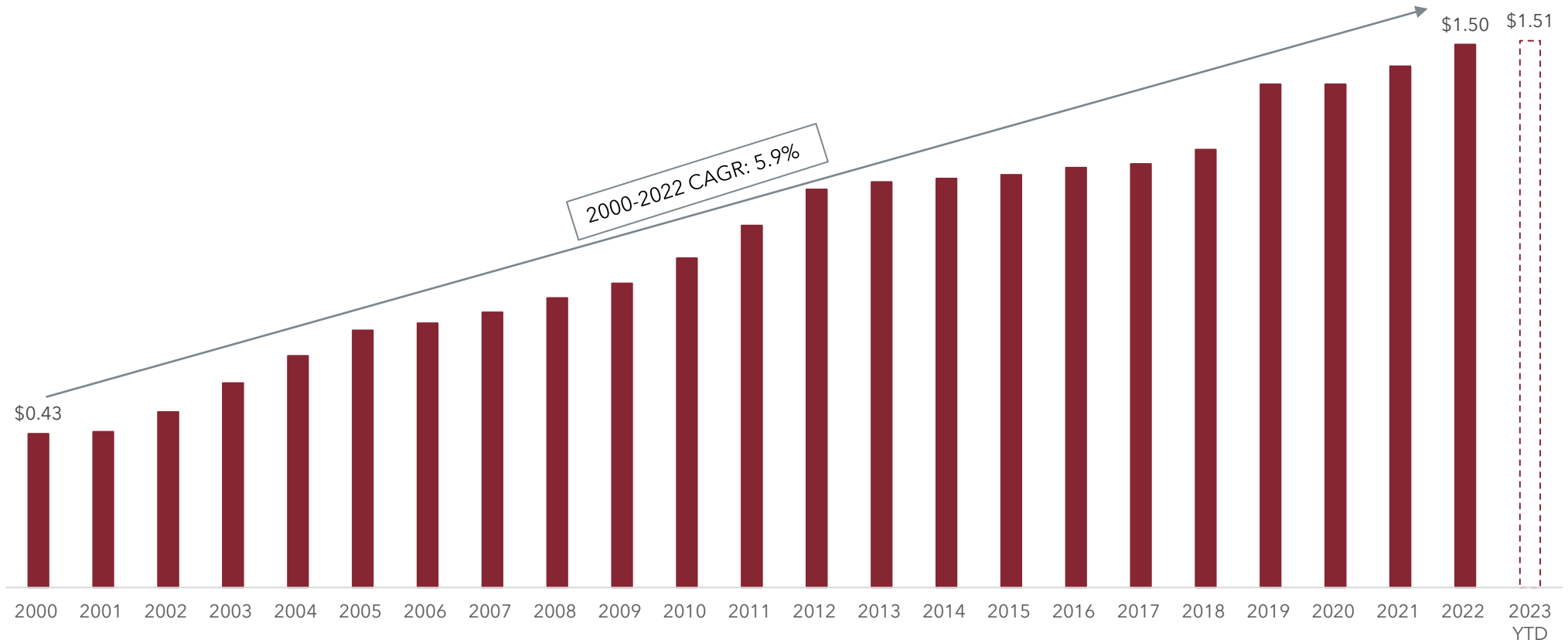
## Total Shareholder Return: January 2000 to June 2023



Source: S&P Capital IQ; (1) See appendix for peer group detail. Index is equal weighted based on market capitalization; (2) Financial Crisis peak to trough represents period from 10/09/2007 to 3/9/2009; (3) Covid-19 Pandemic peak to trough represents period from 2/20/2020 to 4/7/2020

# Consistently Growing Our Dividend

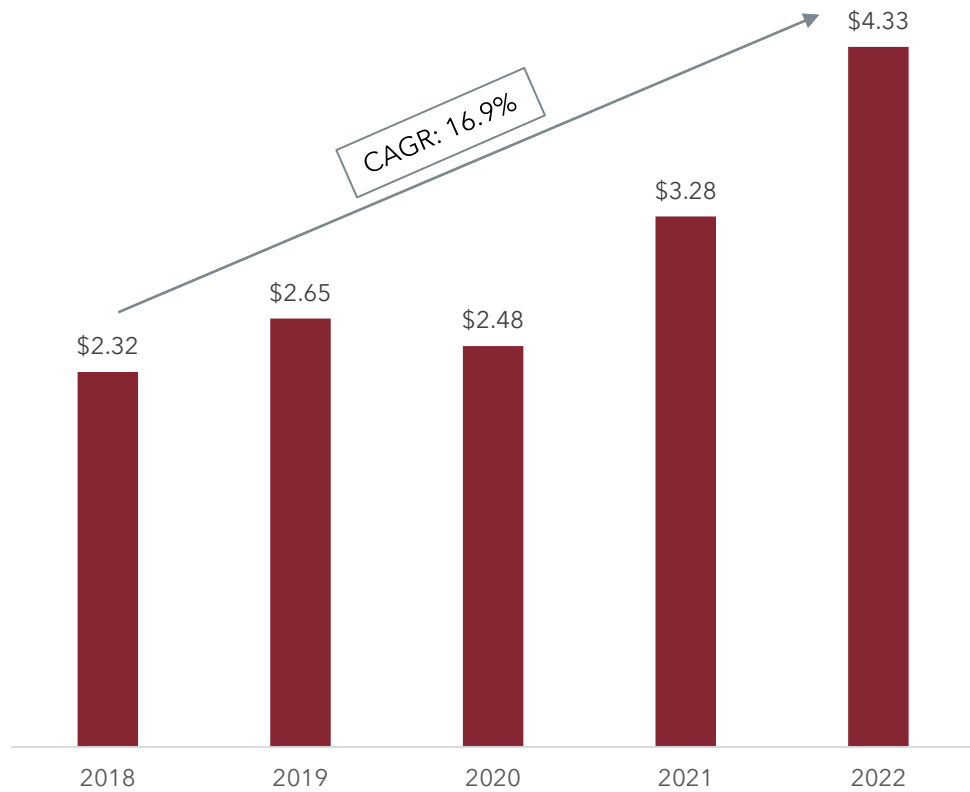
Common Dividends Declared Per Share: 2000 to 2023 YTD



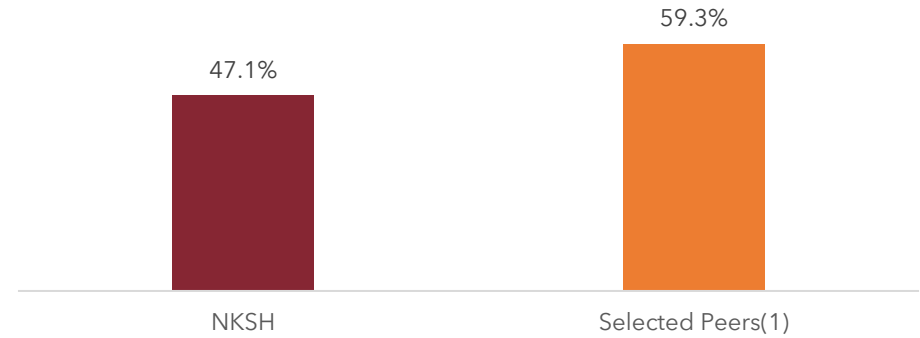
Source: S&P Capital IQ Pro; Note: 2023 YTD includes \$1.00 special dividend paid in Q1 2023

# Peer-Leading Efficiency and Profitability

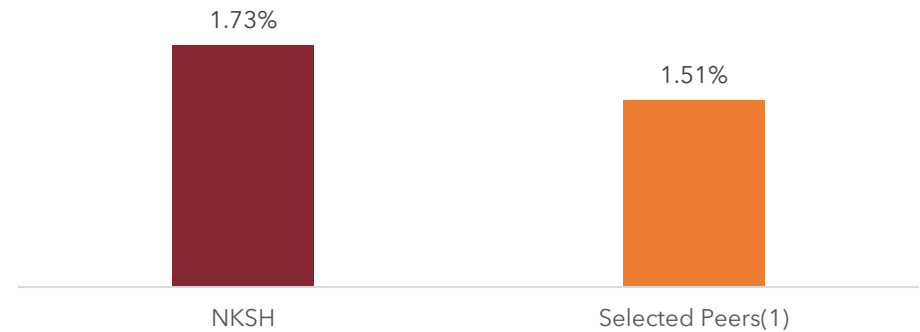
## Diluted Earnings Per Share



## 2022 Efficiency Ratio



## 2022 Pre-Provision Net Revenue / Average Assets



Sources: S&P Capital IQ Pro, Company filings; Note: Efficiency ratio and pre-provision net revenue are calculated per S&P Capital IQ Pro definition to enable comparability; (1) See appendix for peer group detail



# Dominant Market Share in Our Core Markets

County	Market Rank	Branches in Market	Deposits in Market (\$M)	Deposit Market Share	% of Franchise
Montgomery	1	7	\$740	24.6%	46.8%
Tazewell	1	7	260	21.1%	16.4%
Pulaski	2	3	188	33.1%	11.9%
Giles	1	3	151	60.0%	9.6%
Wythe	1	1	138	17.8%	8.8%
Radford (City)	3	1	51	13.3%	3.2%
Galax (City)	6	1	36	8.4%	2.3%
Washington	10	1	18	1.3%	1.2%
<b>Total / Wtd. Avg.</b>	<b>1</b>	<b>24</b>	<b>\$1,582</b>	<b>26.8%</b>	<b>100.0%</b>

**#1 rank in counties representing >80% of deposits**

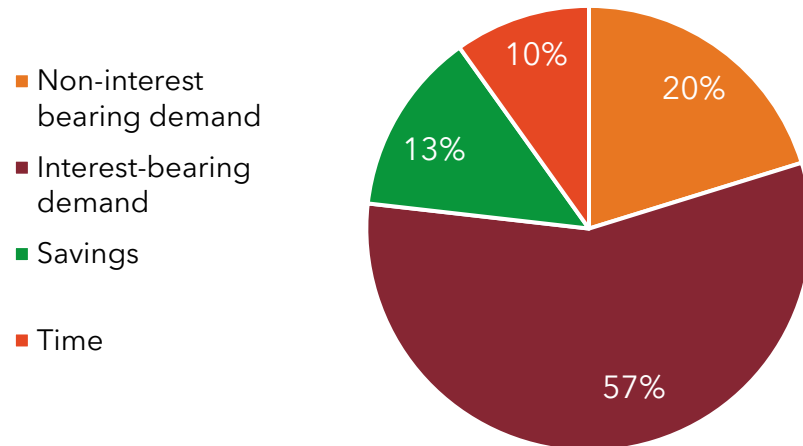
Montgomery			Tazewell			Giles			Wythe		
Institution	Rank	Market Share	Institution	Rank	Market Share	Institution	Rank	Market Share	Institution	Rank	Market Share
<b>National Bankshares</b>	<b>1</b>	<b>24.6%</b>	<b>National Bankshares</b>	<b>1</b>	<b>21.1%</b>	<b>National Bankshares</b>	<b>1</b>	<b>60.0%</b>	<b>National Bankshares</b>	<b>1</b>	<b>17.8%</b>
Wells Fargo	2	24.4%	Truist	2	18.6%	Truist	2	35.5%	First Bancorp	2	16.5%
Atlantic Union	3	21.2%	First Region	3	18.0%	Peterstown	3	4.5%	First Community	3	16.3%
Truist	4	7.4%	Wells Fargo	4	11.9%				Truist	4	12.7%
First Bancorp	5	5.8%	First Community	5	10.4%				Atlantic Union	5	11.5%

Source: S&P Capital IQ Pro; Note: Information as of 6/30/2022

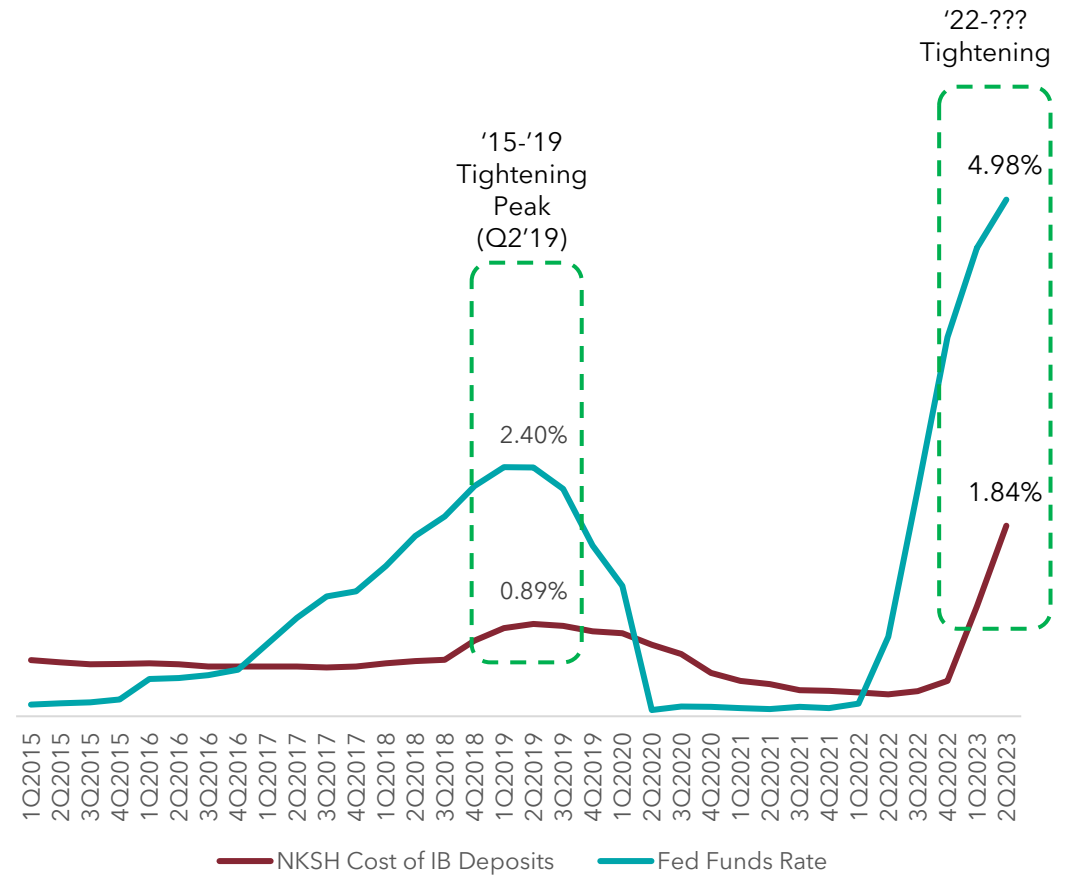
# Deposit Base Well Positioned for Higher Rates

- ✓ Retail- and small business-oriented deposit base
- ✓ Low deposit beta during last Fed tightening cycle
- ✓ Limited reliance on time deposits and wholesale funding
- ✓ Strong liquidity position - increasingly important during times of economic turmoil

## 6/30/2023 Deposit Composition



## NKSH Cost of Interest-Bearing Deposits vs Fed Funds<sup>(1)</sup>



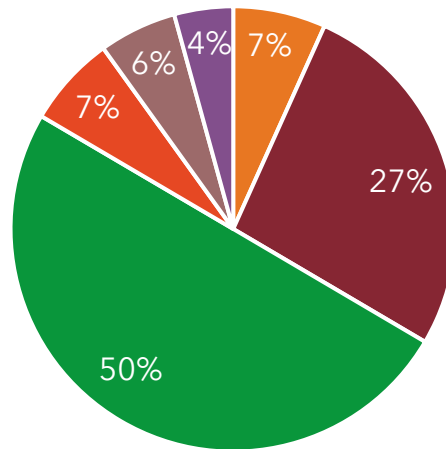
Sources: S&P Capital IQ Pro, Company filings; (1) <https://fred.stlouisfed.org/series/FEDFUNDS>

# Responsible Lending Drives Pristine Credit Quality

- ✓ Conservative underwriting standards
- ✓ No high-risk lending concentrations
- ✓ No lending to VC/PE industry
- ✓ Low LTVs and high DSCRs
- ✓ Limited exposure to Covid-impacted industries

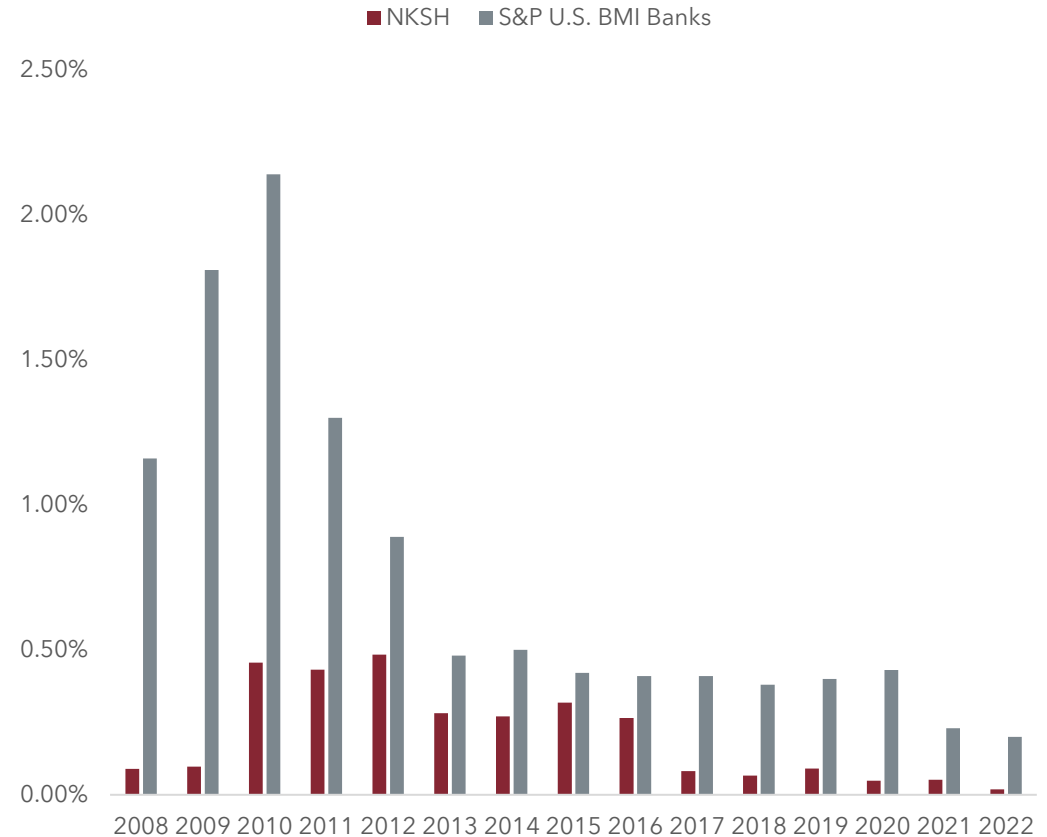
## 6/30/2023 Loan Composition

- Real estate construction
- Consumer real estate
- Commercial real estate
- Commercial non real estate
- Public sector and IDA
- Consumer non real estate



Sources: S&P Capital IQ Pro, Company filings

## Net Charge-offs / Average Loans: 2008 to 2022



# A Safe Haven During Uncertain Times

“More broadly, NKSH is one of the most consistent performers we cover, with the best deposit base in our universe, a conservative credit posture and clean balance sheet. **All of these factors offer offensive and defensive characteristics in a highly uncertain environment.**”

Piper Sandler – February 3, 2023

## Piper Sandler's FSG Overweight-Rated "Bunker Banks"

Institution Name	Ticker	State	Mkt. Cap	Total Assets	TCE Ratio (%)	LLR / Gross Loans (%)	NPAs / Total Assets (%)	NCOs / Avg. Loans (%)	Div. Yield	P/TBV	P/2023 <sup>1</sup>	P/2024 <sup>1</sup>	Analyst
1 Banner Corporation	BANR	WA	\$2,176	\$15,833	6.95	1.39	0.14	0.02	3.04%	203%	10.3x	10.6x	Andrew Liesch, CFA
2 Bar Harbor Bankshares	BHB	ME	\$452	\$3,910	7.09	0.89	0.17	-0.02	3.47%	169%	9.9x	9.4x	Alexander Twerdahl
3 Cambridge Bancorp	CATC	MA	\$626	\$5,560	8.12	0.93	0.12	0.00	3.34%	140%	9.4x	8.7x	Mark Fitzgibbon, CFA
4 CVB Financial Corp.	CVBF	CA	\$3,383	\$16,477	7.40	0.94	0.03	0.00	3.29%	291%	13.4x	13.8x	Matthew Clark
5 F.N.B. Corporation	FNB	PA	\$5,111	\$43,725	7.24	1.32	0.27	0.16	3.40%	171%	8.3x	8.1x	Frank Schiraldi, CFA
6 National Bankshares, Inc.	NKSH	VA	\$248	\$1,678	6.99	0.96	0.21	0.00	3.57%	210%	10.1x	10.6x	Brendan Nosal
7 Prosperity Bancshares, Inc.	PB	TX	\$6,765	\$37,690	9.93	1.49	0.06	0.01	2.97%	198%	12.3x	11.6x	Brad Milsaps, CFA
8 QCR Holdings, Inc.	QCRH	IL	\$904	\$7,949	7.93	1.43	0.11	0.25	0.45%	146%	8.8x	8.5x	Nathan Race
9 SouthState Corporation	SSB	FL	\$6,107	\$43,919	7.25	1.18	0.24	0.01	2.47%	201%	9.9x	10.6x	Stephen Scouten, CFA
10 TowneBank	TOWN	VA	\$2,214	\$15,845	8.94	1.02	0.04	0.11	3.03%	162%	10.8x	11.0x	Casey Orr Whitman
11 U.S. Bancorp	USB	MN	\$73,059	\$674,805	4.36	1.78	0.15	0.64	4.04%	245%	8.9x	9.1x	R. Scott Siefers
12 William Penn Bancorporation	WMPN	PA	\$167	\$871	20.08	0.67	0.49	0.00	1.00%	97%	45.8x	38.4x	Justin Crowley

Source: S&P Global Market Intelligence, FactSet & Piper Sandler | Priced: 02/23/2023

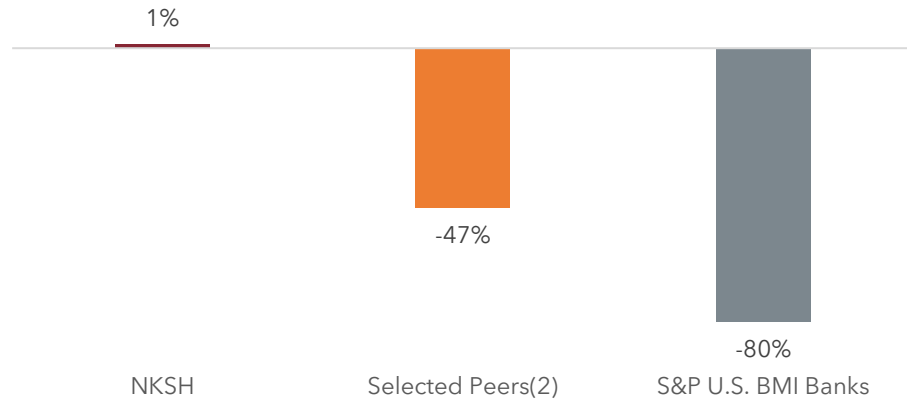
<sup>1</sup> Piper Sandler estimates and price targets exclusively used

Note: MRQ data reflected

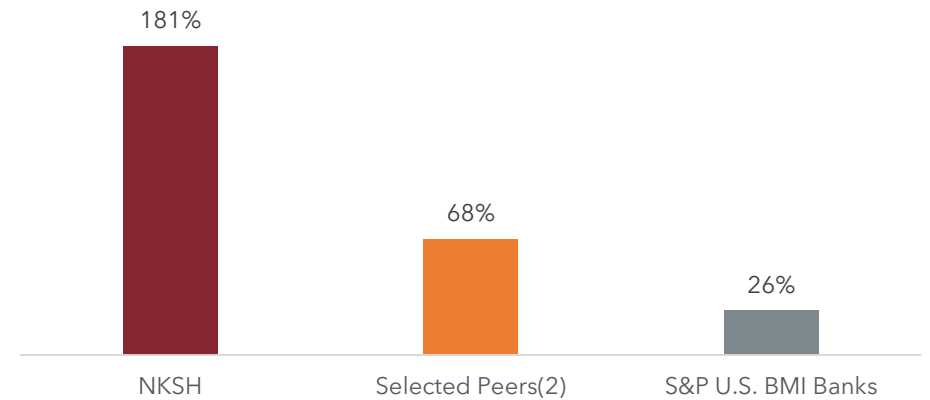
Sources: Piper Sandler Company Note (2/3/2023), Piper Sandler Industry Note (2/24/2023)

# Outperforming During Periods of Stress

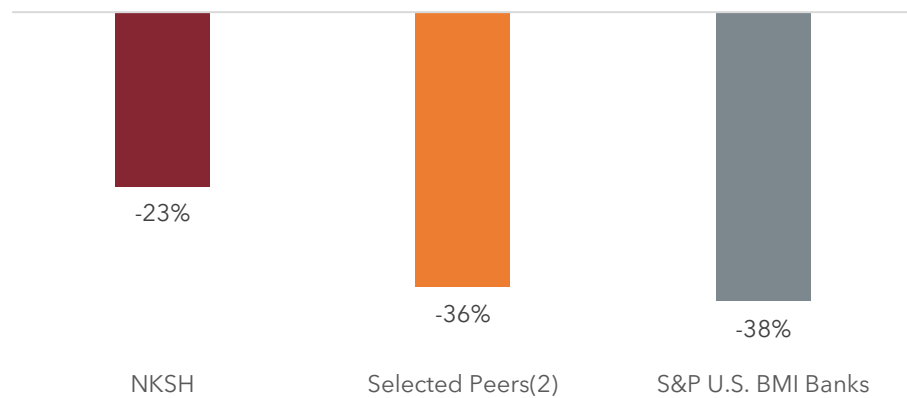
**TSR: Financial Crisis Peak to Trough<sup>(1)</sup>**



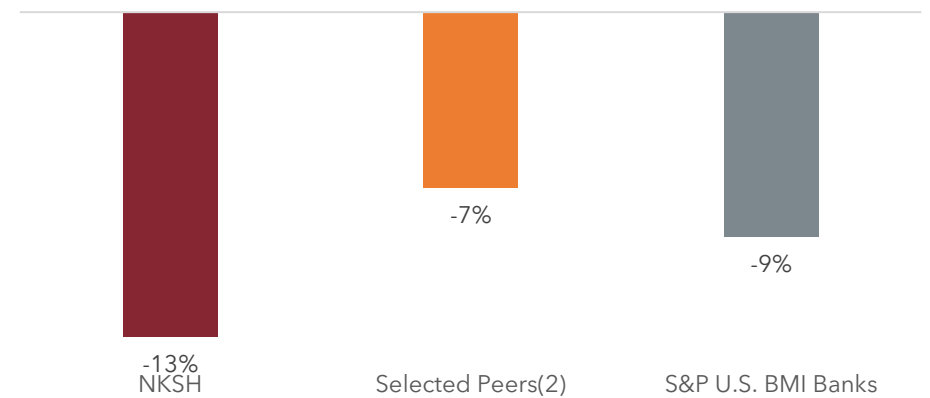
**TSR: Financial Crisis Peak to Current<sup>(1)</sup>**



**TSR: Covid-19 Pandemic Peak to Trough<sup>(3)</sup>**



**TSR: Covid-19 Pandemic Peak to Current<sup>(3)</sup>**

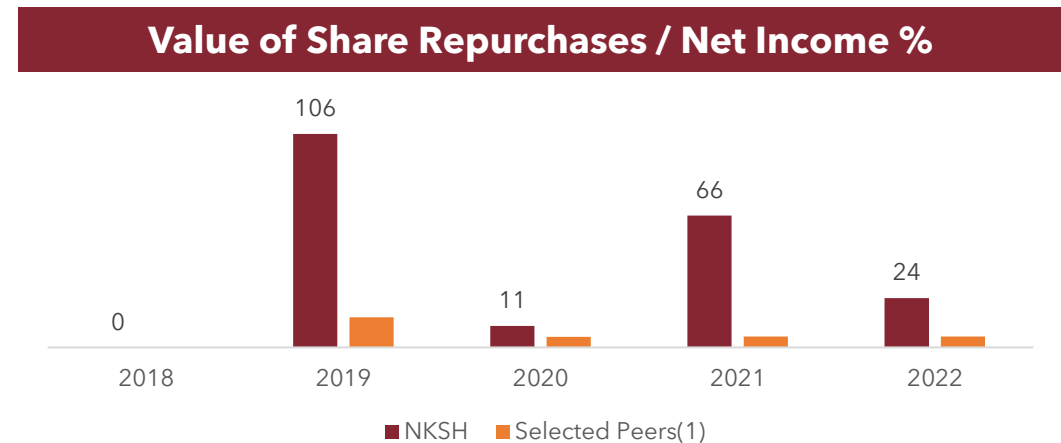
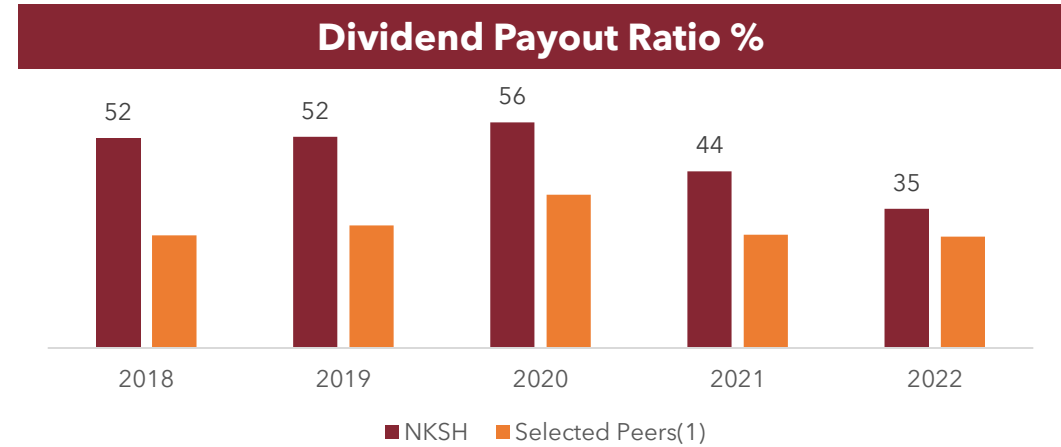


Source: S&P Capital IQ; Note: Current market data through 6/30/2023; (1) Financial Crisis peak to trough represents period from 10/09/2007 to 3/9/2009; (2) See appendix for peer group detail. Index is equal weighted based on market capitalization; (3) Covid-19 Pandemic peak to trough represents period from 2/20/2020 to 4/7/2020

# Peer-Leading Capital Levels and Return

NBB at 6/30/2023	Actual Ratio	Well Capitalized
Total Capital	18.58%	10.00%
Tier 1 Capital	17.58%	8.00%
Common Equity Tier 1	17.58%	6.50%
Tier 1 Leverage	11.30%	5.00%

- ✓ NKSH and NBB possess robust regulatory capital levels
- ✓ We carefully consider all options for our excess capital in light of the operating environment
- ✓ We have prudently returned capital to shareholders via common dividends and share repurchases
- ✓ In February 2023, we paid a \$1.00 special dividend<sup>(2)</sup>
- ✓ We expect to continue returning capital as market conditions permit



Sources: S&P Capital IQ Pro, Company filings; (1) See appendix for peer group detail. Chart presents median values;  
 (2) [https://www.sec.gov/Archives/edgar/data/796534/000143774923000880/ex\\_463087.htm#:~:text=\(NASDAQ%3A%20NKSH\)%20\(the.as%20of%20January%202023%2C%202023](https://www.sec.gov/Archives/edgar/data/796534/000143774923000880/ex_463087.htm#:~:text=(NASDAQ%3A%20NKSH)%20(the.as%20of%20January%202023%2C%202023)

# Strong Financial Position Provides Optionality

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## Organic Growth

- ✓ Contiguous and new markets offer more growth prospects than legacy markets
- ✓ Recently established loan production offices in Charlottesville and Staunton
- ✓ Announced construction of new branch in Roanoke, VA beginning in Q3 2023

## Mergers and Acquisitions

- ✓ Several attractive potential merger partners in and around our markets
- ✓ Will not overpay or dilute our franchise

## Capital Return

- ✓ Will continue to weigh capital return against organic growth and M&A
- ✓ Will not sacrifice position as a safe haven bank

## New Business Lines

- ✓ Will look at business lines that may be synergistic with our existing lines
- ✓ Will not pursue speculative new business initiatives



# Appendix





# Peer Group Detail

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## NKSH Selected Peers<sup>(1)</sup>

ACNB Corporation	First United Corporation
American National Bankshares Inc.	Limestone Bancorp
Ameriserv Financial, Inc.	Mid Penn Bancorp
C&F Financial Corporation	Old Point Financial Corporation
Capstar Financial Holdings, Inc.	Penns Woods Bancorp, Inc.
Codorus Valley Bancorp, Inc.	Peoples Bancorp of North Carolina, Inc.
First Community Bancshares, Inc.	Shore Bancshares, Inc.

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(1) Based on peers included in NKSH's 2022 proxy statement

# Non-GAAP Reconciliations

## As of or for the period ended 6/30/2023

### **Tangible common equity:**

Total stockholders' equity (GAAP)	\$128,444
Less: Goodwill	(5,848)
Tangible common equity (non-GAAP)	<u>122,596</u>

### **Tangible assets:**

Total assets (GAAP)	\$1,625,541
Less: Goodwill	(5,848)
Tangible assets (non-GAAP)	<u>1,619,693</u>

### **Tangible common equity / tangible assets (TCE/TA):**

Tangible common equity (non-GAAP)	\$122,596
Tangible assets (non-GAAP)	1,619,693
Tangible common equity / tangible assets (non-GAAP)	7.6%

### **Tangible book value per share:**

Tangible common equity (non-GAAP)	\$122,596
Common shares outstanding	5,892
Tangible book value per share (non-GAAP)	\$20.81

### **Average tangible common equity:**

Average stockholders' equity (GAAP)	\$129,738
Less: Average goodwill	(5,848)
Average tangible common equity (non-GAAP)	<u>123,890</u>

### **Unadjusted efficiency ratio:**

Noninterest income (GAAP)	\$2,791
Net interest income, FTE (Non-GAAP)	9,426
Total income for efficiency ratio (non-GAAP)	<u>12,217</u>
Total noninterest expense for efficiency ratio (GAAP)	7,557
Unadjusted efficiency ratio (non-GAAP)	61.86%

### **Core efficiency ratio:**

Noninterest income (GAAP)	\$2,791
Plus: Realized securities loss	3,344
Less: Gain on sale of investment	(2,971)
Less: BOLI benefit payout	<u>(1,037)</u>
Noninterest income (non-GAAP)	2,127
Net interest income, FTE (non-GAAP)	9,426
Total income for efficiency ratio (non-GAAP)	<u>11,553</u>
Total noninterest expense for efficiency ratio (GAAP)	7,557
Less: Proxy contest expense	<u>(327)</u>
Noninterest expense for efficiency ratio (non-GAAP)	7,230
Core efficiency ratio (non-GAAP)	62.58%

### **Core net income:**

Net income (GAAP)	\$3,901
Plus: Realized securities loss, net of taxes	2,642
Less: Gain on sale of investment, net of taxes	(2,347)
Less: BOLI benefit payout, net of taxes	(1,037)
Plus: Proxy contest expense, net of taxes	<u>258</u>
Core net income (non-GAAP)	3,417

Source: Company filings

# Non-GAAP Reconciliations

## As of or for the period ended 6/30/2023

### **Unadjusted ROATCE:**

Net income (GAAP)	\$3,901
Average tangible common equity (non-GAAP)	123,890
Unadjusted ROATCE (non-GAAP)	12.63%

### **Core ROATCE:**

Core net income (non-GAAP)	\$3,417
Average tangible common equity (non-GAAP)	123,890
Core ROATCE (non-GAAP)	11.06%

### **Unadjusted ROAA:**

Net income (GAAP)	\$3,901
Average assets (GAAP)	1,627,794
Unadjusted ROAA (GAAP)	0.96%

### **Core ROAA:**

Core net income (non-GAAP)	\$3,417
Average assets (GAAP)	1,627,794
Core ROAA (non-GAAP)	0.84%

### **Core earnings per share (EPS):**

Core net income (non-GAAP)	\$3,417
Weighted average number of common shares outstanding	5,890
Core EPS (non-GAAP)	\$0.58

Source: Company filings