

Virginia National Bankshares Corporation (VABK – OTCQB)

Investor Relations Report

February 26, 2014

Plenty of Positive Developments in 2013

Virginia National Bankshares Corporation had an active and transformative year in 2013. One achievement, the formation of a bank holding company, will help to position the bank to capitalize on future opportunities. Another achievement, the initiation of a common stock cash dividend, reflects the franchise's successful and profitable growth and rewards shareholders for their commitment. Earnings in 2013 climbed higher and Virginia National Bankshares Corporation's history of strong capital and credit quality was strengthened during the year.

The shareholder approval to form a bank holding company was made in 2013 and the reorganization became effective on December 16th. Virginia National Bank is now a wholly-owned subsidiary of Virginia National Bankshares Corporation. The new structure, which is common in the community bank sector, should give management additional financial flexibility in the years ahead.

Virginia National Bankshares Corporation's Board of Directors announced the company's first cash dividend in 2013, which amounts to \$0.20 per share annualized and represents a yield of approximately 1.0%. Virginia National Bankshares Corporation's strong capital position, low level of problem loans and consistent earnings all help to support the decision to initiate a dividend.

VABK shares are currently sitting at a 52-week high and are up approximately 31.3% over the past twelve months. Even after the strong move higher in the stock, valuation levels do not appear to be stretched by any means. VABK shares are currently trading at approximately 0.9 times book value and 7.9 times 2013 earnings. We believe community bank investors will continue to seek out banks that are able to deliver loan and earnings growth while maintaining sound capital positions and low levels of problem loans.

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 services under the trade name VNB Wealth Management.

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

Last Price: \$20.20
Market Capitalization: \$54.3 million

52 Week Range:
\$15.38 - \$20.20

Annual Dividend: \$0.20
Dividend Yield: 1.0%

Book Value: \$21.54
Tangible Book Value: \$21.54

EPS Actuals and Estimates

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

Price/Earnings (P/E)

FY2011A: 23.2x
FY2012A: 9.9x
FY2013A: 7.9x

Price/Book Value: 0.9x
Price/Tangible Book Value: 0.9x

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See second page for
important disclosures

Earnings Push Higher in 2013; Credit and Capital Strength Shines Through

Virginia National Bankshares Corporation reported full-year net income of \$6.9 million, or \$2.56 per share, which was a 25.8% increase over the \$5.5 million, or \$2.04 per share, earned in 2012. The strong stock market returns in 2013 helped to fuel VNBTrust fee income growth during the year. In fact, VNBTrust income increased by nearly \$5.3 million in 2013 compared to 2012, a 54.0% increase, which contributed to the increase in earnings in 2013.

Fourth quarter net income totaled \$4.6 million, or \$1.72 per share. This marked a 22.3% increase over the \$3.8 million, or \$1.41 per share, earned in last year's fourth quarter.

Problem Loan Levels Remain Low

Both fourth quarter and full-year credit quality results were outstanding and Virginia National Bankshares Corporation continues to boast one of the better credit quality profiles in Virginia. Nonaccrual loans declined to a low 0.12% of loans at year-end, which was down from 0.49% a year ago, and net charge-offs were minimal throughout 2013.

As a result of the strong credit quality results in 2013, loan loss provision expense was a low \$160 thousand for the year. The allowance for potential loan losses ended the year at 1.12% of loans, consistent with the 1.15% reported at the end of 2012.

Cost Saving Measures Flow Through in 2013

As a result of the increase in VNBTrust fee income, incentive compensation kicked-in, which increased total compensation expense in 2013. The increase in incentive compensation was offset by higher fee income. Excluding compensation expense, total noninterest expense declined in 2013, which can be attributed to the successful implementation of cost saving measures that management initiated in late 2012.

Book Value and Capital Levels Grow

Book value grew by approximately 7.4% in 2013 and ended the year at \$21.54 per share. Capital remains a strength of Virginia National Bankshares Corporation and the strong capital base should support loan growth opportunities in 2014. All regulatory capital levels increased in 2013.

Net Interest Margin Pressure Should Abate

We expect a gradual rising interest rate environment will be positive for Virginia National Bankshares Corporation's net interest income, especially if loan growth gains momentum. Virginia National Bankshares Corporation's loan-to-deposit ratio is a relatively low 69.7%, which gives management some balance sheet flexibility as the loan portfolio grows and will likely prove to be beneficial in a rising rate environment.

Net interest income declined by nearly \$1.2 million in 2013, which was due to pressure on loan yields, although an increase in tax-exempt security income and a decline in CD interest expense helped to offset some of the pressure. The net interest margin dipped to 3.15% in the fourth quarter from 3.34% in last year's fourth, again due to the pressure on asset yields. We anticipate a leveling out of the net interest margin in 2014. The pressure on asset yields and resultant pressure on the net interest margin has been a headwind, although it should be noted that most community banks have battled this issue. The positive is that the majority of the pressure should be factored in and the net interest margin variable should shift to a positive influence on earnings comparisons.

Loan Growth Will Remain a Focal Point

Virginia National Bankshares Corporation delivered strong loan growth in 2013. Total loans grew by approximately \$15.2 million, which marked a 5.3% increase over year-end 2012. We expect loan growth will remain a focal point in 2014 as it remains a key to earnings growth.

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