

UNITED STATES
OFFICE OF THE COMPTROLLER OF THE CURRENCY
WASHINGTON, D.C. 20219

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2010

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the transition period from _____ to _____

OCC Charter Number: 23616

VIRGINIA NATIONAL BANK

(Exact name of registrant as specified in its charter)

Virginia

(State or other jurisdiction of
incorporation or organization)

54-1902129

(I.R.S. Employer
Identification Number)

222 East Main Street, Charlottesville, Virginia

(Address of principal executive offices)

22902

(Zip Code)

Registrant's telephone number, including area code:

(434) 817-8621

Securities registered pursuant to 12(b) of the Act:

None

Securities registered pursuant to 12(g) of the Act:

Common Stock, par value \$2.50

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

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

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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes 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 the 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.

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 the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity as of June 30, 2010, the last business day of the registrant’s most recently completed second fiscal quarter.

\$39,161,387

Indicate the number of shares outstanding of each of the registrant’s classes of common stock, as of the latest practicable date.

2,339,322 shares as of March 23, 2011

Documents Incorporated by Reference

Portions of the following documents are hereby incorporated into Part I and Part III of this Form 10-K by reference: the Proxy Statement for the Annual Meeting of Shareholders to be held on May 16, 2011.

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Part I

In addition to historical information, the following Report contains forward looking statements that are subject to risks and uncertainties that could cause the Bank's actual results to differ materially from those anticipated. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis only as of the date of the Report.

Item 1. BUSINESS.

General

Virginia National Bank (the "Bank") was organized under federal law as a national banking association to engage in general commercial and retail banking business. The Bank received its charter from the Comptroller of the Currency and commenced operations on July 29, 1998. The Bank's deposits are insured to the maximum amount provided by the Federal Deposit Insurance Act by the Federal Deposit Insurance Corporation ("FDIC"). The Bank is subject to the supervision, examination and regulation of the Office of the Comptroller of the Currency ("OCC").

The Bank emphasizes serving the needs of owner-operated businesses, professional concerns and individuals in the Charlottesville/Albemarle County area, the Orange County area, and the Winchester area. The Bank offers a full range of banking and related financial services, including checking accounts, NOW accounts, money market deposit accounts, certificates of deposit, individual retirement accounts and other depository services. The Bank actively solicits such accounts from individuals, businesses, associations and other organizations within its trade area. The Bank also offers short-to-medium term commercial, real estate and consumer loans. The Bank is committed to providing its customers with banking services comparable to those that larger regional and nationwide banks generally reserve for their larger clients. Such services include being a reliable and consistent source of credit, with loans that are priced based upon an overall banking relationship, easy access to the Bank's local decision makers who possess strong local market knowledge, local delivery, fast response, and continuity in the banking relationship.

Other services offered by Virginia National Bank include automated teller machines ("ATMs"), Internet banking, safe deposit boxes, travelers' checks, cash management services and direct deposit of payroll and federal recurring payments. In addition, the Bank is associated with the STAR and Cirrus networks, giving customers access to cash at ATMs all across America and internationally.

In January, 2000, the Bank received regulatory approval from the OCC to open a Trust Department which began operations in the first quarter of 2000. On May 18, 2007, the Office of the Comptroller of the Currency ("OCC") granted approval to the Bank's application to establish a new national trust bank with the title VNBTrust, National Association ("VNBTrust"), which is now operating as a wholly-owned subsidiary of the Bank. Additionally, the OCC approved the Bank's application for VNBTrust to create a wholly-owned operating subsidiary, VNB Investment Management Company, LLC, a Delaware limited liability corporation, which has approval to organize and manage two private investment funds. One fund, known as Swift Run Capital, is in operation. In January, 2010, VNB Investment Management Company, LLC changed its name to Swift Run Capital Management, LLC.

Since July 29, 1998, the Bank has conducted business from its full-service main banking office located at 222 East Main Street in Charlottesville. On March 15, 1999, a full-service banking office

was opened at 1580 Seminole Trail in Charlottesville. On December 21, 1999, a full-service banking office was opened at 1900 Arlington Boulevard in Charlottesville. On November 8, 2000, a full-service banking office was opened at 102 East Main Street in Orange, Virginia. On January 28, 2002, a full-service banking office was opened at 186 North Loudoun Street, Winchester, Virginia. On December 29, 2003, a full-service banking office was opened at 3119 Valley Avenue, #102, Winchester, Virginia. On April 28, 2008, a full-service banking office was opened at 404 People Place, Charlottesville. Additionally, the multi-story office building houses the Bank's Operations Center and several administrative functions.

During 2006, the Trust Department relocated into leased space at 310 4th Street, NE, Suite 102, Charlottesville, Virginia where VNBTrust now conducts business.

Market Area

The market area served by Virginia National Bank is growing. The combined populations of the City of Charlottesville and Albemarle County increased approximately 10.3 percent between April 1, 2000 and July 1, 2009, ending the period at 137,000 persons. The Charlottesville metropolitan statistical area ("MSA"), which includes Charlottesville, Albemarle County, Fluvanna County, Nelson County and Greene County, grew almost 21 percent from 1990 to 2000, and is expected to grow another 11 percent to a population of 201,000 by 2010. Charlottesville and Albemarle County support a diverse, well-rounded economy. Stability in the local economy stems from the significant number of persons employed by the University of Virginia, as well as several large manufacturers and service companies.

Orange County had a population of approximately 34,000 persons as of 2009. Between April 1, 2000 and July 1, 2009, its population grew 29.8 percent, compared to an 11.4 percent growth rate for Commonwealth of Virginia as a whole.

The combined populations of the City of Winchester and Frederick County increased approximately 22.3 percent between April 1, 2000 and July 1, 2009, ending the period at 101,000 persons.

Competition

The Bank engages in highly competitive activities. Each activity involves competition with other banks, as well as with non-banking enterprises that offer financial products and services that compete directly with the Bank's product and service offerings. The Bank actively competes with other banks in its efforts to obtain deposits and make loans, in the scope and types of services offered, in interest rates paid on time deposits and charged on loans, and in other aspects of banking.

In addition to competing with other commercial banks within and outside its primary service areas, the Bank competes with other financial institutions engaged in the business of making loans or accepting deposits, such as savings and loan associations, credit unions, insurance companies, small loan companies, finance companies, mortgage companies, certain governmental agencies and other enterprises. Competition for funds from securities brokers and mutual funds for money market accounts is strong. Additional competition for deposits comes from government and private issues of debt obligations and other investment alternatives for depositors such as money market funds.

The market areas served by Virginia National Bank are highly competitive with respect to banking. Competition for loans to small businesses and professionals is intense, and pricing is important. Many of the Bank's competitors have substantially greater resources and lending limits than the Bank and offer certain services such as extensive and established branch networks that the Bank does not expect to match. Deposit competition is also very strong. The Bank believes, however, that a market exists for the personal and customized financial services an independent, locally owned bank can offer.

Employees

At December 31, 2010, the Bank had 127 full time equivalent employees. None of its employees is represented by any collective bargaining unit. The Bank considers relations with its employees to be good.

In 2008, the Bank purchased Bank Owned Life Insurance ("BOLI") policies on fifteen bank officers. BOLI is a bank-eligible asset designed to recover costs of providing pre- and post-retirement benefits and/or to finance general employee benefit expenses. Under BOLI policies, executives and other key personnel are the insured, and the Bank is the owner and beneficiary of the policies. The insured has no claim to the insurance policy or to the policy's cash value. Under separate split dollar agreements, a portion of any death benefit may be paid to the beneficiaries of the insured employees.

Supervision and Regulation

The Bank is subject to supervision by the OCC, and is affected by the various applicable federal and Virginia laws, and regulations of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System and the FDIC. The various laws and regulations administered by these regulatory agencies affect corporate practices, expansion of business and provision of services. Also, monetary and fiscal policies of the United States directly affect bank loans and deposits and, thus, may affect the Bank's earnings. The OCC conducts regular examinations of the Bank, reviewing such matters as the quality of loans and investments, the adequacy of loan loss reserves, compliance with laws and regulations, management practices and other aspects of the Bank's operations. In addition to these regular examinations, the Bank must furnish periodic reports to regulatory agencies that contain a full and accurate statement of its affairs.

The Dodd-Frank Wall Street Reform and Consumer Protection Act was passed on July 21, 2010. The Act will have a major impact on compliance for financial institutions. Most of the changes will not be implemented until 2011 or later. Many of the regulations that will be passed to implement the Act may not be finalized or become effective until late 2011 or 2012. The Act created a Consumer Financial Protection Bureau which will be a new regulatory entity associated with the Federal Reserve System. The new agency will have supervisory and examination responsibility for large depository institutions with assets over ten billion dollars and for non-bank mortgage industry participants. Due to the asset size of the Bank, the OCC will continue to be the primary regulator for supervision and examinations of VNB.

On October 3, 2008, the Emergency Economic Stabilization Act of 2008 temporarily increased the FDIC deposit insurance from \$100,000 to \$250,000 per insured depositor, as defined by law and regulation. With the passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act, the increase to \$250,000 per insured depositor was made permanent.

VNB opted to participate in the FDIC's Temporary Liquidity Guarantee Program ("TLGP"). All funds in noninterest-bearing transaction deposit accounts were fully guaranteed under the transaction account guarantee component of the TLGP through December 31, 2010. Under TLGP, a "noninterest-bearing transaction account" was defined as a transaction account with respect to which interest is neither accrued nor paid and on which the insured depository institution does not reserve the right to require advance notice of an intended withdrawal. This definition encompasses traditional demand deposit checking accounts that allow for an unlimited number of deposits and withdrawals at any time. This definition does not encompass interest-bearing money market deposit accounts (MMDAs). For purposes of the transaction account guarantee program, however, the FDIC included in the definition of a noninterest-bearing transaction account:

- Accounts commonly known as Interest on Lawyers Trust Accounts (IOLTAs) and functionally equivalent accounts; and
- Negotiable order of withdrawal accounts (NOW accounts) with interest rates no higher than 0.50 percent for which the insured depository institution at which the account is held has committed to maintain the interest rate at or below 0.50 percent.

A quarterly surcharge was applied to noninterest-bearing transaction deposit amounts over \$250,000. The FDIC collected the additional premium as part of its normal assessment cycle.

The Dodd-Frank Wall Street Reform and Consumer Protection Act contained provisions that provide unlimited FDIC deposit insurance for certain noninterest-bearing transaction accounts. This coverage will be provided from December 31, 2010 through December 31, 2012. While this special coverage is similar to the TLGP program, the new program contains one significant difference. After December 31, 2010, interest checking or negotiable order of withdrawal accounts (NOW accounts) will not be included in the transaction accounts that are eligible for unlimited FDIC deposit insurance. Accounts commonly known as Interest on Lawyers Trust Accounts (IOLTAs) will continue to be covered by this unlimited insurance through December 31, 2012.

VNB opted not to participate in the Troubled Asset Relief Program ("TARP"). TARP was a program of the United States government to purchase assets and equity from financial institutions, and was the largest component of the federal government's measures in 2008 to promote financial market stability. Any publicly traded financial institution that accepted TARP funds must have provided the U.S. Treasury with warrants for the right to receive nonvoting common stock or preferred stock in such financial institution, or voting stock, with respect to which the Secretary of the Treasury agreed not to exercise voting power, as the Secretary determined appropriate. The terms and conditions of such warrant must have provided for reasonable participation by the Secretary in equity appreciation of such financial institution. The warrant must also have contained anti-dilution provisions to protect the value of the securities from market transactions such as stock splits, stock distributions, dividends, and mergers. Other conditions for TARP recipients, such as executive compensation limits, have been imposed. VNB determined that its capital position and its strong credit quality made the acceptance of TARP funds unnecessary and not in the best interest of its shareholders.

The FDIC assesses deposit insurance premiums on all banks in order to adequately fund the Deposit Insurance Fund ("DIF") so as to resolve any insured institution that is declared insolvent by its primary regulator. The FDIC has established a risk-based deposit insurance premium system to calculate a depository institution's quarterly deposit insurance assessment. The FDIC's quarterly assessment is based upon Federal Deposit Insurance Reform Act of 2005, passed by Congress in 2006 to create a stronger and more stable insurance system. A prepayment of the FDIC premium through the fourth quarter of 2012 was collected on December 30, 2009.

Banks are divided into four risk categories based on their confidential composite CAMELS regulatory rating and level of capital. A Risk Category I bank represents lower risk to the insurance system, while a Risk Category IV bank represents higher risk. Because of its confidential composite CAMELS rating and capital levels, Virginia National Bank is designated as a Risk Category I bank. Small banks (those with less than \$10 billion in assets) in Risk Category I are evaluated, and their premiums are set, based on a combination of financial ratios and supervisory ratings. The financial ratios are as follows:

- Tier I leverage ratio;
- Loans past due 30 – 89 days, as a percentage of gross assets;
- Nonperforming loans, as a percentage of gross assets;
- Net loan charge-offs, as a percentage of gross assets; and
- Net income before taxes, as a percentage of risk-weighted assets.

Supervisory ratings will also be taken into account using a weighted average of an institution's confidential CAMELS component ratings.

Safety and Soundness Standards

The Financial Institutions Reform, Recovery and Enforcement Act of 1989 (“FIRREA”) expanded the OCC’s authority to prohibit activities of banks which represent unsafe and unsound banking practices or which constitute violations of laws or regulations. Notably, FIRREA increased the amount of civil money penalties that the OCC can assess for certain activities conducted on a knowing and reckless basis, if those activities cause a substantial loss to a depository institution. The penalties can be as high as \$1 million per day. FIRREA also expanded the scope of individuals and entities against which such penalties may be assessed.

On July 10, 1995, the four federal agencies that regulate banks and savings associations (FDIC, Federal Reserve Board, OCC and the Office of Thrift Supervision) jointly issued guidelines for safe and sound banking operations (“Interagency Guidelines Establishing Standards for Safety and Soundness”) as required by Section 132 of the Federal Deposit Insurance Corporation Improvement Act (“FDICIA”). The guidelines identify the fundamental standards that the four agencies follow when evaluating the operational and managerial controls at insured institutions. An institution’s performance will be evaluated against these standards during the regulators’ periodic on-site examinations.

Lending Activities

The Bank offers credit facilities, both secured and occasionally unsecured, to business customers. These facilities include term loans, single payment loans, revolving credit facilities and other lines of credit. These loans may be for temporary or seasonal working capital needs, or to provide funding for the acquisition of fixed assets or real estate. In addition, the Bank offers commercial real estate construction loans for both investment properties and owner-occupants of business facilities.

Installment loans, consumer purpose loans, revolving lines of credit and home equity lines of credit are also offered by the Bank.

The Bank's lending activities are subject to a variety of lending limits imposed by federal law and internal policy. While differing limits apply in certain circumstances based on the type of loan or the nature of the borrower, the Bank is generally subject to a loan-to-one-borrower limit in an amount equal to fifteen percent of the Bank's capital and surplus. Loans which are fully secured by readily marketable or other permissible types of collateral may exceed the fifteen percent limitation. Although the Bank's capitalization has enabled it to have a lending limit that satisfies the credit needs of a large portion of its target market, the Bank has also established relationships with correspondent banks to participate in loans when the amounts exceed the Bank's legal lending limit or the more stringent limits imposed by internal lending policies.

Credit Policies

The Bank employs a written credit policy to enhance its management of credit risk. The policy includes underwriting guidelines, principles of loan analysis, documentation requirements, maintenance guidelines for credit files, risk assessment rules and definitions, and procedures for ongoing identification and management of loans of less than acceptable risk. The policy also fixes the lending limits of all lending personnel for both secured and unsecured lending. Loans in excess of this amount require consideration by and approval of the Bank's Loan Committee, which includes membership from the Bank's Board of Directors and meets at least once per week. The Bank places an extremely high value on the confidentiality of any customer information. The credit policy also addresses items such as aggregate loan diversification, conflicts of interest, loan pricing, concentrations of credit and the impact of business cycles on loan philosophy.

Community Reinvestment Act

The Community Reinvestment Act of 1977 ("CRA"), and the regulations promulgated by the OCC to implement CRA, are intended to ensure that banks meet the credit needs of their service area, including low and moderate income communities and individuals, consistent with safe and sound banking practices. In 1995, the bank regulatory agencies adopted final regulations for implementing CRA. The CRA regulations require the banking regulatory authorities to evaluate a bank's record in meeting the needs of its service area when considering applications to establish new offices or consummate any merger or acquisition transaction. Under FIRREA, the federal banking agencies are required to rate each insured institution's performance under CRA and to make such information publicly available. In the case of an acquisition by a bank holding company, the CRA performance record of the banks involved in the transaction are reviewed as part of the processing of the acquisition application. A CRA rating other than 'outstanding' or 'satisfactory' can substantially delay or block the transaction. The Bank was last examined under the Community Reinvestment Act during 2009.

Consumer Laws and Regulations

Banks are also subject to certain consumer laws and regulations that are designed to protect consumers in transactions with banks. Among the more prominent of such laws and regulations are the Truth in Lending Act, the Truth in Savings Act, the Electronic Funds Transfer Act, the Expedited Funds Availability Act, the Equal Credit Opportunity Act, the Fair Credit Reporting Act, and the Fair Housing Act. These laws and regulations mandate certain disclosure requirements and regulate the manner in which financial institutions must deal with customers when taking deposits or making loans to such customers. The Bank must comply with the applicable provisions of these consumer protection laws and regulations as part of its ongoing customer relations. In 2011, the Bank will implement the Secure and Fair Enforcement for Mortgage Licensing (SAFE) Act.

The Financial Services Modernization Act of 1999

The Financial Services Modernization Act of 1999, more commonly known as The Gramm-Leach-Bliley Act (“Act”), was signed into law on November 12, 1999. The 1933 Glass-Steagall Act’s prohibitions on affiliations between banks and securities companies were repealed, as were the 1956 Bank Holding Company Act’s prohibitions on affiliations between banks and insurance companies. Bank holding companies and foreign banks that meet certain eligibility criteria may become ‘financial holding companies,’ allowed to engage in any non-financial activity that the Federal Reserve Board determines is complementary to a financial activity and that does not pose a substantial risk to the safety or soundness of depository institutions or the financial system.

In addition, the Act requires all financial institutions, regardless of whether they form a financial holding company, to disclose to customers their policies and practices for protecting the privacy of non-public personal information. The Act prohibits a financial institution from disclosing to non-affiliated third parties any non-public information about a customer, unless the institution both informs the customer that such information may be shared with third parties and allows the customer to opt out of such sharing arrangements.

Dividend Restrictions

The amount of dividends payable by the Bank will depend on its earnings and capital position, and is limited by federal law, regulations and policy. No dividend may be declared or paid that would impair a bank’s paid-in capital. Additionally, the OCC has the general authority to limit dividends paid by the Bank if such payments are deemed to constitute an unsafe and unsound practice.

Under current supervisory practice, prior approval of the OCC is required if cash dividends declared in any year exceed the total of a bank’s net profits for such year, plus its retained net profits for the preceding two years. Also, the Bank may not pay a dividend greater than its undivided profits then on hand after deducting current losses and bad debts. Federal law further provides that no insured depository institution may make any capital distribution, including a cash dividend, if the institution would not satisfy one or more of its minimum capital requirements after making such distribution. At December 31, 2010, the maximum amount available to the Bank for dividends was \$6,090,000.

Code of Ethics

VNB has adopted a Code of Ethics that applies to all of its employees, including its principal executive officer and its principal financial officer. The Code of Ethics is designed to deter wrongdoing and to promote the following:

1. Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships.
2. Full, fair, accurate, timely and understandable disclosure in reports and documents that are filed with regulatory agencies and in other public communications.
3. Compliance with applicable governmental laws, rules and regulations.

4. The prompt internal reporting of violations of the code to an appropriate person identified in the code.
5. Accountability for adherence to the code.

Availability of Information

The Bank files its periodic and annual reports with the Office of the Comptroller of the Currency. Our annual report on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, plus any amendments to these reports, are available, free of charge, on the Bank's Internet website at www.vnb.com. These reports are available as soon as reasonably practical after they are filed with the OCC.

Item 1A. RISK FACTORS.

Not required

Item 2. PROPERTIES.

The Bank currently occupies eight sites in Charlottesville, Winchester and Albemarle and Orange Counties. The main office and a full-service banking facility are located at 222 East Main Street, Charlottesville, Virginia. Full-service banking facilities are also located at 1580 Seminole Trail, Charlottesville, Virginia; 1900 Arlington Boulevard, Charlottesville, Virginia; 102 East Main Street, Orange, Virginia; 186 North Loudoun Street, Winchester, Virginia; 3119 Valley Avenue, #102, Winchester, Virginia; and 404 People Place, Charlottesville, Virginia. The Bank also operates a limited-service banking facility at 28904 North James Madison Highway, in Arvon, Virginia, and owns the property on which it is located. All full-service banking locations are leased as described further below.

VNBTrust leases space at 310 4th Street, NE, Suite 102, Charlottesville, Virginia.

Lease terms for the above-mentioned properties are as follows:

222 East Main Street, Charlottesville, VA (Downtown Mall Office):

This property was originally leased from Williams Pentagram Corporation in 1998, and is currently in the third year of a five-year renewal term. The lease provides for three more five-year renewal options.

1900 Arlington Boulevard, Charlottesville, VA (Barracks Road Office):

This property was leased in 1998 from Paul and Jean Holdren for a term of twenty years with seven five-year renewal options. The Arlington Boulevard site has additional space not occupied by the banking facility. This space has been leased.

1580 Seminole Trail, Charlottesville, VA (29 North Office):

This property was leased in 1998 from Sunny Hill Land Trust (an entity 50 percent owned by an entity controlled by Hunter Craig, vice chairman of the Bank) for a term of five years with six five-year renewal options. The Bank has exercised the second five-year renewal option. Monthly rent for this space is a fair market rate as verified by an independent third-party appraisal.

102 East Main Street, Orange, VA (Orange Office):

This property was leased in 2000 from The Bryant Foundation for a term of three years with three five-year renewal options. The Bank has exercised the second five-year renewal option.

186 North Loudoun Street, Winchester, VA (Winchester Office):

This property was leased in 2001 from Shenandoah University for a term of ten years with two five-year renewal options. The Bank has the irrevocable and exclusive option to purchase the entire Bowman Building. In addition, the Bank has provided a sale put option to Shenandoah University that provides that, at any time during the term of the lease, the University will have the unilateral right to sell the Bowman Building to the Bank for \$1,350,000.

3119 Valley Avenue, #102, Winchester, VA (Creekside Office):

This property is located in the Creekside Station Shopping Center. It was leased in 2003 from Joleen, L.C. for a term of ten years expiring January 31, 2014, with two five-year renewal options.

404 People Place, Charlottesville, VA (Pantops Park Office):

This property, consisting of approximately 8,167 square feet, is located just east of the Charlottesville city limits on Pantops Mountain, and fronts on Route 250 East. The building was constructed by the Bank on a pad site leased in 2005 from Pantops Park, LLC for a term of twenty years, with seven five-year renewal options. William D. Dittmar, Jr., a director of the Bank, is a Member of Pantops Park, LLC. Monthly rent for this space is a fair market rate as verified by an independent third-party appraisal. A five-story building, consisting of approximately 43,000 square feet, was completed in early 2008, and the Bank opened this full-service office in April, 2008. Additionally, the building houses the Bank's Operations Center and several administrative functions. It also contains space for lease to third parties. A portion of the space has been rented, and the Bank is actively seeking other tenants.

310 4th Street, N.E., Suite 102, Charlottesville, VA (VNBTrust, N.A.):

This property is located approximately two blocks from the downtown Charlottesville banking office. It was leased in 2006 from Court Square, L.L.C. for a term of five years, with two five-year renewal options. The lease was amended effective December 20, 2010, to extend the lease until July 31, 2016 and to provide for an additional five-year renewal term with slightly reduced payment terms.

Item 3. LEGAL PROCEEDINGS.

There are no legal proceedings against the Bank that would have a material adverse effect on the Bank or its financial condition.

Item 4. (REMOVED AND RESERVED.)

Part II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Virginia National Bank's Common Stock is listed on the National Association of Securities Dealers Over-the-Counter Bulletin Board (OTCBB), an inter-dealer quotation system for equity securities not listed on the NASDAQ Stock Market, under the symbol VABK. As of December 31, 2010, the Bank had issued and outstanding 2,339,322 shares of Common Stock. These shares were held by approximately 590 shareholders of record and others who held shares at brokerage firms. The Bank's Common Stock was issued on June 26, 1998, at a price of \$10.00 per share.

For the years ended December 31, 2010 and December 31, 2009, the performance of the Common Stock was as follows:

	2010		2009	
	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>
First Quarter	\$18.50	\$14.75	\$26.85	\$19.00
Second Quarter	\$23.50	\$17.95	\$23.50	\$17.25
Third Quarter	\$21.99	\$13.00	\$19.75	\$15.40
Fourth Quarter	\$16.00	\$13.25	\$19.00	\$14.75

The Bank has not declared any cash dividends. Payments of dividends is at the discretion of the Bank's Board of Directors, is subject to various federal and state regulatory limitations, and is dependent upon the overall performance and capital requirements of the Bank.

American Stock Transfer and Trust Company is the Bank's stock transfer agent and registrar.

Item 6. SELECTED FINANCIAL DATA.

Not required

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF CONSOLIDATED FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following discussion provides information about the major components of the results of consolidated operations and financial condition, liquidity and capital resources of Virginia National Bank. This discussion and analysis should be read in conjunction with the *Consolidated Financial Statements and Notes to the Consolidated Financial Statements*.

Critical Accounting Policies

General

The Bank's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("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 either when earning income, recognizing an expense, recovering an asset or relieving a liability. We use historical loss factors as one factor in determining the inherent loss that may be present in our loan portfolio. Actual losses could differ significantly from the historical factors that we use. In addition, GAAP itself may change from one previously acceptable method to another method. Although the economics of our transactions would be the same, the timing of events that would impact our transactions could change.

The Bank adopted Accounting Standards Codification (“ASC”) 105, “The FASB Accounting Standards Codification and Hierarchy of Generally Accepted Accounting Principles – a replacement of FASB Statement 162” (ASC 105) during the third quarter of 2009. This guidance established ASC as the single source of authoritative U.S. GAAP recognized by the Financial Accounting Standards Board (“FASB”) to be applied by nongovernmental entities, except for rules and interpretive releases of the Securities and Exchange Commission (“SEC”).

Allowance for Loan Losses

The allowance for loan losses is an estimate of the losses that may be sustained in our loan portfolio. The allowance is based on two basic principles of accounting: (i) ASC 450, “Contingencies,” which requires that losses be accrued when they are probable of occurring and estimatable, and (ii) ASC 310, “Receivables,” which requires that losses be accrued based on the differences between the value of collateral, present value of future cash flows or values that are observable in the secondary market and the loan balance.

In general, banks determine the adequacy of their allowance for loan losses by considering the risk classification and delinquency status of loans and other factors. A bank’s management may also establish specific allowances for loans which management believes require allowances greater than those allocated according to their risk classification. The purpose of the allowance is to provide for potential losses inherent in the loan portfolio. Since risks to the loan portfolio include general economic trends as well as conditions affecting individual borrowers, the allowance is an estimate.

Non-GAAP Presentations

The Bank, in referring to its net income, is referring to income under accounting principles generally accepted in the United States of America, or “GAAP”. This management’s discussion and analysis also refers to the efficiency ratio which is computed by dividing non-interest expense by the sum of net interest income and non-interest income. This is a non-GAAP financial measure which may provide important information concerning the Bank’s operational efficiency. Comparison of our efficiency ratio with those of other companies may not be possible because other companies may calculate the efficiency ratio differently.

Net Income

The net income for the period ended December 31, 2010 was \$4,030,000, compared to \$1,948,000 for the period ended December 31, 2009. VNBTrust, N.A. earned net income of \$2,089,000 for 2010, compared to net income of \$1,648,000 in 2009. The commercial bank earned net income of \$1,941,000 in 2010, compared to \$300,000 in 2009.

The \$2,082,000 increase in net income in 2010 from 2009 is attributable to a \$1,101,000 increase in net interest income, a \$705,000 decrease in provision for loan loss, a \$666,000 increase in non-

interest income, and a \$608,000 decrease in non-interest expense. Income was negatively impacted by a \$998,000 increase in income taxes.

At December 31, 2010, retained earnings for the Bank had grown to \$16,566,000. For the first quarter of 2010, the Bank had net income of \$360,000. During the second and third quarters of 2010, the Bank achieved net incomes of \$464,000 and \$511,000. For the last quarter of 2010, \$2,695,000 was realized in net income. This fourth quarter earnings was mainly attributable to the net trust income generated by fees associated with performance-based asset management accounts, which are based on performance at each year-end. As such, they are earned in the fourth quarter of each year (see discussions of “Non-Interest Income” and “Non-Interest Expense” below).

Net Interest Income

Net interest income is the major component of a bank’s earnings, and represents the amount by which interest income exceeds interest expense. Variables that may have an impact on net interest income are the mix and volume of earning assets and interest-bearing liabilities, and market interest rates. The management of the Bank strives to maximize net interest income through prudent balance sheet administration, while maintaining appropriate risk levels as determined by the Bank’s Board of Directors. During 2010, net interest income was \$16,692,000 compared to \$15,591,000 for 2009. The \$1,101,000 variance in net interest income year to year is mainly attributed to a 10.2% increase in average earning assets from \$362.2 million for 2009 to the current year average of \$399.1 million

The net interest margin, defined as net interest income expressed as a percentage of average earning assets, was 4.18% during 2010, compared to 4.30% in 2009. The Bank continues to experience interest rate compression during this period of historically low interest rates. The Bank’s Prime Rate, representing the interest rate paid by the Bank’s most creditworthy customers, was lowered to 3.25% in December, 2008, and remained unchanged throughout 2009 and 2010. The Bank’s margin remains relatively high among banks in general. A continuing primary driver of the Bank’s above average net interest margin is the Bank’s level of non-interest bearing demand deposits, which averaged 26.0% of total deposits for the year.

Provision for Loan Losses

The provision for loan losses is affected by the net growth of the loan portfolio, the level of any charge-offs or recoveries, and the consideration of the risk classification and delinquency status of its loans. Since the Bank opened for business on July 29, 1998, it has accumulated data on which to base a realistic reserve against any problem loans that might arise in its portfolio. At present, the Bank has determined that an allowance for loan losses at 1.25% of outstanding loans is adequate. As any future problem loan data is accumulated and analyzed, the Bank may set aside more or less than 1.25%, and reallocate the allowance by category, such that it reflects a more accurate indication of management’s estimate of future potential losses. Additional information concerning management’s methodology in determining the adequacy of the allowance for loan losses is contained in Note 4 of the *Notes to the Consolidated Financial Statements*.

While the Bank increased its allowance to total loans outstanding to 1.25% by year-end 2010, compared to the 1.18% required at year-end 2009, the Bank had a lower provision expense in 2010 of \$314,000, compared to a provision expense of \$1,019,000 in 2009. The need for the lower provision expense was due to loan portfolio runoff and lower loan demand. Loans ended 2010 at \$298.6 million, down from \$315.6 million at December 31, 2009. Net charge-offs between the two

years were down slightly by \$55,000. There were \$435,000 in charged off loans for year 2010, with recoveries of \$119,000. There were \$412,000 in charged off loans for year 2009, with recoveries of \$41,000.

Non-Interest Income

Total non-interest income for the year ended December 31, 2010 was \$7,804,000, a 9.3% increase over non-interest income of \$7,138,000 for the year ended December 31, 2009. Over the past few years, the Bank has introduced new products, including treasury and cash management products, as well as debit and credit cards, resulting in the collection of additional fee income associated with the rollout and increasing demand for these new services. Deposit account fees and other income increased to \$2,193,000 in 2010, a \$406,000 increase over the \$1,787,000 collected in 2009.

Fee income from VNBTrust was \$6,623,000 in 2010, 23.8% higher than 2009 fees of \$5,351,000 in 2009. Of the total fees, non-performance-based fees increased to \$1,888,000 in 2010, compared to \$1,400,000 in 2009. Performance-based fees increased to \$4,735,000 in 2010, compared to \$3,951,000 in 2009. According to a pre-established formula, VNBTrust staff are compensated on the level of profits earned. In all applicable prior years, this compensation was paid solely in cash. In 2010, however, \$1,013,000 in incentive compensation was distributed in the form of carried interest in Swift Run Capital, as allowed by IRS regulations. The payment method had the effect of lowering both non-interest income and non-interest expense by that same amount, as ultimately reflected in the Bank's financial reports.

Non-Interest Expense

Total non-interest expense for the year ended December 31, 2010 was \$18.1 million, compared to \$18.7 million for the year ended December 31, 2009. The primary components of 2010 non-interest expense were salaries and employee benefits of \$9,653,000, net occupancy expenses of \$2,425,000, equipment expenses of \$1,026,000, FDIC assessments of \$668,000, marketing, advertising, and promotional expenses of \$668,000 and an assortment of other expenses totaling \$3,642,000.

Personnel expenses for 2010 of \$9,653,000 were down from \$9,943,000 in 2009. The 2010 personnel expenses included \$714,000 in incentive compensation for VNBTrust, booked in accordance with pre-established formulas. In 2009, approximately \$1.2 million was expensed for VNBTrust incentive compensation. As discussed above, an additional \$1.0 million of VNBTrust incentive compensation was distributed as carried interest and therefore is not included in non-interest income or non-interest expense for 2010.

Net occupancy expenses for 2010 totaled \$2,425,000, down from the 2009 total of \$3,099,000. This difference was due to a one-time pre-tax expense incurred in 2009 of approximately \$643,000. This one-time expense represented the cost to dedicate People Place, the roadway built in conjunction with the Bank's Pantops Park Office, to the Virginia Department of Transportation ("VDOT"). The roadway was dedicated to VDOT on December 30, 2009.

Other expenses increased from \$3,070,000 in 2009 to \$3,642,000 in 2010. A major component of this increase was a \$276,000 writedown of other real estate owned (OREO) to its fair value less cost to sell. The Bank carried this OREO property as of December 31, 2009 at \$605,000; however, based on a new appraisal, the Bank recognized a \$276,000 writedown expense in 2010. This one OREO property was carried at December 31, 2010 at \$329,000.

One of the ratios the Bank examines in its evaluation of non-interest expense is the efficiency ratio, which measures the cost to produce one dollar of revenue. A lower ratio, computed by dividing non-interest expense by the sum of net interest income and non-interest income, is an indicator of increased efficiency. For 2010, the efficiency ratio was 73.8%, while an efficiency ratio of 82.2% was realized in 2009. Although non-interest expense decreased only \$608,000 when comparing the two periods, the efficiency ratio improved significantly based on the increase in revenue.

Over the past few years, the Bank has planned and budgeted for strategic initiatives to expand the Bank's products and service offerings and to add staff that is critical for managing these initiatives and growth. The Bank now offers a full complement of treasury management and private banking offerings, allowing the Bank to better serve its niche of owner-operated businesses, professional concerns and individuals that were increasingly underserved within our marketplace. VNB now offers services to its customer base that larger regional and nationwide banks typically reserve for their largest clients. In mid-2009, the Bank converted to a new core processing system for its deposits and loans, including ancillary systems such as check processing, ACH processing, and online banking for consumers and businesses. The benefits of these initiatives are beginning to be recognized as the Bank grows into its expense load.

Income Taxes

For 2010, income tax expense for the Bank was \$2,070,000, compared to \$1,072,000 for 2009. Please see Note 7 in the *Notes to Consolidated Financial Statements* for a discussion regarding net deferred tax and valuation allowance.

Interest Sensitivity

Prudent balance sheet management requires processes that monitor and protect the Bank against unanticipated or significant changes in the level of market interest rates. Net interest income stability should be maintained in changing rate environments by ensuring that interest rate risk is kept to an acceptable level.

The ability to reprice its interest-sensitive assets and liabilities over various time intervals is of critical importance. An asset-sensitive balance sheet structure implies that assets, such as loans and securities, will reprice faster than liabilities; consequently, net interest income should be positively affected in an increasing interest rate environment. Conversely, a liability-sensitive balance sheet structure implies that liabilities, such as deposits, will reprice faster than assets; consequently, net interest income should be positively affected in a decreasing interest rate environment.

The Bank uses a variety of traditional and on-balance sheet tools to manage its interest rate risk. Gap analysis, which monitors the "gap" between interest-sensitive assets and liabilities, is one such tool. In addition, the Bank uses simulation modeling to forecast future balance sheet and income statement behavior. By studying the effects on net interest income of rising, stable and falling interest rate scenarios, the Bank can position itself to take advantage of anticipated interest rate movements, and protect itself from unanticipated rate movements, by understanding the dynamic nature of its balance sheet components.

Asset Quality

Respect for loan quality in order to meet the customer expectations that the Bank stand as a reliable and consistent source of credit is entirely consistent with the responsibility to protect the Bank's depositors and build shareholder value over the long term. Virginia National Bank maintains a diversified loan portfolio by extending credit for commercial, real estate, personal and other loans. Within each category, the portfolio is further diversified. Loan officers are expected to seek and make as many sound and profitable loans as permitted within the parameters established by the Bank's asset/liability management policies. In doing so, it is recognized that risks must be taken, and that some level of losses is inevitable. Such losses must be kept within aggregate levels that bear an appropriate relationship to profits generated, the prevailing economic environment and accumulated reserve and capital levels.

The allowance for loan losses at December 31, 2010, was \$3,730,000, and represented 1.25% of outstanding loans. At December 31, 2009, the allowance was \$3,732,000, and represented 1.18% of outstanding loans. The purpose of the allowance is to provide for potential losses inherent in the loan portfolio. Since risks to the loan portfolio include general economic trends as well as conditions affecting individual borrowers, the allowance is an estimate.

The Bank is committed to determining, on an ongoing basis, the adequacy of its allowance for loan losses. The Bank applies historical loss rates to various pools of loans. Thereafter, the adequacy of the allowance is evaluated through reference to the following qualitative factors:

- National and local economic trends;
- Underlying collateral values;
- Loan delinquency status and trends;
- Loan risk classifications;
- Industry concentrations;
- Lending policies;
- Experience, ability and depth of lending staff; and
- Levels of policy exceptions.

Please refer to the earlier discussion of 'Allowances for Loan Losses' for additional insight into management's approach and methodology in estimating the allowance for loan losses.

At the end of 2010, the Bank had seven loans with balances of \$4,548,000 classified as non-accrual. The two largest of these loans, totaling \$3,493,000, are collateralized by deeds of trust on properties conservatively valued in excess of \$8 million. The remaining loans are fully collateralized.

At the end of 2009, the Bank had sixteen loans with balances of \$8,134,000 classified as non-accrual. The largest nonperforming asset was a single relationship totaling \$4,336,000. Loans to this relationship were secured by real estate. The Bank foreclosed on the real estate securing this relationship and collected all of the outstanding principal, interest, and expenses associated with this relationship in the fourth quarter of 2010. Another borrowing of \$1,781,000, which was classified as non-accrual at year-end 2009, was paid in full in early 2010. There were no other potential problem loans identified as of either December 31, 2010 or December 31, 2009.

Securities

The Bank's investment portfolio as of December 31, 2010, totaled \$63.6 million, a \$28.3 million increase from the December 31, 2009 portfolio total of \$35.3 million. In accordance with ASC320, "Investments-Debt and Equity Securities," the Bank has designated its unrestricted securities portfolio into (a) Held to maturity ("HTM") and (b) Available for sale ("AFS"). As of December 31, 2010, the HTM portfolio totaled \$7.5 million, and consisted of U.S. Government-sponsored agency securities, a corporate bond, and tax exempt municipal securities. As of December 31, 2009, the HTM portfolio totaled \$3.5 million, and consisted of a corporate bond and tax exempt municipal securities. At December 31, 2010, the AFS portfolio totaled \$54.5 million and consisted of U.S. Government-sponsored agency securities. At December 31, 2009, the AFS portfolio totaled \$30.3 million and consisted of U.S. Government-sponsored agency securities. The Bank's holdings of restricted securities totaled \$1.6 million at December 31, 2010 and consisted of Federal Reserve Bank and Federal Home Loan Bank stocks. The Bank's holdings of Federal Reserve Bank and Federal Home Loan Bank stocks totaled \$1.5 million at December 31, 2009.

Loan Portfolio

The Bank offers three major types of loans: mortgage loans, commercial loans and consumer loans. The predominant market area for these loans is Charlottesville, Albemarle County, Orange County, Winchester, Frederick County and all adjacent counties.

As of December 31, 2010, the Bank's loan portfolio totaled \$294.9 million, net of the allowance for loan losses. The Bank's loan portfolio as of December 31, 2009, totaled \$311.8 million, net of the allowance for loan losses. The 5.4% net variance from year to year was mainly attributed to a decrease in real estate construction of \$11.8 million and a decrease in residential mortgages of \$14.1 million, with the remaining changes spread among the other major loan categories.

In a commercial bank modeled such as the Bank, lending activities normally represent the primary source of income. While the balances declined year-end over year-end, the average balance for loans for 2010 was \$302.5 million compared to \$294.8 million in average loan balances in 2009. Since rates stayed fairly constant, the Bank's income on its loan portfolio rose by \$455,000 with the higher average balances on which to earn interest and fee income.

Deposits

Depository accounts represent the Bank's primary source of funds and are comprised of demand deposits, interest-bearing checking accounts, money market deposit accounts and time deposits. Depository accounts held by the Bank as of December 31, 2010, totaled \$407.7 million, as compared to the December 31, 2009 total of \$394.2 million. These deposits have been provided predominantly by individuals, professionals and small businesses in the Charlottesville/Albemarle area, the Orange County area, and the Winchester area. At December 31, 2010, non-interest bearing demand deposits accounted for 24.4% of total deposits, as compared to 25.4% at December 31, 2009.

In early 2008, the Bank contracted to enter the Certificate of Deposit Account Registry Service (CDARS)TM. Through this network of financial institutions, the Bank is able to offer depositors CD rates and FDIC insurance on deposits up to \$50 million. With the recent economic turmoil, especially in the financial industry, the Bank was able to attract \$55.0 million in CDARS deposits

by year-end 2010. Because of the reciprocal relationship of these funds with other financial institutions, these CDARS deposits are classified as brokered deposits.

Liquidity

Liquidity represents the Bank's ability to provide funds to meet customer demand for loan and deposit withdrawals without impairing profitability. Effective management of balance sheet liquidity is necessary to fund growth in earning assets and to pay liability maturities and depository customers' withdrawal requirements. The Bank has instituted Asset/Liability Management policies, including but not limited to a computer simulation model, to support liquidity controls and to enhance its management of interest rate risk and financial condition. Continuing forward, the Bank intends to maintain sufficient liquidity at all times to meet its funding commitments.

Since its opening, the Bank's customer base has provided a reliable and steadily increasing source of funds and liquidity. In addition, maturities within the securities portfolio, repayment of loan proceeds and a significant portfolio of overnight investments are additional primary sources of liquidity. The Bank has numerous secondary sources of liquidity including access to borrowing arrangements. Available borrowing arrangements maintained by the Bank include formal federal funds lines with two other commercial banks and access to the discount window at the Federal Reserve Bank of Richmond. On December 3, 2001, the Federal Home Loan Bank of Atlanta approved the Bank's application for membership, providing yet another source of secondary liquidity.

The Bank maintained an average of \$46.6 million outstanding in federal funds sold during 2010. Any excess funds are sold on a daily basis in the federal funds market. As opportunities have arisen for prudently investing this excess cash in either loans or securities, the Bank has done so. On December 31, 2010, the Bank sold \$58.5 million in the overnight federal funds market. Continuing forward, the Bank intends to maintain sufficient liquidity at all times to meet its funding commitments.

Capital Resources

Federal banking law sets forth certain regulatory capital requirements that apply to the Bank. Within the framework established by the law, the Bank qualifies for the classification "well-capitalized," which is the highest regulatory classification. Additional information concerning the Bank's capital resources is contained in Note 11 of the *Notes to Consolidated Financial Statements*.

Impact of Inflation and Changing Prices

The consolidated financial statements and related data presented herein have been prepared in accordance with generally accepted accounting principles. These principles dictate that financial position and operating results be measured in terms of historical dollars, without considering changes in the relative purchasing power of money over time due to inflation.

A financial institution's assets and liabilities primarily are monetary in nature. As a result, general levels of inflation typically have a less significant effect on financial performance than do changes in interest rates; however, non-interest expenses tend to rise in periods of general inflation.

Off-Balance Sheet Arrangements

The Bank is party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments consist primarily of commitments to extend credit and standby letters of credit. Additional information concerning the Bank's off-balance sheet arrangements is contained in Note 9 of the *Notes to the Consolidated Financial Statements*.

Contractual Commitments

In the normal course of business, the Bank enters into contractual obligations, including obligations on lease arrangements, contractual commitments for capital expenditures, and service contracts. The significant contractual obligations include the leasing of certain of its banking and operations offices under operating lease agreements on terms ranging from 1 to 20 years with renewal options. Following is a schedule of future minimum rental payments under non-cancelable operating leases that have initial or remaining terms in excess of one year as of December 31, 2010:

(in Thousands)	<u>1 year or less</u>	<u>1-3 years</u>	<u>3-5 years</u>	<u>After 5 years</u>	<u>Total</u>
Operating lease obligations	\$ 1,062	\$ 1,846	\$ 1,412	\$ 4,751	\$ 9,071

Statistical Information

The following statistical information is provided pursuant to the requirements of Guide 3, promulgated by the Securities Act of 1933:

TABLE 1
Average Balances, Interest Income and Expense, and Average Yields and Costs

	Year Ended December 31, 2010			Year Ended December 31, 2009			Year Ended December 31, 2008		
	Average Balance	Interest Income / Expense	Average Yield/Cost	Average Balance	Interest Income / Expense	Average Yield/Cost	Average Balance	Interest Income / Expense	Average Yield/Cost
	(in Thousands)			(in Thousands)			(in Thousands)		
Assets:									
Securities	\$50,010	\$1,363	2.73%	\$30,956	\$1,033	3.34%	\$29,555	\$1,174	3.97%
Loans:									
Real estate	255,556	14,945	5.85%	242,283	14,270	5.89%	196,324	12,834	6.54%
Commercial	33,381	1,636	4.90%	38,885	1,881	4.84%	36,710	2,086	5.68%
Consumer	13,582	587	4.32%	13,642	562	4.12%	13,786	840	6.09%
Total Loans	302,519	17,168	5.68%	294,810	16,713	5.67%	246,820	15,760	6.39%
Fed Funds Sold	46,582	45	0.10%	35,032	55	0.16%	30,055	548	1.82%
Other Interest Bearing Deposits	0	0	0.00%	1,368	40	2.92%	4,667	136	2.91%
Total Earning Assets	399,111	18,576	4.65%	362,166	17,841	4.92%	311,097	17,618	5.66%
Less: Allowance for Loan Losses	3,783			3,427			2,737		
Total Non-Earning Assets	34,566			34,683			34,894		
Total Assets	<u>\$429,894</u>			<u>\$393,422</u>			<u>\$343,254</u>		
Liabilities and Shareholders' Equity:									
Interest Checking	\$63,254	\$31	0.05%	\$52,931	\$26	0.05%	\$44,131	\$58	0.13%
Money Market Deposits	85,782	165	0.19%	88,102	183	0.21%	86,377	1,027	1.19%
Certificates of Deposit:									
\$100,000 and over	100,468	1,199	1.19%	76,202	1,194	1.57%	41,170	1,184	2.88%
Under \$100,000	34,619	484	1.40%	40,597	839	2.07%	41,665	1,482	3.56%
Total Interest-Bearing Deposits	284,123	1,879	0.66%	257,832	2,242	0.87%	213,343	3,751	1.76%
Federal Funds Purchased and Securities Sold									
Under Agreements to Repurchase	2,313	5	0.22%	3,713	8	0.22%	10,114	97	0.96%
Other Short Term Borrowings	-	-	N/A	-	-	N/A	1,530	39	2.55%
Total Interest-Bearing Liabilities	286,436	1,884	0.66%	261,545	2,250	0.86%	224,987	3,887	1.73%
Non-Interest-Bearing Liabilities:									
Demand deposits	99,709			91,907			79,951		
Other liabilities	1,149			995			914		
Total Liabilities	387,294			354,447			305,852		
Shareholders' Equity	42,600			38,975			37,402		
Total Liabilities and Shareholders' Equity	<u>\$429,894</u>			<u>\$393,422</u>			<u>\$343,254</u>		
Net Interest Income		\$16,692			\$15,591			\$13,731	
Interest Rate Spread (1)			3.99%			4.06%			3.93%
Interest Expense as a Percentage of Average Earning Assets			0.47%			0.62%			1.25%
Net Interest Margin (2)			4.18%			4.30%			4.41%

(1) Interest spread is the average yield earned on earning assets less the average rate paid on interest-bearing liabilities.

(2) Net interest margin is net interest income expressed as a percentage of average earning assets.

TABLE 2
Volume and Rate Analysis

The following table describes the impact on the net interest income of the Bank resulting from changes in average balances and average rates for the periods indicated. The change in interest due to both volume and rate has been allocated to volume and rate changes in proportion to the relationship of the absolute dollar amounts of the change in each.

2010 compared to 2009			
<i>(in Thousands)</i>			
Change due to:			
	Volume	Rate	Increase / Decrease
Assets:			
Securities	\$ 546	\$ (216)	\$ 330
Loans:			
Real estate	777	(102)	675
Commercial	(270)	25	(245)
Consumer	(2)	27	25
Total loans	<u>505</u>	<u>(50)</u>	<u>455</u>
Other interest bearing deposits	(20)	(20)	(40)
Federal funds sold	15	(25)	(10)
Total earning assets	<u>\$ 1,046</u>	<u>\$ (311)</u>	<u>\$ 735</u>
Liabilities and Shareholders' Equity:			
Interest-bearing deposits:			
Interest checking	\$ 5	\$ -	\$ 5
Money market	(5)	(13)	(18)
Certificates of deposit:			
\$100,000 and over	329	(324)	5
Under \$100,000	(111)	(244)	(355)
Total interest-bearing deposits	<u>218</u>	<u>(581)</u>	<u>(363)</u>
Short-term borrowings	(3)	-	(3)
Total interest-bearing liabilities	<u>215</u>	<u>(581)</u>	<u>(366)</u>
Change in net interest income	<u>\$ 831</u>	<u>\$ 270</u>	<u>\$ 1,101</u>

2009 compared to 2008			
<i>(in Thousands)</i>			
Change due to:			
	Volume	Rate	Increase / Decrease
Assets:			
Securities	\$ 54	\$ (195)	\$ (141)
Loans:			
Real estate	2,795	(1,359)	1,436
Commercial	118	(323)	(205)
Consumer	(9)	(269)	(278)
Total loans	<u>2,904</u>	<u>(1,951)</u>	<u>953</u>
Other interest bearing deposits	(96)	-	(96)
Federal funds sold	78	(571)	(493)
Total earning assets	<u>\$ 2,940</u>	<u>\$ (2,717)</u>	<u>\$ 223</u>
Liabilities and Shareholders' Equity:			
Interest-bearing deposits:			
Interest checking	\$ 10	\$ (42)	\$ (32)
Money market	20	(864)	(844)
Certificates of deposit:			
\$100,000 and over	709	(699)	10
Under \$100,000	(37)	(606)	(643)
Total interest-bearing deposits	<u>702</u>	<u>(2,211)</u>	<u>(1,509)</u>
Short-term borrowings	(59)	(69)	(128)
Total interest-bearing liabilities	<u>643</u>	<u>(2,280)</u>	<u>(1,637)</u>
Change in net interest income	<u>\$ 2,297</u>	<u>\$ (437)</u>	<u>\$ 1,860</u>

TABLE 3
Securities Held to Maturity and Available for Sale
Maturity Distribution and Average Yields

Carrying Value of Securities

	December 31, 2010 (in Thousands)	December 31, 2009 (in Thousands)	December 31, 2008 (in Thousands)
Securities Held to Maturity			
Amortized Cost:			
U.S. Government-Sponsored Agencies	\$4,027	\$ -	\$4,005
Corporate Bonds and Notes	1,510	1,518	-
Tax Exempt Municipal Securities	1,984	1,994	-
	<u>\$7,521</u>	<u>\$3,512</u>	<u>\$4,005</u>

Securities Available for Sale

Fair Value:			
U.S. Government-Sponsored Agencies	\$54,520	\$30,273	\$17,343
	<u>\$54,520</u>	<u>\$30,273</u>	<u>\$17,343</u>

Restricted Securities

Cost:			
Federal Reserve Bank Stock	\$836	\$820	\$798
Federal Home Loan Bank Stock	722	722	627
	<u>\$1,558</u>	<u>\$1,542</u>	<u>\$1,425</u>

The Bank does not hold any derivative instruments. The Bank held no issues that exceeded ten percent of Shareholders' Equity at December 31, 2010

Maturities of Securities at December 31, 2010

	Amortized Cost (in Thousands)	Fair Value (in Thousands)	Weighted Average Yield
U.S. Government-Sponsored Agencies:			
One year or less	\$5,036	\$5,184	4.06%
After one year to five years	52,122	53,421	2.45%
	<u>\$57,158</u>	<u>\$58,605</u>	<u>2.59%</u>
Corporate Bonds and Notes			
After one year to five years	\$1,510	\$1,548	2.87%
	<u>\$1,510</u>	<u>\$1,548</u>	<u>2.87%</u>
Tax Exempt Municipal Securities			
After one year to five years	\$1,984	\$2,016	1.52%
	<u>\$1,984</u>	<u>\$2,016</u>	<u>1.52%</u>
Total Securities ⁽¹⁾	\$60,652	\$62,169	

(1) Excludes Federal Reserve Bank and Federal Home Loan Bank stocks which have no stated maturity dates.

TABLE 4
Loan Portfolio and Maturity Schedule of Selected Loans

	<u>Dec. 31,</u> <u>2010</u>	<u>Dec. 31,</u> <u>2009</u>	<u>Dec. 31,</u> <u>2008</u>	<u>Dec. 31,</u> <u>2007</u>	<u>Dec. 31,</u> <u>2006</u>
	(in Thousands)	(in Thousands)	(in Thousands)	(in Thousands)	(in Thousands)
Commercial	\$40,737	\$38,955	\$41,915	\$34,351	\$28,950
Real estate construction	26,645	38,462	32,761	23,752	34,373
Real estate mortgage:					
Residential	73,158	87,298	74,637	51,600	37,553
Non-residential	113,695	109,919	94,686	88,171	92,120
Home equity loans	31,330	26,921	21,294	15,878	15,980
Total real estate mortgage	<u>218,183</u>	<u>224,138</u>	<u>190,617</u>	<u>155,649</u>	<u>145,653</u>
Consumer	<u>13,066</u>	<u>14,014</u>	<u>12,781</u>	<u>13,585</u>	<u>12,616</u>
Total loans	<u>298,631</u>	<u>315,569</u>	<u>278,074</u>	<u>227,337</u>	<u>221,592</u>
Less: Allowance for loan losses	<u>(3,730)</u>	<u>(3,732)</u>	<u>(3,084)</u>	<u>(2,646)</u>	<u>(2,577)</u>
Net loans	<u><u>\$294,901</u></u>	<u><u>\$311,837</u></u>	<u><u>\$274,990</u></u>	<u><u>\$224,691</u></u>	<u><u>\$219,015</u></u>

Maturities and Sensitivities of Loans to Changes in Interest Rates
As of December 31, 2010

	(in Thousands)							Total
	1 Year or Less		1 - 5 Years		After 5 Years		Total	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate		
Commercial loans	\$7,172	\$11,542	\$6,930	\$5,919	\$ -	\$9,174	\$40,737	
Real estate construction loans *	\$2,967	\$3,584	\$7,145	\$1,046	\$ -	\$11,903	\$26,645	

* includes land development and land loans

TABLE 5
Risk Elements

The Bank places a loan on non-accrual status when management believes, after considering economic and business conditions and collections efforts, that it is probable that the Bank will be unable to collect all amounts due according to the contractual terms of the loan agreement, or when the loan is past due for 90 days or more, unless the debt is both well-secured and in the process of collection.

Non-Accrual Loans
(Dollar Amounts in Thousands)

	<u>December 31, 2010</u>	<u>December 31, 2009</u>	<u>December 31, 2008</u>
Total	\$ 4,548	\$ 8,134	\$ 489
Number of Loans	7	16	1

Loans Past Due 90 Days or More
(Dollar Amounts in Thousands)

	<u>December 31, 2010</u>	<u>December 31, 2009</u>	<u>December 31, 2008</u>
Total	\$ 197	\$ -	\$ 231
Number of Loans	1	0	4

TABLE 6
Summary of the Allowance for Loan Losses
(in Thousands)

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Balance, beginning of period	\$ 3,732	\$ 3,084	\$ 2,646	\$ 2,577	2,262
Loans charged off					
Real estate	233	232	39	261	-
Commercial	160	146	233	-	61
Consumer	42	34	12	268	7
Total	435	412	284	529	68
Recoveries					
Real estate	13	-	62	-	-
Commercial	86	40	-	31	4
Consumer	20	1	5	5	9
Total	119	41	67	36	13
Provision for loan losses	314	1,019	655	562	370
Balance, December 31	\$ <u>3,730</u>	\$ <u>3,732</u>	\$ <u>3,084</u>	\$ <u>2,646</u>	\$ <u>2,577</u>
 Net charge-offs to average loans	 0.10%	 0.13%	 0.09%	 0.22%	 0.03%
Allowance for loan losses as a percentage of period-end total loans	1.25%	1.18%	1.11%	1.16%	1.16%

TABLE 7
Allocation of the Allowance for Loan Losses

A breakdown of the allowance for loan losses is provided in the following table. The percentage of loans in each major category is also provided. See Note 4 of the *Notes to the Consolidated Financial Statements* for further detail and information on the 2010 allocation of the Allowance for Loan Losses.

<u>December 31, 2010</u>		
	Allowance (in Thousands)	Percentage of loans in each category to total loans
Commercial	\$476	13.64%
Real estate construction	488	8.92
Real estate mortgage	2,644	73.06
Consumer	122	4.38
Totals	\$3,730	100.00%

<u>December 31, 2009</u>		
	Allowance (in Thousands)	Percentage of loans in each category to total loans
Commercial	\$545	12.34%
Real estate construction	604	12.19
Real estate mortgage	2,488	71.03
Consumer	95	4.44
Totals	\$3,732	100.00%

<u>December 31, 2008</u>		
	Allowance (in Thousands)	Percentage of loans in each category to total loans
Commercial	\$465	15.08%
Real estate construction	363	11.77
Real estate mortgage	2,114	68.55
Consumer	142	4.60
Totals	\$3,084	100.00%

<u>December 31, 2007</u>		
	Allowance (in Thousands)	Percentage of loans in each category to total loans
Commercial	\$400	15.12%
Real estate construction	276	10.43
Real estate mortgage	1,812	68.48
Consumer	158	5.97
Totals	\$2,646	100.00%

<u>December 31, 2006</u>		
	Allowance (in Thousands)	Percentage of loans in each category to total loans
Commercial	\$336	13.04%
Real estate construction	400	15.52
Real estate mortgage	1,694	65.74
Consumer	147	5.70
Totals	\$2,577	100.00%

TABLE 8
Deposits

	<u>Average Deposits and Rates Paid</u>					
	<u>Year Ended December 31, 2010</u>		<u>Year Ended December 31, 2009</u>		<u>Year Ended December 31, 2008</u>	
	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
	(in Thousands)		(in Thousands)		(in Thousands)	
Non-Interest-Bearing Demand Deposits	\$99,709		\$91,907		\$79,951	
Interest Checking	63,254	0.05 %	52,931	0.05 %	44,131	0.13 %
Money Market Deposits	85,782	0.19	88,102	0.21	86,377	1.19
Certificates of Deposit:						
\$100,000 and over	100,468	1.19	76,202	1.57	41,170	2.88
Under \$100,000	34,619	1.40	40,597	2.07	41,665	3.56
Total Interest-Bearing Deposits	284,123	0.66 %	257,832	0.87 %	213,343	1.76 %
Total Deposits	\$383,832		\$349,739		\$293,294	

Maturities of CD's of \$100,000 and Over

	<u>December 31, 2010</u>	
	Amount	Percentage
	(in Thousands)	
Three months or less	\$77,235	65.71 %
Over three months to six months	27,049	23.01
Over six months to one year	9,797	8.34
Over one year	3,459	2.94
Totals	\$117,540	100.00 %

TABLE 9
Consolidated Return on Equity and Assets

The annualized ratio of net income to average total assets and average shareholders' equity and certain other ratios for the periods indicated are as follows:

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Return on average assets	0.94%	0.50%	0.03%
Return on average equity	9.46%	5.00%	0.30%
Average equity to average assets	9.91%	9.91%	10.90%
Dividend payout ratio	0.00%	0.00%	0.00%

Short-Term Borrowings

	<u>2010</u>	<u>2009</u>	<u>2008</u>
	(dollar amounts in thousands)		
Federal funds purchases and securities sold under agreements to repurchase:			
Period-end balance	\$ 1,801	\$ 3,610	\$ 2,842
Weighted average interest rate	0.26%	0.24%	0.05%
Maximum amount at any month-end	\$ 3,801	\$ 4,981	\$ 14,856
Average balance outstanding	\$ 2,313	\$ 3,713	\$ 10,114
Weighted average interest rate	0.22%	0.22%	0.96%

TABLE 10
Interest Sensitivity Analysis
As of December 31, 2010

(in Thousands)

	<u>Within 90 days</u>	<u>90-365 days</u>	<u>1 to 5 years</u>	<u>Over 5 years</u>	<u>Total</u>
<u>Earning Assets</u>					
Loans	\$ 109,748	\$ 27,752	\$ 111,317	\$ 49,814	\$ 298,631
Investment securities	-	6,425	55,616	1,558	63,599
Federal funds sold	58,505	-	-	-	58,505
Total earning assets	<u>\$ 168,253</u>	<u>\$ 34,177</u>	<u>\$ 166,933</u>	<u>\$ 51,372</u>	<u>\$ 420,735</u>
<u>Interest-Bearing Liabilities</u>					
Interest checking	\$ 2,270	\$ 6,811	\$ 55,242	\$ -	\$ 64,323
Money market deposits	10,890	32,669	47,190	-	90,749
Time deposits	97,953	47,155	7,891	-	152,999
Repurchase agreements	1,801	-	-	-	1,801
Total interest-bearing liabilities	<u>\$ 112,914</u>	<u>\$ 86,635</u>	<u>\$ 110,323</u>	<u>\$ -</u>	<u>\$ 309,872</u>
Period gap	\$ 55,339	\$ (52,458)	\$ 56,610	\$ 51,372	\$ 110,863
Cumulative gap	\$ 55,339	\$ 2,881	\$ 59,491	\$ 110,863	
Ratio of cumulative gap to total earning assets	13.15%	0.68%	14.14%	26.35%	

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not required for smaller reporting company.

Item 8 - CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

VIRGINIA NATIONAL BANK AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)

	December 31, 2010	December 31, 2009
ASSETS		
Cash and due from banks	\$ 15,021	\$ 12,857
Federal funds sold	58,505	53,103
Securities:		
Available for sale, at fair value	54,520	30,273
Held to maturity, at amortized cost (Fair value - \$7,649 in 2010, \$3,603 in 2009)	7,521	3,512
Restricted securities, at cost	1,558	1,542
Total securities	63,599	35,327
 Total loans	 298,631	 315,569
Allowance for loan losses	(3,730)	(3,732)
Total loans, net	294,901	311,837
 Premises and equipment, net	 11,782	 13,215
Other real estate owned	329	605
Accrued interest receivable and other assets	14,160	14,350
Total assets	\$ 458,297	\$ 441,294
 LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Demand deposits:		
Noninterest-bearing	\$ 99,617	\$ 100,146
Interest-bearing	64,323	80,929
Money market deposit accounts	90,749	86,970
Certificates of deposit and other time deposits	152,999	126,112
Total deposits	407,688	394,157
Securities sold under agreements to repurchase	1,801	3,610
Accrued interest payable and other liabilities	3,287	2,624
Total liabilities	412,776	400,391
 Shareholders' equity:		
Preferred stock, \$2.50 par value, 2,000,000 shares authorized, no shares outstanding	-	-
Common stock, \$2.50 par value, 5,000,000 shares authorized; 2,339,322 shares issued and outstanding in 2010 (including 2,500 non-vested shares); 2,338,422 shares issued and outstanding in 2009 (including 3,500 non-vested shares)	5,842	5,837
Capital surplus	22,196	21,792
Retained earnings	16,566	12,536
Accumulated other comprehensive income, net	917	738
Total shareholders' equity	45,521	40,903
Total liabilities and shareholders' equity	\$ 458,297	\$ 441,294

See Notes to Consolidated Financial Statements

VIRGINIA NATIONAL BANK AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
For the Years Ended December 31, 2010 and 2009
(in thousands, except per share data)

	2010	2009
Interest and dividend income:		
Loans, including fees	\$ 17,168	\$ 16,713
Federal funds sold	45	55
Held to maturity securities:		
Taxable	89	44
Tax exempt	33	18
Available for sale securities:		
Taxable	1,188	921
Dividends	53	50
Other	-	40
Total interest and dividend income	18,576	17,841
Interest expense:		
Demand and savings deposits	196	209
Certificates and other time deposits	1,683	2,033
Federal funds purchased and securities sold under agreements to repurchase	5	8
Total interest expense	1,884	2,250
NET INTEREST INCOME	16,692	15,591
Provision for loan losses	314	1,019
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	16,378	14,572
Noninterest income:		
Trust income	5,611	5,351
Customer service fees	1,149	978
Debit/credit card and ATM fees	597	434
Other	447	375
Total noninterest income	7,804	7,138
Noninterest expenses:		
Salaries and employee benefits	9,653	9,943
Net occupancy expense	2,425	3,099
Equipment expense	1,026	1,128
Other	4,978	4,520
Total noninterest expenses	18,082	18,690
INCOME BEFORE INCOME TAXES	6,100	3,020
Provision for income taxes	2,070	1,072
NET INCOME	\$ 4,030	\$ 1,948
Net Income Per Share, Basic	\$ 1.72	\$ 0.83
Net Income Per Share, Diluted	\$ 1.72	\$ 0.83

See Notes to Consolidated Financial Statements

VIRGINIA NATIONAL BANK AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the Years Ended December 31, 2010 and 2009
(in thousands)

	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income	Comprehensive Income	Total
Balance, December 31, 2008	\$5,823	\$21,208	\$10,588	\$669		\$38,288
Equity adjustment for stock options exercised	9	26	-	-		35
Equity adjustment for vested stock grants	5	(15)	-	-		(10)
Stock option/grant expense	-	573	-	-		573
Comprehensive income:						
Net income	-	-	1,948	-	\$1,948	1,948
Unrealized holding gains arising during the period, (net of tax, \$36)	-	-	-	69	69	69
Total comprehensive income	-	-	-	-	\$2,017	-
Balance, December 31, 2009	<u>\$5,837</u>	<u>\$21,792</u>	<u>\$12,536</u>	<u>\$738</u>		<u>\$40,903</u>
Balance, December 31, 2009	\$5,837	\$21,792	\$12,536	\$738		\$40,903
Equity adjustment for vested stock grants	5	(14)	-	-		(9)
Stock option/grant expense	-	418	-	-		418
Comprehensive income:						
Net income	-	-	4,030	-	\$4,030	4,030
Unrealized holding gains arising during the period, (net of tax, \$91)	-	-	-	179	179	179
Total comprehensive income	-	-	-	-	\$4,209	-
Balance, December 31, 2010	<u>\$5,842</u>	<u>\$22,196</u>	<u>\$16,566</u>	<u>\$917</u>		<u>\$45,521</u>

See Notes to Consolidated Financial Statements

VIRGINIA NATIONAL BANK AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOW
For the Years Ended December 31, 2010 and 2009
(in Thousands)

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 4,030	\$ 1,948
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	314	1,019
Net amortization and accretion of securities	372	242
Depreciation and amortization	1,672	1,657
Dedication of roadway	-	643
Deferred tax benefit	(285)	(478)
Stock option/stock grant expense	418	573
Writedown of other real estate owned (OREO)	276	-
Loss on disposal of Bank property	47	-
Decrease (increase) in accrued interest receivable and other assets	384	(5,771)
Increase in accrued interest payable and other liabilities	663	460
Net cash provided by operating activities	7,891	293
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of held to maturity securities	\$ (4,036)	\$ (3,522)
Purchases of available for sale securities	(26,322)	(14,052)
Purchases of restricted investments	(16)	(117)
Proceeds from maturities, calls and principal payments of held to maturity securities	-	4,000
Proceeds from maturities, calls and principal payments of available for sale securities	2,000	1,000
Maturity of interest-bearing deposits	-	6,000
Net decrease (increase) in loans	16,047	(37,866)
Proceeds from sale of other real estate owned	575	-
Proceeds from sale of Bank property	1	9
Purchase of premises and equipment	(287)	(1,275)
Net cash used in investing activities	(12,038)	(45,823)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net (decrease) increase in demand deposits, NOW accounts and money market accounts	\$ (13,356)	\$ 30,130
Net increase in certificates of deposit and other time deposits	26,887	6,146
Net (decrease) increase in securities sold under agreements to repurchase	(1,809)	768
Net (decrease) increase in common stock	(9)	25
Net cash provided by financing activities	11,713	37,069
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ 7,566	\$ (8,461)
CASH AND CASH EQUIVALENTS:		
Beginning of period	\$ 65,960	\$ 74,421
End of period	\$ 73,526	\$ 65,960
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash payments for:		
Interest	\$ 1,872	\$ 2,478
Taxes	\$ 2,125	\$ 419
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Unrealized gain on available for sale securities	\$ 270	\$ 105
Transfer of loans to foreclosed assets	\$ 575	\$ -

See Notes to Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Summary of Significant Accounting Policies:

The accounting and reporting policies of Virginia National Bank conform to accounting principles generally accepted in the United States of America and to the reporting guidelines prescribed by regulatory authorities. The following is a description of the more significant of those policies and practices.

Organization – Virginia National Bank (“Bank”) was organized in 1998 under federal law as a national banking association to engage in a general banking business serving the community in and around Charlottesville and Albemarle County, Virginia.

On May 1, 2007, the Office of the Comptroller of the Currency (“OCC”) granted conditional approval to the Bank’s application to establish a new national trust bank with the title VNBTrust, National Association (“VNBTrust”), which is now operating as a wholly-owned subsidiary of the Bank. Additionally, the OCC approved the Bank’s application for VNBTrust to create a wholly-owned operating subsidiary, VNB Investment Management Company, LLC, a Delaware limited liability corporation, which has approval to organize and manage two private investment funds. One fund, known as Swift Run Capital, is in operation. In January 2010, VNB Investment Management Company, LLC changed its name to Swift Run Capital Management, LLC.

Principles of Consolidation – The consolidated financial statements include the accounts of Virginia National Bank (Bank) and its wholly-owned subsidiary, VNBTrust, N.A. All significant intercompany balances and transactions have been eliminated in consolidation.

Securities – Unrestricted investments are to be classified in three categories as described below.

Securities Held to Maturity – Securities classified as held to maturity are those debt and equity securities the Bank has both the positive intent and ability to hold to maturity regardless of changes in market conditions, liquidity needs or changes in general economic conditions.

Securities Available for Sale – Securities classified as available for sale are those debt and equity securities that the Bank intends to hold for an indefinite period of time but not necessarily to maturity. Any decision to sell a security classified as available for sale would be based on various factors, including significant movements in interest rates, changes in the maturity mix of the Bank’s assets and liabilities, liquidity needs, regulatory capital considerations, and other similar factors. Securities available for sale are carried at fair value. Unrealized gains or losses are reported as a separate component of other comprehensive income. Realized gains or losses, determined on the basis of the cost of specific securities sold, are included in earnings.

Trading Securities – Trading securities, which are generally held for the short term in anticipation of market gains, are carried at fair value. Realized and unrealized gains and losses on trading account assets are included in interest income on trading

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

account securities. The Bank had no securities classified as trading securities at either December 31, 2010 or December 31, 2009.

Restricted Securities – As members of the Federal Reserve Bank and the Federal Home Loan Bank (“FHLB”) of Atlanta, the Bank is required to maintain certain minimum investments in the common stock of the Federal Reserve Bank and the FHLB, which are carried at cost. Required levels of investments are based upon the Bank’s capital and a percentage of qualifying assets.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Impairment of securities occurs when the fair value of a security is less than its amortized cost. For debt securities, impairment is considered other-than-temporary and recognized in its entirety in net income if either (1) the Bank intends to sell the security or (2) it is more likely than not that the Bank will be required to sell the security before recovery of its amortized cost basis. If, however, the Bank does not intend to sell the security and it is not more-than-likely that the Bank will be required to sell the security before recovery, the Bank must determine what portion of the impairment is attributable to a credit loss, which occurs when the amortized cost of the security exceeds the present value of the cash flows expected to be collected from the security. If there is no credit loss, there is no other-than-temporary impairment. If there is a credit loss, other-than-temporary impairment exists, and the credit loss must be recognized in net income and the remaining portion of impairment must be recognized in other comprehensive income.

Loans – Virginia National Bank makes commercial, financial, residential and consumer loans to customers predominantly in its market areas of Central Virginia and Winchester. The loan portfolio is well diversified and generally is collateralized by assets of the customers. The loans are expected to be repaid from cash flow or proceeds from the sale of selected assets of the borrowers.

Loans are shown on the balance sheet net of the allowance for loan losses. Interest is computed by methods which result in level rates of return on principal. Loans of all classes are charged off when in the opinion of management they are deemed to be uncollectible, after taking into consideration such factors as the current financial condition of the customer and the underlying collateral and guarantees.

Accounting guidance requires that the impairment of loans that have been separately identified for evaluation is to be measured based on the present value of expected future cash flows or, alternatively, the observable market price of the loans or the fair value of the collateral. However, for those loans that are collateral dependent (that is, if repayment of those loans is expected to be provided solely by the underlying collateral) and for which management has determined foreclosure is probable, the measure of impairment of those loans is to be based on the fair value of the collateral. Additionally, accounting guidance requires certain disclosures about investments in impaired loans and the allowance for loan losses and interest income recognized on loans.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A loan is considered impaired when it is probable that the Bank will be unable to collect all principal and interest amounts according to the contractual terms of the loan agreement. Factors involved in determining impairment include, but are not limited to, expected future cash flows, financial condition of the borrower, and current economic conditions. A performing loan may be considered impaired, if the factors above indicate a need for impairment. A loan on non-accrual status may not be impaired if it is in the process of collection or there is an insignificant shortfall in payment. An insignificant delay of less than 30 days or a shortfall of less than 5% of the required principal and interest payment generally does not indicate an impairment situation, if in management's judgment the loan will be paid in full. Loans that meet the regulatory definitions of doubtful or loss generally qualify as impaired loans. Charge-offs for impaired loans occur when the loan, or a portion of the loan, is determined to be uncollectible, as is the case for all loans.

Loans are placed on non-accrual when a loan is specifically determined to be impaired or when principal or interest is delinquent for 90 days or more. Any unpaid interest previously accrued on those loans is reversed from income. Interest income generally is not recognized on specific impaired loans unless the likelihood of further loss is remote. Interest payments received on such loans are applied as a reduction of the loan principal balance. Interest income on other non-accrual loans is recognized only to the extent of interest payments received.

Allowance for Loan Losses – The allowance for loan losses is maintained at a level which, in management's judgment, is adequate to absorb credit losses inherent in the loan portfolio. The amount of the allowance is based on management's quarterly evaluation of the collectibility of the loan portfolio, credit concentrations, trends in historical loss experience, specific impaired loans, and economic conditions. To determine the total allowance for loan losses, the Bank estimates the reserves needed for each segment of the portfolio, including loans analyzed individually and loans analyzed on a pooled basis. Allowances for impaired loans are generally determined based on collateral values or the present value of estimated cash flows.

To determine the balance of the allowance account, loans are pooled by the following portfolio segments and an amount is assigned for each of these segments: (1) commercial loan portfolio, (2) real estate construction and land loan portfolio, (3) real estate mortgage loan portfolio, and (4) consumer loan portfolio. Each of these segments is further broken down by classes in order to estimate the required reserves, based on the associated risks within each class, as well as historical loss data gathered regarding each class. These historical loss percentages, calculated using an average eight quarter rolling basis, are applied to each pool. In addition, eight qualitative factors are applied to each segment and class. For each class of loans, management must exercise significant judgment to determine the estimation method that fits the credit risk characteristics of its various segments. Basis points are assigned to the various classifications in order to provide a method for quantifying the amount required for each pool of loans. Although the assignment of basis points is highly subjective, qualified management utilizes its

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

significant knowledge and experience related to both the market and history of the Bank's loan losses.

The allowance is increased by a provision for loan losses, which is charged to expense and reduced by charge-offs, net of recoveries. Changes in the allowance relating to impaired loans are charged or credited to the provision for loan losses. Because of uncertainties inherent in the estimation process, management's estimate of credit losses inherent in the loan portfolio and the related allowance may change in the near term.

Troubled Debt Restructurings – In situations where, for economic or legal reasons related to a borrower's financial condition, management may grant a concession to the borrower that it would not otherwise consider, the related loan is classified as a troubled debt restructuring (TDR). Management strives to identify borrowers in financial difficulty early and work with them to ensure repayment is made in accordance with the original terms of the loans. In the event that management would conclude that such repayment is unlikely, loans may be modified to more affordable terms. These modified terms may include rate reductions, principal forgiveness, payment forbearance and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. In cases where borrowers are granted new terms that provide for a reduction of either interest or principal, management would measure any impairment on the restructuring as noted above for impaired loans. The Bank had no loans classified as a troubled debt restructuring at December 31, 2010 or at December 31, 2009.

Transfers of Financial Assets – Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Bank – put presumptively beyond reach of the transferor and its creditors, even in bankruptcy or other receivership, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

Foreclosed Assets – Assets acquired through, or in lieu of, loan foreclosures are held for sale and are initially recorded at fair value less cost to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in net expenses for foreclosed assets.

Premises and Equipment – Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed by the straight-line method based on the estimated useful lives of assets, which range from 3 to 40 years. Expenditures for repairs and maintenance are charged to expense as incurred. The costs of major renewals and betterments are capitalized and depreciated over their estimated useful

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

lives. Upon disposition, the asset and related accumulated depreciation are removed from the books and any resulting gain or loss is charged to income.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, deferred tax assets, and fair value measurements.

Income Taxes – Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences, operating loss carryforwards, and tax credit carryforwards. Deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

When tax returns are filed, it is highly probable that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying consolidated balance sheets along with any associated interest and penalties that would be payable to the taxing authorities upon examination. Interest and penalties associated with unrecognized tax benefits are classified as additional income taxes in the statements of income.

Earnings Per Common Share – Basic earnings per share represents income available to common shareholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Bank relate to outstanding stock options and are determined using the treasury stock method.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Comprehensive Income – Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities, are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income.

Advertising Costs – The Bank follows the policy of charging the costs of advertising to expense as they are incurred.

Cash and Cash Equivalents – For purposes of the statements of cash flows, the Bank considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Cash and cash equivalents consist of cash on hand, funds due from banks, and federal funds sold.

Other Interest-Bearing Deposits – Other interest-bearing deposits mature within one year and are carried at cost.

VNBTrust, N.A. – Securities and other property held by VNBTrust in a fiduciary or agency capacity are not assets of the Bank and are not included in the accompanying consolidated financial statements.

Stock-Based Compensation – The Bank accounts for all plans under recognition and measurement accounting principles which require that the compensation cost relating to share-based payment transactions be recognized in the financial statements. Share-based compensation arrangements include share options, restricted share plans, performance-based awards, share appreciation rights and employee share purchase plans. Stock-based compensation is estimated at the date of grant, using the Black-Scholes option valuation model for determining fair value. The model employs the following assumptions:

- Dividend yield - calculated as the ratio of historical dividends paid per share of common stock to the stock price on the date of grant;
- Expected life (term of the option) - based on the average of the contractual life and vesting schedule for the respective option;
- Expected volatility - based on the monthly historical volatility of the Bank's stock price over the expected life of the options;
- Risk-free interest rate - based upon the U.S. Treasury bill yield curve, for periods within the contractual life of the option, in effect at the time of grant.

The Bank is required to estimate forfeitures when recognizing compensation expense and that this estimate of forfeitures be adjusted over the requisite service period or vesting schedule based on the extent to which actual forfeitures differ from such estimates. Changes in estimated forfeitures are recognized through a cumulative catch-up adjustment, which is recognized in the period of change, and also will impact the amount of estimated unamortized compensation expense to be recognized in future periods.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Reclassifications – Certain reclassifications have been made to prior periods to conform to current year presentation.

Recent Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board (FASB) issued new guidance relating to the accounting for transfers of financial assets. The new guidance, which was issued as SFAS No. 166, “Accounting for Transfers of Financial Assets, an amendment to SFAS No. 140,” was adopted into the Accounting Standards Codification (Codification) in December 2009 through the issuance of Accounting Standards Update (ASU) 2009-16. The new standard provides guidance to improve the relevance, representational faithfulness, and comparability of the information that an entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor’s continuing involvement, if any, in transferred financial assets. ASU 2009-16 was effective for transfers on or after January 1, 2010. The adoption of the new guidance did not have a material impact on the Bank’s consolidated financial statements.

In June 2009, the FASB issued new guidance relating to variable interest entities. The new guidance, which was issued as SFAS No. 167, “Amendments to FASB Interpretation No. 46(R),” was adopted into the Codification in December 2009. The objective of the guidance is to improve financial reporting by enterprises involved with variable interest entities and to provide more relevant and reliable information to users of financial statements. SFAS No. 167 was effective as of January 1, 2010. The adoption of the new guidance did not have a material impact on the Bank’s consolidated financial statements.

In January 2010, the FASB issued ASU 2010-06, “Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements.” ASU 2010-06 amends Subtopic 820-10 to clarify existing disclosures, require new disclosures, and includes conforming amendments to guidance on employers’ disclosures about postretirement benefit plan assets. ASU 2010-06 is effective for interim and annual periods beginning after December 15, 2009, except for disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years. The adoption of the new guidance did not have a material impact on the Bank’s consolidated financial statements.

In July 2010, the FASB issued ASU 2010-20, “Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses.” The new disclosure guidance significantly expands the existing requirements and will lead to greater transparency into a company’s exposure to credit losses from lending arrangements. The extensive new disclosures of information as of the end of a reporting period became effective for both interim and annual reporting periods ending on or after December 15, 2010. Specific disclosures regarding activity that occurred before the issuance of the ASU, such as the allowance roll forward and modification disclosures, will be required for periods beginning on or after December 15, 2010. The Bank has included the required disclosures in its financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

On September 15, 2010, the SEC issued Release No. 33-9142, “Internal Control Over Financial Reporting In Exchange Act Periodic Reports of Non-Accelerated Filers.” This release issued a final rule adopting amendments to its rules and forms to conform them to Section 404(c) of the Sarbanes-Oxley Act of 2002 (SOX), as added by Section 989G of the Dodd-Frank Wall Street Reform and Consumer Protection Act. SOX Section 404(c) provides that Section 404(b) shall not apply with respect to any audit report prepared for an issuer that is neither an accelerated filer nor a large accelerated filer as defined in Rule 12b-2 under the Securities Exchange Act of 1934. Release No. 33-9142 was effective September 21, 2010.

On September 17, 2010, the SEC issued Release No. 33-9144, “Commission Guidance on Presentation of Liquidity and Capital Resources Disclosures in Management’s Discussion and Analysis.” This interpretive release is intended to improve discussion of liquidity and capital resources in Management’s Discussion and Analysis of Financial Condition and Results of Operations in order to facilitate understanding by investors of the liquidity and funding risks facing the registrant. This release was issued in conjunction with a proposed rule, “Short-Term Borrowings Disclosures,” that would require public companies to disclose additional information to investors about their short-term borrowing arrangements. Release No. 33-9144 was effective on September 28, 2010.

In January 2011, the FASB issued ASU 2011-01, “Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20.” The amendments in this ASU temporarily delay the effective date of the disclosures about troubled debt restructurings in ASU 2010-20 for public entities. The delay is intended to allow the FASB time to complete its deliberations on what constitutes a troubled debt restructuring. The effective date of the new disclosures about troubled debt restructurings for public entities and the guidance for determining what constitutes a troubled debt restructuring will then be coordinated. Currently, that guidance is anticipated to be effective for interim and annual periods ending after June 15, 2011.

2. Securities

The amortized cost and fair values of securities held to maturity as of December 31, 2010 are as follows:

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
	(in Thousands)			
U.S. Government agencies	\$ 4,027	\$ 58	\$ -	\$ 4,085
Corporate securities	1,510	38	-	1,548
Tax exempt municipals	1,984	32	-	2,016
	<u>\$ 7,521</u>	<u>\$ 128</u>	<u>\$ -</u>	<u>\$ 7,649</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The amortized cost and fair values of securities held to maturity as of December 31, 2009 were as follows:

	<u>Amortized</u>	Gross <u>Unrealized</u>	Gross <u>Unrealized</u>	<u>Fair</u>
	<u>Cost</u>	<u>Gains</u>	<u>Losses</u>	<u>Value</u>
	(in Thousands)			
Corporate securities	\$ 1,518	\$ 49	\$ -	\$ 1,567
Tax exempt municipals	1,994	42	-	2,036
	<u>\$ 3,512</u>	<u>\$ 91</u>	<u>\$ -</u>	<u>\$ 3,603</u>

The amortized cost and fair values of securities available for sale as of December 31, 2010 are as follows:

	<u>Amortized</u>	Gross <u>Unrealized</u>	Gross <u>Unrealized</u>	<u>Fair</u>
	<u>Cost</u>	<u>Gains</u>	<u>Losses</u>	<u>Value</u>
	(in Thousands)			
U.S. Government agencies	\$ 53,131	\$ 1,460	\$ 71	\$ 54,520

The amortized cost and fair values of securities available for sale as of December 31, 2009 were as follows:

	<u>Amortized</u>	Gross <u>Unrealized</u>	Gross <u>Unrealized</u>	<u>Fair</u>
	<u>Cost</u>	<u>Gains</u>	<u>Losses</u>	<u>Value</u>
	(in Thousands)			
U.S. Government agencies	\$ 29,154	\$ 1,119	\$ -	\$ 30,273

There were no sales of held to maturity or available for sale securities in 2010 or 2009.

In addition, the Bank held restricted securities of \$1,558,000 as of December 31, 2010 and \$1,542,000 as of December 31, 2009. These restricted securities are carried at cost and are comprised of Federal Reserve Bank stock and Federal Home Loan Bank of Atlanta stock.

The Bank's securities portfolio is made up of fixed rate bonds, whose prices move inversely with interest rates. At the end of any accounting period, the portfolio may have both unrealized gains and losses. Unrealized losses within the Bank's portfolio typically occur as market interest rates rise. Such unrealized losses are considered temporary in nature. In the event that a security would suffer an impairment for a reason that was "other-than-temporary," the Bank would be expected to write down the security's value to its new fair value, and the amount of the writedown would be included in earnings as a realized loss.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At December 31, 2010, two of the securities in the portfolio had an unrealized loss. The following table recaps all unrealized losses in the Bank's securities portfolio at year-end 2010:

<i>(in Thousands)</i>	Continuous Unrealized Loss Position of Less Than 12 Months		Continuous Unrealized Loss Position of 12 Months or More		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
	U.S. Government Agencies	<u>\$ 7,779</u>	<u>\$ 71</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,779</u>

At December 31, 2009, none of the securities in the portfolio had an unrealized loss.

Securities having carrying values of \$8,340,000 at December 31, 2010 were pledged to secure deposits and for other purposes required by law. At December 31, 2009, securities having carrying values of \$10,211,000 were similarly pledged.

The amortized cost and fair value of investment securities as of December 31, 2010, by contractual maturities, are shown below:

	Amortized Cost (in Thousands)	Fair Value (in Thousands)
U.S. Government-Sponsored Agencies		
One year or less	\$ 5,036	\$ 5,184
After one year to five years	<u>52,122</u>	<u>53,421</u>
	\$ 57,158	\$ 58,605
Corporate Bonds and Notes		
After one year to five years	\$ 1,510	\$ 1,548
Tax Exempt Municipal Securities		
After one year to five years	\$ 1,984	\$ 2,016
Total Securities ⁽¹⁾	<u>\$ 60,652</u>	<u>\$ 62,169</u>

(1) Excludes Federal Reserve Bank and Federal Home Loan Bank stocks which have no stated maturity dates.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. Loans

The composition of the loan portfolio by loan classification at December 31, 2010 and 2009 appears below.

	December 31	
	2010	2009
	(in Thousands)	
Commercial	\$ 40,737	\$ 38,955
Real estate construction and land		
Residential construction	3,395	7,536
Other construction and land	23,250	30,926
Total construction and land	26,645	38,462
Real estate mortgage:		
1-4 family	58,107	70,281
Home equity loans	31,330	26,921
Multifamily mortgages	15,051	17,017
Commercial owner occupied	57,294	50,126
Commercial nonowner occupied	56,401	59,793
Total real estate mortgage	218,183	224,138
Consumer		
Consumer revolving credit	1,281	1,249
Consumer all other credit	11,785	12,765
Total consumer loans	13,066	14,014
 Total loans	 298,631	 315,569
Less: Allowance for loan losses	(3,730)	(3,732)
Net loans	\$ 294,901	\$ 311,837

Accounting guidance requires certain disclosures about investments in impaired loans and the allowance for loan losses and interest income recognized on loans. A loan is considered impaired when it is probable that the Bank will be unable to collect all principal and interest amounts according to the contractual terms of the loan agreement. Factors involved in determining impairment include, but are not limited to, expected future cash flows, financial condition of the borrower, and current economic conditions. Generally, loans for all classes are placed on non-accrual when a loan is specifically determined to be impaired or when principal or interest is delinquent for 90 days or more.

The Bank had seven loans in the amount of \$4,548,000 classified as non-accrual and impaired loans at December 31, 2010. At December 31, 2009, the Bank had sixteen loans in the amount of \$8,134,000 classified as non-accrual and impaired loans. At both December 31, 2010 and December 31, 2009, there was no valuation allowance on any of these loans after consideration was given for each borrowing as to the fair value of the collateral on the loan or the present value of expected future cash flows from the customer.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Following is a summary of information pertaining to impaired and non-accrual loans. These loans are reported at their recorded investment, which is the carrying amount of the loan as reflected on the Bank's balance sheet, net of charge-offs and other amounts applied to reduce the net book balance. Average investment in impaired loans is computed using month-end balances for these loans.

	December 31	
	<u>2010</u>	<u>2009</u>
	(in Thousands)	
Impaired loans without a valuation allowance	\$ 4,548	\$ 8,134
Impaired loans with a valuation allowance	-	-
Total impaired loans	<u>\$ 4,548</u>	<u>\$ 8,134</u>
Valuation allowance related to impaired loans	\$ -	\$ -
Total non-accrual loans	\$ 4,548	\$ 8,134
Total loans past-due ninety days or more and still accruing	\$ 197	\$ -
Average investment in impaired loans	\$ 6,069	\$ 2,433
Gross interest that would have been recorded if all loans had been accruing interest at their contractual rates	\$ 430	\$ 232
Interest income recognized on a cash basis on impaired loans, included in above amount	\$ 301	\$ 54

Following is a further breakdown by class of the loans classified as impaired loans as of December 31, 2010:

December 31, 2010	Recorded Investment	Unpaid Principal Balance	Associated Allowance	Average Recorded Investment	Interest Income Recognized
	(in Thousands)				
Impaired loans without a valuation allowance:					
Commercial	\$ -	\$ -	\$ -	\$ 241	\$ 25
Other real estate construction and land	547	628	-	4,913	215
Commercial owner occupied real estate	-	-	-	162	61
1-4 family residential mortgages	4,001	4,062	-	753	-
Impaired loans with a valuation allowance	-	-	-	-	-
Total impaired loans	<u>\$ 4,548</u>	<u>\$ 4,690</u>	<u>\$ -</u>	<u>\$ 6,069</u>	<u>\$ 301</u>

These same impaired loans were classified as non-accruals and are shown below by class:

December 31, 2010	Non-accrual balance
	(in Thousands)
Commercial	\$ -
Other real estate construction and land	547
Commercial owner occupied real estate	-
1-4 family residential mortgages	4,001
Total nonaccrual loans	<u>\$ 4,548</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. Allowance for Loan Losses

A summary of the transactions in the allowance for loan losses for the years ended December 31, 2010 and 2009 appears below:

		2010		2009
(in Thousands)				
Balance, beginning of period	\$	3,732	\$	3,084
Loans charged off		(435)		(412)
Recoveries		119		41
Provision for loan losses		314		1,019
Balance, December 31	\$	3,730	\$	3,732

Management has an established methodology to determine the adequacy of the allowance for loan losses that assesses the risks and losses inherent in the loan portfolio. For purposes of determining the allowance for loan losses, the Bank has segmented certain loans in the portfolio by product type. Within these segments, the Bank has sub-segmented its portfolio by classes within the segments, based on the associated risks within these classes.

LOAN SEGMENTS

Commercial loans

Real estate construction

Real estate mortgages

Consumer loans

LOAN CLASSES

Commercial and industrial loans

Residential construction loans
Other construction and land loans

1-4 family mortgages
Home equity lines of credit
Multifamily mortgages
Commercial owner occupied real estate
Commercial nonowner occupied real estate

Consumer revolving credit
Consumer all other credit

Based on the internal risk ratings assigned to each credit, an historical factor is assigned to the balances for each class of loans, using an average eight quarter rolling basis. The Bank's internal creditworthiness grading system is based on experiences with similarly graded loans. Category ratings are reviewed quarterly by experienced senior lenders based on each borrower's situation. Additionally, internal and external monitoring and review of credits are conducted on an annual basis.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Loans that trend upward toward more positive risk ratings generally have a lower risk factor associated. Conversely, loans that migrate toward more negative ratings generally will result in a higher risk factor being applied to those related loan balances.

RISK RATINGS	DESCRIPTION/HISTORICAL LOSS FACTOR APPLIED
Excellent	0% applied, as these loans are secured by cash and represent a minimal risk. The Bank has never experienced a loss for this category.
Good	0% applied, as these loans are secured by marketable securities within margin and represent a low risk. The Bank has never experienced a loss for this category.
Pass	<p>Loans with the following risk ratings are pooled by class and considered together as “pass.”</p> <ul style="list-style-type: none">• Satisfactory - modest risk loans where the borrower has strong and liquid financial statement and more than adequate cash flow and/or high loan to value• Average – average risk loans where the borrower has reasonable debt service capacity• Marginal – acceptable risk loans where the borrower has an acceptable financial statement but is leveraged• Watch – acceptable risk loans which require more attention than normal servicing. <p>Historical loss factor for loans rated “pass” is applied to current balances of like-rated loans, pooled by class.</p>
Special Mention	These potential problem loans are currently protected but are potentially weak. Historical loss factor for loans rated “special mention” is applied to current balances of like-rated loans pooled by class.
Substandard	These problem loans are inadequately protected by the sound worth and paying capacity of the borrower and/or the value of any collateral pledged. These loans may be considered impaired and evaluated on an individual basis. Otherwise, an historical loss factor for loans rated “substandard” is applied to current balances of all other “substandard” loans pooled by class.
Doubtful	Loans with this rating have significant deterioration in the sound worth and paying capacity of the borrower and/or the value of any collateral pledged, making collection or liquidation of the loan in full highly questionable. These loans would be considered impaired and evaluated on an individual basis.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following represents the loan portfolio designated by the internal risk ratings assigned to each credit as of December 31, 2010:

Internal Risk Rating Grades	Excellent	Good	Pass	Special Mention	Sub- standard	Doubtful	TOTAL
	(in Thousands)						
Commercial loans	\$ 6,488	\$ 12,125	\$ 19,267	\$ 2	\$ 2,855	\$ -	\$ 40,737
Real estate construction							
Residential construction	-	-	3,395	-	-	-	3,395
Other construction and land	-	-	18,149	2,584	2,517	-	23,250
Real estate mortgages							
1-4 family mortgages	-	2,501	48,375	1,668	5,563	-	58,107
Home equity lines of credit	-	-	30,953	-	377	-	31,330
Multifamily mortgages	-	-	14,660	-	391	-	15,051
Commercial owner occupied	-	-	47,207	237	9,850	-	57,294
Commercial nonowner occupied	-	-	53,379	1,372	1,650	-	56,401
Consumer loans							
Consumer revolving credit	64	-	1,212	-	5	-	1,281
Consumer all other credit	346	4,492	6,883	-	64	-	11,785
Total Loans	\$ 6,898	\$ 19,118	\$ 243,480	\$ 5,863	\$ 23,272	\$ -	\$ 298,631

In addition to the historical factors, the adequacy of the Bank's allowance for credit losses is evaluated through reference to eight qualitative factors, listed below and ranked in order of importance:

- 1) Changes in national and local economic conditions, including the condition of various market segments
- 2) Changes in the value of underlying collateral
- 3) Changes in volume of classified assets, measured as a percentage of capital
- 4) Changes in volume of delinquent loans
- 5) The existence and effect of any concentrations of credit and changes in the level of such concentrations
- 6) Changes in lending policies and procedures, including underwriting standards
- 7) Changes in the experience, ability and depth of lending management and staff
- 8) Changes in the level of policy exceptions

It has been the Bank's experience that the first four factors drive losses to a much greater extent than the last four factors; therefore, the first four factors are weighted more heavily. Although the markets served by the Bank remain stronger than the national economy as a whole, management continues to pay close attention on a case-by-case basis for any yet unforeseen potential ripple effects of the housing downturn and the related financial market fallout. This uncertainty has led to downgrades in the first four factors for several of the segments and classes over the past year.

Like the historical factors, qualitative factors are not assessed against loans rated "excellent" or rated "good," since these are fully collateralized by cash or readily marketable securities.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Impaired loans are individually evaluated and, if deemed appropriate, a specific allocation is made for these loans. In reviewing the seven loans in the amount of \$4,548,000 in non-accrual loans and loans classified as impaired loans at December 31, 2010, there was no valuation allowance on any of these loans after consideration was given for each borrowing as to the fair value of the collateral on the loan or the present value of expected future cash flows from the customer.

Allowance for Credit Losses Rollforward by Portfolio Segment For the Year Ended December 31, 2010

<i>(In Thousands)</i>	Commercial	Real Estate Construction	Real Estate Mortgage	Consumer	Unallocated	Total
2010						
Allowance for credit losses:						
Ending Balance	\$ 476	\$ 488	\$ 2,644	\$ 122	\$ -	\$ 3,730
Ending Balance:						
Individually evaluated for impairment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Collectively evaluated for impairment	476	488	2,644	122	-	3,730
Financing Receivables:						
Ending Balance	\$ 40,737	\$ 26,645	\$ 218,183	\$ 13,066	\$ -	\$ 298,631
Ending Balance:						
Individually evaluated for impairment	-	547	4,001	-	-	4,548
Collectively evaluated for impairment	40,737	26,098	214,182	13,066	-	294,083

As previously mentioned, one of the major factors that the Bank uses in evaluating the adequacy of its allowance for loan losses is changes in the volume of delinquent loans. Management monitors payment activity on a regular basis. For all classes of loans, the Bank considers the entire balance of the loan to be contractually delinquent if the minimum payment is not received by the due date. Interest and fees continue to accrue on past due loans until they are changed to non-accrual status.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2010, the Bank showed the following aging of past due loans. Also included are loans that are 90 or more days past due but still accruing, because they are well secured and in the process of collection. As of year-end, the Bank had only one such credit for a balance of \$197,000.

Past Due Aging as of December 31, 2010	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans	90 Days Past Due and Still Accruing
	(in Thousands)						
Commercial loans	\$ 3	\$ 30	\$ -	\$ 33	\$ 40,704	\$ 40,737	\$ -
Real estate construction							
Residential construction	184	-	-	184	3,211	3,395	-
Other construction and land	40	-	246	286	22,964	23,250	-
Real estate mortgages							
1-4 family mortgages	51	-	3,126	3,177	54,930	58,107	197
Home equity lines of credit	35	13	-	48	31,282	31,330	-
Multifamily mortgages	-	-	-	-	15,051	15,051	-
Commercial owner occupied	-	-	-	-	57,294	57,294	-
Commercial nonowner occupied	-	-	-	-	56,401	56,401	-
Consumer loans							
Consumer revolving credit	-	-	-	-	1,281	1,281	-
Consumer all other credit	67	-	-	67	11,718	11,785	-
Total Loans	\$ 380	\$ 43	\$ 3,372	\$ 3,795	\$ 294,836	\$ 298,631	\$ 197

5. Premises and Equipment

Bank premises and equipment are summarized as follows:

	<u>December 31, 2010</u>	<u>December 31, 2009</u>
	(in Thousands)	
Leasehold improvements	\$ 15,110	\$ 15,145
Buildings	177	207
Land	9	9
Construction and fixed assets in progress	24	134
Furniture and equipment	4,881	5,766
Computer software	1,536	1,713
	<u>\$ 21,737</u>	<u>\$ 22,974</u>
Less accumulated depreciation and amortization	9,955	9,759
	<u>\$ 11,782</u>	<u>\$ 13,215</u>

Depreciation and amortization expense included in the operating expenses amounted to \$1,672,000 in 2010 and \$1,657,000 in 2009.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. Deposits

The aggregate amount of time deposits with a minimum balance of \$100,000 was \$117,540,000 at December 31, 2010 and \$91,808,000 at December 31, 2009.

Brokered deposits totaled \$55,034,000 and \$47,175,000 at December 31, 2010 and 2009, respectively. All brokered deposits are reciprocal relationships established under the Certificate of Deposit Account Registry Service (CDARS)TM, whereby depositors can obtain FDIC insurance on deposits up to \$50 million.

At December 31, 2010, the scheduled maturities of time deposits are as follows:

	Scheduled Maturities at December 31, 2010	
	(in thousands)	
2011	\$	145,107
2012		2,254
2013		2,078
2014		1,205
2015		2,355
	\$	<u>152,999</u>

7. Income Taxes

The Bank files tax returns in the U.S. federal jurisdiction and the Commonwealth of Virginia. With few exceptions, the Bank is no longer subject to U.S. federal and state tax examinations by tax authorities for years prior to 2007.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Net deferred tax assets consist of the following components as of December 31, 2010 and December 31, 2009:

	2010	2009
	(in Thousands)	(in Thousands)
Deferred tax assets:		
Allowance for loan losses	\$ 1,169	\$ 1,182
Non-accrual loan interest	57	60
Stock option/grant expense	261	220
Start-up expenses	1	1
Home equity closing costs	74	92
Deferred OREO expense	95	-
Deferred loan costs	-	1
Deferred compensation expense	7	5
Depreciation	945	759
	\$ 2,609	\$ 2,320
Deferred tax liabilities:		
Securities available for sale	\$ 472	\$ 380
Deferred loan costs	4	-
Investment from subsidiary income	8	8
	\$ 484	\$ 388
	\$ 2,125	\$ 1,932

The provision for income taxes charged to operations for years ended December 31, 2010 and 2009 consists of the following:

	2010	2009
	(in Thousands)	(in Thousands)
Current tax expense	\$ 2,355	\$ 1,550
Deferred tax (benefit)	(285)	(478)
	\$ 2,070	\$ 1,072

The income tax provision differs from the amount of income tax determined by applying the U.S. federal income tax rate to pretax income for the years ended December 31, 2010 and 2009 due to the following:

	2010	2009
	(in Thousands)	(in Thousands)
Computed "expected" tax expense	\$ 2,074	\$ 1,027
Increase (decrease) in income taxes resulting from:		
Tax-exempt interest income	(31)	(19)
Tax-exempt income from Bank		
Owned Life Insurance (BOLI)	(72)	(73)
Stock option expense	79	109
Social dues	8	17
Other	12	11
	\$ 2,070	\$ 1,072

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. Commitments and Contingent Liabilities

In the normal course of business, there are various outstanding commitments and contingent liabilities, which are not reflected in the accompanying financial statements. The Bank does not anticipate any material loss as a result of these transactions.

As a member of the Federal Reserve System, the Bank is required to maintain certain average clearing balances. Those balances include amounts on deposit with the Federal Reserve. For the final weekly reporting period in the years ended December 31, 2010 and December 31, 2009, the amounts of daily average required balances were \$447,000 and \$497,000, respectively.

At December 31, 2010, the Bank had leased certain of its banking and operations offices under operating lease agreements on terms ranging from 1 to 20 years with renewal options. Rent expense charged to operations under operating lease agreements totaled \$1,124,000 in 2010 and \$1,101,000 in 2009.

The following is a schedule of future minimum rental payments required under non-cancelable operating leases that have initial or remaining terms in excess of one year as of December 31, 2010:

	(in Thousands)
2011	\$ 1,062
2012	971
2013	875
2014	717
2015	695
Thereafter	4,751
	<u>\$ 9,071</u>

9. Financial Instruments With Off-Balance Sheet Risk and Credit Risk

The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments consist primarily of commitments to extend credit and standby letters of credit. In addition to the amounts shown below, the Bank has extended commitment letters at December 31, 2010 in the amount of \$11,247,000 to various borrowers. At December 31, 2009, commitment letters totaled \$19,683,000. Commitment letters are done in the normal course of business and typically expire after 120 days. All of these off-balance-sheet instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheet. The contract or notional amounts of those instruments reflect the extent of involvement the Bank has in particular classes of financial instruments.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual notional amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

	<u>Notional Amount</u>	
	<u>December 31, 2010</u>	<u>December 31, 2009</u>
	(in Thousands)	
Financial instruments whose contract amounts represent credit risk		
Unfunded lines-of-credit	\$89,166	\$82,912
Letters of credit	5,051	5,470
Total	\$94,217	\$88,382

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral normally consists of real property.

Standby letters of credit are conditional commitments by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing, and similar transactions.

The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank holds real estate and bank deposits as collateral supporting those commitments for which collateral is deemed necessary.

The Bank has approximately \$105,000 in deposits in other financial institutions in excess of amounts insured by the Federal Deposit Insurance Corporation (FDIC) at December 31, 2010.

10. Related Party Transactions

During 2010, the Bank has had, and may be expected to have in the future, banking transactions in the ordinary course of business with directors, principal officers, their immediate families and affiliated companies in which they are principal shareholders (commonly referred to as related parties), on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with others. Related

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

parties were indebted to the Bank for loans totaling \$6,514,000 and \$6,406,000 at December 31, 2010 and 2009, respectively. During 2010, total principal additions were \$4,405,000 and total principal payments were \$4,297,000.

In 2010, the Bank had business dealings with companies owned by directors of the Bank. Expenditures made to these companies in 2010 include rental expenditures of \$440,000 (including reimbursements for taxes, insurance, and other expenses), paid to an entity for which a director of the Bank is an owner. Monthly rent for this space is a fair market rate as verified by an independent third-party appraisal. Additionally, the Bank paid \$126,000 for assistance with the Bank's marketing and advertising programs to a marketing and advertising agency of which a director is an owner. Some portion of the payments to this agency may have been used, in turn, to pay third parties for legitimate business expenses incurred on behalf of the Bank.

11. Capital Requirements

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital to risk-weighted assets, and of Tier 1 capital to average assets. Management believes, as of December 31, 2010 and 2009, that the Bank met all capital adequacy requirements to which it is subject.

As of December 31, 2010, the most recent notification from the Office of the Comptroller of the Currency categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the institution's category.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Bank's actual capital amounts and ratios as of December 31, 2010, are presented in the following table:

	<u>Actual</u>		<u>Minimum Capital Requirement</u>		<u>Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions</u>	
	<u>Amount</u> (in Thousands)	<u>Ratio</u>	<u>Amount</u> (in Thousands)	<u>Ratio</u>	<u>Amount</u> (in Thousands)	<u>Ratio</u>
Total Capital						
(To Risk Weighted Assets)	\$48,334	14.23%	\$27,172	8.00%	\$33,965	10.00%
Tier 1 Capital						
(To Risk Weighted Assets)	\$44,604	13.13%	\$13,586	4.00%	\$20,379	6.00%
Tier 1 Capital						
(To Average Assets)	\$44,604	10.26%	\$17,384	4.00%	\$21,730	5.00%

The Bank's actual capital amounts and ratios as of December 31, 2009, are presented as follows:

	<u>Actual</u>		<u>Minimum Capital Requirement</u>		<u>Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions</u>	
	<u>Amount</u> (in Thousands)	<u>Ratio</u>	<u>Amount</u> (in Thousands)	<u>Ratio</u>	<u>Amount</u> (in Thousands)	<u>Ratio</u>
Total Capital						
(To Risk Weighted Assets)	\$43,897	12.54%	\$28,011	8.00%	\$35,014	10.00%
Tier 1 Capital						
(To Risk Weighted Assets)	\$40,165	11.47%	\$14,006	4.00%	\$21,009	6.00%
Tier 1 Capital						
(To Average Assets)	\$40,165	10.07%	\$15,957	4.00%	\$19,947	5.00%

12. Dividend Restrictions

Federal regulations limit the amount of dividends which the Bank can pay without obtaining prior approval. The amount of dividends that the Bank may pay is limited to current year earnings plus retained net profits for the two preceding years. In addition, dividends paid by the Bank would be prohibited if the effect thereof would cause the Bank's capital to be reduced below applicable minimum capital requirements. At December 31, 2010, the maximum amount available to the Bank for dividends was \$6,090,000. The Bank paid no dividends during 2010 or 2009.

13. Fair Value Measurements

Determination of Fair Value

The Bank uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with the "Fair Value Measurements and Disclosures" topic of FASB ASC, the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Bank's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

The recent fair value guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

Fair Value Hierarchy

In accordance with this guidance, the Bank groups its financial assets and financial liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

Level 1 – Valuation is based on quoted prices in active markets for identical assets and liabilities.

Level 2 – Valuation is based on observable inputs including quoted prices in active markets for similar assets and liabilities, quoted prices for identical or similar assets and liabilities in less active markets, and model-based valuation techniques for which significant assumptions can be derived primarily from or corroborated by observable data in the market.

Level 3 – Valuation is based on model-based techniques that use one or more significant inputs or assumptions that are unobservable in the market.

The following describes the valuation techniques used by the Bank to measure certain financial assets and liabilities recorded at fair value on a recurring basis in the financial statements:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Securities Available For Sale

Securities available for sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted market prices, when available (Level 1). If quoted market prices are not available, fair values are measured utilizing independent valuation techniques of identical or similar securities for which significant assumptions are derived primarily from or corroborated by observable market data. Third party vendors compile prices from various sources and may determine the fair value of identical or similar securities by using pricing models that consider observable market data (Level 2).

The following table presents the balances measured at fair value on a recurring basis as of December 31, 2010:

Description	<u>Fair Value Measurements at December 31, 2010 Using:</u>			
	Balance as of December 31, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:	(in Thousands)	(in Thousands)	(in Thousands)	(in Thousands)
U.S. Government agencies	\$ <u>54,520</u>	\$ <u>—</u>	\$ <u>54,520</u>	\$ <u>—</u>

The following table presents the balances measured at fair value on a recurring basis as of December 31, 2009:

Description	<u>Fair Value Measurements at December 31, 2009 Using:</u>			
	Balance as of December 31, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:	(in Thousands)	(in Thousands)	(in Thousands)	(in Thousands)
U.S. Government agencies	\$ <u>30,273</u>	\$ <u>—</u>	\$ <u>30,273</u>	\$ <u>—</u>

Certain financial assets are measured at fair value on a nonrecurring basis in accordance with GAAP. Adjustments to the fair value of these assets usually result from the application of lower-of-cost-or-market accounting or write-downs of individual assets.

The following describes the valuation techniques used by the Bank to measure certain financial assets recorded at fair value on a nonrecurring basis in the financial statements:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Other Real Estate Owned

Certain assets such as other real estate owned (OREO) are measured at fair value less cost to sell. Currently, the Bank has one OREO property carried at a balance of \$329,000. There was one OREO property as of December 31, 2009 which was carried at \$605,000; however, based on a new appraisal, the Bank recognized a total \$276,000 writedown expense in 2010, resulting in the new fair value measurement. During the second quarter of 2010, the Bank transferred another property from loans to OREO, which was being carried at \$575,000 as of June 30, 2010. However, this property was sold for \$575,000 during the third quarter of 2010.

Impaired Loans

Loans are designated as impaired when, in the judgment of management based on current information and events, it is probable that all amounts due according to the contractual terms of the loan agreement will not be collected. The measurement of loss associated with impaired loans can be based on either the observable market price of the loan or the fair value of the collateral. Fair value would be measured based on the value of the collateral securing the loans. Collateral may be in the form of real estate or business assets including equipment, inventory, and accounts receivable. The value of real estate collateral would be determined utilizing an income or market valuation approach based on an appraisal conducted by an independent, licensed appraiser outside of the Bank using observable market data (Level 2). However, if the collateral is a house or building in the process of construction or if an appraisal of the real estate property is over two years old, then the fair value would be considered Level 3. The value of business equipment would be based upon an outside appraisal if deemed significant, or the net book value on the applicable business' financial statements if not considered significant using observable market data. Likewise, values for inventory and accounts receivables collateral would be based on financial statement balances or aging reports (Level 3). Impaired loans allocated to the Allowance for Loan Losses would be measured at fair value on a nonrecurring basis. Any fair value adjustments would be recorded in the period incurred as provision for loan losses on the Consolidated Statements of Income. The Bank had \$4,548,000 in impaired loans as of December 31, 2010. None of these impaired loans required a valuation allowance after consideration was given for each borrowing as to the fair value of the collateral on the loan or the present value of expected future cash flows from the customer.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table presents the Bank's assets that were measured at fair value on a nonrecurring basis as of December 31, 2010:

<u>Description</u>	<u>Fair Value Measurements at December 31, 2010 Using:</u>			
	<u>Net Carrying Value as of December 31, 2010</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Assets:	(in Thousands)	(in Thousands)	(in Thousands)	(in Thousands)
Other Real Estate Owned (OREO)	\$ <u>329</u>	\$ <u>—</u>	\$ <u>329</u>	\$ <u>—</u>

The following table presents the Bank's assets that were measured at fair value on a nonrecurring basis as of December 31, 2009:

<u>Description</u>	<u>Fair Value Measurements at December 31, 2009 Using:</u>			
	<u>Net Carrying Value as of December 31, 2009</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Assets:	(in Thousands)	(in Thousands)	(in Thousands)	(in Thousands)
Other Real Estate Owned (OREO)	\$ <u>605</u>	\$ <u>—</u>	\$ <u>605</u>	\$ <u>—</u>

The following methods and assumptions were used by the Bank in estimating the fair value disclosures for financial instruments:

Cash and Short-Term Investments

For those short-term instruments, including cash, due from banks and federal funds sold, the carrying amount is a reasonable estimate of fair value.

Interest bearing deposits

The carrying amounts of interest bearing deposits maturing within ninety days approximate their fair value.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Securities

Fair values for securities, excluding restricted securities, are based on quoted market prices.

Loan Receivables

The fair value of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

Accrued Interest

The carrying amounts of accrued interest approximate fair value.

Deposit Liabilities

The fair value of demand deposits, savings accounts, and certain money market deposits is the amount payable on demand at the reporting date. The fair value of fixed-maturity certificates of deposit is estimated by discounting the future cash flows using the rates currently offered for deposits of similar remaining maturities.

Short-Term Borrowings

The carrying amounts of securities sold under agreements to repurchase approximate fair value.

Off-Balance Sheet Financial Instruments

At December 31, 2010 and 2009, the fair values of loan commitments and standby letters of credit are immaterial. Therefore, they have not been included in the following table.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The carrying amounts and estimated fair values of the Bank's financial instruments are as follows:

	December 31, 2010		December 31, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(in Thousands)		(in Thousands)	
Financial Assets:				
Cash and short-term investments	\$73,526	\$73,526	\$65,960	\$65,960
Securities	62,041	62,169	33,785	33,876
Loans, net	294,901	293,294	311,837	315,316
Accrued interest receivable	1,354	1,354	1,256	1,256
Financial Liabilities:				
Demand deposits and interest-bearing transaction accounts	\$254,689	\$254,689	\$268,045	\$268,045
Certificates of deposit	152,999	153,069	126,112	126,253
Securities sold under agreements to repurchase	1,801	1,801	3,610	3,610
Accrued interest payable	265	265	253	253

The Bank assumes interest rate risk (the risk that general interest rate levels will change) as a result of its normal operations. As a result, the fair values of the Bank's financial instruments will change when interest rate levels change, and that change may be either favorable or unfavorable to the Bank. Management attempts to match maturities of assets and liabilities to the extent believed necessary to minimize interest rate risk; however, borrowers with fixed rate obligations are less likely to prepay in a rising rate environment and more likely to prepay in a falling rate environment. Conversely, depositors who are receiving fixed rates are more likely to withdraw funds before maturity in a rising rate environment and less likely to do so in a falling rate environment. Management monitors rates and maturities of assets and liabilities and attempts to minimize interest rate risk by adjusting terms of new loans and deposits and by investing in securities with terms that mitigate the Bank's overall interest rate risk.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. Other Expenses

The Bank had the following other expenses as of the dates indicated:

	<u>December 31, 2010</u>	<u>December 31, 2009</u>
	(in Thousands)	
FDIC deposit insurance assessment	\$ 668	\$ 751
Marketing, advertising and promotion	668	699
Professional fees	516	513
Third party processing	628	362
Telecommunications	298	299
ATM, debit and credit card expense	289	246
OREO writedown expense	276	-
Virginia franchise tax	247	209
Other	1,388	1,441
	<u>\$ 4,978</u>	<u>\$ 4,520</u>

15. Employee Benefit Plans

The Bank has a 401(k) plan available to all employees who are at least 18 years of age. Employees are able to elect the amount to contribute, not to exceed a maximum amount as determined by IRS regulation. The Bank has agreed to match 50% of every dollar contributed by employees up to a maximum of 6% of annual compensation.

“Vesting” refers to the rights of ownership to the assets in the 401(k) accounts. Bank contributions to the plan are vested by the employees according to the following schedule: 50% after two years of service, 75% after three years of service and 100% after four years of service. Employee contributions to the plan are always 100% vested. The Bank contributed \$147,000 to the plan in 2010 and \$183,000 in 2009.

16. Stock Incentive Plans

The Bank’s shareholders approved the Virginia National Bank 1998 Stock Incentive Plan at the 1999 Annual Meeting of Shareholders. The plan reserved 374,000 shares of Common Stock, an amount equal to 20% of the aggregate number of shares sold in the June, 1998 Common Stock offering. The plan covered both employee and director stock options. The 1998 Plan expired in June, 2008. No new grants will be issued under this Plan. At December 31, 2010, 360,285 stock options had been granted under this plan, net of forfeitures.

At the Annual Meeting of Shareholders of Virginia National Bank, held on May 21, 2003, shareholders approved the Virginia National Bank 2003 Stock Incentive Plan. An aggregate of 111,625 shares are presently issuable under the 2003 Plan. Forfeitures return to the plan as ungranted. At December 31, 2010, 111,145 stock options had been issued under this plan, net of forfeitures. There are 480 shares still available under this plan.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

At the Annual Meeting of Shareholders of Virginia National Bank, held on May 16, 2005, shareholders approved the Virginia National Bank 2005 Stock Incentive Plan. An aggregate of 200,000 shares are presently issuable under the 2005 Plan. Forfeitures return to the plan as ungranted. At December 31, 2010, 159,004 stock options had been issued under this plan, net of forfeitures. There are 40,996 shares still available under this plan.

All three stock plans provide for granting of both incentive and nonqualified stock options. The option price of incentive options will not be less than the fair market value of the stock at the time an option is granted. Nonqualified options may be granted at a price established by the Board of Directors, including prices less than the fair market value on the date of grant. All options expire ten years from the grant date.

Changes in the stock options outstanding related to the 1998 Plan, the 2003 Plan and the 2005 Plan are summarized as follows:

	<u>2010</u>	
	<u>Number of</u>	<u>Weighted</u>
	<u>Shares</u>	<u>Average</u>
		<u>Exercise</u>
		<u>Price</u>
Outstanding at beginning of year	250,492	\$30.76
Granted	6,000	\$17.67
Exercised	--	--
Forfeited	(19,480)	\$36.59
Expired	--	--
Outstanding at end of year	237,012	\$29.95
Options exercisable at year-end	172,772	\$31.14
Weighted-average fair value of options granted during the year	\$7.37	

The fair value of each grant is estimated at the grant date using the Black-Scholes option-pricing model. The estimates were calculated using the following weighted-average assumptions: price volatility of 37.37%; risk-free interest rate of 2.82%; no dividend rate; and an expected option life of 6.25 years. Price volatility assumptions were based on the historical volatility of the price of Virginia National Bank's Common Stock. The risk-free interest rates for periods within the contractual life of the awards are based on the U.S. Treasury yield curve in effect at the time of the grants. Expected lives are based on historical experience. The dividend rate is based on the Bank's history of not paying a dividend.

For the year ended December 31, 2010, the Bank recognized \$359,101 in compensation expense for stock options. As of December 31, 2010, there was \$384,682 in unamortized compensation expense remaining to be recognized in future reporting periods through 2014.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The aggregate intrinsic value of options outstanding at December 31, 2010 was \$750. The aggregate intrinsic value of options exercisable at December 31, 2009 was \$0.

The total intrinsic value of options exercised during the year ended December 31, 2010 was \$0, as no options were exercised in the period.

Summary information pertaining to options outstanding at December 31, 2010 is as follows:

Exercise Price	<u>Options Outstanding</u>			<u>Options Exercisable</u>	
	Number Outstanding	Weighted-Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
\$10.00 to 20.00	18,600	4.4 Years	\$18.49	12,600	\$18.88
20.01 to 30.00	94,537	5.9 Years	23.98	56,918	24.14
30.01 to 40.00	104,175	5.7 Years	35.17	83,554	35.26
40.01 to 42.25	19,700	5.6 Years	41.76	19,700	41.76
Total	<u>237,012</u>	5.6 Years	\$29.95	<u>172,772</u>	\$31.14

The Bank granted 1,000 restricted stock awards (non-vested shares) in 2010. The requisite service period for these awards is four years. The Bank recorded \$59,184 in compensation expense related to grants in 2010. No restricted stock awards were granted in 2009.

The following table summarizes restricted stock activity at December 31, 2010:

	<u>Number of Shares</u>	<u>Average Grant-Date Fair Value</u>	<u>Aggregate Intrinsic Value</u>
Outstanding at beginning of year	3,500	\$30.25	
Issued	1,000	\$14.10	
Vested	2,000	\$31.19	
Non-vested at end of year	<u>2,500</u>	\$23.04	\$37,500

The weighted average remaining contractual term for non-vested awards at December 31, 2010 was 1.4 years. As of December 31, 2010, there was \$49,676 of total unrecognized compensation expense related to the non-vested awards.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

17. Earnings Per Share

The following shows the weighted average number of shares used in computing earnings per share and the effect on weighted average number of shares of diluted potential common stock. Potential dilutive common stock has no effect on income available to common shareholders.

	2010		2009	
	<u>Shares</u>	<u>Per Share Amount</u>	<u>Shares</u>	<u>Per Share Amount</u>
Basic EPS	2,338,486	\$1.72	2,335,622	\$0.83
Effect of dilutive securities and stock options	3,129		7,159	
Diluted EPS	<u>2,341,615</u>	<u>\$1.72</u>	<u>2,342,781</u>	<u>\$0.83</u>

In 2010, stock options representing 237,012 average shares were not included in the calculation of earnings per share, as their effect would have been antidilutive. Stock options representing 224,284 average shares were similarly not included in 2009.

18. Segment Reporting

The Bank has two reportable segments, the commercial bank and VNBTrust.

Commercial banking involves making loans and generating deposits from individuals and businesses. Loan fee income, service charges from deposit accounts and other non-interest-related fees such as automatic teller machine fees and safe deposit box fees generate additional income for the commercial bank.

VNBTrust services include investment management, trust account administration and estate planning. VNBTrust receives fees on both a fixed basis and a performance basis for the provision of these services.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. Each reportable segment is a strategic business unit that offers different products and services. They are managed separately because each segment appeals to different markets and, accordingly, requires different technology and marketing strategies.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Segment information as of, and for the years ended, December 31, 2010 and 2009, is shown in the following table:

<u>2010</u>	<u>Commercial</u>		<u>Consolidated</u>
(in Thousands)	<u>Bank</u>	<u>VNBTrust</u>	<u>Totals</u>
Net interest income	\$ 16,683	\$ 9	\$ 16,692
Provision for loan losses	314	-	314
Non-interest income	2,193	5,611	7,804
Non-interest expense	15,665	2,417	18,082
Income before income taxes	2,897	3,203	6,100
Provision for income taxes	956	1,114	2,070
Net income	1,941	2,089	4,030
Total assets	450,547	7,750	458,297

<u>2009</u>	<u>Commercial</u>		<u>Consolidated</u>
(in Thousands)	<u>Bank</u>	<u>VNBTrust</u>	<u>Totals</u>
Net interest income	\$ 15,583	\$ 8	\$ 15,591
Provision for loan losses	1,019	-	1,019
Non-interest income	1,787	5,351	7,138
Non-interest expense	15,903	2,787	18,690
Income before income taxes	448	2,572	3,020
Provision for income taxes	148	924	1,072
Net income	300	1,648	1,948
Total assets	436,080	5,214	441,294

19. Subsequent Events

In preparing these financial statements, the Bank has evaluated events and transactions for potential recognition or disclosure through the date the financial statements were issued.



REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders
Virginia National Bank and Subsidiary
Charlottesville, Virginia

We have audited the accompanying consolidated balance sheets of Virginia National Bank and subsidiary as of December 31, 2010 and 2009, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Bank is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Virginia National Bank and subsidiary as of December 31, 2010 and 2009, and the results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Yount, Hyde & Barbour, P.C.

Winchester, Virginia
March 25, 2011

Item 9 – CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None

Item 9A – CONTROLS AND PROCEDURES.

Bank management is responsible for establishing and maintaining adequate control over financial reporting, as defined in Rules 13a – 15(f) under the Exchange Act. The Bank’s internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes, in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a significant deficiency (as defined in Public Company Accounting Oversight Board Auditing Standard No. 2), or a combination of significant deficiencies, that results in there being more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis by management or employees in the normal course of performing their assigned functions.

Management assessed the effectiveness of the Bank’s internal control over financial reporting as of December 31, 2010. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in “Internal Control-Integrated Framework.” Based on this assessment, management believes that, as of December 31, 2010, the Bank’s internal control over financial reporting was effective.

This annual report does not include an attestation report of the Bank’s registered public accounting firm regarding internal control over financial reporting. Management’s report was not subject to attestation by the Bank’s registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit the Bank to provide only management’s report in this annual report.

Item 9B – OTHER INFORMATION.

None

Part III

Item 10 – DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

Information is incorporated herein by reference from pages 4 through 17 of the Bank’s 2011 Definitive Proxy Statement (“Proxy Statement”) for all directors and executive officers.

Item 11 – EXECUTIVE COMPENSATION.

This information is incorporated herein by reference from pages 11 through 14 of the Bank’s Definitive Proxy Statement.

Item 12 – SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

Other than as set forth below, this information is incorporated herein by reference from pages 15 and 16 of the Bank’s Definitive Proxy Statement and from Note 16, “Stock Incentive Plans,” contained in the *Notes to Consolidated Financial Statements* of this Form 10-K.

The following table summarizes information, as of December 31, 2010, relating to the Bank’s 1998 Stock Incentive Plan, 2003 Stock Incentive Plan and 2005 Stock Incentive Plan:

	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	237,012	\$29.95	41,476
Equity compensation plans not approved by security holders	--	--	--
Total	237,012	\$29.95	41,476

Item 13 – CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

This information is incorporated herein by reference from pages 11 and 17 of the Bank’s Definitive Proxy Statement. For further information, see Note 10 of the *Notes to Consolidated Financial Statements*.

Item 14 – PRINCIPAL ACCOUNTING FEES AND SERVICES.

This information is incorporated herein by reference from pages 17 and 18 of the Bank’s Definitive Proxy Statement.

Part IV

Item 15 – EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(a) Exhibit Index:

<u>Exhibit Number</u>	<u>Description of Exhibit</u>
3.1	Articles of Association of Virginia National Bank, as amended*
3.2	Bylaws of Virginia National Bank, as amended*
4.0	Form of Common Stock Certificate of Virginia National Bank**
10.1	Form of Virginia National Bank 1998 Stock Incentive Plan** Form of Virginia National Bank 2003 Stock Incentive Plan*** Form of Virginia National Bank 2005 Stock Incentive Plan****
21.0	Subsidiaries of the Registrant*****
22.0	Proxy Statement for Annual Meeting on May 16, 2011, filed herewith
31.1	302 Certification of Principal Executive Officer
31.2	302 Certification of Principal Financial Officer
32.1	906 Certification

* Incorporated herein by reference from Virginia National Bank's 2009 Annual Report on Form 10-K, filed with the Office of the Comptroller of the Currency's March 26, 2010.

** Incorporated herein by reference from Virginia National Bank's Registration Statement on Form SB-2, filed with the Office of the Comptroller of the Currency's Southeastern District Office on May 21, 1998, as amended.

*** Incorporated herein by reference from Virginia National Bank's Definitive Proxy Statement, filed with the Office of the Comptroller of the Currency on April 24, 2003.

**** Incorporated herein by reference from Virginia National Bank's Definitive Proxy Statement, filed with the Office of the Comptroller of the Currency on April 22, 2005.

***** Refer to page 4 for a discussion of Virginia National Bank's direct and indirect subsidiaries.

EXHIBIT 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

I, Glenn W. Rust, certify that:

1. I have reviewed this annual report on Form 10-K of Virginia National Bank;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such disclosure over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: March 25, 2011

/s/ Glenn W. Rust
Glenn W. Rust
Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

I, Stephen B. Perry, certify that:

1. I have reviewed this annual report on Form 10-K of Virginia National Bank;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such disclosure over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: March 25, 2011

/s/ Stephen B. Perry
Stephen B. Perry
Chief Operations Officer

EXHIBIT 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED PURSUANT
TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Virginia National Bank (the "Bank") on Form 10-K for the period ending December 31, 2010 as filed with the Office of the Comptroller of the Currency on the date hereof (the "Report"), the undersigned Chief Executive Officer and Chief Financial Officer of the Bank hereby certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002 that, based on their knowledge and belief: (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Bank as of and for the periods covered in the Report.

/s/ Glenn W. Rust

Glenn W. Rust, Principal Executive Officer

/s/ Stephen B. Perry

Stephen B. Perry, Principal Financial Officer

March 25, 2011