



**PRESS RELEASE
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July 30, 2012

VIRGINIA NATIONAL BANK REPORTS SECOND QUARTER EARNINGS

[Charlottesville, VA] Virginia National Bank of Charlottesville, Virginia reported net income for the second quarter of 2012 of \$411 thousand, or \$0.15 per share for the three months ended June 30, 2012. This result is a 44.2% increase in net income as compared to the three months ended June 30, 2011, when the net income was \$285 thousand, or \$0.10 per share. The return on average assets for the quarter ended June 30, 2012 was 0.32%, as compared to 0.24% in the same period in 2011. For June 30, 2012, the Bank reported total consolidated assets of \$515.8 million, an increase of \$51.7 million or 11.1% from the \$464.1 million reported at December 31, 2011, and \$64.3 million or 14.2% more than the \$451.5 million reported for June 30, 2011. During the second quarter of 2012, management recorded a valuation adjustment of \$262 thousand to a couple of OREO properties; further details follow later in this release. Additionally, the Bank continued to see its net interest margin decline as result of existing loans are repricing to lower rates and new loans are added at lower interest rate spreads due to competition among banks for creditworthy customers. New loan production during the second quarter of 2012 was steady, with the period end balance at June 30, 2012 increasing by \$4.4 million or 1.5% to 299.1 million from the balance reported for March 31, 2012 of \$294.6 million. Loan balances increased \$6.6 million or 2.2% when compared to December 31, 2011.

Additional highlights for the second quarter of 2012 include:

- Asset quality remains strong with non-accrual loans-to-total loans at 0.37%, net charge-offs-to-average loans at 0.09%, and an allowance for loan losses-to-gross loans ratio of 1.27% at June 30, 2012.
- Deposit growth increased \$26.8 million or 6.2% to \$463.2 million at June 30, 2012, as compared to \$436.4 million at March 31, 2012, and a \$51.3 million or 12.5% increase from \$411.9 million at December 31, 2011.
- Year-to-date net income for the six months ended June 30, 2012 increased 59% or \$338 thousand to \$912 thousand as compared to the first six months of 2011 when net income was \$574 thousand.

Net Interest Margin

Net interest income for the three months ended June 30, 2012 was \$3.91 million or \$100 thousand less than the \$4.01 million for the three months ended June 30, 2011. The Bank's net interest margin for the three months

ended June 30, 2012 was 3.30% as compared to 3.69% for the three months ended June 30, 2011. The net interest margin decrease of 39 basis points was attributable to the decline in the earning asset yield of 52 basis points, which was offset by a decline in the cost of funds of 13 basis points. Virginia National Bank ranks among the lowest of its national peer banks (banks with total assets between \$300 million and \$750 million) for its cost of funds. The Bank's cost of funds for the quarter ended June 30, 2012 was 0.30% as compared to a recent quarterly national average of 0.88%. Interest income and fees on earning assets totaled \$4.257 million for the three months ended June 30, 2012, or a decrease of \$209 thousand from the \$4.466 million reported for the same period in 2011. The earning assets yield for the three months ended June 30, 2012 was 3.59%, as compared to the 4.11% for the three months ended June 30, 2011. Average loan balances for the second quarter of 2012 were \$294.9 million or an increase of \$5.9 million from the average balance of \$289.0 million during the second quarter of 2011. The yield on loans decreased 35 basis points to 5.07% for the three months ended June 30, 2012, as compared to 5.42% for the three months ended June 30, 2011. The average balance of investment securities for the second quarter of 2012 was \$96.6 million which is nearly unchanged from the \$96.7 million for the same period in 2011. The yield of the investment securities was 2.07% during the quarter ended June 30, 2012, as compared to the 2.25% yield reported in the same period of 2011.

Interest expense for deposit accounts and borrowings for the three months ended June 30, 2012 totaled \$347 thousand or a decrease of \$109 thousand from the \$456 thousand reported during the same three month period in 2011. The cost of funds for the quarter ended June 30, 2012 was 0.30%, a decrease of 14 basis points, when compared to the second quarter of 2011 when the cost of funds was 0.44%. The improvement in the cost of funds is namely attributable to the renewal of certificates of deposit accounts that renewed in a lower rate environment. 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; more on expense reductions are discussed later in this release.

For the six months ended June 30, 2012, the net interest margin was 3.43% or 31 basis points less than the net interest margin of 3.74% reported for the six months ended June 30, 2011. The earning assets yield for the first half of 2012 was 3.74% versus 4.17% for the same period in 2011. In the year-over-year period loan and investment yields declined by 35 basis points and 26 basis points, respectively. Federal funds increased 7 basis points during the first six months of 2012 as compared to the same period in 2011. The cost of funds for the six months ended June 30, 2012 was 0.32% or 7 basis points less than the 0.45% reported for the same period in 2011.

Provision for Loan Losses

Management recorded \$60 thousand in provision for the allowance for loan losses during the quarter ended June 30, 2012; which brings the total for the year to \$191 thousand. For the quarter ended June 30, 2011, management recorded \$21 thousand in provision. During the second quarter of 2012, \$134 thousand in loan balances were charged off, and there were \$64 thousand in recoveries of previously charged-off loans; this brings the total for the year to \$232 thousand in loan charge-offs and \$84 thousand in recoveries. During the

second quarter of 2011, \$77 thousand in loan balances were charged off, and there were \$4 thousand in recoveries of prior charged-off loans; for the year to date as of June 30, 2011 there was a total of \$77 thousand in loan balances that were charged-off and \$11 thousand in recoveries.

The net charge-offs to average loans ratio was .09% for the three months ended June 30, 2012, which is a decrease of 2 basis points from 0.11% for the first quarter of 2012. These results compare favorably to the Bank's most recent national peer bank group average ratio of 0.51% for banks with total assets between \$300 million and \$750 million. The Bank's non-performing loans to total loans ratio was 0.37% at June 30, 2012 and this compares favorably to the ratio at June 30, 2011 of 0.67%. The Bank's non-performing loans-to-total loans ratio at March 31, 2012 of 0.22% compares favorably to the national peer bank group average of 4.35%.

There were \$1.103 million in non-performing loans, defined as those past due ninety or more days and still accruing interest or those placed on non-accrual status, at June 30, 2012. This is an increase of \$312 thousand from December 31, 2011, when non-performing loans totaled \$791 thousand. When comparing the June 30, 2012 non-performing loans to the June 30, 2011 total of \$1.948 million in non-performing loans, the decrease is \$845 thousand or 43.4%. Management believes the allowance for loan losses was adequately provided for as of June 30, 2012.

Non-interest Income

Non-interest income for the quarter ended June 30, 2012 was \$1.209 million compared to \$1.068 million for the quarter ended June 30, 2011, an increase of \$141 thousand or 13.2%. Higher revenue in the second quarter of 2012 was primarily the result of an increase of \$50 thousand in VNBTrust fees; \$29 thousand in securities gains \$9 thousand in ATM fees, and \$13 thousand in income from bank-owned life insurance. For the six months ended June 30, 2012, non-interest income totaled \$2.398 million as compared to \$2.130 million for the six months ended June 30, 2011. While all categories showed an increase over the previous year, the areas that exhibited the greatest change were VNBTrust fees that increased \$144 thousand and other non-interest income with an increase of \$57 thousand. Management's strategy of focusing on growing non-interest income, which was set into motion a number of years ago, continues to show forward progress despite a tough economic environment.

Non-interest Expense

Non-interest expense totaled \$4.48 million for the three months ended June 30, 2012, a decrease of \$161 thousand or 3.5% when compared to the non-interest expense of \$4.641 million for the same period in 2011. The decrease in non-interest expense was seen in three major categories. Personnel expenses declined \$217 thousand in the three months ended June 30, 2012 and totaled \$2.18 million, as compared to the prior year period of \$2.397 million. The decrease was attributable to lower salary and benefits expenses as a result of

vacant or open positions. Net occupancy and equipment expense for the second quarter of 2012 totaled \$531 thousand and \$236 thousand, respectively. Net occupancy expense decreased \$60 thousand over the prior year as a result of a decline in depreciation expense of \$24 thousand and a decline in rental expense of \$36 thousand. The decline in rental expense was attributable to the purchase of the land in the first quarter of 2012 that was previously rented and it is the site of one of the Bank's offices. Equipment expense declined \$6 thousand primarily as a result of lower depreciation expense. Other expenses totaled \$1.533 million for the three months ended June 30, 2012, an increase of \$122 thousand as compared to \$1.411 for the same period in 2011. Other expenses were impacted primarily as a result of OREO property write downs totaling \$262 thousand. Management recorded the valuation adjustment to two of its OREO properties as they have been placed under a sales agreement. Selling the properties will reduce both the amount of non-earning assets and reduce the future outlays for holding expenses that are incurred as a result of holding larger sized properties. Non-interest expenses, excluding the OREO valuation adjustment, for the three months ended June 30, 2012 was \$4.218 million or a decrease of \$423 thousand or 9.1% less than the three months ended June 30, 2011.

For the six months ended June 30, 2012, non-interest expense totaled \$8.736 million, a reduction of \$501 thousand from the \$9.237 million reported for the first six months ended June 30, 2011. The majority of the reduction in the year-over-year comparison was a \$408 thousand reduction in salaries and benefits costs, and a reduction of \$131 thousand in net occupancy expense.

Balance Sheet

Federal Funds Sold balances increased \$32.5 million to \$77.1 million from the \$44.6 million at December 31, 2011; this increase in liquidity was primarily the result of the 12.5% increase in deposit account balances from December 31, 2011. Investment securities also increased \$14.7 million or 16.0% to \$106.6 million, as compared to \$91.9 million at December 31, 2011. Gross loans outstanding totaled \$299.1 million, an increase of \$6.6 million from the \$292.5 million reported at December 31, 2011. The allowance for loan losses of \$3.784 million increased \$43 thousand from the \$3.741 million reported at December 31, 2011.

Total deposit account balances were \$463.2 million at June 30, 2012, an increase of \$51.3 million when compared to \$411.9 million at December 31, 2011. Stockholders' equity at June 30, 2012 was \$49.6 million, resulting in a book value per common share of \$18.43, 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's capital level was considered "well-capitalized" according to regulatory guidelines at June 30, 2012, with the Tier 1 Leverage ratio at 9.48% and Total Risk-Based ratio at 14.74%.

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 two in Orange, Virginia. The Bank serves the needs of owner-operated 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 that larger regional and nationwide banks generally reserve for their larger clients. 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 its website: www.vnb.com.

Forward-Looking Statements

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. To the extent any statements express or imply a view about future performance, they may be deemed to be forward-looking statements. Although management of the Bank reasonably believes any 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 in this release. 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 or market conditions; changes in interest rates, deposits, loan demand, and asset quality; competition; changes in banking regulations and accounting principles or guidelines.

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 undertakes no obligations to revise, update, or clarify any forward-looking statements to reflect changes, events or conditions after the date of this release.

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

	[Unaudited] June 30, 2012	December 31, 2011
ASSETS		
Cash and due from banks	\$ 10,468	\$ 12,477
Federal funds sold	77,106	44,567
Securities:		
Available for sale, at fair value	94,898	84,150
Held to maturity, at amortized cost	10,011	5,988
Restricted securities, at cost	1,730	1,728
Total securities	106,639	91,866
Total loans	299,060	292,532
Allowance for loan losses	(3,784)	(3,741)
Total loans, net	295,276	288,791
Premises and equipment, net of depreciation	11,402	10,692
Other real estate owned, net of valuation allowance	3,657	4,242
Bank owned life insurance	6,997	6,869
Accrued interest receivable and other assets	4,232	4,562
Total assets	\$ 515,777	\$ 464,066
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Demand deposits:		
Noninterest-bearing	\$ 157,439	\$ 120,989
Interest-bearing	67,183	68,622
Money market deposit accounts	99,188	90,815
Certificates of deposit and other time deposits	139,426	131,442
Total deposits	463,236	411,868
repurchase	2,284	2,623
Accrued interest payable and other liabilities	687	654
Total liabilities	466,207	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)	6,723	6,723
Capital surplus	27,769	27,705
Retained earnings	13,685	12,773
Accumulated other comprehensive income	1,393	1,720
Total shareholders' equity	49,570	48,921
Total liabilities and shareholders' equity	\$ 515,777	\$ 464,066

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

	Three Months Ended		Six Months Ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
	[UNAUDITED]	[UNAUDITED]	[UNAUDITED]	[UNAUDITED]
Interest and dividend income:				
Loans, including fees	\$ 3,714	\$ 3,908	\$ 7,484	\$ 7,891
Federal funds sold	46	12	59	28
Investment securities				
Taxable	460	522	930	926
Tax exempt	14	8	22	16
Dividends	21	16	36	28
Other	2	-	2	-
Total interest and dividend income	<u>4,257</u>	<u>4,466</u>	<u>8,533</u>	<u>8,889</u>
Interest expense:				
Demand and savings deposits	75	53	125	104
Certificates and other time deposits	271	401	568	813
Federal funds purchased and securities sold under agreements to repurchase	1	2	2	3
Total interest expense	<u>347</u>	<u>456</u>	<u>695</u>	<u>920</u>
Net interest income	<u>3,910</u>	<u>4,010</u>	<u>7,838</u>	<u>7,969</u>
Provision for loan losses	<u>60</u>	<u>21</u>	<u>191</u>	<u>21</u>
Net interest income after provision for loan losses	<u>3,850</u>	<u>3,989</u>	<u>7,647</u>	<u>7,948</u>
Noninterest income:				
Trust income	622	571	1,268	1,124
Customer service fees	243	240	515	494
Debit/credit card and ATM fees	188	178	356	334
Earnings/increase in value of bank owned life ins.	64	51	128	104
Gain on sale of securities	29	-	29	-
Other	63	28	102	74
Total noninterest income	<u>1,209</u>	<u>1,068</u>	<u>2,398</u>	<u>2,130</u>
Noninterest expenses:				
Salaries and employee benefits	2,180	2,397	4,441	4,849
Net occupancy expense	531	591	1,074	1,205
Equipment expense	236	242	459	487
Other	1,533	1,411	2,762	2,696
Total noninterest expenses	<u>4,480</u>	<u>4,641</u>	<u>8,736</u>	<u>9,237</u>
Income before income taxes	579	416	1,309	841
Provision for income taxes	168	131	397	267
Net income	<u>\$ 411</u>	<u>\$ 285</u>	<u>\$ 912</u>	<u>\$ 574</u>
Earnings per share, basic	0.15	0.10	\$ 0.34	\$ 0.21
Earnings per share, diluted	0.15	0.10	\$ 0.34	\$ 0.21
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	2,693,380	2,690,220	2,693,616

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

	June 30, 2012	March 31, 2012	December 31, 2011	September 30, 2011	June 30, 2011
Per Share Data:					
Earnings per weighted average share	0.15	0.19	0.38	0.28	\$ 0.10
Weighted average shares outstanding	2,690,220	2,690,220	2,690,220	2,690,220	2,690,220
outstanding	2,690,220	2,690,220	2,690,220	2,690,220	2,690,220
Book value per share at period end	\$ 18.43	\$ 18.33	\$ 18.19	\$ 17.90	\$ 17.49
Performance Ratios:					
Return on average assets	0.32%	0.42%	0.90%	0.63%	0.24%
Net interest margin (FTE) ¹	3.30%	3.58%	3.68%	3.76%	3.69%
Capital and Other Ratios:					
(Ratios are period end, unless stated otherwise)					
Tier 1 leverage ratio	9.48%	10.12%	10.28%	9.89%	9.76%
Total risk-based capital ratio	14.74%	14.59%	14.35%	14.64%	14.33%
Allowance for loan losses to total loans	1.27%	1.29%	1.28%	1.27%	1.26%
Non-accruing loans to total loans	0.37%	0.22%	0.14%	0.27%	0.67%
Net charge-offs (net recoveries) to average loans (annualized)	0.09%	0.11%	0.57%	0.06%	0.10%

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 \$495 thousand, for the period ended June 30, 2011, has been adjusted to \$499 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

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