NATIONAL BANKSHARES INC
Form 10-K
March 09, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

[x] Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Fiscal Year Ended December 31, 2011

[ ] Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from ________ to ________.
Commission File Number: 0-15204

NATIONAL BANKSHARES, INC.
(Exact name of registrant as specified in its charter)

Virginia	54-1375874
(State of incorporation)	(I.R.S. Employer Identification No.)

101 Hubbard Street
P.O. Box 90002
Blacksburg, VA 24062-9002
(540) 951-6300
(Address and telephone number of principal executive offices)

Securities registered pursuant to Section 12(b) of the Act:	Securities registered Pursuant to Section 12(g) of the Act:
None	Common Stock, Par Value $1.25 per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [ ] No [x]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes [ ] No [x]

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [x] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T(§232.405 of this chapter) during the preceding 12 months (or for such period that the registrant was required to submit and post files). Yes [x] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [x]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of “accelerated filer, large accelerated filer, and smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer [ ]   Accelerated filer [x]   Non-accelerated filer [ ]   Smaller reporting company [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes [ ]   No [x]

The aggregate market value of the voting common stock of the registrant held by stockholders (not including voting common stock held by Directors, Executive Officers and Corporate Governance) on June 30, 2011 (the last business day of the most recently completed second fiscal quarter) was approximately $166,007,713. As of February 21, 2012, the registrant had 6,939,974 shares of voting common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the following documents are incorporated herein by reference into the Part of the Form 10-K indicated.

Document	Part of Form 10-K into which incorporated
National Bankshares, Inc. 2011 Annual Report to Stockholders	Part II
National Bankshares, Inc. Proxy Statement for the 2012 Annual Meeting of Stockholders	Part III

NATIONAL BANKSHARES, INC. AND SUBSIDIARIES
Form 10-K
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Part I
$ in thousands, except per share data

Item 1. Business

History and Business

National Bankshares, Inc. (the “Company” or “NBI”) is a financial holding company that was organized in 1986 under the laws of Virginia and is registered under the Bank Holding Company Act of 1956. It conducts most of its operations through its wholly-owned community bank subsidiary, the National Bank of Blacksburg (“NBB”). It also owns National Bankshares Financial Services, Inc. (“NBFS”), which does business as National Bankshares Insurance Services and National Bankshares Investment Services.

The National Bank of Blacksburg

The National Bank of Blacksburg, which does business as National Bank, was originally chartered in 1891 as the Bank of Blacksburg. Its state charter was converted to a national charter in 1922 and it became the National Bank of Blacksburg. In 2004, NBB purchased Community National Bank of Pulaski, Virginia. In May, 2006, Bank of Tazewell County, a Virginia bank which since 1996 had also been a wholly-owned subsidiary of NBI, was merged with and into NBB.

NBB is community-oriented, and it offers a full range of retail and commercial banking services to individuals, businesses, non-profits and local governments from its headquarters in Blacksburg, Virginia and its twenty-four branch offices throughout southwest Virginia. NBB has telephone and internet banking and it operates twenty-five automated teller machines in its service area. Lending is focused at small and mid-sized businesses and at individuals. Loan types include commercial, agricultural, real estate, home equity and consumer. Merchant credit card services and business and consumer debit and credit cards are available. Deposit accounts offered include demand deposit accounts, money market deposit accounts, savings accounts and certificates of deposit. NBB offers other miscellaneous services normally provided by commercial banks, such as letters of credit, night depository, safe deposit boxes, travelers checks, utility payment services and automatic funds transfer. NBB conducts a general trust business that has wealth management, and trust and estate services for individual and business customers.

At December 31, 2011, NBB had total assets of $1,063,754 and total deposits of $919,443. NBB’s net income for 2011 was $17,946, which produced a return on average assets of 1.75% and a return on average equity of 13.39%. Refer to Note 12 of the Notes to Consolidated Financial Statements for NBB’s risk-based capital ratios.

National Bankshares Financial Services, Inc.

In 2001, National Bankshares Financial Services, Inc. was formed in Virginia as a wholly-owned subsidiary of NBI. NBFS offers non-deposit investment products and insurance products for sale to the public. NBFS works cooperatively with Infinex Investments, Inc. to provide investments and with Bankers Insurance, LLC for insurance products. NBFS does not significantly contribute to NBI’s net income.

Operating Revenue

The percentage of total operating revenue attributable to each class of similar service that contributed 15% or more of the Company’s total operating revenue for the years ended December 31, 2011, 2010 and 2009 is set out in the following table.

Period	Class of Service	Percentage of Total Revenues

December 31, 2011	Interest and Fees on Loans	62.57%
	Interest on Investments	22.75%
December 31, 2010	Interest and Fees on Loans	64.22%
	Interest on Investments	21.03%
December 31, 2009	Interest and Fees on Loans	63.38%
	Interest on Investments	21.62%

Market Area

The Company's market area in southwest Virginia is made up of the counties of Montgomery, Giles, Pulaski, Tazewell, Wythe, Smyth and Washington. It includes the independent cities of Radford and Galax, and the portions of Carroll and Grayson Counties that are adjacent to Galax. The Company also serves those portions of Mercer County and McDowell County, West Virginia that are contiguous with Tazewell County, Virginia. Although largely rural, the market area is home to two major universities, Virginia Tech and Radford University, and to three community colleges. Virginia Tech, located in Blacksburg, Virginia, is the area's largest employer and is the Commonwealth's second largest university. A second state supported university, Radford University, is located nearby. State support for public colleges and universities, like Virginia Tech and Radford University, has been adversely affected by the recession and State budget considerations. As a result, the normally stable base of university employment is likely to be reduced. In recent years, Virginia Tech's Corporate Research Center has brought a number of technology related companies to Montgomery County. However, the recession has slowed the growth of new jobs in the Center.

In addition to education, the market area has a diverse economic base, with manufacturing, agriculture, tourism, healthcare, retail and service industries all represented. Large manufacturing facilities in the region include Celanese Acetate, the largest employer in Giles County, and Volvo Heavy Trucks, the largest company in Pulaski County. Both of these firms have experienced layoffs within the past several years. During the past year, Volvo Heavy Trucks has begun to slowly re-hire some employees whose jobs were cut in the previous year in response to a rapid decline in the demand for trucks because of the economic downturn. Pulaski and Galax have in the past been centers for furniture manufacturing. However, this industry has been declining because of growing furniture imports and the loss of demand. Several furniture companies have gone out of business in the recent past. Tazewell County is largely dependent on the coal mining industry and on agriculture for its economic base. Coal production is a cyclical industry that was negatively affected by the economic decline. Montgomery County, Bluefield in Tazewell County and Abingdon in Washington County are regional retail centers and have facilities to provide basic health care for the region.

NBI's market area offers the advantages of a good quality of life, scenic beauty, moderate climate and historical and cultural attractions. The region has some recent success attracting retirees, particularly from the Northeast and urban northern Virginia.

Because NBI's market area is economically diverse and includes large public employers, it has historically avoided the most extreme effects of past economic downturns. However, because the current national and state economic problems have been severe and prolonged, most the Company's market area is experiencing higher levels of unemployment and very slow economic growth. For the Company, the result is a higher number of loan defaults than its historical average and a lower loan demand.

Competition

The banking and financial services industry in NBI's market area is highly competitive. The competitive business environment is a result of changes in regulation, changes in technology and product delivery systems and competition from other financial institutions as well as non-traditional financial services. NBB competes for loans and deposits with other commercial banks, credit unions, securities and brokerage companies, mortgage companies, insurance companies, retailers, automobile companies and other nonbank financial service providers. Many of these competitors are much larger in total assets and capitalization, have greater access to capital markets and offer a broader array of financial services than NBB. In order to compete, NBB relies upon a deep knowledge of its markets, a service-based business philosophy, personal relationships with customers, specialized services tailored to meet customers' needs and the convenience of office locations. In addition, the bank is generally competitive with other financial institutions in its market area with respect to interest rates paid on deposit accounts, interest rates charged on loans and other service charges on loans and deposit accounts.

Organization and Employment

NBI, NBB and NBFS are organized in a holding company/subsidiary structure. Functions that serve both subsidiaries, including audit, compliance, loan review and human resources, are at the holding company level, and fees are charged to the respective subsidiary for those services.

At December 31, 2011, NBI employed 18 full time employees, NBB had 194 full time equivalent employees and NBFS had 3 full time employees.

Regulation, Supervision and Government Policy

NBI and NBB are subject to state and federal banking laws and regulations that provide for general regulatory oversight of all aspects of their operations. As a result of substantial regulatory burdens on banking, financial institutions like NBI and NBB are at a disadvantage to other competitors who are not as highly regulated, and NBI and NBB's costs of doing business are accordingly higher. Legislative efforts to prevent a repeat of the 2008 financial crisis culminated in the Dodd-Frank Wall Street Reform Act of 2010. This legislation, together with existing and planned implementing regulations, has dramatically increased the regulatory burden on commercial banks. The burden falls disproportionately on community banks like NBB, which must devote a higher proportion of their human and other resources to compliance than do their larger competitors. The financial crisis has also heightened the examination focus by banking regulators, particularly on real estate related assets and commercial loans. In the current environment, the potential for additional laws and regulations that will impact the Company, as well as heightened examination standards with regard to asset quality, cannot be ruled out. The following is a brief summary of certain laws, rules and regulations that affect NBI and NBB.

National Bankshares, Inc.

NBI is a bank holding company qualified as a financial holding company under the Federal Bank Holding Company Act (BHCA), which is administered by the Board of Governors of the Federal Reserve System (the "Federal Reserve"). NBI is required to file an annual report with the Federal Reserve and may be required to furnish additional information pursuant to the BHCA. The Federal Reserve is authorized to examine NBI and its subsidiaries. With some limited exceptions, the BHCA requires a bank holding company to obtain prior approval from the Federal Reserve before acquiring or merging with a bank or before acquiring more than 5% of the voting shares of a bank unless it already controls a majority of shares.

The Bank Holding Company Act. Under the BHCA, a bank holding company is generally prohibited from engaging in nonbanking activities unless the Federal Reserve has found those activities to be incidental to banking. Bank holding companies also may not acquire more than 5% of the voting shares of any company engaged in nonbanking activities. Amendments to the BHCA that were included in the Gramm-Leach-Bliley Act of 1999 (see below) permitted any bank holding company with bank subsidiaries that are well-capitalized, well-managed and which have a satisfactory or better rating under the Community Reinvestment Act (see below) to file an election with the Federal Reserve to become a financial holding company. A financial holding company may engage in any activity that is (i) financial in nature (ii) incidental to a financial activity or (iii) complementary to a financial activity. Financial activities include insurance underwriting, securities dealing and underwriting and providing financial, investment or economic advising services. NBI is a financial holding company.

The Virginia Banking Act. The Virginia Banking Act requires all Virginia bank holding companies to register with the Virginia State Corporation Commission (the "Commission"). NBI is required to report to the Commission with respect to financial condition, operations and management. The Commission may also make examinations of any bank holding company and its subsidiaries and must approve the acquisition of ownership or control of more than 5% of the voting shares of any Virginia bank or bank holding company.

The Gramm-Leach-Bliley Act. The Gramm-Leach-Bliley Act ("GLBA") permits significant combinations among different sectors of the financial services industry, allows for expansion of financial service activities by bank holding companies and offers financial privacy protections to consumers. GLBA preempts most state laws that prohibit financial holding companies from engaging in insurance activities. GBLA permits affiliations between banks and securities firms in the same holding company structure, and it permits financial holding companies to directly engage in a broad range of securities and merchant banking activities.

The Sarbanes-Oxley Act. The Sarbanes-Oxley Act ("SOX") enacted major reforms of the federal securities laws intended to protect investors by improving the accuracy and reliability of corporate disclosures. It impacts all companies with securities registered under the Securities Exchange Act of 1934, including NBI. SOX creates increased responsibility for chief executive officers and chief financial officers with respect to the content of filings with the Securities and Exchange Commission. Section 404 of SOX and related Securities and Exchange Commission rules focused increased scrutiny by internal and external auditors on NBI's systems of internal controls over financial reporting, which is designed to insure that those internal controls are effective in both design and operation. SOX sets out enhanced requirements for audit committees, including independence and expertise, and it includes stronger requirements for auditor independence and limits the types of non-audit services that auditors can provide. Finally, SOX contains additional and increased civil and criminal penalties for violations of securities laws.

Capital Requirements. The Federal Reserve has adopted risk-based capital guidelines that are applicable to NBI. The guidelines provide that the Company must maintain a minimum ratio of 8% of qualified total capital to risk-weighted assets (including certain off-balance sheet items, such as standby letters of credit). At least half of total capital must be comprised of Tier 1 capital, for a minimum ratio of Tier 1 capital to risk-weighted assets of 4%. In addition, the

Federal Reserve has established minimum leverage ratio guidelines of 4% for banks that meet certain specified criteria. The leverage ratio is the ratio of Tier 1 capital to total average assets, less intangibles. NBI is expected to be a source of capital strength for its subsidiary bank, and regulators can undertake a number of enforcement actions against NBI if its subsidiary bank becomes undercapitalized. NBI's bank subsidiary is well capitalized and fully in compliance with capital guidelines.

Bank regulators are actively reviewing capital requirements for banking organizations beyond current levels. NBI is unable to predict if higher capital levels may be mandated in the future.

Emergency Economic Stabilization Act of 2008. On October 14, 2008, the U.S. Treasury announced the Troubled Asset Relief Program ("TARP") under the Emergency Economic Stabilization Act of 2008. In the program, the Treasury was authorized to purchase up to $250 billion of senior preferred shares in qualifying U.S. banks, saving and loan associations and bank and savings and loan holding companies. The amount of TARP funds was later increased to $700 billion. The minimum subscription amount was 1% of risk-weighted assets and the maximum amount was the lesser of $25 billion or 3% of risk-weighted assets. The Dodd-Frank Act (described below) reduced the amount attributed to $475 billion. NBI did not participate in TARP.

American Recovery and Reinvestment Act of 2009. The ARRA was enacted in 2009 and includes a wide range of programs to stimulate economic recovery. In addition, it also imposed new executive compensation and corporate governance obligations on TARP Capital Purchase Program recipients. Because NBI did not participate in TARP, it is not affected by these requirements.

Dodd-Frank Wall Street Reform and Consumer Protection Act. The Dodd-Frank Act was signed into law on July 21, 2010. Its wide ranging provisions affect all federal financial regulatory agencies and nearly every aspect of the American financial services industry. Among the provisions of the Dodd-Frank Act that directly impact the Company is the creation of an independent Consumer Financial Protection Bureau (CFPB), which has the ability to write rules for consumer protections governing all financial institutions. All consumer protection responsibility formerly handled by other banking regulators is consolidated in the CFPB. It will also oversee the enforcement of all federal laws intended to ensure fair access to credit. For smaller financial institutions such as NBI and NBB, the CFPB will coordinate its examination activities through their primary regulators.

The Dodd-Frank Act contains provisions designed to reform mortgage lending, which includes the requirement of additional disclosures for consumer mortgages. In addition, the Federal Reserve issued new rules, effective October 1, 2011, that will have the effect of limiting the fees charged to merchants by credit card companies for debit card transactions. The result of these rules will be to limit the amount of interchange fee income available to the Company. The Dodd-Frank Act also contains provisions that affect corporate governance and executive compensation.

Although the Dodd-Frank Act provisions themselves are extensive, the ultimate impact on the Company of this massive legislation is unknown. The Act provides that several federal agencies, including the Federal Reserve and the Securities and Exchange Commission, shall issue regulations implementing major portions of the legislation, and this process is ongoing.

The National Bank of Blacksburg

NBB is a national banking association incorporated under the laws of the United States, and the bank is subject to regulation and examination by the Office of the Comptroller of the Currency (“OCC”). NBB’s deposits are insured by the Federal Deposit Insurance Corporation (FDIC) up to the limits of applicable law. The OCC, as the primary regulator, and the FDIC regulate and monitor all areas of NBB’s operation. These areas include adequacy of capitalization and loss reserves, loans, deposits, business practices related to the charging and payment of interest, investments, borrowings, payment of dividends, security devices and procedures, establishment of branches, corporate reorganizations and maintenance of books and records. NBB is required to maintain certain capital ratios. It must also prepare quarterly reports on its financial condition for the OCC and conduct an annual audit of its financial affairs. OCC requires NBB to adopt internal control structures and procedures designed to safeguard assets and monitor and reduce risk exposure. While appropriate for the safety and soundness of banks, these requirements add to overhead expense for NBB and other banks.

The Community Reinvestment Act. NBB is subject to the provisions of the Community Reinvestment Act (“CRA”), which imposes an affirmative obligation on financial institutions to meet the credit needs of the communities they serve, including low and moderate income neighborhoods. The OCC monitors NBB’s compliance with the CRA and assigns public ratings based upon the bank’s performance in meeting stated assessment goals. Unsatisfactory CRA ratings can result in restrictions on bank operations or expansion. NBB received a “satisfactory” rating in its last CRA examination by the OCC.

The Gramm-Leach-Bliley Act. In addition to other consumer privacy provisions, the Gramm-Leach-Bliley Act (“GLBA”) restricts the use by financial institutions of customers’ nonpublic personal information. At the inception of the customer relationship and annually thereafter, NBB is required to provide its customers with information regarding its policies and procedures with respect to handling of customers’ nonpublic personal information. GLBA generally prohibits a financial institution from providing a customer’s nonpublic personal information to unaffiliated third parties without prior notice and approval by the customer.

The USA Patriot Act. The USA Patriot Act (“Patriot Act”) facilitates the sharing of information among government entities and financial institutions to combat terrorism and money laundering. The Patriot Act imposes an obligation on NBB to establish and maintain anti-money laundering policies and procedures, including a customer identification program. The bank is also required to screen all customers against government lists of known or suspected terrorists. There is additional regulatory oversight to insure compliance with the Patriot Act.

Consumer Laws and Regulations. There are a number of laws and regulations that regulate banks’ consumer loan and deposit transactions. Among these are the Truth in Lending Act, the Truth in Savings Act, the Expedited Funds Availability Act, the Equal Credit Opportunity Act, the Fair Housing Act, the Fair Credit Reporting Act, the Electronic Funds Transfer Act and the Fair Debt Collections Practices Act. NBB is required to comply with these laws and regulations in its dealings with customers. There are numerous disclosure and other compliance requirements associated with the consumer laws and regulations.

Deposit Insurance. NBB has deposits that are insured by the FDIC. FDIC maintains a Deposit Insurance Fund ("DIF") that is funded by risk-based insurance premium assessments on insured depository institutions. Assessments are determined based upon several factors, including the level of regulatory capital and the results of regulatory examinations. FDIC may adjust assessments if the insured institution's risk profile changes or if the size of the DIF declines in relation to the total amount of insured deposits. In 2009, because of the troubled economy and the number of failed banks nationwide, there was pressure on the reserve ratio of the DIF. In order to rebuild the Fund and to help maintain public confidence in the banking system, on June 30, 2009, the FDIC imposed a special assessment of five basis points of NBB's FDIC insured assets, minus Tier 1 capital. The special assessment, which was in addition to regular DIF assessments was payable on September 30, 2009. In an effort to further strengthen the Fund, on November 12, 2009 the FDIC adopted a rule requiring insured depository institutions (including NBB) to prepay their estimated quarterly regular risk-based assessments for the fourth quarter of 2009, and for all of 2010, 2011 and 2012 on December 30, 2009. In 2011, the method for calculating the FDIC assessment changed from deposit based to asset based.

On May 20, 2009, the FDIC announced that the increase in deposit insurance to at least $250,000 from $100,000, which became effective in October 2008, would be extended to December 31, 2013.

FDIC announced its Transaction Account Guarantee Program on October 14, 2008. On July 21, 2010, the Dodd-Frank Act made the increase permanent and made it retroactive to January 1, 2008. The Transaction Account Guarantee Program, which was a part of the Temporary Liquidity Guarantee Program, provided unlimited coverage for noninterest bearing deposit accounts for FDIC-insured institutions that elected to participate. NBB elected to participate in this program, and its DIF assessments increased to reflect the additional FDIC coverage. The Dodd-Frank Act expanded the program to all FDIC insured depository institutions and extended it until December 31, 2012.

After giving primary regulators an opportunity to first take action, FDIC may initiate an enforcement action against any depository institution it determines is engaging in unsafe or unsound actions or which is in an unsound condition, and the FDIC may terminate that institution's deposit insurance. NBB has no knowledge of any matter that would threaten its FDIC insurance coverage.

Capital Requirements. The same capital requirements that are discussed above with relation to NBI are applied to NBB by the OCC. The OCC guidelines provide that banks experiencing internal growth or making acquisitions are expected to maintain strong capital positions well above minimum levels, without reliance on intangible assets.

Limits on Dividend Payments. A significant portion of NBI's income is derived from dividends paid by NBB. As a national bank, NBB may not pay dividends from its capital, and it may not pay dividends if the bank would become undercapitalized, as defined by regulation, after paying the dividend. Without prior OCC approval, NBB's dividend payments in any calendar year are restricted to the bank's retained net income for that year, as that term is defined by the laws and regulations, combined with retained net income from the preceding two years, less any required transfer to surplus.

The OCC and FDIC have authority to limit dividends paid by NBB if the payments are determined to be an unsafe and unsound banking practice. Any payment of dividends that depletes the bank's capital base could be deemed to be an unsafe and unsound banking practice.

Branching. As a national bank, NBB is required to comply with the state branch banking laws of Virginia, the state in which the bank is located. NBB must also have the prior approval of OCC to establish a branch or acquire an existing banking operation. Under Virginia law, NBB may open branch offices or acquire existing banks or bank branches anywhere in the state. Virginia law also permits banks domiciled in the state to establish a branch or to acquire an existing bank or branch in another state. The Dodd-Frank Act permits the OCC to approve applications by national banks like NBB to establish de novo branches in any state in which a bank located in that state is permitted to establish a branch.

Monetary Policy

The monetary and interest rate policies of the Federal Reserve, as well as general economic conditions, affect the business and earnings of NBI. NBB and other banks are particularly sensitive to interest rate fluctuations. The spread between the interest paid on deposits and that which is charged on loans is the most important component of the bank's earnings. In addition, interest earned on investments held by NBI and NBB has a significant effect on earnings. As conditions change in the national and international economy and in the money markets, the Federal Reserve's actions, particularly with regard to interest rates, can impact loan demand, deposit levels and earnings at NBB. It is not possible to accurately predict the effects on NBI of economic and interest rate changes.

Other Legislative and Regulatory Concerns

Particularly because of uncertain economic conditions and the current political environment, federal and state laws and regulations are regularly proposed that could affect the regulation of financial institutions. New regulations could add to the regulatory burden on banks and other financial service providers and increase the costs of compliance, or they could change the products that can be offered and the manner in which financial institutions do business. We cannot foresee how regulation of financial institutions may change in the future and how those changes might affect NBI.

Company Website

NBI maintains a website at www.nationalbankshares.com. The Company's annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports are made available on its website as soon as is practical after the material is electronically filed with the Securities and Exchange Commission. The Company's proxy materials for the 2012 annual meeting of stockholders are also posted on a separate website at www.nationalbanksharesproxy.com.

Item 1A. Risk Factors

If recovery from the economic downturn is delayed, our credit risk will increase and there could be greater loan losses.
A slow economic recovery is likely to result in a higher rate of business closures and increased job losses in the region in which we do business. In addition, reduced State funding for the public colleges and universities that are large employers in our market area could have an adverse effect on employment levels and on the area's economy. These factors would increase the likelihood that more of our customers would become delinquent or default on their loans. A higher level of loan defaults could result in higher loan losses, which could adversely affect our performance.

An extended economic recovery could increase the risk of losses in our investment portfolio.
We hold both corporate and municipal bonds in our investment portfolio. A slow recovery could increase the actual or perceived risk of default by both corporate and government issuers and, in either case, could adversely affect the value of these investments.

If the real estate market remains depressed for an extended period, our business could be negatively affected.
A depressed real estate market can impact us in several ways. First, the demand for new real estate loans will decline, and existing loans may become delinquent. In addition, if there is a general devaluation in real estate, loan collateral values will decline.

Market interest rates are currently low. If market interest rates rise, our net interest income can be negatively affected in the short term.
The direction and speed of interest rate changes affect our net interest margin and net interest income. In the short term, rising interest rates may negatively affect our net interest income, because our interest-bearing liabilities (generally deposits) reprice sooner than our interest-earning assets (generally loans).

A large number of bank failures nationwide could significantly increase the cost of FDIC insurance.
Since insured depositary institutions, including our bank, bear the full cost of deposit insurance provided by FDIC, a high number of bank failures could put additional pressure on a stressed Deposit Insurance Fund. This possibility could in turn lead to higher assessments that could negatively impact our earnings.

If more competitors come into our market area, our business could suffer.
The financial services industry in our market area is highly competitive, with a number of commercial banks, credit unions, insurance companies and stockbrokers seeking to do business with our customers. If there is additional competition from new business or if our existing competitors focus more attention on our market, we could lose customers and our business could suffer.

Additional laws and regulations could lead to a significant increase in our regulatory burden.
The Dodd-Frank Act and its implementing regulations will result in greater compliance costs and may reduce the profitability of some of our products and services. Both federal and state governments could enact new laws affecting financial institutions that would increase our regulatory burden and could negatively affect our profits.

New laws and regulations could limit our sources of noninterest income.

New laws and regulations could limit our ability to offer certain profitable products and services or require that we offer unprofitable products and services. This could have a negative effect on the level of noninterest income.

Intense oversight by regulators could result in stricter requirements and higher overhead costs.

The regulatory environment could cause financial industry regulators to impose additional requirements, such as higher capital limits, which would impact the Company's earnings.

Political stalemates in the U.S. and world governments could negatively affect the financial markets.

Political stalemates in the U.S. and world governments could affect financial markets and affect fiscal policy which could negatively affect our investment portfolio and earnings.

Our information systems may experience an interruption or security breach.
We rely heavily on communications and information systems to conduct our business. Any failure, interruption or breach in security of these systems could result in failures or disruptions in our internet banking, deposit, loan and other systems. While we have policies and procedures designed to prevent or limit the effect of the possible failure, interruption or security breach of our information systems, there can be no assurance that any such failure, interruption or security breach will not occur or, if they do occur, that they will be adequately addressed. The occurrence of any failure, interruption or security breach of our communications and information systems could damage our reputation, result in a loss of customer business, subject us to additional regulatory scrutiny or expose us to civil litigation and possible financial liability.

Changes in funding for higher education could materially affect our business.
Federal and state support for public colleges and universities in the Company's market area has been adversely affected by the recession and budgetary considerations. As a result, our business may be adversely affected from declines in university programs, capital projects, employment and other related factors.

Item 1B. Unresolved Staff Comments

There are none.

Item 2. Properties

NBB owns and has a branch bank in NBI's headquarters building located at 101 Hubbard Street, Blacksburg, Virginia. The bank's main office is at 100 South Main Street, Blacksburg, Virginia. NBB owns an additional nineteen branch offices and it leases four. NBI owns a building in Pulaski, Virginia that it rents on a month-to-month basis and is actively marketing for sale. We believe that existing facilities are adequate for current needs and to meet anticipated growth.

Item 3. Legal Proceedings

NBI, NBB, and NBFS are not currently involved in any material pending legal proceedings.

Item 4. Mine Safety Disclosures

Not applicable.

Part II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Common Stock Information and Dividends

National Bankshares, Inc.'s common stock is traded on the NASDAQ Capital Market under the symbol "NKSH." As of December 31, 2011, there were 807 record stockholders of NBI common stock. The following is a summary of the market price per share and cash dividend per share of the common stock of National Bankshares, Inc. for 2011 and 2010.

Common Stock Market Prices

	2011		2010		Dividends per share	
	High	Low	High	Low	2011	2010
First Quarter	$ 31.80	27.46	$ 29.15	23.01	$ ---	$ ---
Second Quarter	29.71	24.08	28.50	22.96	0.48	0.44
Third Quarter	27.23	22.93	25.88	21.76	---	---
Fourth Quarter	29.00	23.21	32.28	25.39	0.52	0.47

NBI’s primary source of funds for dividend payments is dividends from its bank subsidiary, NBB. Bank dividend payments are restricted by regulators, as more fully disclosed in Note 11 of Notes to Consolidated Financial Statements.

On May 11, 2011, NBI’s Board of Directors approved the repurchase of up to 100,000 shares of equity securities that are registered by the Company pursuant to Section 12 of the Securities Exchange Act of 1934. During 2011, there were no shares repurchased, and 100,000 shares may yet be purchased under the program.

Stock Performance Graph

The following graph compares the yearly percentage change in the cumulative total of stockholder return on NBI common stock with the cumulative return on the NASDAQ Index, a peer group index comprised of southeastern independent community banks and bank holding companies, and the NASDAQ Bank Index for the five-year period commencing on December 31, 2006. These comparisons assume the investment of $100 in National Bankshares, Inc. common stock in each of the indices on December 31, 2006, and the reinvestment of dividends. This year the stock performance graph reflects a change made by the Company in the peer group comparison index from the Independent Bank Index to the NASDAQ Bank Index. Management believes that the NASDAQ Bank Index, which consists primarily of financial institutions whose stock trades on the NASDAQ Capital Market or the NASDAQ National Market, provides a better peer group comparison because it includes geographically diverse financial institutions more comparable to the Company in asset size and trading markets than the Independent Bank Index, which consists of comparable financial institutions but is limited to the southeastern region of the United States.

	2006	2007	2008	2009	2010	2011
NATIONAL BANKSHARES, INC.	100	74	88	132	152	140
NASDAQ COMPOSITE INDEX	100	111	66	97	114	113
NASDAQ BANK INDEX	100	80	63	53	60	54
INDEPENDENT BANK INDEX	100	77	51	52	55	47

The peer group Independent Bank Index is the compilation of the total return to stockholders over the past five years of the following group of 21 independent community banks and bank holding companies located in the southeastern states of Alabama, Florida, Georgia, North Carolina, South Carolina, Tennessee, Virginia and West Virginia. The banks and bank holding companies are: American National Bankshares, Inc., Auburn National Bancorporations, Inc., BNC Bancorp, C&F Financial Corporation, Carolina Trust Bank, Central Virginia Bankshares, Inc., Community First, CNB Corporation, Fidelity Southern Corporation, First Century Bankshares, Inc., Four Oaks Fincorp, Inc., Geer Bancshares Incorporated, Monarch Financial Holdings, Inc., National Bankshares, Inc., New Bridge Bancorp, Peoples Bancorporation, Inc., Savannah Bancorp, Inc., Southeastern Banking Corporation, Southwest Georgia Financial Corp., United Security Bancshares, Inc. and Uwharrie Capital Corp.

Item 6. Selected Financial Data

National Bankshares, Inc. and Subsidiaries
Selected Consolidated Financial Data

$ in thousands, except per share data	Years ended December 31,				
	2011	2010	2009	2008	2007
Selected Income Statement Data:					
Interest income	$ 49,946	$ 49,139	$ 50,487	$ 50,111	$ 50,769
Interest expense	9,184	11,158	15,825	18,818	21,745
Net interest income	40,762	37,981	34,662	31,293	29,024
Provision for loan losses	2,949	3,409	1,634	1,119	423
Noninterest income	8,410	8,347	8,804	9,087	8,760
Noninterest expense	23,338	23,127	23,853	22,023	20,956
Income taxes	5,247	4,223	3,660	3,645	3,730
Net income	17,638	15,569	14,319	13,593	12,675
Per Share Data:					
Basic net income	2.54	2.25	2.07	1.96	1.82
Diluted net income	2.54	2.24	2.06	1.96	1.82
Cash dividends declared	1.00	0.91	0.84	0.80	0.76
Book value	20.36	18.63	17.61	15.89	15.07
Selected Balance Sheet Data at End of Year:					
Loans, net	580,402	568,779	583,021	569,699	518,435
Total securities	318,913	315,907	297,417	264,999	273,343
Total assets	1,067,102	1,022,238	982,367	935,374	887,647
Total deposits	919,333	884,583	852,112	817,848	776,339
Stockholders’ equity	141,299	129,187	122,076	110,108	104,800
Selected Balance Sheet Daily Averages:					
Loans, net	580,037	577,210	572,438	533,190	505,070
Total securities	320,908	289,532	298,237	281,367	282,734
Total assets	1,031,899	989,952	971,538	899,462	867,061
Total deposits	888,044	852,953	846,637	783,774	758,657
Stockholders’ equity	136,794	129,003	117,086	108,585	100,597
Selected Ratios:					
Return on average assets	1.71 %	1.57 %	1.47 %	1.51 %	1.46 %
Return on average equity	12.89 %	12.07 %	12.23 %	12.52 %	12.60 %
Dividend payout ratio	39.34 %	40.52 %	40.67 %	40.78 %	41.80 %
Average equity to average assets	13.26 %	13.03 %	12.05 %	12.07 %	11.60 %

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations
$ in thousands, except per share data

The purpose of this discussion and analysis is to provide information about the results of operations, financial condition, liquidity and capital resources of National Bankshares, Inc. and its subsidiaries (the “Company”). The discussion should be read in conjunction with the material presented in Item 8, “Financial Statements and Supplementary Data,” of this Form 10-K.

Subsequent events have been considered through the date on which the Form 10-K was issued.

Cautionary Statement Regarding Forward-Looking Statements

We make forward-looking statements in this Form 10-K that are subject to significant risks and uncertainties. These forward-looking statements include statements regarding our profitability, liquidity, allowance for loan losses, interest rate sensitivity, market risk, growth strategy, and financial and other goals, and are based upon our management’s views and assumptions as of the date of this report. The words “believes,” “expects,” “may,” “will,” “should,” “proje “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, changes in:

- interest rates,
- general economic conditions,
- the legislative/regulatory climate,
- 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 Federal Reserve Board and the Federal Deposit Insurance Corporation, and the impact of any policies or programs implemented pursuant to the Emergency Economic Stabilization Act of 2008 (“EESA”) the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the “Dodd-Frank Act”) and other financial reform legislation,
- unanticipated increases in the level of unemployment in the Company’s trade area,
- 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 trade area,
- the real estate market in the Company’s trade area,
- the Company’s technology initiatives, and
- applicable accounting principles, policies and guidelines.

These risks and uncertainties should be considered in evaluating the forward-looking statements contained in this report. We caution readers not to place undue reliance on those statements, which speak only as of the date of this report. This discussion and analysis should be read in conjunction with the description of our “Risk Factors” in Item 1A. of this Form 10-K.

The recession continues to impact the national economy as well as the Company’s market. Signs of economic recovery are mixed with continued high unemployment and diminished real estate values. The Company’s trade area contains a diverse economy that includes large public colleges and universities, which somewhat insulated the Company’s market from the dramatic declines in real estate values seen in some other areas of the country. Real estate values in the Company’s market area saw moderate declines in 2009 and 2010 that appeared to stabilize in 2011. Nonperforming assets increased during 2009 and 2010 but decreased in 2011. If the economic recovery wavers or reverses, it is likely that unemployment will continue at higher-than-normal levels or rise in the Company’s trade area. Because of the importance to the Company’s markets of state-funded universities, cutbacks in the funding provided by the State as a result of the recession could also negatively impact employment. This could lead to an even higher rate of delinquent loans and a greater number of real estate foreclosures. Higher unemployment and the fear of layoffs causes reduced consumer demand for goods and services, which negatively impacts the Company’s business and professional customers. In conclusion, a slow economic recovery could have an adverse effect on all financial institutions, including the Company.

Critical Accounting Policies

General

The Company’s financial statements are prepared in accordance with accounting principles generally accepted in the United States (GAAP). The financial information contained within our statements is, to a significant extent, financial information that is based on measures of the financial effects of transactions and events that have already occurred. A variety of factors could affect the ultimate value that is obtained when earning income, recognizing an expense, recovering an asset or relieving a liability. The Company uses historical loss factors as one factor in determining the inherent loss that may be present in the loan portfolio. Actual losses could differ significantly from one previously acceptable method to another method. Although the economics of the Company’s transactions would be the same, the timing of events that would impact the transactions could change.

Allowance for Loan Losses

The allowance for loan losses is an accrual of estimated losses that have been sustained in our loan portfolio. The allowance is reduced by charge-offs of loans and increased by the provision for loan losses and recoveries of previously charged-off loans. The determination of the allowance is based on two accounting principles, FASB Topic 450-20 (Contingencies) which requires that losses be accrued when occurrence is probable and the loss is reasonably estimable, and FASB Topic 310-10 (Receivables) which requires accrual of losses on impaired loans if the recorded investment exceeds fair value.

Probable losses are accrued through two calculations, individual evaluation of impaired loans and evaluation on a group basis of the remainder of the portfolio. Impaired loans are larger nonhomogeneous loans for which there is a probability that collection will not occur according to the loan terms, as well as loans whose terms have been modified in a troubled debt restructuring. Impaired loans are individually evaluated for potential loss. Impaired loans with an estimated impairment loss are placed on nonaccrual status.

Estimated loss for an impaired loan is the amount of recorded investment that exceeds the loan's fair value. Fair value of an impaired loan is measured by one of three methods, the fair value (less cost to sell) of collateral, the present value of future cash flows, or observable market price. For loans that are not collateral-dependent (loans for which collection is solely dependent upon the sale of collateral), the potential loss is accrued in the allowance. For collateral-dependent loans, the potential loss is charged off against the allowance, instead of being accrued. Impaired loans with partial charge-offs are maintained as impaired until it becomes evident that the borrower can repay the remaining balance of the loan according to the terms.

For impaired loans for which the collateral method is elected, the Company requires a current third-party appraisal of "as is" value. If an existing appraisal is older than 12 months, a new appraisal is ordered immediately after the date of impairment designation. If a current appraisal cannot be obtained prior to reporting deadlines, the existing appraisal is discounted according to published independent indices. The Company believes this serves as a conservative estimate of fair value until the updated appraisal can be obtained.

Impaired loans are measured for impairment at least quarterly. Loss reserves and nonaccrual designation, or partial charge-off for estimated losses on impaired loans are recorded at the first measurement date and at each measurement date thereafter.

In the third quarter of 2010, the Company revised its policy for evaluation of non-impaired loans. The policy formalized criteria used to group loans for purposes of estimating losses; provided for analysis of trends and current levels of risk indicators; and designated loans that the Company determines to have inherently higher risk.

Non-impaired loans are grouped according to risk characteristic into portfolio segments and loan classes. Loans within a segment or class have similar risk characteristics. Each segment and class is evaluated for probable loss by applying quantitative and qualitative factors, including net charge-off trends, delinquency rates, concentration trends and economic trends. Net charge-off trends are evaluated by segment within a two to three year time frame, resulting in an accrual that is influenced not only by current year levels, but by prior years' levels as well. The Company accrues additional reserves for criticized loans within each class and for loans designated high risk. High risk loans are defined as junior lien mortgages, loans with high loan-to-value ratios and loans with payments of interest-only required. Both classified loans and high risk loans are included in the base risk analysis for each class and are allocated additional reserves.

The 2010 change in methodology did not materially affect the total estimated accrual; however, previously unallocated amounts became allocated with the new methodology.

The estimation of the accrual involves analysis of internal and external variables, methodologies, assumptions and our judgment and experience. Key judgments used in determining the allowance for loan losses include internal risk ratings, market and collateral values, discount rates, loss rates, and our view of current economic conditions. The inherent subjectivity of these judgments, as well as the lagging of credit quality measurements relative to the performance of the loan portfolio, create a degree of imprecision. Our actual losses could be greater or less than the estimate. Future estimates of the allowance could increase or decrease based on changes in the financial condition of individual borrowers, concentrations of various types of loans, economic conditions or the markets in which collateral may be sold. The estimate of the allowance accrual determines the amount of provision expense and directly affects our financial results.

Given the continued economic difficulties, the ultimate amount of loss could vary from that estimate. For additional discussion of the allowance, see Note 5 of the Notes to Consolidated Financial Statements and “Asset Quality,” and “Provision and Allowance for Loan Losses.”

Goodwill and Core Deposit Intangibles

Goodwill is subject to at least an annual assessment for impairment by applying a fair value based test. The Company performs impairment testing in the fourth quarter. The Company’s goodwill impairment analysis considered three valuation techniques appropriate to the measurement. The first technique uses the Company’s market capitalization as an estimate of fair value; the second technique estimates fair value using current market pricing multiples for companies comparable to NBI; while the third technique uses current market pricing multiples for change-of-control transactions involving companies comparable to NBI. Each measure indicated that the Company’s fair value exceeded its book value, validating that goodwill is not impaired.

Certain key judgments were used in the valuation measurement. Goodwill is held by the Company's bank subsidiary. The bank subsidiary is 100% owned by the Company, and no market capitalization is available. Because most of the Company's assets are comprised of the subsidiary bank's equity, the Company's market capitalization was used to estimate the Bank's market capitalization. Other judgments include the assumption that the companies and transactions used as comparables for the second and third technique were appropriate to the estimate of the Company's fair value, and that the comparable multiples are appropriate indicators of fair value, and compliant with accounting guidance.

Acquired intangible assets (such as core deposit intangibles) are recognized separately from goodwill if the benefit of the asset can be sold, transferred, licensed, rented, or exchanged, and amortized over its useful life. The Company amortizes intangible assets arising from branch transactions over their useful life. Core deposit intangibles are subject to a recoverability test based on undiscounted cash flows, and to the impairment recognition and measurement provisions required for other long-lived assets held and used. The impairment testing showed that the expected cash flows of the intangible assets exceeded the carrying value.

Overview

National Bankshares, Inc. is a financial holding company incorporated under the laws of Virginia. Located in southwest Virginia, NBI has two wholly-owned subsidiaries, the National Bank of Blacksburg and National Bankshares Financial Services, Inc. The National Bank of Blacksburg ("NBB"), which does business as National Bank from twenty-five office locations, is a community bank. NBB is the source of nearly all of the Company's revenue. National Bankshares Financial Services, Inc. ("NBFS") does business as National Bankshares Investment Services and National Bankshares Insurance Services. Income from NBFS is not significant at this time, nor is it expected to be so in the near future.

National Bankshares, Inc. common stock is listed on the NASDAQ Capital Market and is traded under the symbol "NKSH." National Bankshares, Inc. has been included in the Russell Investments Russell 3000 and Russell 2000 Indexes since June 29, 2009.

Performance Summary

The following table presents NBI's key performance ratios for the years ending December 31, 2011 and December 31, 2010:

		12/31/11			12/31/10	
Return on average assets		1.71	%		1.57	%
Return on average equity		12.89	%		12.07	%
Basic net earnings per common share	$	2.54		$	2.25	
Fully diluted net earnings per common share	$	2.54		$	2.24	
Net interest margin (1)		4.59	%		4.52	%
Noninterest margin (2)		1.45	%		1.49	%

(1) Net Interest Margin – Year-to-date tax equivalent net interest income divided by year-to-date average earning assets.

(2) Noninterest Margin – Noninterest expense (excluding the provision for bad debts and income taxes) less noninterest income (excluding securities gains and losses) divided by average year-to-date assets.

The return on average assets for the year ended December 31, 2011 was 1.71%, an increase of 14 basis points from the 1.57% for the year ended December 31, 2010. The return on average equity increased from 12.07% for the year ended December 31, 2010 to 12.89% for the year ended December 31, 2011.

Reflecting both the effects of the low interest rate environment throughout 2011 on NBI's funding costs and the Company's asset/liability management practices, the net interest margin increased from 4.52% at year-end 2010 to

4.59% at December 31, 2011.

The noninterest margin decreased from 1.49% to 1.45% over the same period due to a decrease in FDIC assessments. Please refer to the discussion of “Noninterest Expense” for additional details about FDIC assessments.

Overall, the higher net interest margin, is largely responsible for the increase in basic net earnings per common share, from $2.25 for the year ended December 31, 2010 to $2.54 for the year ended December 31, 2011.

Growth

NBI's key growth indicators are shown in the following table:

	12/31/11	12/31/10
Securities	$ 318,913	$ 315,907
Loans, net	580,402	568,779
Deposits	919,333	884,583
Total assets	1,067,102	1,022,238

Securities, loans, and total assets all experienced growth in 2011, primarily funded by increases in customer deposits. Customer deposits grew $34,750 or 3.93% from December 31, 2010, with increases mainly from municipal deposits and individuals seeking to safeguard principal by avoiding more volatile investments in financial markets. The liquidity provided by customer deposits supported growth in loans of $11,623 or 2.04% and securities of $3,006 or 0.95%, with the excess funds held in the Company's interest-bearing deposits.

In both 2010 and 2011, the Company's growth was internally generated and was not the result of acquisitions.

Asset Quality

Key indicators of NBI's asset quality are presented in the following table:

	12/31/11	12/31/10
Nonperforming loans(1)	$ 5,204	$ 8,071
Loans past due 90 days or more and accruing	481	1,336
Other real estate owned	1,489	1,723
Allowance for loan losses to loans(2)	1.37 %	1.33 %
Net charge-off ratio	0.43 %	0.46 %

(1) In 2011, the Company changed its definition of nonperforming loans to nonaccrual loans plus restructured loans in nonaccrual status. Accruing restructured loans are not included. In prior years, the Company reported nonperforming loans as the total of nonaccrual loans plus all restructured loans. For comparison purposes, nonperforming loans, nonperforming assets and all associated ratios have been restated for prior years consistent with the definition adopted in 2011.

(2) Loans are net of unearned income and deferred fees.

The Company monitors asset quality indicators in managing credit risk and in determining the allowance and provision for loan losses. In 2011, the Company's asset quality showed signs of improvement. Nonperforming loans were $5,204 or 0.88% of loans net of unearned income and deferred fees. This compares to $8,071 and 1.40% at December 31, 2010. Loans past due 90 days or more and still accruing at year-end 2011 totaled $481, a decrease of $855 or 64.00%, from $1,336 at December 31, 2010. The net charge-off ratio also declined, from 0.46% for the year ended December 31, 2010 to 0.43% for 2011, while other real estate owned declined $234 or 13.58% for the same period.

The Company's risk analysis determined an allowance for loan losses of $8,068 at December 31, 2011, resulting in a provision for the year of $2,949, a decrease of $460 or 13.49% from the $3,409 for 2010. While levels of nonperforming and charged-off loans decreased in 2011, the ratio of the allowance for loan losses to loans increased to 1.37%, from 1.33% at December 31, 2010. The methodology for determining the allowance for loan losses relies on historical charge off-trends, modified by trends in nonperforming loans and economic indicators. The declines in risk indicators in 2011 were tempered by the higher levels of the recent past, resulting in a higher allowance for loan losses at December 31, 2011. More information about the level and calculation methodology of the allowance for loan losses is provided in "Balance Sheet – Loans – Risk Elements," "Balance Sheet – Loans – Troubled Debt Restructurings," a well as Notes 1 and 5 to the financial statements.

Sufficient resources have been dedicated to working out problem assets, and exposure to loss is somewhat mitigated because most of the nonperforming loans are collateralized. More information about nonaccrual and past due loans is provided in "Balance Sheet – Loans – Risk Elements." The Company continues to monitor risk levels within the loan portfolio and expects that any further increase in the allowance for loan losses would be the result of the refinement of loss estimates and would not dramatically affect net income.

Net Interest Income

Net interest income for the period ended December 31, 2011 was $40,762, an increase of $2,781, or 7.32%, when compared to the prior year. The net interest margin for 2011 was 4.59%, compared to 4.52% for 2010. Total interest income for the period ended December 31, 2011 was $49,946, an increase of $807 from the period ended December 31, 2010. Interest expense was down by $1,974 during the same time frame, from $11,158 for 2010 to $9,184 for the year ended December 31, 2011. The decline in interest expense came about in part because higher priced certificates of deposit renewed at lower interest rates. In addition, noninterest-bearing deposits and low-rate interest-bearing deposits volume increased substantially. Please refer to the section titled "Analysis of Changes In Interest Income and Interest Expense" for further information related to rate and volume changes. In summary, the rates paid on the Company's deposit liabilities declined at a more rapid pace than the interest rates on its interest-earning assets.

The amount of net interest income earned is affected by various factors, including changes in market interest rates due to the Federal Reserve Board's monetary policy, the level and composition of the earning assets, and the composition of interest-bearing liabilities. The Company has the ability to respond over time to interest rate movements and reduce volatility in the net interest margin. However, the frequency and/or magnitude of changes in market interest rates are difficult to predict and may have a greater impact on net interest income than adjustments by management.

During 2011, interest rates continued at historic lows. Offsetting the positive effect of low interest rates is the fact that some higher yielding securities in the Company's investment portfolio were called and were replaced with securities yielding at the lower market rate. Another negative effect of the low interest rate environment is the level of interest earned on overnight funds. These assets are used primarily to provide liquidity. The yield on these assets in 2011 was 0.24%, while the cost to fund them was 0.94% in the same period.

The primary source of funds used to support the Company's interest-earning assets is deposits. Deposits are obtained in the Company's trade area through traditional marketing techniques. Other funding sources, such as the Federal Home Loan Bank, while available, are only used occasionally. The cost of funds is dependent on interest rate levels and competitive factors. This limits the ability of the Company to react to interest rate movements.

If the volume of interest-bearing liabilities remains at December 31, 2011 levels and the current low interest rate environment remains stable, management does not anticipate any further improvement in the net interest margin. The factors that may influence the Company's net interest margin include current Federal Reserve policies that depress long-term interest rates, and market forces that may encourage repricing of interest-bearing liabilities more quickly than interest-earning assets if rates were to increase.

Because interest rates are at historic lows, interest rates will likely increase in the future. Management cannot predict the timing and level of interest rate increases.

Analysis of Net Interest Earnings

The following table shows the major categories of interest-earning assets and interest-bearing liabilities, the interest earned or paid, the average yield or rate on the daily average balance outstanding, net interest income and net yield on average interest-earning assets for the years indicated.

	December 31, 2011			December 31, 2010			December 31, 2009		
	Average Balance	Interest	Average Yield/ Rate	Average Balance	Interest	Average Yield/ Rate	Average Balance	Interest	Average Yield/ Rate
Interest-earning assets:									
Loans, net (1)(2)(3)	$ 589,257	$ 36,813	6.25 %	$ 585,933	$ 37,282	6.36 %	$ 579,581	$ 37,903	6.54 %
Taxable securities	155,765	6,745	4.33 %	123,920	5,588	4.51 %	134,607	6,273	4.66 %
Nontaxable securities (1)(4)	163,174	10,102	6.19 %	161,571	10,074	6.24 %	162,889	10,154	6.23 %
Interest-bearing deposits	64,977	155	0.24 %	55,477	128	0.23 %	35,841	90	0.25 %
Total interest-earning assets	$ 973,173	$ 53,815	5.53 %	$ 926,901	$ 53,072	5.73 %	$ 912,918	$ 54,420	5.96 %
Interest-bearing liabilities:									
Interest-bearing demand deposits	$ 378,971	$ 4,088	1.08 %	$ 322,705	$ 3,332	1.03 %	$ 282,532	$ 3,076	1.09 %
Savings deposits	58,273	45	0.08 %	54,543	51	0.09 %	48,992	52	0.11 %
Time deposits	314,920	5,051	1.60 %	352,887	7,775	2.20 %	399,873	12,694	3.17 %
Short-term borrowings	---	---	--- %	---	---	--- %	49	3	6.12 %
Total interest-bearing liabilities	$ 752,164	$ 9,184	1.22 %	$ 730,135	$ 11,158	1.53 %	$ 731,446	$ 15,825	2.16 %
Net interest income and interest rate spread		$ 44,631	4.31 %		$ 41,914	4.20 %		$ 38,595	3.80 %
Net yield on average interest-earning assets			4.59 %			4.52 %			4.23 %

(1) Interest on nontaxable loans and securities is computed on a fully taxable equivalent basis using a Federal income tax rate of 35% in the three years presented.

(2) Loan fees of $729 in 2011, $863 in 2010 and $956 in 2009 are included in total interest income.

(3) Nonaccrual loans are included in average balances for yield computations.

(4) Daily averages are shown at amortized cost.

Analysis of Changes in Interest Income and Interest Expense

The Company's primary source of revenue is net interest income, which is the difference between the interest and fees earned on loans and investments and the interest paid on deposits and other funds. The Company's net interest income is affected by changes in the amount and mix of interest-earning assets and interest-bearing liabilities and by changes in yields earned on interest-earning assets and rates paid on interest-bearing liabilities. The following table sets forth, for the years indicated, a summary of the changes in interest income and interest expense resulting from changes in average asset and liability balances (volume) and changes in average interest rates (rate).

	2011 Over 2010			2010 Over 2009		
	Changes Due To			Changes Due To		
			Net Dollar			Net Dollar
	Rates(2)	Volume(2)	Change	Rates(2)	Volume(2)	Change
Interest income: (1)						
Loans	$ (680)	$ 211	$ (469)	$ (1,033)	$ 412	$ (621)
Taxable securities	(229)	1,386	1,157	(198)	(487)	(685)
Nontaxable securities	(71)	99	28	2	(82)	(80)
Interest-bearing deposits	4	23	27	(8)	46	38
Increase (decrease) in income on interest-earning assets	$ (976)	$ 1,719	$ 743	$ (1,237)	$ (111)	$ (1,348)
Interest expense:						
Interest-bearing demand deposits	$ 154	$ 602	$ 756	$ (165)	$ 421	$ 256
Savings deposits	(9)	3	(6)	(7)	6	(1)
Time deposits	(1,952)	(772)	(2,724)	(3,553)	(1,366)	(4,919)
Short-term borrowings	---	---	---	---	(3)	(3)
Increase (decrease) in expense of interest-bearing liabilities	$ (1,807)	$ (167)	$ (1,974)	$ (3,725)	$ (942)	$ (4,667)
Increase in net interest income	$ 831	$ 1,886	$ 2,717	$ 2,488	$ 831	$ 3,319

(1) Taxable equivalent basis using a Federal income tax rate of 35% in 2011, 2010 and 2009.

(2) Variances caused by the change in rate times the change in volume have been allocated to rate and volume changes proportional to the relationship of the absolute dollar amounts of the change in each.

Total interest expense declined by $1,974, while interest income increased $743, resulting in an increase of $2,717 in net interest income when 2011 and 2010 are compared. Of this increase, $831 was attributable to rates, and $1,866 came from higher volume.

The lower interest rate environment led to a decline of $680 in interest income from loans. The average balance of loans increased from $585,933 in 2010 to $589,257 in 2011, causing an increase in interest income of $211, on a taxable-equivalent basis. The net decrease in loan interest income was $469.

Interest income on taxable securities decreased $229 due to rates but increased $1,386 because of average volume, for a net increase of $1,157 compared to 2010. The low interest rate environment increased the number of called securities in 2011 and reduced the opportunity to reinvest the proceeds in securities with more attractive yields. Because of low yields in the securities markets and flat loan demand, the Company priced deposits accordingly.

Interest on time deposits declined $2,724 from 2010 to 2011, with a decline of $1,952 due to rates and $772 attributable to volume. See “Net Interest Income” for additional information related to the decline in interest expense.

The low interest rate environment was also present in 2009. As compared with 2009, there was a $4,919 decline in interest expense associated with time deposits in 2010. Of the total decline, $3,553 was due to rates, and $1,366 stemmed from lower deposit volume. Management focused on deposit pricing in 2009 and took advantage of falling rates to lower interest expense.

From 2009 to 2010 interest on loans decreased by $621. Loan interest income attributable to rates was $1,033 lower, offset to a large degree by an increase of $412 due to volume. As compared with 2009, there was an increase of $3,319 in net interest income in 2010, $2,488 of the increase was due to rates and $831 due to volume.

Interest Rate Sensitivity

The Company considers interest rate risk to be a significant market risk and has systems in place to measure the exposure of net interest income and fair market values to movement in interest rates. Among the tools available to management is interest rate sensitivity analysis, which provides information related to repricing opportunities. Interest rate shock simulations indicate potential economic loss due to future interest rate changes. Shock analysis is a test that measures the effect of a hypothetical, immediate and parallel shift in interest rates. The following table shows the results of a rate shock and the effects on the return on average assets and the return on average equity projected at December 31, 2011 and 2010. For purposes of this analysis, noninterest income and expenses are assumed to be flat.

Rate Shift (bp)	Return on Average Assets		Return on Average Equity	
	2011	2010	2011	2010
300	0.96%	1.04%	6.96%	7.93%
200	1.13%	1.22%	8.19%	9.28%
100	1.30%	1.40%	9.32%	10.54%
(-)100	1.62%	1.70%	11.51%	12.68%
(-)200	1.58%	1.62%	11.23%	12.12%
(-)300	1.46%	1.50%	10.39%	11.27%

Simulation analysis is another tool available to the Company to test asset and liability management strategies under rising and falling rate conditions. As a part of the simulation process, certain estimates and assumptions must be made. These include, but are not limited to, asset growth, the mix of assets and liabilities, rate environment and local and national economic conditions. Asset growth and the mix of assets can, to a degree, be influenced by management. Other areas, such as the rate environment and economic factors, cannot be controlled. In addition, competitive pressures can make it difficult to price deposits and loans in a manner that optimally minimizes interest rate risk. Therefore, actual results may vary materially from any particular forecast or shock analysis. This shortcoming is offset somewhat by the periodic reforecasting of the balance sheet to reflect current trends and economic conditions. Shock analysis must also be updated periodically as a part of the asset and liability management process.

Noninterest Income

		Year Ended	
	December 31, 2011	December 31, 2010	December 31, 2009
Service charges on deposits	$ 2,617	$ 2,858	$ 3,314
Other service charges and fees	287	317	343
Credit card fees	3,197	2,954	2,803
Trust fees	1,087	1,118	1,053
Bank-owned life insurance income	762	760	756
Other income	449	354	491
Realized securities gains (losses)	11	(14)	44
Total noninterest income	$ 8,410	$ 8,347	$ 8,804

Service charges on deposit accounts totaled $2,617 for the year ended December 31, 2011. This is a decline of $241, or 8.43%, from $2,858 for the year ended December 31, 2010. Service charges on deposit accounts decreased $456, or 13.76%, from 2009 to 2010. This income category is affected by the number of deposit accounts, the level of service charges and the number of checking account overdrafts. The 2011 and 2010 declines resulted from a decrease in fees from checking account overdrafts and fees for checks returned for insufficient funds. This decline was caused by two factors. First, we believe consumers have become more conscientious about managing bank accounts so as to avoid overdraft fees in a challenging economy. Second, and to a lesser extent, in mid-2010 banking regulations were changed to prevent all banks, including NBB, from charging overdraft fees associated with ATM or debit card transactions.

Other service charges and fees included charges for official checks, income from the sale of checks to customers, safe deposit box rent, fees from letters of credit and income from commissions on the sale of credit life, accident and health insurance. These fees were $287 for the year ended December 31, 2011, down by $30, or 9.46%, from the $317 for 2010. The total for the year ended December 31, 2010 was $26 below the $343 posted for the year ended December 31, 2009. The decline in 2011 was primarily attributable to lower check sales in 2011, decreasing income by $46. This in turn, was attributed to increased customer adoption of debit cards and internet banking bill-pay. The decline from 2009 to 2010 was the result of small changes in income from several categories of fees, none of which is significant by itself.

Credit card fees for the year ended December 31, 2011, were $243 above the $2,954 reported for the year ended December 31, 2010. From 2009 to 2010, credit card fees increased $151, or 5.39%. The increases in 2011 and 2010 are due to increased volume of merchant transaction fees and credit card fees.

Trust fees, at $1,087, decreased slightly by $31, or 2.77%, when the years ended December 31, 2011 and 2010 are compared. For the year ended December 31, 2010 trust fees were $1,118, an increase of $65, or 6.17%, from 2009. Trust fees are generated from a number of different types of accounts, including estates, personal trusts, employee benefit trusts, investment management accounts, attorney-in-fact accounts and guardianships. Trust income varies depending on the number and type of accounts under management and financial market conditions. The significant volatility in the financial markets in 2009 negatively affected Trust fee income in that year. Recovering financial markets in 2010 and 2011, while still volatile, resulted in higher levels of Trust fee income. The mix of account types also affected the level of Trust fees in 2010 and 2011.

Noninterest income from bank-owned life insurance (BOLI) remained virtually unchanged, from $760 for the year ended December 31, 2010 to $762 for 2011. It grew slightly from $756 to $762 from December 31, 2009 to December 31, 2010. The performance of the variable rate policies are the source of growth in BOLI income for 2011 and 2010.

Other income is income that cannot be classified in another category. Some examples include net gains from the sales of fixed assets, rent from foreclosed properties and revenue from investment and insurance sales. Other income for the year 2011 was $449, an increase of $95, or 26.84%, when compared with $354 for the year ended December 31, 2010. Other income for 2010 decreased by $137, or 27.90%, when compared with 2009. The increase from 2010 to 2011 was primarily due to refunds of prior years' franchise taxes from additional deductions discovered in 2011.

Realized securities net gains and losses for the three years presented were associated with called securities. There were no securities sold in 2011, 2010 or 2009.

Noninterest Expense

		Year Ended	
	December 31, 2011	December 31, 2010	December 31, 2009
Salaries and employee benefits	$ 11,357	$ 10,963	$ 11,336
Occupancy, furniture and fixtures	1,599	1,875	1,792
Data processing and ATM	1,701	1,499	1,371
FDIC assessment	677	1,080	1,727
Credit card processing	2,485	2,300	2,121
Intangibles amortization	1,083	1,083	1,093
Net costs of other real estate owned	518	214	393
Franchise taxes	780	963	885
Other operating expenses	3,137	3,150	3,135
Total noninterest expense	$ 23,338	$ 23,127	$ 23,853

Salary and benefits expense increased $394, or 3.59%, from $10,963 for the year ended December 31, 2010 to $11,357 for 2011. The increase is partially the result of $141 increase in fringe benefits, offset by a decrease of $94 in net periodic pension expense associated with the Company's defined benefit pension plan. Net periodic expense varies because of changes in the number of plan participants, the age of participants, the investment performance of the plan trust and the interest rate environment. The remaining increase in 2011 was the result of normal compensation and staffing decisions. The decline of $373 from 2009 to 2010 was the result of the Company's efforts to control salary costs and a decrease of $94 in net periodic pension expense.

Occupancy, furniture and fixtures expense was $1,599 for the year ended December 31, 2011, a decrease of $276, or 14.72%, from the prior year. The 2010 total was $1,875, an increase of $83, or 4.63%, from the $1,792 reported at year-end 2009. The decline in 2011 and small increase in 2010 are reflective of the Company's emphasis on containing controllable expenses.

Data processing and ATM expense was $1,701 in 2011, $1,499 in 2010 and $1,371 in 2009. The increase of $202 or 13.48% from 2010 to 2011 was associated with increased costs for communications because of infrastructure upgrades.

When the years ended December 31, 2011 and December 31, 2010 are compared, there was a decrease in the Federal Deposit Insurance Corporation Deposit Insurance Fund assessment of $403. The total expense for 2010 was $1,080, which compares with $677 for 2011. The FDIC assessment is accrued based on a method provided by the FDIC. During 2011, the method changed from a deposit based to an asset based method. This resulted in a reduced amount of expense for the Company in 2011. The FDIC assessment expense for the year ended December 31, 2010 fell $647 from $1,727 for 2009, due to a one-time special assessment required in 2009 of all FDIC-insured banks, including NBB. Given the severe impact of the economic downturn on some of the nation's banks, the Company has no assurance that the FDIC will not increase assessments on insured banks to maintain the integrity of the Deposit

Insurance Fund.

Credit card processing expense was $2,485 for the period ended December 31, 2011, an increase of $185, or 8.04% from 2010's total of $2,300. Credit card processing expense in 2010 increased $179, or 8.44% from 2009. This expense is driven by the volume of credit card, debit card and merchant account transactions and by the level of merchant discount fees. It is subject to a degree of variability.

The expense for intangibles and goodwill amortization is related to acquisitions. There were no acquisitions in the last year, and the expense for 2011 remained flat from 2010 at $1,083. Intangibles and goodwill amortization declined $10 when the periods ended December 31, 2010 and December 31, 2009 are compared. The decline was due to certain expenses from past transactions becoming fully amortized in 2009.

Net costs of other real estate owned increased from $214 for the period ended December 31, 2010 to $518 in 2011. From 2009 to 2010, net costs of other real estate owned decreased $179 from $393. This expense category varies with the number of foreclosed properties owned by NBB and with the expense associated with each. It includes write-downs on other real estate owned plus other costs associated with carrying these properties, as well as net gains or losses on the sale of other real estate. In 2011, write-downs on other real estate were $327. This compares with $34 in 2010. The Company accounts for other real estate at the lower of cost or fair value, using current appraisals. Updated appraisals reflected declines in the value of some properties. Other costs for these properties in 2011 were $184, while they were $151 in 2010. There was a total of $7 in net losses on the sale of other real estate for 2011 and $29 in net losses for 2010. Because the Company's market area continues to experience the effects of the prolonged recession, it is anticipated that there will be additional foreclosures in the near future. This may result in an associated increase in the costs of other real estate owned.

Franchise taxes were $780 for the period ended December 31, 2011 and $963 for 2010, a decrease of $183 or 19.00%. The decrease was due to additional deductions discovered in 2011. Franchise tax expense increased $78 in 2010 from $885 in 2009. State bank franchise taxes are based upon total equity, which increased in both 2010 and 2011.

The category of other operating expenses includes noninterest expense items such as professional services, stationery and supplies, telephone costs and charitable donations. For the year ended December 31, 2011, other operating expenses were $3,137. This compares with $3,150 for 2010 and $3,135 for 2009. The nominal $13 decrease from 2010 to 2011 is the result of changes in several categories of expense, with no one item making a significant contribution to the total.

Income Taxes

Income tax expense for 2011 was $5,247 compared to $4,223 in 2010 and $3,660 in 2009. Tax exempt income is the primary difference between expected and actual income tax expense. The Company's effective tax rates for 2011, 2010 and 2009 were 22.93%, 21.34% and 20.36%, respectively. The Company is subject to the 35% marginal tax rate. See Note 10 of the Notes to Consolidated Financial Statements for addition information relating to income taxes.

Effects of Inflation

The Company's consolidated statements of income generally reflect the effects of inflation. Since interest rates, loan demand and deposit levels are related to inflation, the resulting changes are included in net income. The most significant item which does not reflect the effects of inflation is depreciation expense. Historical dollar values used to determine depreciation expense do not reflect the effects of inflation on the market value of depreciable assets after their acquisition.

Provision and Allowance for Loan Losses

In 2011, the Company saw improvements in asset quality indicators, after several years that were negatively impacted by the national recession and its effects on the local economy. Historically, national economic downturns have affected the Company's market area less severely than other areas of the country. In addition, downturns and recoveries in the national economy typically have a delayed effect on the Company's local economy.

At December 31, 2011, total nonperforming assets were $6,693 compared to $9,794 at December 31, 2010. See "Balance Sheet – Loans – Risk Elements" for additional detail about nonperforming assets. Net charge-offs decreased by $126, with the ratio of net charge-offs to average loans decreasing 3 basis points, from 0.46% in 2010 to 0.43% in 2011.

The Company's internal credit risk analysis takes into consideration trends in nonperforming loans and charge-offs. Based on the analysis, the Company increased the allowance for loan losses to $8,068, or 1.37% of loans at December 31, 2011. At December 31, 2010, the allowance for loan losses was $7,664, or 1.33% of loans. The provision for loan losses for 2011 was $2,949, a decrease of $460 from 2010.

The current level of nonperforming assets is manageable in management's opinion. Core earnings remain strong, and there are sufficient resources available to deal with these assets.

As previously mentioned, the level of nonperforming assets is primarily influenced by local economic conditions. A high degree of uncertainty remains concerning the speed of recovery, and in particular the speed of the recovery in the Company's relatively limited market area. For that reason, management is unable to predict with any degree of certainty whether and how much its asset quality may improve or deteriorate. Based on current information, management believes the level of nonperforming assets will continue to compare well with peers, but may be high when considering its own historic level of nonperforming assets. Please see "Critical Accounting Policies" above for additional information.

Balance Sheet

On December 31, 2011, the Company had total assets of $1,067,102, an increase of $44,864, or 4.39%, over the total of $1,022,238 on December 31, 2010. For 2011, the growth in assets was entirely internally generated and was not the result of acquisitions. Total assets at December 31, 2010 were up by $39,871, or 4.06%, over the total in 2009.

Loans

In 2011, the Company re-categorized its loan presentations to better reflect the Company's approach to portfolio management. The new categorization includes six groups. Real estate construction loans include construction loans for residential and commercial properties, as well as land. Consumer real estate loans include conventional and junior lien mortgages as well as equity lines. Commercial real estate loans are comprised of owner-occupied and leased nonfarm, nonresidential properties, multi-family residence loans and farmland. Commercial non real estate loans include farm loans, operating capital lines and loans secured by capital assets. Public sector and IDA loans are extended to municipalities. Consumer non real estate loans include automobile loans, personal loans, credit cards and consumer overdrafts.

The categorization of loans for this section and the balance sheet is different from the categorization used to determine the allowance for loan losses. While the categories may be similar, the allowance for loan losses methodology takes a risk-based approach to determining segments and classes for loss analysis. Determination of the categories for the balance sheet and this section is based on collateral type.

A. Types of Loans

			December 31,		
	2011	2010	2009	2008	2007
Real estate construction	$ 48,531	$ 46,169	$ 44,744	$ 60,798	$ 46,697
Consumer real estate	150,224	153,405	154,380	152,482	148,128
Commercial real estate	303,192	293,171	293,229	277,511	245,324
Commercial non real estate	38,832	37,547	41,402	36,978	33,117
Public sector and IDA	15,571	12,553	19,207	11,518	11,098
Consumer non real estate	33,072	34,543	38,047	37,393	40,409
Total loans	$ 589,422	$ 577,388	$ 591,009	$ 576,680	$ 524,773
Less unearned income and deferred fees	(952)	(945)	(1,062)	(1,123)	(1,119)
Total loans, net of unearned income	$ 588,470	$ 576,443	$ 589,947	$ 575,557	$ 523,654
Less allowance for loans losses	(8,068)	(7,664)	(6,926)	(5,858)	(5,219)
Total loans, net	$ 580,402	$ 568,779	$ 583,021	$ 569,699	$ 518,435

B. Maturities and Interest Rate Sensitivities

The following table presents maturities and interest rate sensitivities for commercial non real estate, commercial real estate and real estate construction loans.

		December 31, 2011		
			After 5	
	< 1 Year	1 – 5 Years	Years	Total
Commercial non real estate	$ 21,438	$ 15,839	$ 1,555	$ 38,832
Commercial real estate	45,731	248,628	8,833	303,192
Real estate construction	47,114	1,417	---	48,531
Total	114,283	265,884	10,388	390,555
Less loans with predetermined interest rates	(24,138)	(25,549)	(6,435)	(56,122)
Loans with adjustable rates	$ 90,145	$ 240,335	$ 3,953	$ 334,433

C. Risk Elements

The following table presents aggregate amounts for nonaccrual loans, restructured loans in nonaccrual, other real estate owned net, and accruing loans which are contractually past due ninety days or more as to interest or principal payments, and accruing restructured loans.

	December 31,				
	2011	2010	2009	2008	2007
Nonaccrual loans:					
Real estate construction	$ ---	$ ---	$ 2,643	$ ---	$ ---
Consumer real estate	296	964	---	---	---
Commercial real estate	702	526	1,455	1,333	1,144
Commercial non-real estate	400	448	---	---	---
Public sector and IDA	---	---	---	---	---
Consumer non-real estate	---	---	---	---	6
Total nonaccrual loans	$ 1,398	$ 1,938	$ 4,098	$ 1,333	$ 1,150
Restructured loans (TDR Loans) in nonaccrual					
Real estate construction	$ 1,681	$ 2,185	$ ---	$ ---	$ ---
Consumer real estate	315	---	---	---	---
Commercial real estate	1,544	3,698	---	---	---
Commercial non-real estate	198	250	---	---	---
Public sector and IDA	---	---	---	---	---
Consumer non-real estate	68	---	---	---	---
Total restructured loans in nonaccrual	3,806	6,133	---	---	---
Total nonperforming loans	$ 5,204	$ 8,071	$ 4,098	$ 1,333	$ 1,150
Other real estate owned, net	1,489	1,723	2,126	1,984	263
Total nonperforming assets	$ 6,693	$ 9,794	$ 6,224	$ 3,317	$ 1,413
Accruing loans past due 90 days or more:					
Real estate construction	$ ---				