



**PRESS RELEASE
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Virginia National Bank Reports 2012 Fourth Quarter and Full Year Results

[Charlottesville, VA] Virginia National Bank of Charlottesville, Virginia reported net income of \$3.776 million for the fourth quarter of 2012, or \$1.41 per share for the three months ended December 31, 2012. This result is a 266% increase in net income as compared to the three months ended December 31, 2011, when net income was \$1.033 million, or \$0.38 per share. The return on average assets for the quarter ended December 31, 2012 was 3.10%, as compared to 0.90% in the same period in 2011. The Bank reported total consolidated assets of \$507.6 million on December 31, 2012, an increase of \$43.5 million or 9.4% greater than the \$464.1 million reported on December 31, 2011. Net earnings reported in the fourth quarter were primarily the result of record quarterly net income from the Bank's subsidiary, VNBTrust, which recorded \$3.152 million for the three month period as compared to the \$211.1 thousand recorded for the fourth quarter of 2011.

For the full year, the Bank reported net income of \$5.481 million or \$2.04 per share as compared to \$2.341 million or \$0.87 per share for the previous twelve months ended December 31, 2011. The return on average assets for the year ended December 31, 2012 was 1.11% or an increase of 117.7% over the 0.51% return on average assets for the year ended December 31, 2011. The return on average equity for the twelve months ended December 31, 2012 was 10.90% versus 4.95% for the year-earlier period.

Selected highlights for the fourth quarter of 2012 include:

- Asset quality remains strong with non-accrual loans-to-total loans at 0.49%, net charge-offs-to-average loans at 0.49%, and an allowance for loan losses-to-gross loans ratio of 1.15% at December 31, 2012.
- Investment securities, at December 31, 2012, grew \$26.7 million to \$118.6 million, a 29.1% increase from \$91.9 million at December 31, 2011.
- Average annual deposit balances for 2012 were \$438.2 million an increase of 6.5% when compared to the average annual deposit balances for 2011 at \$411.6 million.

Net Interest Margin

Net interest income for the three months ended December 31, 2012 was \$3.765 million or \$208 thousand less than the \$3.973 million for the three months ended December 31, 2011. The Bank's net interest margin, on a tax-equivalent basis, for the three months ended December 31, 2012 was 3.34% as compared to 3.68% for the three months ended December 31, 2011. The net interest margin decrease of 34 basis points was attributable to

the decline in the earning assets yield of 47 basis points, which was offset by a decline in the cost of funds of 13 basis points. The cost of funds for the quarter ended December 31, 2012 was 0.26%, a decrease of 13 basis points, when compared to the fourth quarter of 2011 when the cost of funds was 0.39%. This improvement is attributable to certificate of deposit accounts that renewed at lower rates. Virginia National Bank ranks among the best of its national peer banks (banks with total assets between \$300 million and \$750 million) for its cost of funds. For the most recently available quarterly data, which is September 30, 2012, the Bank's cost of funds was 0.27% as compared to peer banks at 0.75%. Interest and dividend income and fees on earning assets totaled \$4.045 million for the three months ended December 31, 2012, or a decrease of \$333 thousand from the \$4.378 million reported for the same period in 2011. The earning assets yield for the three months ended December 31, 2012 was 3.58%, as compared to the 4.05% for the three months ended December 31, 2011. Average loan balances for the fourth quarter of 2012 were \$294.4 million or an increase of \$1.9 million from the average balance of \$292.5 million during the fourth quarter of 2011. The yield on loans decreased 55 basis points to 4.71% for the three months ended December 31, 2012, as compared to 5.26% for the three months ended December 31, 2011. The average balance of investment securities for the fourth quarter of 2012 was \$114.6 million, which is an increase of \$21.8 million from the \$92.8 million for the same period in 2011. The tax equivalent yield of the investment securities was 1.96% during the quarter ended December 31, 2012, as compared to the 2.11% tax-equivalent yield for the same period of 2011.

Interest expense for deposit accounts and borrowings for the three months ended December 31, 2012 totaled \$280 thousand or a decrease of \$125 thousand from the \$405 thousand reported during the same three month period in 2011.

For the twelve months ended December 31, 2012, the Bank's net interest margin was 3.42% or 31 basis points less than the net interest margin of 3.73% reported for the twelve months ended December 31, 2011. The earning assets yield for the twelve months of 2012 was 3.70% versus 4.14% for the same period in 2011. In the year-over-year period loan and investment yields declined by 44 basis points and 23 basis points, respectively. Federal funds yield increased 10 basis points during the twelve months of 2012 as compared to the same period in 2011. The cost of funds for the twelve months ended December 31, 2012 was 0.29% or 14 basis points less than the 0.43% reported for the same period in 2011. Management anticipated the decline of the net interest margin given the duration of the low interest rate environment and consequently planned for reduction of net interest income by decreasing non-interest expenses. Certain non-interest expense reductions were put into effect in the fourth quarter of 2012; however the full impact is expected to occur in 2013.

Provision for Loan Losses

At December 31, 2012, Management recorded a provision for the allowance for loan losses totaling \$190 thousand that was primarily associated with charge-offs on three loans. The provision for the fourth quarter of 2012 was \$324 thousand less than the provision of \$514 thousand that was reported for the fourth quarter of 2011. For the year ended December 31, 2012, the Bank recorded a net recapture of provision totaling \$79 thousand and compares favorably to the \$535 thousand in provision recorded during the same period in 2011. During the quarter ended December 31, 2012, the Bank recorded \$11 thousand in recoveries and charged-off

\$371 thousand in loans; this brought the totals for the year to \$608 thousand in loan charge-offs and \$213 thousand in recoveries. During the fourth quarter of 2011, \$427 thousand in loan balances were charged off, and there were \$10 thousand in recoveries of prior charged-off loans. For the full year of 2011, there was a total of \$560 thousand in loan balances that were charged-off and \$36 thousand in recoveries. At December 31, 2012 the allowance-to-gross loans ratio was 1.15% and compares to the ratio at December 31, 2011 of 1.28%.

The net charge-offs to average loans ratio for the three months ended December 31, 2012 was 0.49%, which compares favorably to the 0.57% for the three months ended December 31, 2011. These results compare favorably to the Bank's national peer bank group average ratio of 0.67%, for the most recently available quarter ended September 30, 2012.

There were \$1.439 million in non-performing loans, defined as those past due ninety or more days or on non-accrual, on December 31, 2012. This is an increase of \$648 thousand from December 31, 2011, when non-performing loans totaled \$791 thousand. The increase in non-performing loans at December 31, 2012 was the result of one loan with a balance of \$804 thousand that was past due at the end of December 2012. The non-accruing loans-to-total loans ratio at December 31, 2012 was 0.49%, which was slightly higher than the ratio at September 30, 2012 of 0.21% and 0.14% ratio at December 31, 2011.

Management believes the allowance for loan losses was adequately provided for as of December 31, 2012.

Non-interest Income

Non-interest income for the quarter ended December 31, 2012 was \$8.223 million as compared to \$1.815 million for the quarter ended December 31, 2011, an increase of \$6.408 million or 353.1%. Higher revenue in the fourth quarter of 2012 was primarily the result of higher VNBTrust fee income. VNBTrust revenues are primarily derived from two forms of fee income: performance fees and fixed fees. VNBTrust recorded \$6.967 million in performance fee income for the three months ended December 31, 2012 as compared to \$341 thousand reported for the same period in 2011. VNBTrust recorded fixed fee income of \$668 thousand for the three months ended December 31, 2012, which is an increase of \$138 thousand when compared to \$530 thousand reported for the three months ended December 31, 2011. Earnings on bank-owned life insurance were \$87 thousand for the fourth quarter of 2012, a decrease of \$338 thousand from the \$425 thousand that was reported for the same period in 2011. In December 2011, the Bank had received death benefits of \$358 thousand.

For the twelve months ended December 31, 2012, non-interest income totaled \$12.040 million as compared to \$5.106 million for the twelve months ended December 31, 2011. Most non-interest income categories recorded an increase over the previous year, with the exception of customer service fees and bank-owned life insurance. Customer service charges on deposit accounts were \$982 thousand for the year-to-date at December 31, 2012, or \$99 thousand lower than the \$1.081 million recorded for the same period in 2011. Income on bank-owned life insurance was \$280 thousand for the year ended December 31, 2012; as compared to \$596 thousand for the year ended December 31, 2011. Fees from debit/credit cards and ATM fees totaled \$726 thousand for the full year of 2012, which was an increase of \$57 thousand from the \$669 thousand that was recorded for 2011. As

part of Management's strategy to diversify the investment portfolio in 2012, the Bank recorded \$133 thousand in net gains on the sale of securities as some investments were sold to decrease the portfolio's concentration in certain investment categories.

Non-interest Expense

Non-interest expense totaled \$6.159 million for the three months ended December 31, 2012, an increase of \$2.234 million or 56.9% when compared to the non-interest expense of \$3.925 million for the same period in 2011. The increase in non-interest expense was primarily attributable to higher VNBTrust incentive compensation for 2012 of \$2.149 million, which is \$2.033 greater than the VNBTrust compensation of \$116 thousand for 2011. Non-interest expense for the quarters ended December 31, 2012 and December 31, 2011 excluding the VNBTrust incentive compensation totaled \$4.010 million and \$3.809 million; respectively. These adjusted amounts represent an increase of \$201 thousand, or 5.3%, for 2012 from 2011. Net occupancy and equipment costs for the quarter ended December 31, 2012 were \$501 thousand and \$221 thousand, respectively, a decrease of \$39 thousand and \$32 thousand, respectively compared to the fourth quarter of 2011. Other expense for the three months ended December 31, 2012 was \$1.099 million, an increase of \$299 thousand from the \$800 thousand that was reported for the same period in 2011.

For the twelve months ended December 31, 2012, non-interest expense totaled \$19.650 million, an increase of \$2.277 million from the \$17.373 million reported for the twelve months ended December 31, 2011. The increase was primarily the result of higher personnel and other expense costs of \$1.436 million and \$1.133 million, respectively. Personnel costs were higher due to VNBTrust incentive compensation, as mentioned earlier. Personnel expense excluding the VNBTrust incentive compensation cost was \$8.813 million a decrease of \$597 thousand, or 6.34% over the full year cost for 2011. Other expense costs were higher in 2012 than in 2011 primarily as a result of the one-time write-downs of \$845 thousand related to other real estate owned (OREO) properties that occurred earlier in 2012. Other expense for 2012, excluding the OREO write-downs, totaled \$4.823 million, an increase of \$288 thousand compared to the \$4.535 million in other expense for the full year of 2011.

Balance Sheet

Federal Funds Sold balances increased \$11.5 million to \$56.1 million from the \$44.6 million at December 31, 2011. This increase in liquidity was primarily the result of the increase in deposit account balances of \$33.5 million from December 31, 2011. Investment securities increased \$26.7 million to \$118.6 million, as compared to \$91.9 million at December 31, 2011. Gross loans outstanding totaled \$284.9 million, a decrease of \$7.6 million from the \$292.5 million reported at December 31, 2011. The allowance for loan losses of \$3.267 million decreased \$474 thousand from the \$3.741 million reported at December 31, 2011. Improvements in the asset quality that occurred throughout the year and the lower loan balances outstanding, as of year-end, were the primary reasons the allowance was lower at December 31, 2012 as compared to December 31, 2011.

Total deposit account balances were \$445.4 million at December 31, 2012, an increase of \$33.5 million or 8.13% when compared to \$411.9 million at December 31, 2011. Non-interest bearing checking account balances of \$131.6 million represented 29.5% of the Bank's total deposit account balances at December 31, 2012, which is an increase of \$10.6 million or 8.7% from the \$121.0 million at December 31, 2011. The Bank's low-cost deposit accounts, which include both non-interest and interest bearing checking accounts as well as money market accounts, represented 70.8% of total deposit account balances at December 31, 2012 and compares favorably to the 68.1% of total deposit account balances at December 31, 2011. Stockholders' equity at December 31, 2012 was \$53.9 million, resulting in a book value per common share of \$20.05, which compares to stockholders' equity of \$48.9 million and a book value per common share of \$18.19 at December 31, 2011. The Bank was considered "well-capitalized" according to regulatory guidelines at December 31, 2012, with the Tier 1 Leverage Capital ratio at 10.87% and Total Risk-Based Capital ratio at 16.21%.

About Virginia National Bank

Virginia National Bank began operations in July 1998 and is headquartered in Charlottesville, Virginia. It has four banking offices in Charlottesville, two in Winchester and one in Orange, Virginia. The Bank serves the needs of locally owned businesses and individuals in the City of Charlottesville, Albemarle County, Orange County, and the City of Winchester. 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, online banking, treasury and cash management, personal and business card services, merchant card services, and commercial and consumer loans. The Bank is committed to providing its customers with banking services comparable to those of larger regional and nationwide banks. Investment management and trust services are offered through the Bank's wholly owned subsidiary, VNBTrust, N.A. The Bank's stock trades on the OTC Bulletin Board under the symbol "VABK". Additional information on the Bank is also available at www.vnb.com.

Forward-Looking Statements; Other Information

Statements which express or imply a view about the expected future performance of Virginia National Bank are "forward-looking statements." While Bank management believes such statements to be reasonable, future events and predictions are subject to circumstances that are not within the control of the Bank and its management, and actual events in the future may be substantially different from those expressed. The Bank's past results are not necessarily indicative of future performance. Factors that could cause future performance to differ from past performance or anticipated performance could include, but are not limited to, changes in national and local economies, employment or market conditions; changes in interest rates, deposits, loan demand, and asset quality; competition; changes in banking regulations and accounting principles or guidelines; and performance of assets under management. These statements speak only as the date made, and the Bank does not undertake to update any forward-looking statements to reflect changes or events that may occur after this release.

Certain information contained in the foregoing press release is derived from financial statements of Virginia National Bank. Information based on other sources is believed by management of Virginia National Bank to be reliable, but has not been independently verified.

For more information, review reports filed by Virginia National Bank with the Office of the Comptroller of the Currency, including the Bank's Annual Report on Form 10-K for the year ended December 31, 2011, available at www.vnb.com, before making any investment decision about Virginia National Bank.

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

	[Unaudited]	
	December 31, 2012	December 31, 2011
ASSETS		
Cash and due from banks	\$ 15,647	\$ 12,477
Federal funds sold	56,131	44,567
Securities:		
Available for sale, at fair value	110,853	84,150
Held to maturity, at amortized cost	5,991	5,988
Restricted securities, at cost	1,729	1,728
Total securities	118,573	91,866
Total gross loans	284,860	292,532
Allowance for loan losses	(3,267)	(3,741)
Total loans, net	281,593	288,791
Premises and equipment, net	10,654	10,692
Other real estate owned, net of valuation allowance	1,746	4,242
Bank owned life insurance	12,150	6,869
Accrued interest receivable and other assets	11,112	4,562
Total assets	\$ 507,606	\$ 464,066
 LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Demand deposits:		
Noninterest-bearing	\$ 131,559	\$ 120,989
Interest-bearing	80,916	68,622
Money market deposit accounts	102,804	90,815
Certificates of deposit and other time deposits	130,143	131,442
Total deposits	445,422	411,868
Securities sold under agreements to repurchase	4,000	2,623
Accrued interest payable and other liabilities	4,245	654
Total liabilities	453,667	415,145
 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; 2,690,220 shares issued (including 863 restricted shares)	6,724	6,723
Capital surplus	27,809	27,705
Retained earnings	18,254	12,773
Accumulated other comprehensive income	1,152	1,720
Total shareholders' equity	53,939	48,921
Total liabilities and shareholders' equity	\$ 507,606	\$ 464,066

VIRGINIA NATIONAL BANK AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except per share data)

	Three Months Ended		Year Ended	
	Dec. 31, 2012 [UNAUDITED]	Dec. 31, 2011	Dec. 31, 2012 [UNAUDITED]	Dec. 31, 2011
Interest and dividend income:				
Loans, including fees	\$ 3,487	\$ 3,879	\$ 14,720	\$ 15,781
Federal funds sold	23	8	112	48
Investment securities				
Taxable	424	465	1,817	1,927
Tax exempt	88	9	174	33
Dividends	19	17	73	59
Other	4	-	8	-
Total interest and dividend income	<u>4,045</u>	<u>4,378</u>	<u>16,904</u>	<u>17,848</u>
Interest expense:				
Demand and savings deposits	52	47	228	199
Certificates and other time deposits	227	356	1,049	1,568
Federal funds purchased and securities sold under agreements to repurchase	<u>1</u>	<u>2</u>	<u>4</u>	<u>6</u>
Total interest expense	<u>280</u>	<u>405</u>	<u>1,281</u>	<u>1,773</u>
Net interest income	3,765	3,973	15,623	16,075
Provision for (recovery of) loan losses	<u>190</u>	<u>514</u>	<u>(79)</u>	<u>535</u>
Net interest income after provision for (recovery of) loan losses	<u>3,575</u>	<u>3,459</u>	<u>15,702</u>	<u>15,540</u>
Noninterest income:				
Trust income	7,664	871	9,729	2,588
Customer service fees	246	284	982	1,081
Debit/credit card and ATM fees	188	171	726	669
Increase in value of bank owned life ins.	87	425	280	596
Gain on sale of securities	-	-	133	-
Other	38	64	190	172
Total noninterest income	<u>8,223</u>	<u>1,815</u>	<u>12,040</u>	<u>5,106</u>
Noninterest expenses:				
Salaries and employee benefits	4,338	2,332	10,962	9,526
Net occupancy expense	501	540	2,113	2,324
Equipment expense	221	253	907	988
Other	1,099	800	5,668	4,535
Total noninterest expenses	<u>6,159</u>	<u>3,925</u>	<u>19,650</u>	<u>17,373</u>
Income before income taxes	5,639	1,349	8,092	3,273
Provision for income taxes	<u>1,863</u>	<u>316</u>	<u>2,611</u>	<u>932</u>
Net income	<u>\$ 3,776</u>	<u>\$ 1,033</u>	<u>\$ 5,481</u>	<u>\$ 2,341</u>
Earnings per share, basic	1.41	0.38	\$ 2.04	\$ 0.87
Earnings per share, diluted	1.41	0.38	\$ 2.04	\$ 0.87
Weighted average shares outstanding, basic	2,690,220	2,690,220	2,690,220	2,690,220
Weighted average shares outstanding, diluted	2,690,220	2,691,137	2,690,220	2,692,932

Per share information for all periods have been restated to reflect a 1.15 to 1 stock dividend paid on June 30, 2011

	Three Months Ended				
	December 31, 2012	September 30, 2012	June 30, 2012	March 31, 2012	December 31, 2011
Per Share Data:					
Earnings per weighted average share	1.41	0.29	0.15	0.19	0.38
Weighted average shares outstanding	2,690,220	2,690,220	2,690,220	2,690,220	2,690,220
Actual shares outstanding	2,690,220	2,690,220	2,690,220	2,690,220	2,690,220
Book value per share at period end	\$ 20.05	\$ 18.73	\$ 18.43	\$ 18.33	\$ 18.19
Performance Ratios:					
Return on average assets	3.10%	0.64%	0.32%	0.42%	0.90%
Net interest margin (FTE) ¹	3.34%	3.47%	3.30%	3.58%	3.68%
Capital and Other Ratios:					
(Ratios are period end, unless stated otherwise)					
Tier 1 leverage ratio	10.87%	9.92%	9.48%	10.12%	10.28%
Total risk-based capital ratio	16.21%	14.73%	14.74%	14.59%	14.35%
Allowance for loan losses to total loans	1.15%	1.14%	1.27%	1.29%	1.28%
Non-accruing loans to total loans	0.49%	0.21%	0.37%	0.22%	0.14%
Net charge-offs (net recoveries) to average loans (annualized)	0.49%	(0.15%)	0.09%	0.11%	0.57%

¹ The net interest margin is reported on a fully tax equivalent basis (FTE). GAAP income presented on the income statement for investment securities totaling \$531 thousand, for the period ended December 31, 2012, has been adjusted to \$562 thousand in order to reflect the taxable equivalence of the tax-exempt securities using a Federal income tax rate of 34%. The prior periods shown on the table were likewise adjusted.

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