

## Virginia National Bankshares Corporation (VABK – OTCQX)

August 12, 2014

### Investor Relations Report

#### Growth Opportunities Move to the Forefront

Virginia National Bankshares Corporation put into place new growth initiatives in the second quarter in an effort to fuel the next leg of expansion for the company. Management announced that two new loan producers were brought on-board in the quarter, which signals a continued focus on driving revenue growth. One of the new lenders will lead expansion efforts in the Warrenton market, while the other new hire will focus on secondary market mortgage lending. We feel that investors will welcome the expansion efforts, especially once the new lenders get up and running and their loan production ramps up.

Virginia National Bankshares Corporation also announced that the company continues to explore other growth opportunities, including strategic bank or nonbank acquisitions. Virginia National Bankshares Corporation's strong capital base positions the company to take advantage of attractive opportunities that may arise. If a bank acquisition opportunity does not come along, we expect the company could deploy capital through a nonbank acquisition, share repurchases and/or additional hires in the lending team.

In the second quarter, the Board of Directors of Virginia National Bankshares Corporation increased the quarterly dividend from \$0.05 to \$0.075 per share, or \$0.30 per share on an annualized basis. Virginia National Bankshares Corporation's consistent profitability, strong credit quality and healthy capital position all support the higher dividend payout.

Community bank stocks have held steady in recent months as investors continue to weigh a multitude of competing forces that have impacted the sector, including interest rate risk, loan demand, regulatory issues and broader economic conditions. VABK shares currently command an unassuming 1.1 times book value multiple and the recently raised dividend currently yields approximately 1.3%.

#### Company Overview

Virginia National Bankshares Corporation was formed in 2013 and is the bank holding company for Virginia National Bank, which opened for business in 1998. Virginia National Bankshares Corporation is headquartered in Charlottesville, Virginia. The bank operates seven banking offices: four in Charlottesville, one in Orange and two in Winchester. In addition to offering a full-array of consumer and commercial banking products (including online banking), Virginia National Bank offers a robust treasury management program. VNB's wholly owned subsidiary, VNBTrust, N.A., was opened in 2007 and offers trust, wealth management and other investment services under the trade name VNB Wealth Management.

Virginia National Bankshares Corporation's stock trades on the OTC Market Group's OTCQX under the ticker VABK.

Last Price: \$23.58  
Market Capitalization: \$63.6 million

52 Week Range:  
\$17.00 - \$23.75

Annual Dividend: \$0.30  
Dividend Yield: 1.3%

Book Value: \$22.19  
Tangible Book Value: \$22.19

Historic EPS  
FY2011A: \$0.87  
FY2012A: \$2.04  
FY2013A: \$2.56

Price/Earnings (P/E)  
FY2011A: 27.1x  
FY2012A: 11.6x  
FY2013A: 9.2x

Price/Book Value: 1.1x  
Price/Tangible Book Value: 1.1x

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## Investment in New Lenders Signals a Renewed Focus on Growth

Virginia National Bankshares Corporation reported second quarter net income of \$445 thousand, or \$0.16 per share, versus \$816 thousand, or \$0.30 per share in last year's second quarter. This year's second quarter results are skewed lower due to adjustments made to salaries and employee benefits at VNBTrust that started in the first quarter (which should lead to more consistent compensation expense throughout the year) and the expenses associated with bringing the new hires onto the lending team.

### New Lenders Should Help to Drive Loan Growth

During the second quarter, Virginia National Bankshares Corporation hired a portfolio and a secondary market lender to help spur loan and noninterest income growth. The investment in the new producers pushed compensation expense higher in the quarter, but once these new hires gain traction we expect the investment will yield positive returns. Management indicated that competition for quality loans has been challenging and unlikely to change in the near term.

The total loan balance over the past year has been flat, as loan payoffs have offset what has been otherwise fairly strong loan production. The addition of new lenders should help to combat the run-off and may result in loan growth.

### Margin Pressure Will Likely Remain Near-Term

The soft loan demand has also impacted the net interest margin. Virginia National Bankshares Corporation's low loan-to-deposit ratio has compressed the net interest margin in recent quarters, but expansion may occur once loan growth picks up. In the second quarter, average loans declined while lower yielding securities increased, which led to the net interest margin declining to 3.08% from 3.17% in the first quarter. Management expects the net interest margin to remain flat or contract slightly from current levels in the coming quarters.

### History of Strong Credit Quality Continues in Q2

As has been the case, Virginia National Bankshares Corporation's credit quality remained strong in the second quarter. Nonaccrual loans remain at a de minimus level and total nonperforming assets, which include foreclosed properties, amount to a low 0.54% of total assets (compared to 0.51% at March 31<sup>st</sup> and 0.63% one year ago). We expect credit quality will remain a strong suit for Virginia National Bankshares Corporation for the foreseeable future.

### Strong Credit Quality Results in Lower ALLL

The strong credit quality results, along with the decline in loans in the second quarter, led to a recovery of funds that had previously been set aside for potential loan losses of \$118 thousand in the second quarter. The allowance for potential loan losses stood at 1.08% of loans at June 30<sup>th</sup>, compared to 1.21% one year ago, and covered nonperforming loans six times over.

### Capital Position Provides Flexibility

Virginia National Bankshares Corporation's capital position remains a strength of the franchise and provides management the flexibility needed to pursue growth opportunities. Management noted that share repurchases are a potential option, although we suspect using capital to fund growth, either through an acquisition or by adding to the lending team, would be preferred. Virginia National Bankshares Corporation's Total Risk-based Capital Ratio was 18.8% at quarter-end versus 16.3% one year ago.

### Switch to OTCQX Should Help Liquidity

Virginia National Bankshares Corporation recently became one of the founding banks to join the new OTCQX Banks exchange, which was created to enhance the dissemination of information to investors and to increase transparency. The increase in transparency and additional attention that is gained by listing on the OTCQX Banks exchange should help to boost investor confidence and increase stock liquidity.

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