

NATIONAL BANKSHARES INC
Form DEF 14A
March 30, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934
(Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to Section 240.14a-12

NATIONAL BANKSHARES, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the
Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

March 30, 2016

Dear Fellow Stockholder:

We invite you to join us for the Annual Meeting of Stockholders of National Bankshares, Inc. on Tuesday, May 10, 2016, at 3:00 p.m. The Annual Meeting will be held at the Custom Catering Center at 902 Patrick Henry Drive, at the intersection of North Main Street, in Blacksburg, Virginia. A map and directions to Custom Catering are on the reverse side of this letter.

The attached Notice of Annual Meeting and Proxy Statement describe the formal business to be transacted at the meeting. We will be electing your directors, and we will report on the operations of Bankshares.

YOUR VOTE IS IMPORTANT, REGARDLESS OF THE NUMBER OF SHARES YOU OWN. On behalf of the Board of Directors, I urge you to please sign, date and return the Proxy in the enclosed postage-paid envelope. Please return the Proxy as soon as possible, even if you now plan to attend the Annual Meeting. This will not prevent you from voting in person, but it will insure that your vote is counted if you are unable to attend the meeting.

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

Sincerely,

James G. Rakes
Chairman

President and

Chief Executive Officer

DIRECTIONS TO CUSTOM CATERING CENTER

FROM THE NORTH:

Exit left from US Route 460 at first Blacksburg exit to Business Route 460 (North Main Street). Proceed south on North Main Street to traffic light just past Food Lion Plaza. Turn right at traffic light onto Patrick Henry Drive, and turn at first right into Custom Catering Center.

FROM THE SOUTH:

Exit right from US Route 460 Bypass at first Prices Fork Road exit (Downtown). Follow Prices Fork Road to its end at the intersection with North Main Street. Proceed $\frac{3}{4}$ around the traffic circle and turn right onto North Main Street. Proceed north to second traffic light, at the intersection of Patrick Henry Drive. Turn left at Patrick Henry Drive, and turn at first right into Custom Catering Center.

NOTICE OF 2016 ANNUAL MEETING OF STOCKHOLDERS

To Be Held on May 10, 2016

To the Stockholders of National Bankshares, Inc.:

Notice is hereby given that the 2016 Annual Meeting of Stockholders of National Bankshares, Inc. will be held as follows:

Place: Custom Catering Center

902 Patrick Henry Drive (at the intersection of North Main Street)

Blacksburg, Virginia 24060

Date: Tuesday, May 10, 2016

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

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

1. Election of Directors: To elect three Class 2 Directors to serve a term of three years each.

2. Advisory Vote to Approve Executive Compensation: To vote on a non-binding resolution to approve the compensation of the named executive officers disclosed in this proxy statement.

3. Ratification of Appointment of Registered Independent Public Accounting Firm: To vote on a proposal to ratify the Board of Directors' appointment of Yount, Hyde & Barbour, P.C. as the Company's independent registered public accounting firm for the year ending December 31, 2016.

4.

Other Business: To consider and act on any other matters that may properly come before the Annual Meeting or any adjournment. The Board of Directors is not aware of any other business to come before the Annual Meeting.

Only stockholders of record at the close of business on March 16, 2016 are entitled to receive notice of and to vote at the meeting, or at any adjournments of the meeting.

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

To assure that your shares are represented at the meeting, please complete, date, sign and mail promptly the enclosed proxy, for which a return envelope is provided. The proxy will not be used if you attend and vote in person at the meeting. You may revoke your proxy prior to actual voting of the proxy.

BY ORDER OF THE BOARD OF DIRECTORS

Bryson J. Hunter
Secretary and Counsel
Blacksburg, Virginia

March 30, 2016

PROXY STATEMENT

OF

NATIONAL BANKSHARES, INC.

101 HUBBARD STREET

BLACKSBURG, VA 24060

P.O. BOX 90002

BLACKSBURG, VA 24062-9002

540/951-6300

www.nationalbankshares.com

www.nationalbanksharesproxy.com

ANNUAL MEETING OF STOCKHOLDERS

TUESDAY, MAY 10, 2016

This proxy statement is furnished in connection with the solicitation of proxies by and on behalf of the Board of Directors (the "Board") of National Bankshares, Inc. ("NBI," "Bankshares" or the "Company") to be used at the 2016 Annual Meeting of Stockholders to be held at the Custom Catering Center at 902 Patrick Henry Drive, at the intersection of North Main Street, Blacksburg, Virginia, at 3:00 p.m., on Tuesday, May 10, 2016, and at any adjournments of the meeting. The approximate mailing date of the proxy statement, the notice of annual meeting and the accompanying proxy is March 30, 2016.

REVOCATION OF PROXIES

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

Where no instructions are given, proxies will be voted *for* the nominees for directors set forth in Proposal 1; *for* the non-binding resolution to approve the compensation of the named executive officers described in Proposal 2; and *for* the ratification of the appointment of Yount, Hyde & Barbour, P.C. as the independent registered public accounting firm for the year ending December 31, 2016 described in Proposal 3.

An Annual Report to Stockholders, including the financial statements for the year ended December 31, 2015, is being mailed to you at the same time as this Proxy Statement, but should not be considered proxy solicitation material.

VOTING SECURITIES AND STOCK OWNERSHIP

As of March 16, 2016, Bankshares had 6,957,974 shares of common stock (\$1.25 par value) issued and outstanding. Each of the shares is entitled to one vote at the Annual Meeting. Only those stockholders of record at the close of business on March 16, 2016 will be entitled to vote at the meeting or at any adjournments.

A majority of votes entitled to be cast on matters to be considered at the Annual Meeting constitutes a quorum. If a share is represented for any purpose at the Annual Meeting, it will be considered to be present for purposes of establishing a quorum. Abstentions and shares held of record by a broker or its nominee or in "street name" ("broker shares") which are voted on any matter are included in determining the number of votes present or represented at the Annual Meeting. Broker shares that are not voted on any matter will not be included in determining whether a quorum is present. If a quorum is established, directors will be elected by a plurality of votes cast by shares entitled to vote at the Annual Meeting. On all other matters, the vote of a majority of shares present in person or by proxy and entitled to vote is required. Broker shares may not be voted in an uncontested Board election such as this one unless the beneficial owner has provided voting instructions. Votes that are withheld and broker shares that are not voted on any matter will not be included in determining the number of votes cast.

STOCK OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

Shown below is information with respect to persons or groups that beneficially own more than 5% of National Bankshares, Inc. common stock. This share information is derived from Schedules 13G or Form 13F filed by such persons or groups.

Name of Beneficial Owner	Shares of Common Stock Beneficially Owned as of December 31, 2015	Percentage Of Class
BlackRock, Inc. 55 East 52 nd Street New York, NY 10022	409,577	(1)5.89 %
National Rural Electric Cooperative Association 4301 Wilson Boulevard Arlington, VA 22203	597,102	(2)8.58 %
Royce & Associates, LLC 745 Fifth Avenue New York, NY 10151	388,272	(3)5.58 %

(1) Sole dispositive power for 409,577 shares and sole voting power for 396,198 have been reported.

(2) Sole dispositive and sole voting power for 597,102 shares have been reported.

(3) Sole dispositive and sole voting power for 388,272 shares have been reported.

STOCK OWNERSHIP OF DIRECTORS AND EXECUTIVE OFFICERS

The following table presents the beneficial ownership of National Bankshares, Inc. common stock as of March 16, 2016, by each director, each executive officer named in the Summary Compensation Table and all directors and executive officers as a group. Except as otherwise noted, the named individual has sole voting and investment power with respect to the stock.

Name of Beneficial Owner	Shares of Common Stock Beneficially	Percentage Of
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	Owned as of March 16, 2016		Class
Lawrence J. Ball	3,500		*
F. Brad Denardo	30,633	(2)	*
John E. Dooley	1,550		*
Charles E. Green, III	40,138	(1)	*
Bryson J. Hunter	478	(3)	*
Jack M. Lewis	6,056		*
Mary G. Miller	2,600		*
William A. Peery	12,998	(1)	*
James G. Rakes	88,105	(1)(4)	1.27 %
Glenn P. Reynolds	5,665	(1)	*
James M. Shuler	28,201	(1)(5)	*
David K. Skeens	7,401	(6)	*
All Nominees, Current Directors and Executive Officers as a Group (12 persons)	227,325		3.27 %

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

- Includes shares held by affiliated companies, spouses and dependent children, or as custodians or trustees, as follows: Mr. Green, 11,880 shares; Mr. Peery, 7,332 shares; Mr. Rakes, 888 shares; Mr. Reynolds, 2,336 shares; Dr. Shuler, 400 shares. Also includes shares pledged as collateral as follows: Mr. Peery, 2,500 shares.
- (2) Includes 14,413 shares owned through National Bankshares, Inc. Employee Stock Ownership Plan.
- (3) Includes 478 shares owned through the National Bankshares, Inc. Employee Stock Ownership Plan.
- (4) Includes 37,132 shares owned jointly with spouse, and 43,085 shares owned through National Bankshares, Inc. Employee Stock Ownership Plan.
- (5) Includes 426 shares owned jointly with spouse.
- (6) Includes 7,339 shares owned through National Bankshares, Inc. Employee Stock Ownership Plan.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended ("Exchange Act") requires our directors and officers to file with the SEC initial reports of ownership and reports of changes in ownership of our common stock and to furnish us with copies of all forms filed.

To our knowledge and based on the written representations of our directors and executive officers, during the past fiscal year (and in prior years, as noted below) our officers and directors complied with all applicable Section 16(a) filing requirements, except as noted below.

On June 3, 2015, Mr. Reynolds filed a Form 4 to accurately reflect his beneficial ownership. This filing disclosed ownership of an additional 110 shares that Mr. Reynolds had purchased in a prior fiscal year.

Stock Ownership Guidelines

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

PROPOSAL 1

ELECTION OF DIRECTORS

Our Company's articles of incorporation provide that the directors will be divided into three classes (1, 2 and 3) with each class as nearly equal in number as possible and the term of office of each class ending in successive years. The articles of incorporation also provide that the number of directors shall be set by the by-laws but shall not be less than nine or more than twenty-six. For the purpose of the election of directors at the Annual Meeting, the number of directors set forth in the by-laws is nine. The current term of office of the Class 2 directors expires at this 2016 Annual Meeting of Stockholders. The terms of Class 3 and Class 1 directors will expire in 2017 and 2018, respectively.

The Board of Directors has nominated three serving Class 2 directors, **Dr. John E. Dooley, Dr. Jack M. Lewis, and James G. Rakes**, to serve a three-year term to expire at the Annual Meeting of Stockholders in 2019.

It is the intention of the persons named as proxies, unless instructed otherwise, to vote for the election of the three nominees for Class 2 director. Each nominee has agreed to serve if elected. If any of the nominees is unexpectedly unable to serve, the shares represented by all valid proxies will be voted for the remaining nominees and any other person or persons who may be designated by the Board. At this time, the Board knows of no reason why any nominee might be unable to serve.

The following provides information about the three nominees to serve as Class 2 director and the six incumbent directors who will be continuing in office following the Annual Meeting. All information is provided as of March 16, 2016, and employment information is provided for the past five years. No director or nominee is related by blood, marriage or adoption to any other director, nominee or executive officer. No director or nominee currently serves or has served within the past five years, as a director of any company which has a class of securities registered pursuant to Section 12 of the Exchange Act, or is subject to the requirements of Section 15(d) of the Exchange Act, or of any company registered as an investment company under the Investment Company Act of 1940. Two directors, Mr. Rakes and Dr. Shuler, also currently serve as a director of one or both of the wholly owned subsidiaries of the Company, The National Bank of Blacksburg (“NBB”), and National Bankshares Financial Services, Inc. (“NBFS”). No other director has been employed by a subsidiary affiliate of the Company during the last five years. Each director and nominee, except for Mr. Rakes, has been determined to be independent by the Board of Directors, using the definition for independence of directors that is used for determining compliance with the applicable listing standards for the NASDAQ Stock Market (“NASDAQ”), the national securities exchange on which the Company’s common stock is listed. (See also “Director Independence” and “Certain Transactions with Officers and Directors.”)

Nominees for Terms Ending as of the 2019 Annual Meeting (Class 2 Directors)

John E. Dooley (Age 61): Dr. Dooley is CEO and Secretary-Treasurer of the Virginia Tech Foundation, Inc., where he oversees the leadership and management of Virginia Tech's private assets in support of university programs and initiatives which total assets exceed \$1.5 billion. Prior to becoming CEO of the Foundation in July 2012, Dr. Dooley served as Virginia Tech's Vice President for Outreach and International Affairs for ten years. Dr. Dooley is an active member of the Virginia Tech community through several committees and special projects. He also serves on the boards of several community and state organizations, including the Roanoke-Blacksburg Regional Airport Commission, The Virginia Chamber of Commerce and Lead Virginia. He brings extensive financial knowledge and management capabilities to the Board as well as a significant network of contacts in the regional business and academic communities. Dr. Dooley was elected by the Board of Directors in November 2012 to fill an unexpired term. He was elected to a full three year term at the 2013 Annual Meeting.

Jack M. Lewis (Age 72): Dr. Lewis is the President of New River Community College in Dublin, Virginia. Before being elevated to the President's role, Dr. Lewis was Dean of the Community College and served as its chief financial officer. Dr. Lewis' experience with budgeting, financial reporting and organizational management is directly applicable to his Board service. In addition, he has been involved in local and regional economic development activities and serves as Chairman of the Lewis Gale Hospital (Montgomery) Board of Trustees and as Chairman of the Blue Ridge Public Television, Inc. Board of Directors. Dr. Lewis was elected to the Company's Board of Directors in 2004.

James G. Rakes (Age 71): Mr. Rakes is an original director of National Bankshares, Inc., having served on the Board since 1986. He has been President and Chief Executive Officer of the Company since its founding. Mr. Rakes was the President and Chief Executive Officer of NBB from 1983 until 2014 and currently serves as Executive Chairman. He was the President and Treasurer of NBFS from 2001 until June 1, 2011. He has served as Chairman, President and CEO of NBFS since June 1, 2011. He is active with, and has held leadership positions in, both state and national banking trade associations. He also serves as President of the Board of Directors of the Blacksburg Museum and Cultural Foundation and on the Board of Trustees of the Lewis Gale Hospital (Montgomery). These factors, together with Mr. Rakes' experience and expertise in financial services, qualify him to serve on the Board.

DIRECTORS CONTINUING IN OFFICE

Class 1 Directors (Serving until 2018 Annual Meeting)

Lawrence J. Ball (Age 61): Mr. Ball was elected to the National Bankshares, Inc. Board of Directors in 2006. He is the President of Moog Components Group, a part of Moog, Inc., which is an international corporation. Prior to being named President, Mr. Ball was the Vice President and General Manager of Moog Components Group. Moog

Components Group is headquartered in Blacksburg, Virginia, and the company designs and manufactures products in motion, electronics and fiber optics. Mr. Ball has extensive experience in management and financial reporting. Mr. Ball's experience as a senior manager with a large corporation is considered valuable in adding to the Board of Directors' understanding of larger business operations. Mr. Ball also serves on the Lewis Gale Hospital (Montgomery) Board of Trustees.

Mary G. Miller (Age 65): Dr. Miller was first elected to the National Bankshares, Inc. Board of Directors in 2003. She is the founder and President of IDD, Inc., a full-service Internet technology firm specializing in custom software solutions, education and training and online content management. The firm is located in Blacksburg, Virginia. In addition to her experience in small business management, Dr. Miller brings in-depth knowledge of the region's developing technology sector and technology issues to her service on the Board of Directors. She also serves on the Board of Directors of the Roanoke-Blacksburg Technology Council.

Glenn P. Reynolds (Age 63): Mr. Reynolds has been a member of the National Bankshares, Inc. Board of Directors since 2006. He is the founder and President of Reynolds Architects Incorporated, an architecture firm located in Blacksburg, Virginia. Mr. Reynolds' familiarity with the area's construction and development projects and his experience with local building firms are useful to the Company's Board. In addition, Mr. Reynolds has small business management experience and a network of contacts in the local business and academic communities. He also serves on several area boards and Virginia Tech organizations.

Class 3 Directors (Serving until 2017 Annual Meeting)

Charles E. Green, III (Age 65): Mr. Green has served on the National Bankshares, Inc. Board of Directors since 2011. Previously, Mr. Green served as a member of the Board of Directors of NBB. He has nearly 30 years of experience as community bank director having been elected to the NBB Board in 2006 and to the board of a predecessor bank in 1986. Mr. Green has experience in small business management, as well as insurance and investment matters, all of which benefit the Company. He resides in, and was formerly the mayor of, Tazewell, Virginia and possesses in-depth knowledge of that portion of the Company's market area and community.

William A. Peery (Age 64): As President of Cargo Oil Co., Inc. in Tazewell, Virginia, Mr. Peery has business management experience, including experience in financial management. Cargo Oil Co., Inc. operates convenience stores and sells petroleum products. The firm is headquartered in Tazewell, Virginia, where Mr. Peery resides. Mr. Peery brings small business management experience to the Board. The Company considers small businesses to be a key component of its customer market. He was elected to the Company's Board of Directors in 2005.

James M. Shuler (Age 72): Dr. Shuler is a retired veterinarian who represented the 12th legislative district in the Virginia House of Delegates from 1994 until January 2012. Prior to his retirement, Dr. Shuler founded and ran a companion animal veterinary practice. Dr. Shuler brings small business management expertise, knowledge of Virginia's political environment and extensive contacts within the business and academic communities to his service on the Company's Board. He has served on the Company's Board since 2002 and is its Vice Chairman. Dr. Shuler is currently also a Director and Vice Chairman of NBB, where he has served on the Board since 1987.

THE BOARD OF DIRECTORS RECOMMENDS THAT THE STOCKHOLDERS VOTE "FOR" ALL OF THE NOMINEES FOR CLASS 2 DIRECTOR.

PROPOSAL 2

ADVISORY VOTE TO APPROVE EXECUTIVE COMPENSATION

Under the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act") and rules adopted by the U.S. Securities and Exchange Commission ("SEC") under the Dodd-Frank Act, at least once every three years, our stockholders have the opportunity to vote, on a non-binding, advisory basis, to approve the compensation of the Company's named executive officers, as described in the disclosures and discussion regarding executive

compensation in this proxy statement. Accordingly, we are providing this vote as required pursuant to Section 14A of the Securities Exchange Act. Our performance-related compensation philosophy is the basis for all of our compensation decisions. Please refer to the “Executive Compensation” section for an overview of the compensation of the Company’s named executive officers, as required by SEC rules. At the 2011 Annual Meeting, stockholders voted to hold this non-binding, advisory (“Say on Pay”) vote annually.

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

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

PROPOSAL 3

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

For the year ending December 31, 2016, the Audit Committee of the Board of Directors has appointed Yount, Hyde & Barbour, P.C., as the independent registered public accounting firm to audit of the Company’s financial statements and its internal controls over financial reporting, subject to ratification by the Company’s stockholders. Yount, Hyde & Barbour has acted as the Company’s independent registered public accounting firm for many years.

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

Representatives of Yount, Hyde & Barbour are expected to be at the Annual Meeting of Stockholders. That representative will have the opportunity to make a statement at the meeting and to respond to appropriate questions from stockholders.

**THE BOARD OF DIRECTORS RECOMMENDS THAT THE STOCKHOLDERS VOTE "FOR"
RATIFICATION OF THE APPOINTMENT OF YOUNT, HYDE & BARBOUR, P.C. AS THE
COMPANY'S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
FOR THE YEAR ENDING DECEMBER 31, 2016.**

OTHER BUSINESS

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

CORPORATE GOVERNANCE MATTERS

The Board and Board of Directors Meetings

Each director is expected to devote sufficient time, energy and attention to ensure diligent performance of the director's duties and to attend all regularly scheduled Board, committee, and stock meetings. The Company's Board of Directors meets monthly. In 2015, there were 12 regular Board meetings. During 2015, each incumbent director attended 75%

or more of the total number of meetings of the Board of Directors of Bankshares and of the Board committees on which he or she served. All directors attended the Company's 2015 Annual Meeting. The Board does not have a formal policy regarding directors' attendance at the Annual Meeting of Stockholders.

Board Leadership Structure

The Company has chosen to combine the position of chairman of the board and principal executive officer. Mr. Rakes, who was serving as the Company's President and Chief Executive Officer, was elected as the Chairman of the Board of Directors in April of 1999. He has been re-elected annually. Mr. Rakes has the longest tenure of any current director of the Company, having served since its incorporation in 1986. In addition Mr. Rakes is Executive Chairman of the Company's primary subsidiary, The National Bank of Blacksburg, where nearly all of the Company's business operations occur. Mr. Rakes has spent his long career in banking and has held leadership positions in both state and national banking trade organizations. The Board of Directors determined that Mr. Rakes' knowledge of NBB and the banking industry and his Board experience make him the logical and natural choice to serve as Chairman of the Board of the Company. We believe the Board also benefits from the continuity that Mr. Rakes provides in chairing the Board.

The Board does not have a lead director designated as such. However, the Board of Directors believes that at times it is important for the independent directors to deliberate and act without having Company management present. To ensure that it has experienced leadership in these situations, the Board annually elects a Vice Chairman, who has the responsibility of chairing meetings when the Chairman is absent or when the Board wishes to meet without any representative of management being present. Dr. Shuler has served as Vice Chairman of the Board of Directors since April of 2007. We believe this structure provides the Board with independent leadership in situations where the Chairman is excused from acting as such due to his management position.

Board Committees

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

The **Executive Committee** met seven times in 2015. Mr. Rakes, Dr. Lewis and Dr. Shuler serve on the Committee. The Committee, which is subject to the supervision and control of the Board of Directors, has been delegated substantially all of the powers of the Board of Directors to act between meetings of the Board, except for certain matters reserved to the Board by law. Mr. Rakes serves as Chairman of the Executive Committee because of his day-to-day management responsibilities, which include identifying issues that require either the involvement of the Executive Committee or the full Board during interim periods between regularly scheduled Board meetings. Mr. Rakes is well suited to convene such meetings with proper notices in an expeditious and efficient manner.

The **Audit Committee** met four times in 2015. The Committee is composed of Dr. Lewis (Chairman), Mr. Ball, Dr. Dooley and Mr. Green. The Committee reviews significant audit, accounting and financial reporting principles, policies and practices; is directly responsible for engaging and monitoring the independent auditors of the Company; and provides oversight of the financial reporting and internal auditing functions. A more detailed description of the functions of this Committee is contained under the heading "Audit Committee Report." All of the members of this Committee are considered independent within the meaning of SEC regulations and the listing standards of NASDAQ. Jack Lewis, Chairman of the Committee, is qualified as an audit committee financial expert within the meaning of SEC regulations and the Board has determined that he has the accounting and related financial management expertise within the meaning of the listing standards of NASDAQ.

The **Compensation Committee** met one time in 2015. The Compensation Committee consists of the independent directors of the Company's Board, including Dr. Shuler (Chairman), Mr. Ball, Dr. Dooley, Mr. Green, Dr. Lewis, Dr. Miller, Mr. Peery, and Mr. Reynolds. This Committee is responsible for establishing and approving the compensation of executive officers of the Company. Reference is made to the "Compensation Discussion and Analysis" section of this proxy statement for further information on the duties and responsibilities of this Committee. No member of the Compensation Committee is a current officer or employee of the Company. All members of this Committee are considered independent within the meaning of SEC regulations and the standards of NASDAQ.

The **Nominating Committee** met one time in 2015. The Committee consists of Dr. Miller (Chairwoman), Mr. Peery, Mr. Reynolds and Dr. Shuler. The Nominating Committee held its meeting on December 10, 2015. The Committee is responsible for developing and reviewing background information on candidates for the Board and makes recommendations to the Board regarding such candidates. All the members of this Committee are considered independent within the meaning of SEC regulations and the listing standards of NASDAQ.