UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2020

OR

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

For the transition period from ___________ to ___________

Commission File Number: **000-55117**

VIRGINIA NATIONAL BANKSHARES CORPORATION

(Exact Name of Registrant as Specified in its Charter)

Virginia **(State or other jurisdiction of incorporation or organization)**	**46-2331578** **(I.R.S. Employer Identification No.)**
404 People Place **Charlottesville, Virginia** **(Address of principal executive offices)**	**22911** **(Zip Code)**

Registrant's telephone number, including area code: **(434) 817-8621**

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock	VABK	OTCQX

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	☒
Non-accelerated filer	☐	Smaller reporting company	☒
Emerging growth company	☐		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes ☒ No ☐

As of May 6, 2020, the registrant had 2,704,273 shares of common stock, $2.50 par value per share, outstanding.

VIRGINIA NATIONAL BANKSHARES CORPORATION

FORM 10-Q

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

VIRGINIA NATIONAL BANKSHARES CORPORATION
CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except per share data)

	March 31, 2020 (Unaudited)	December 31, 2019*
ASSETS		
Cash and due from banks	$ 19,312	$ 14,908
Federal funds sold	12,262	4,177
Securities:		
Available for sale, at fair value	102,054	114,041
Restricted securities, at cost	1,736	1,683
Total securities	103,790	115,724
Loans	553,959	539,533
Allowance for loan losses	(4,704)	(4,209)
Loans, net	549,255	535,324
Premises and equipment, net	5,955	6,145
Bank owned life insurance	16,519	16,412
Goodwill	372	372
Other intangible assets, net	391	408
Accrued interest receivable and other assets	9,243	9,157
Total assets	$ 717,099	$ 702,627
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Demand deposits:		
Noninterest-bearing	$ 190,618	$ 166,975
Interest-bearing	124,350	122,994
Money market and savings deposit accounts	218,432	221,964
Certificates of deposit and other time deposits	101,736	109,278
Total deposits	635,136	621,211
Accrued interest payable and other liabilities	5,672	5,309
Total liabilities	640,808	626,520
Commitments and contingent liabilities		
Shareholders' equity:		
Preferred stock, $2.50 par value, 2,000,000 shares authorized, no shares outstanding	-	-
Common stock, $2.50 par value, 10,000,000 shares authorized; 2,702,373 (including 14,368 nonvested shares), and 2,692,005 (including 4,000 nonvested shares) issued and outstanding at March 31, 2020 and December 31, 2019, respectively	6,720	6,720
Capital surplus	32,234	32,195
Retained earnings	37,828	37,235
Accumulated other comprehensive loss	(491)	(43)
Total shareholders' equity	76,291	76,107
Total liabilities and shareholders' equity	$ 717,099	$ 702,627

* Derived from audited Consolidated Financial Statements

See Notes to Consolidated Financial Statements

VIRGINIA NATIONAL BANKSHARES CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(Dollars in thousands, except per share data)
(Unaudited)

	For the three months ended	
	March 31, 2020	**March 31, 2019**
Interest and dividend income:		
Loans, including fees	$ 5,871	$ 6,097
Federal funds sold	85	19
Investment securities:		
Taxable	509	252
Tax exempt	75	81
Dividends	24	26
Total interest and dividend income	6,564	6,475
Interest expense:		
Demand and savings deposits	695	381
Certificates and other time deposits	494	459
Repurchase agreements and other borrowings	—	67
Total interest expense	1,189	907
Net interest income	5,375	5,568
Provision for loan losses	765	684
Net interest income after provision for loan losses	4,610	4,884
Noninterest income:		
Trust income	310	347
Advisory and brokerage income	178	136
Royalty income	47	4
Deposit account fees	179	181
Debit/credit card and ATM fees	157	157
Earnings/increase in value of bank owned life insurance	107	110
Fees on mortgage sales	47	30
Gains on sales of securities	53	-
Loan swap fee income	509	8
Other	82	86
Total noninterest income	1,669	1,059
Noninterest expense:		
Salaries and employee benefits	2,424	2,346
Net occupancy	452	479
Equipment	131	117
Data processing	328	316
Other	1,208	1,153
Total noninterest expense	4,543	4,411
Income before income taxes	1,736	1,532
Provision for income taxes	332	286
Net income	$ 1,404	$ 1,246
Net income per common share, basic *	$ 0.52	$ 0.46
Net income per common share, diluted *	$ 0.52	$ 0.46
Weighted average common shares outstanding, basic *	2,692,803	2,678,184
Weighted average common shares outstanding, diluted *	2,694,090	2,687,098

* Share data has been retroactively adjusted to reflect the 5% stock dividend effective July 5, 2019.

See Notes to Consolidated Financial Statements

VIRGINIA NATIONAL BANKSHARES CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in thousands)
(Unaudited)

	For the three months ended	
	March 31, 2020	March 31, 2019
Net income	$ 1,404	$ 1,246
Other comprehensive income (loss)		
Unrealized gain (loss) on securities, net of tax of ($109) for the three months ended March 31 2020; and net of tax of $201 for the three months ended March 31, 2019	(406)	754
Reclassification adjustment for realized gains on sales of securities, net of tax of ($11) for the three months ended March 31, 2020; and net of tax of $0 for the three months ended March 31, 2019	(42)	-
Total other comprehensive income (loss)	(448)	754
Total comprehensive income	$ 956	$ 2,000

See Notes to Consolidated Financial Statements

VIRGINIA NATIONAL BANKSHARES CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2020 AND 2019
(Dollars in thousands, except per share data)
(Unaudited)

	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2018	$ 6,359	$ 27,013	$ 38,647	$ (1,277)	$ 70,742
Stock options exercised	14	88	-	-	102
Stock option expense	-	24	-	-	24
Unrestricted stock grants	27	397	-	-	424
Cash dividends declared ($0.30 per share)	-	-	(767)	-	(767)
Net income	-	-	1,246	-	1,246
Other comprehensive income	-	-	-	754	754
Balance, March 31, 2019	$ 6,400	$ 27,522	$ 39,126	$ (523)	$ 72,525
Balance, December 31, 2019	$ 6,720	$ 32,195	$ 37,235	$ (43)	$ 76,107
Stock option expense	-	24	-	-	24
Restricted stock grant expense	-	15	-	-	15
Cash dividends declared ($0.30 per share)	-	-	(811)	-	(811)
Net income	-	-	1,404	-	1,404
Other comprehensive loss	-	-	-	(448)	(448)
Balance, March 31, 2020	$ 6,720	$ 32,234	$ 37,828	$ (491)	$ 76,291

See Notes to Consolidated Financial Statements

VIRGINIA NATIONAL BANKSHARES CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)
(Unaudited)

	For the three months ended	
	March 31, 2020	**March 31, 2019**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 1,404	$ 1,246
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	765	684
Net amortization and accretion of securities	103	68
Net gains on sale of securities	(53)	-
Earnings on bank owned life insurance	(107)	(110)
Amortization of intangible assets	40	34
Depreciation and other amortization	518	464
Stock option expense	24	24
Stock grants, unrestricted	15	424
Net change in:		
Accrued interest receivable and other assets	(205)	(423)
Accrued interest payable and other liabilities	387	302
Net cash provided by operating activities	2,891	2,713
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net increase in restricted investments	(53)	(1)
Purchases of available for sale securities	(7,109)	-
Proceeds from maturities, calls and principal payments of available for sale securities	13,112	967
Proceeds from sales of available for sale securities	5,366	-
Net decrease (increase) in organic loans	(20,641)	6,754
Net decrease in purchased loans	5,945	1,406
Cash payment for wealth management book of business	(50)	(50)
Purchase of bank premises and equipment	(89)	(64)
Net cash provided by (used in) investing activities	(3,519)	9,012
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase (decrease) in demand deposits, NOW accounts, and money market accounts	21,467	(37,261)
Net increase (decrease) in certificates of deposit and other time deposits	(7,542)	21,927
Proceeds from stock options exercised	-	102
Cash dividends paid	(808)	(763)
Net cash provided by (used in) financing activities	13,117	(15,995)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	$ 12,489	$ (4,270)
CASH AND CASH EQUIVALENTS:		
Beginning of period	$ 19,085	$ 18,874
End of period	$ 31,574	$ 14,604
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash payments for:		
Interest	$ 1,215	$ 813
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Unrealized gain (loss) on available for sale securities	$ (568)	$ 955
Initial right-of-use assets obtained in exchange for new operating lease liabilities	$ —	$ 4,279

See Notes to Consolidated Financial Statements

Note 1. Significant Accounting Policies

Basis of Presentation

The consolidated financial statements include the accounts of Virginia National Bankshares Corporation (the “Company”), and its subsidiaries Virginia National Bank (the “Bank”) and Masonry Capital Management, LLC (“Masonry Capital”), a registered investment advisor. Effective July 1, 2018, VNBTrust, National Association (“VNBTrust”), formerly a subsidiary of the Bank, was merged into Virginia National Bank, and the Bank continued to offer investment management, wealth advisory and trust and estate administration services under the name of VNB Wealth Management, also referred to herein as “VNB Wealth.” All references herein to VNB Wealth Management or VNB Wealth refer to VNBTrust for periods prior to July 1, 2018. In 2019, the services offered by VNB Wealth are provided by Masonry Capital or by the Bank under VNB Trust & Estate Services or Sturman Wealth Advisors, formerly known as VNB Investment Services. All significant intercompany balances and transactions have been eliminated in consolidation.

The unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information. Accordingly, the unaudited consolidated financial statements do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring items) considered necessary for a fair presentation have been included.

The preparation of financial statements in conformity with GAAP and the reporting guidelines prescribed by regulatory authorities 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 (including impaired loans), other-than-temporary impairment of securities, intangible assets, and fair value measurements. Operating results for the three months ended March 31, 2020 are not necessarily indicative of the results that may be expected for the year ending December 31, 2020.

The statements should be read in conjunction with the Notes to Consolidated Financial Statements included in the Company’s Form 10-K for the year ended December 31, 2019. If needed, certain previously reported amounts have been reclassified to conform to current period presentation. No such reclassifications were significant.

Adoption of New Accounting Standards and Guidance

Goodwill Impairment Testing In January 2017, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2017-04, “Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment.” The amendments in this ASU simplify how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit’s goodwill with the carrying amount of that goodwill. Instead, under the amendments in this ASU, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. ASU 2017-04 was effective for the Company on January 1, 2020. There was no material impact on the Company’s consolidated financial statements upon the adoption of ASU 2017-04.

Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement In August 2018, the FASB issued ASU 2018-13, “Fair Value Measurement (Topic 820) - Changes to the Disclosure Requirements for Fair Value Measurement” (“ASU 2018-13”). ASU 2018-13 modifies the disclosure requirements on fair value measurements by requiring that Level 3 fair value disclosures include the range and weighted average of significant unobservable inputs used to develop those fair value measurements. For certain unobservable inputs, an entity may disclose other quantitative information in lieu of the weighted average if the entity determines that other quantitative information would be a more reasonable and rational method to reflect the distribution of unobservable inputs used to develop Level 3 fair value measurements. Certain disclosure requirements in Topic 820 were also removed or modified. ASU 2018-13 was effective for the Company on January 1, 2020. There was no impact on the Company’s disclosures in its consolidated financial statements upon the adoption of ASU 2018-13.

Interagency COVID-19 Guidance In March 2020, various regulatory agencies, including the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System and the Federal Deposit Insurance Corporation, ("the agencies") issued an interagency statement on loan modifications and reporting for financial institutions working with customers affected by COVID-19. The interagency statement was effective immediately and impacted accounting for loan modifications. Under Accounting Standards Codification 310-40, "Receivables – Troubled Debt Restructurings by Creditors," ("ASC 310-40"), a restructuring of debt constitutes a troubled debt restructuring ("TDR") if the creditor, for economic or legal reasons related to the debtor's financial difficulties, grants a concession to the debtor that it would not otherwise consider. The agencies confirmed with the staff of the FASB that short-term modifications made on a good faith basis in response to COVID-19 to borrowers who were current prior to any relief, are not to be considered TDRs. This includes short-term (e.g., six months) modifications such as payment deferrals, fee waivers, extensions of repayment terms, or other delays in payment that are insignificant. Borrowers considered current are those that are less than 30 days past due on their contractual payments at the time a modification program is implemented. This interagency guidance may have a material impact on the Company's financial statements; however, this impact cannot be quantified at this time.

Recent Accounting Pronouncements

Financial Instruments – Credit Losses In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." The amendments in this ASU, among other things, require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. In addition, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The FASB has issued multiple updates to ASU 2016-13 as codified in Topic 326, including ASU's 2019-04, 2019-05, 2019-10, 2019-11, 2020-02, and 2020-03. These ASU's have provided for various minor technical corrections and improvements to the codification as well as other transition matters. Smaller reporting companies who file with the U.S. Securities and Exchange Commission (SEC) and all other entities who do not file with the SEC are required to apply the guidance for fiscal years, and interim periods within those years, beginning after December 15, 2022. The Company is currently assessing the impact that ASU 2016-13 will have on its consolidated financial statements. Early in 2017, the Company formed a cross-functional steering committee, including some members of senior management, to provide governance and guidance over the project plan. The steering committee meets regularly to address the compliance requirements, data requirements and sources, and analysis efforts that are required to adopt these new requirements. In addition to attending seminars and webinars on this topic with regulators and other experts, the committee is working closely with the Company's vendor to gather additional loan data which is anticipated to be needed for this calculation and is attending training sessions on the software to be utilized to calculate the expected credit losses. The extent of the change is indeterminable at this time as it will be dependent upon portfolio composition and credit quality at the adoption date, as well as economic conditions and forecasts at that time. Upon adoption, the impact to the allowance for credit losses (currently allowance for loan losses) will have an offsetting one-time cumulative-effect adjustment to retained earnings.

Effective November 25, 2019, the SEC adopted Staff Accounting Bulletin (SAB) 119. SAB 119 updated portions of SEC interpretative guidance to align with FASB ASC 326, "Financial Instruments – Credit Losses." It covers topics including (1) measuring current expected credit losses; (2) development, governance, and documentation of a systematic methodology; (3) documenting the results of a systematic methodology; and (4) validating a systematic methodology.

Income Taxes In December 2019, the FASB issued ASU 2019-12, "Income Taxes (Topic 740) – Simplifying the Accounting for Income Taxes." The ASU is expected to reduce cost and complexity related to the accounting for income taxes by removing specific exceptions to general principles in Topic 740 (eliminating the need for an organization to analyze whether certain exceptions apply in a given period) and improving financial statement preparers' application of certain income tax-related guidance. This ASU is part of the FASB's simplification initiative to make narrow-scope simplifications and improvements to accounting standards through a series of short-term projects. For public business entities, the amendments are effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early adoption is permitted. The Company does not expect the adoption of ASU 2019-12 to have a material impact on its consolidated financial statements.

Investments – Equity Securities In January 2020, the FASB issued ASU 2020-01, "Investments – Equity Securities (Topic 321), Investments – Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815) – Clarifying the Interactions between Topic 321, Topic 323, and Topic 815." The ASU is based on a consensus of the FASB's Emerging Issues Task Force and is expected to increase comparability in accounting for these transactions. ASU 2016-01 made targeted improvements to accounting for financial instruments, including providing an entity the ability to measure certain equity securities without a readily determinable fair value at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. Among other topics, the amendments clarify that an entity should consider observable transactions that require it to either apply or discontinue the equity method of accounting. For public business entities, the amendments in the ASU are effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early adoption is permitted. The Company does not expect the adoption of ASU 2020-01 to have a material impact on its consolidated financial statements.

LIBOR and Other Reference Rates In March 2020, the Financial Accounting Standards Board (FASB) issued ASU No. 2020-04 "Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting." These amendments provide temporary optional guidance to ease the potential burden in accounting for reference rate reform. The ASU provides optional expedients and exceptions for applying generally accepted accounting principles to contract modifications and hedging relationships, subject to meeting certain criteria, that reference the London Inter-bank Offered Rate ("LIBOR") or another reference rate expected to be discontinued. It is intended to help stakeholders during the global market-wide reference rate transition period. The guidance is effective for all entities as of March 12, 2020 through December 31, 2022. To facilitate an orderly transition from LIBOR, Inter-bank Offered Rate ("IBOR") and other benchmark rates to alternative reference rates ("ARRs"), the Company has established a focus committee, which includes members of senior management, including the Chief Credit Officer and Chief Financial Officer, among others. The task of this committee is to identify, assess and monitor risk associated with the expected discontinuation or unavailability of benchmarks, including LIBOR, achieve operations readiness and engage impacted clients in connection with the transition to ARRs. The Company is assessing ASU 2020-04 and its impact on the Company's transition away from LIBOR for its loan and other financial instruments.

SEC Filing Requirements On March 12, 2020, the SEC finalized amendments to the definitions of its "accelerated filer" and "large accelerated filer" definitions. The amendments increase the threshold criteria for meeting these filer classifications and are effective on April 27, 2020. Any changes in filer status are to be applied beginning with the filer's first annual report filed with the SEC subsequent to the effective date. Prior to these changes, the Company was required to comply with section 404(b) of the Sarbanes Oxley Act concerning auditor attestation over internal control over financial reporting as an "accelerated filer" as it had more than $75 million in public float but less than $700 million at the end of the Company's most recent second quarter). The rule change expands the definition of "smaller reporting companies" to include entities with public float of less than $700 million and less than $100 million in annual revenues. The Company expects to meet this expanded category of smaller reporting company and will no longer be considered an accelerated filer). If the Company's annual revenues exceed $100 million, its category will change back to "accelerated filer". The classifications of "accelerated filer" and "large accelerated filer" require a public company to obtain an auditor attestation concerning the effectiveness of internal control over financial reporting (ICFR) and include the opinion on ICFR in its annual report on Form 10-K. Smaller reporting companies also have additional time to file quarterly and annual financial statements. All public companies are required to obtain and file annual financial statement audits, as well as provide management's assertion on effectiveness of internal control over financial reporting, but the external auditor attestation of internal control over financial reporting is not required for smaller reporting companies. As the Bank's total assets exceed $500 million, it remains subject to FDICIA's internal reporting requirements, but does not require an auditor attestation concerning internal controls over financial reporting. As such, professional and consulting expenditures should decline by an immaterial amount.

Note 2. Securities

The amortized cost and fair values of securities available for sale as of March 31, 2020 and December 31, 2019 were as follows (dollars in thousands):

March 31, 2020	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized (Losses)**	**Fair Value**
U.S. Government agencies	$ 13,000	$ 13	$ —	$ 13,013
Mortgage-backed securities/CMOs	66,462	1,134	(202)	67,394
Municipal bonds	23,214	60	(1,627)	21,647
Total Securities Available for Sale	$ 102,676	$ 1,207	$ (1,829)	$102,054

December 31, 2019	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
U.S. Government agencies	$ 15,000	$ -	$ (48)	$ 14,952
Corporate bonds	7,469	-	-	7,469
Mortgage-backed securities/CMOs	71,970	76	(314)	71,732
Municipal bonds	19,656	282	(50)	19,888
Total Securities Available for Sale	$ 114,095	$ 358	$ (412)	$114,041

As of March 31, 2020, there were $37.1 million, or 46 issues of individual securities, held in an unrealized loss position. These securities have an unrealized loss of $1.8 million and consisted of 12 mortgage-backed/CMOs and 34 municipal bonds.

The following table summarizes all securities with unrealized losses, segregated by length of time in a continuous unrealized loss position, at March 31, 2020, and December 31, 2019 (dollars in thousands):

March 31, 2020

	Less than 12 Months		12 Months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mortgage-backed/CMOs	$ 18,989	$ (190)	$ 307	$ (12)	$ 19,296	$ (202)
Municipal bonds	17,782	(1,627)	—	-	17,782	(1,627)
	$ 36,771	$ (1,817)	$ 307	$ (12)	$ 37,078	$ (1,829)

December 31, 2019

	Less than 12 Months		12 Months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government agencies	$ 9,957	$ (43)	$ 1,995	$ (5)	$ 11,952	$ (48)
Mortgage-backed/CMOs	39,061	(228)	7,716	(86)	46,777	(314)
Municipal bonds	5,922	(50)	—	—	5,922	(50)
	$ 54,940	$ (321)	$ 9,711	$ (91)	$ 64,651	$ (412)

The Company's securities portfolio is primarily made up of fixed rate bonds, the prices of which move inversely with interest rates. Any unrealized losses are considered by management to be driven by increases in market interest rates over the yields available at the time the underlying securities were purchased. The fair value is expected to recover as the bonds approach their maturity date or repricing date or if market yields for such investments decline. At the end of any accounting period, the portfolio may have both unrealized gains and losses. Management does not believe any of the securities in an unrealized loss position are impaired due to credit quality. Accordingly, as of March 31, 2020, management believes the impairments detailed in the table above are temporary, and no impairment loss has been realized in the Company's consolidated income statement.

An "other-than-temporary impairment" ("OTTI") is considered to exist if either of the following conditions are met: it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis, or the Company does not expect to recover the security's entire amortized cost basis (even if the Company does not intend to sell). In the event that a security would suffer impairment for a reason that was "other than temporary," the Company would be expected to write down the security's value to its new fair value, and the amount of the write down would be included in earnings as a realized loss. As of March 31, 2020, management has concluded that none of its investment securities have an OTTI based upon the information available. Additionally, management has the ability to hold any security with an unrealized loss until maturity or until such time as the value of the security has recovered from its unrealized loss position.

Securities having carrying values of $5.0 million at March 31, 2020 were pledged as collateral to secure public deposits. At December 31, 2019, securities having carrying values of $5.0 million were similarly pledged.

For the three months ended March 31, 2020, proceeds from the sales of securities amounted to $5.4 million, and realized gain on these securities was $53 thousand. For the three months ended March 31, 2019, there were no sales of securities.

Restricted securities are securities with limited marketability and consist of stock in the Federal Reserve Bank of Richmond ("FRB"), the Federal Home Loan Bank of Atlanta ("FHLB"), and CBB Financial Corporation ("CBBFC"), the holding company for Community Bankers Bank. These restricted securities, totaling $1.7 million as of both March 31, 2020 and December 31, 2019, are carried at cost.

Note 3. Loans

The composition of the loan portfolio by loan classification at March 31, 2020 and December 31, 2019 appears below (dollars in thousands).

	March 31, 2020	December 31, 2019
Commercial		
Commercial and industrial - organic	$ 38,578	$ 38,843
Commercial and industrial - government guaranteed	35,031	35,347
Commercial and industrial - syndicated	6,388	6,398
Total commercial and industrial	79,997	80,588
Real estate construction and land		
Residential construction	2,687	2,197
Commercial construction	14,523	6,880
Land and land development	7,895	8,063
Total construction and land	25,105	17,140
Real estate mortgages		
1-4 family residential, first lien, investment	49,289	44,099
1-4 family residential, first lien, owner occupied	19,566	20,671
1-4 family residential, junior lien	2,375	2,520
1-4 family residential - purchased	29,693	33,428
Home equity lines of credit, first lien	10,002	10,268
Home equity lines of credit, junior lien	10,676	9,671
Farm	8,915	8,808
Multifamily	32,013	27,093
Commercial owner occupied	97,871	96,117
Commercial non-owner occupied	120,478	118,561
Total real estate mortgage	380,878	371,236
Consumer		
Consumer revolving credit	19,301	20,081
Consumer all other credit	6,094	5,741
Student loans purchased	42,584	44,747
Total consumer	67,979	70,569
Total loans	553,959	539,533
Less: Allowance for loan losses	(4,704)	(4,209)
Net loans	$ 549,255	$ 535,324

The balances in the table above include unamortized premiums and net deferred loan costs (fees). As of March 31, 2020 and December 31, 2019, unamortized premiums on loans purchased were $2.4 million and $2.5 million, respectively. Net deferred loan costs (fees) totaled $84 thousand and $100 thousand as of March 31, 2020 and December 31, 2019, respectively.

Accounting guidance requires certain disclosures about investments in impaired loans, the allowance for loan losses and interest income recognized on impaired loans. A loan is considered impaired when it is probable that the Company will be unable to collect all principal and interest amounts when due 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.

Following is a breakdown by class of the loans classified as impaired loans as of March 31, 2020 and December 31, 2019. These loans are reported at their recorded investment, which is the carrying amount of the loan as reflected on the Company's balance sheet, net of charge-offs and other amounts applied to reduce the net book balance. Average recorded investment in impaired loans is computed using an average of month-end balances for these loans for either the three months ended March 31, 2020 or the twelve months ended December 31, 2019. Interest income recognized is for the three months ended March 31, 2020 or the twelve months ended December 31, 2019. (Dollars below reported in thousands.)

March 31, 2020	**Recorded Investment**	**Unpaid Principal Balance**	**Associated Allowance**	**Average Recorded Investment**	**Interest Income Recognized**
Impaired loans without a valuation allowance:					
Land and land development	$ 272	$ 320	$ -	$ 273	$ -
1-4 family residential mortgages, junior lien	115	115	-	116	2
Commercial non-owner occupied real estate	867	867	-	871	12
Total impaired loans without a valuation allowance	1,254	1,302	-	1,260	14
Impaired loans with a valuation allowance					
Student loans purchased	1,130	1,130	36	1,130	19
Total impaired loans with a valuation allowance	1,130	1,130	36	1,130	19
Total impaired loans	$ 2,384	$ 2,432	$ 36	$ 2,390	$ 33

December 31, 2019	**Recorded Investment**	**Unpaid Principal Balance**	**Associated Allowance**	**Average Recorded Investment**	**Interest Income Recognized**
Impaired loans without a valuation allowance:					
Land and land development	$ 279	$ 324	$ -	$ 67	$ 13
1-4 family residential mortgages, first lien, owner occupied	-	-	-	20	2
1-4 family residential mortgages, junior lien	117	117	-	122	6
Commercial and industrial - organic	20	20	-	3	1
Commercial non-owner occupied real estate	879	879	-	900	48
Total impaired loans without a valuation allowance	1,295	1,340	-	1,112	70
Impaired loans with a valuation allowance					
Student loans purchased	1,184	1,184	21	1,549	86
Total impaired loans with a valuation allowance	1,184	1,184	21	1,549	86
Total impaired loans	$ 2,479	$ 2,524	$ 21	$ 2,661	$ 156

Included in the impaired loans above are non-accrual loans. Generally, 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. The recorded investment in non-accrual loans is shown below by class (dollars in thousands):

	March 31, 2020	**December 31, 2019**
Land and land development	$ 273	$ 279
Commercial and industrial - organic	-	20
Total non-accrual loans	$ 273	$ 299

Additionally, Troubled Debt Restructurings ("TDRs") are considered impaired loans. TDRs occur when the Company agrees to modify the original terms of a loan by granting a concession that it would not otherwise consider due to the deterioration in the financial condition of the borrower. These concessions are done in an attempt to improve the paying capacity of the borrower, and in some cases to avoid foreclosure, and are made with the intent to restore the loan to a performing status once sufficient payment history can be demonstrated. These concessions could include reductions in the interest rate, payment extensions, forgiveness of principal, forbearance or other actions.

Based on regulatory guidance on Student Lending, the Company has classified 68 of its student loans purchased as TDRs for a total of $1.1 million as of March 31, 2020. These borrowers that should have been in repayment have requested and been granted payment extensions or reductions exceeding the maximum lifetime allowable payment forbearance of twelve months (36 months lifetime allowance for military service), as permitted under the regulatory guidance, and are therefore considered restructurings. Student loan borrowers are allowed in-school deferments, plus an automatic six-month grace period post in-school status, before repayment is scheduled to begin, and these deferments do not count toward the maximum allowable forbearance. Initially, all student loans were fully insured by a surety bond, and the Company did not expect to experience a loss on these loans. Based on the loss of insurance after July 27, 2018 due to the insolvency of the insurer, management has evaluated these loans individually for impairment and included any potential loss in the allowance for loan losses; interest continues to accrue on these TDRs during any deferment and forbearance periods.

The following provides a summary, by class, of TDRs that continue to accrue interest under the terms of the restructuring agreement, which are considered to be performing, and TDRs that have been placed in non-accrual status, which are considered to be nonperforming (dollars in thousands).

Troubled debt restructurings (TDRs)	March 31, 2020		December 31, 2019	
	No. of Loans	Recorded Investment	No. of Loans	Recorded Investment
Performing TDRs				
1-4 family residential mortgages, junior lien	1	$ 115	1	$ 117
Commercial non-owner occupied real estate	1	867	1	879
Student loans purchased	68	1,130	67	1,184
Total performing TDRs	70	$ 2,112	69	$ 2,180
Nonperforming TDRs				
Land and land development	1	$ 12	1	$ 13
Total nonperforming TDRs	1	$ 12	1	$ 13
Total TDRs	71	$ 2,124	70	$ 2,193

A summary of loans shown above that were modified under the terms of a TDR during the three months ended March 31, 2020 and 2019 is shown below by class (dollars in thousands). The Post-Modification Recorded Balance reflects the period end balances, inclusive of any interest capitalized to principal, partial principal paydowns, and principal charge-offs since the modification date. Loans modified as TDRs that were fully paid down, charged-off, or foreclosed upon by period end are not reported.

	For three months ended March 31, 2020			**For three months ended March 31, 2019**		
	Number of Loans	**Pre-Modification Recorded Balance**	**Post-Modification Recorded Balance**	**Number of Loans**	**Pre-Modification Recorded Balance**	**Post-Modification Recorded Balance**
Student loans purchased	5	$ 60	$ 60	2	$ 55	$ 55
Total loans modified during the period	5	$ 60	$ 60	2	$ 55	$ 55

During the three months ended March 31, 2020, there were two loans modified as TDRs that subsequently defaulted which had been modified as TDRs during the twelve months prior to default. These student loans had a balance of $7 thousand prior to being charged off. There were three loans modified as a TDR that subsequently defaulted during the year ending December 31, 2019 which had been modified as a TDR during the twelve months prior to default. These student loan had balances totaling $23 thousand prior to being charged off.

There were no loans secured by 1-4 family residential property that were in the process of foreclosure at either March 31, 2020 or December 31, 2019.

Note 4. Allowance for Loan Losses

The allowance for loan losses is maintained at a level which, in management's judgment, is adequate to absorb probable credit losses inherent in the loan portfolio. The amount of the allowance is based on management's quarterly evaluation of the collectability of the loan portfolio, credit concentrations, historical loss experience, specific impaired loans, and economic conditions. To determine the total allowance for loan losses, the Company 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.

For purposes of determining the allowance for loan losses, the Company has segmented certain loans in the portfolio by product type. Within these segments, the Company has sub-segmented its portfolio by classes within the segments, based on the associated risks within these classes.

Loan Classes by Segments

Commercial loan segment:
- Commercial and industrial - organic
- Commercial and industrial - government guaranteed
- Commercial and industrial - syndicated

Real estate construction and land loan segment:
- Residential construction
- Commercial construction
- Land and land development

Real estate mortgage loan segment:
- 1-4 family residential, first lien, investment
- 1-4 family residential, first lien, owner occupied
- 1-4 family residential, junior lien
- Home equity lines of credit, first lien
- Home equity lines of credit, junior lien
- Farm
- Multifamily
- Commercial owner occupied
- Commercial non-owner occupied

Consumer loan segment:
- Consumer revolving credit
- Consumer all other credit
- Student loans purchased

Management utilizes a loss migration model for determining the quantitative risk assigned to unimpaired loans in order to capture historical loss information at the loan level, track loss migration through risk grade deterioration, and increase efficiencies related to performing the calculations. The quantitative risk factor for each loan class primarily utilizes a migration analysis loss method based on loss history for the prior twelve quarters.

The migration analysis loss method is used for all loan classes except for the following:

- Student loans purchased - On June 27, 2018, the Company was notified that ReliaMax Surety Company ("ReliaMax Surety"), the South Dakota insurance company which issued surety bonds for the student loan pools, was placed into liquidation due to insolvency. As such, the historical charge-off rate on this portfolio is determined by using the Company's own losses/charge-offs since July 1, 2018 together with prior insurance claim history. For reporting periods prior to June 30, 2018, the Company did not charge off student loans as the insurance covered the past due loans, but the Company did apply qualitative factors to calculate a reserve on these loans, net of the deposit reserve accounts held by the Company for this group of loans.

- Commercial and industrial government guaranteed loans – These loans require no reserve as these are 100% guaranteed by either the Small Business Administration (“SBA”) or the United States Department of Agriculture (“USDA”).

- Commercial and industrial syndicated loans - Beginning with the quarter ended September 30, 2016, migration analysis was utilized on the Pass pool. For all other pools, there was not an established loss history; therefore the S&P credit and recovery ratings on the credit facilities were utilized to calculate a three-year weighted average historical default rate. As of December 31, 2019, only migration analysis was utilized since all outstanding syndicated loans at that time were in the Pass pool.

Under the migration analysis method, average loss rates are calculated at the risk grade and class levels by dividing the twelve-quarter average net charge-off amount by the twelve-quarter average loan balances. Qualitative factors are combined with these quantitative factors to arrive at the overall general allowances.

The Company’s internal creditworthiness grading system is based on experiences with similarly graded loans. The Company performs regular credit reviews of the loan portfolio to review the credit quality and adherence to its underwriting standards. Additionally, external reviews of a portion of the credits are conducted on a semi-annual basis.

Loans that trend upward on the risk ratings scale, toward more positive risk ratings, generally exhibit lower risk factor characteristics. 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 and Historical Loss Factor Assigned

Excellent

A 0% historical loss factor is applied, as these loans are secured by cash or fully guaranteed by a U.S. government agency and represent a minimal risk. The Company has never experienced a loss within this category.

Good

A 0% historical loss factor is applied, as these loans represent a low risk and are secured by marketable collateral within margin. In an abundance of caution, a nominal loss reserve is applied to these loans. The Company has never experienced a loss within this category.

Pass

A historical loss factor for loans rated “Pass” is applied to current balances of like-rated loans, pooled by class. Loans with the following risk ratings are pooled by class and considered together as “Pass”:

Satisfactory – modest risk loans where the borrower has strong and liquid financial statements and more than adequate cash flow

Average – average risk loans where the borrower has reasonable debt service capacity

Marginal – acceptable risk loans where the borrower has acceptable financial statements but is leveraged

Watch

These loans have an acceptable risk but require more attention than normal servicing. A historical loss factor for loans rated “Watch” is applied to current balances of like-rated loans pooled by class.

Special Mention

These potential problem loans are currently protected but are potentially weak. A 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, a 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.

The following represents the loan portfolio designated by the internal risk ratings assigned to each credit as of March 31, 2020 and December 31, 2019 (dollars in thousands). There were no loans rated "Doubtful" as of either period.

March 31, 2020	**Excellent**	**Good**	**Pass**	**Watch**	**Special Mention**	**Sub-standard**	**TOTAL**
Commercial							
Commercial and industrial - organic	$ 6,110	$ 16,740	$ 14,684	$ 846	$ 34	$ 164	$ 38,578
Commercial and industrial - government guaranteed	35,031	-	-	-	-	-	35,031
Commercial and industrial - syndicated	-	-	6,388	-	-	-	6,388
Real estate construction							
Residential construction	-	-	2,687	-	-	-	2,687
Commercial construction	-	-	14,523	-	-	-	14,523
Land and land development	-	-	7,406	204	-	285	7,895
Real estate mortgages							
1-4 family residential, first lien investment	-	-	46,175	2,742	-	372	49,289
1-4 family residential, first lien, owner occupied	-	-	18,481	1,032	-	53	19,566
1-4 family residential, junior lien	-	-	1,905	32	16	422	2,375
1-4 family residential, first lien - purchased	-	-	29,693	-	-	-	29,693
Home equity lines of credit, first lien	-	-	10,000	2	-	-	10,002
Home equity lines of credit, junior lien	-	-	10,512	82	-	82	10,676
Farm	-	-	6,277	313	-	2,325	8,915
Multifamily	-	-	31,613	400	-	-	32,013
Commercial owner occupied	-	-	90,481	5,771	-	1,619	97,871
Commercial non-owner occupied	-	-	118,050	1,534	-	894	120,478
Consumer							
Consumer revolving credit	840	17,990	468	-	-	3	19,301
Consumer all other credit	412	5,191	490	-	-	1	6,094
Student loans purchased	-	-	40,798	1,473	188	125	42,584
Total Loans	$ 42,393	$ 39,921	$ 450,631	$ 14,431	$ 238	$ 6,345	$ 553,959

December 31, 2019	Excellent	Good	Pass	Watch	Special Mention	Sub-standard	TOTAL
Commercial							
Commercial and industrial - organic	$ 6,463	$ 16,453	$ 14,257	$ 1,493	$ 37	$ 140	$ 38,843
Commercial and industrial - government guaranteed	35,347	-	-	-	-	-	35,347
Commercial and industrial - syndicated	-	-	6,398	-	-	-	6,398
Real estate construction							
Residential construction	-	-	2,197	-	-	-	2,197
Commercial construction	-	-	6,880	-	-	-	6,880
Land and land development	-	-	7,563	207	-	293	8,063
Real estate mortgages							
1-4 family residential, first lien, investment	-	-	39,641	4,076	-	382	44,099
1-4 family residential, first lien, owner occupied	-	-	19,578	1,040	-	53	20,671
1-4 family residential, junior lien	-	-	2,029	33	17	441	2,520
1-4 family residential, first lien - purchased	-	-	33,428	-	-	-	33,428
Home equity lines of credit, first lien	-	-	9,591	677	-	-	10,268
Home equity lines of credit, junior lien	-	-	9,357	232	-	82	9,671
Farm	-	-	6,149	318	-	2,341	8,808
Multifamily	-	-	26,690	403	-	-	27,093
Commercial owner occupied	-	-	86,884	5,928	1,677	1,628	96,117
Commercial non-owner occupied	-	-	116,092	1,558	-	911	118,561
Consumer					-		
Consumer revolving credit	279	19,176	606	20	-	-	20,081
Consumer all other credit	199	5,035	507	-	-	-	5,741
Student loans purchased	-	-	42,598	1,729	211	209	44,747
Total Loans	$ 42,288	$ 40,664	$ 430,445	$ 17,714	$ 1,942	$ 6,480	$ 539,533

In addition, the adequacy of the Company's allowance for loan 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, which deteriorated in the first quarter of 2020,
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; and
8) Changes in the level of policy exceptions.

It has been the Company's experience that the first five factors drive losses to a much greater extent than the last three factors; therefore, the first five factors are weighted more heavily. Qualitative factors are not assessed against loans rated "Excellent" or "Good," as the Company has never experienced a loss within these categories.

For each segment and class of loans, management must exercise significant judgment to determine the estimation method that fits the credit risk characteristics of its various segments. Although this evaluation is inherently subjective, qualified management utilizes its significant knowledge and experience related to both the Company's market and the history of the Company's loan losses.

Impaired loans are individually evaluated and, if deemed appropriate, a specific allocation is made for these loans. In reviewing the loans classified as impaired loans totaling $2.4 million at March 31, 2020, specific valuation allowance was recognized 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 borrower. The $36 thousand in the allowance total shown below as individually evaluated for impairment was attributed to the impaired student loans that required an allowance as of March 31, 2020 due to the loss of the insurance on this portfolio as discussed previously.

A summary of the transactions in the Allowance for Loan Losses by loan portfolio segment for the three months ended March 31, 2020 and the year ended December 31, 2019 appears below (dollars in thousands):

Allowance for Loan Losses Rollforward by Portfolio Segment
As of and for the period ended March 31, 2020

	Commercial Loans	Real Estate Construction and Land	Real Estate Mortgages	Consumer Loans	Total
Allowance for Loan Losses:					
Balance as of beginning of year	$ 302	$ 109	$ 2,684	$ 1,114	$ 4,209
Charge-offs	-	-	-	(388)	(388)
Recoveries	13	-	-	105	118
Provision for (recovery of) loan losses	(6)	99	366	306	765
Ending Balance	$ 309	$ 208	$ 3,050	$ 1,137	$ 4,704
Ending Balance:					
Individually evaluated for impairment	$ -	$ -	$ -	$ 36	$ 36
Collectively evaluated for impairment	309	208	3,050	1,101	4,668
Loans:					
Individually evaluated for impairment	$ -	$ 272	$ 982	$ 1,130	$ 2,384
Collectively evaluated for impairment	79,997	24,833	379,896	66,849	551,575
Ending Balance	$ 79,997	$ 25,105	$ 380,878	$ 67,979	$ 553,959

As of and for the period ended December 31, 2019

	Commercial Loans	Real Estate Construction and Land	Real Estate Mortgages	Consumer Loans	Total
Allowance for Loan Losses:					
Balance as of beginning of year	$ 811	$ 119	$ 2,611	$ 1,350	$ 4,891
Charge-offs	(482)	-	-	(1,777)	(2,259)
Recoveries	51	1	14	136	202
Provision for (recovery of) loan losses	(78)	(11)	59	1,405	1,375
Ending Balance	$ 302	$ 109	$ 2,684	$ 1,114	$ 4,209
Ending Balance:					
Individually evaluated for impairment	$ -	$ -	$ -	$ 21	$ 21
Collectively evaluated for impairment	302	109	2,684	1,093	4,188
Loans:					
Individually evaluated for impairment	$ 20	$ 279	$ 996	$ 1,184	$ 2,479
Collectively evaluated for impairment	80,568	16,861	370,240	69,385	537,054
Ending Balance	$ 80,588	$ 17,140	$ 371,236	$ 70,569	$ 539,533

As previously mentioned, one of the major factors that the Company 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 Company 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 placed in nonaccrual or charged off.

The following tables show the aging of past due loans as of March 31, 2020 and December 31, 2019. (Dollars below reported in thousands.)

Past Due Aging as of March 31, 2020	**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**
Commercial loans							
Commercial and industrial - organic	$ 39	$ 1,051	$ 261	$ 1,351	$ 37,227	$ 38,578	$ -
Commercial and industrial - government guaranteed	-	-	548	548	34,483	35,031	548
Commercial and industrial - syndicated	-	-	-	-	6,388	6,388	-
Real estate construction and land							
Residential construction	-	-	-	-	2,687	2,687	-
Commercial construction	-	-	-	-	14,523	14,523	-
Land and land development	-	13	-	13	7,882	7,895	-
Real estate mortgages							
1-4 family residential, first lien, investment	-	-	-	-	49,289	49,289	-
1-4 family residential, first lien, owner occupied	53	-	-	53	19,513	19,566	-
1-4 family residential, junior lien	-	-	-	-	2,375	2,375	-
1-4 family residential - purchased	1,095	-	-	1,095	28,598	29,693	-
Home equity lines of credit, first lien	-	-	-	-	10,002	10,002	-
Home equity lines of credit, junior lien	-	-	-	-	10,676	10,676	-
Farm	-	-	-	-	8,915	8,915	-
Multifamily	-	-	-	-	32,013	32,013	-
Commercial owner occupied	-	-	-	-	97,871	97,871	-
Commercial non-owner occupied	-	-	-	-	120,478	120,478	-
Consumer loans							
Consumer revolving credit	-	-	-	-	19,301	19,301	-
Consumer all other credit	3	1	-	4	6,090	6,094	-
Student loans purchased	342	188	185	715	41,869	42,584	185
Total Loans	$ 1,532	$ 1,253	$ 994	$ 3,779	$550,180	$553,959	$ 733

Past Due Aging as of December 31, 2019	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
Commercial loans							
Commercial and industrial - organic	$ 604	$ 20	$ -	$ 624	$ 38,219	$ 38,843	$ -
Commercial and industrial - government guaranteed	-	-	548	548	34,799	35,347	548
Commercial and industrial - syndicated	-	-	-	-	6,398	6,398	-
Real estate construction and land							
Residential construction	-	-	-	-	2,197	2,197	-
Commercial construction	-	-	-	-	6,880	6,880	-
Land and land development	1	-	280	281	7,782	8,063	14
Real estate mortgages							
1-4 family residential, first lien, investment	188	-	-	188	43,911	44,099	-
1-4 family residential, first lien, owner occupied	-	123	-	123	20,548	20,671	-
1-4 family residential, junior lien	-	-	-	-	2,520	2,520	-
1-4 family residential - purchased	501	158	-	659	32,769	33,428	-
Home equity lines of credit, first lien	-	-	-	-	10,268	10,268	-
Home equity lines of credit, junior lien	-	-	-	-	9,671	9,671	-
Farm	-	-	-	-	8,808	8,808	-
Multifamily	-	-	-	-	27,093	27,093	-
Commercial owner occupied	-	-	-	-	96,117	96,117	-
Commercial non-owner occupied	0	-	-	0	118,561	118,561	-
Consumer loans							
Consumer revolving credit	20	-	-	20	20,061	20,081	-
Consumer all other credit	43	0	-	43	5,698	5,741	-
Student loans purchased	697	218	209	1,124	43,623	44,747	209
Total Loans	$ 2,054	$ 519	$ 1,037	$ 3,610	$535,923	$539,533	$ 771

Note 5. Net Income Per Share

On June 13, 2019, the Board of Directors approved a stock dividend of five percent (5%) on the outstanding shares of common stock of the Company (or .05 share for each share outstanding) which was issued on July 5, 2019 to all shareholders of record as of the close of business on June 26, 2019, referred to as the “5% Stock Dividend”. Shareholders received cash in lieu of any fractional shares that they otherwise would have been entitled to receive in connection with the stock dividend. The price paid for fractional shares was based on the volume-weighted average price of a share of common stock for the most recent three (3) days prior to the record date during which a trade of the Company’s stock occurred.

For the following table, share and per share data have been adjusted to reflect the 5% Stock Dividend. The table shows the weighted average number of shares used in computing net income per common share and the effect on the weighted average number of shares of diluted potential common stock for the three months ended March 31, 2020 and 2019. Potential dilutive common stock equivalents have no effect on net income available to common shareholders. (Dollars below reported in thousands except per share data.)

Three Months Ended	March 31, 2020			March 31, 2019		
	Net Income	Weighted Average Shares	Per Share Amount	Net Income	Weighted Average Shares	Per Share Amount
Basic net income per share	$ 1,404	2,692,803	$ 0.52	$ 1,246	2,678,184	$ 0.46
Effect of dilutive stock options	-	1,287	-	-	8,914	-
Diluted net income per share	$ 1,404	$2,694,090	$ 0.52	$ 1,246	$2,687,098	$ 0.46

For the three months ended March 31, 2020, there were 104,301 option shares considered anti-dilutive and excluded from this calculation. For the three months ended March 31, 2019, there were 62,750 option shares, as adjusted, considered anti-dilutive and excluded from this calculation.

Note 6. Stock Incentive Plans

At the Annual Shareholders Meeting on May 21, 2014, shareholders approved the Virginia National Bankshares Corporation 2014 Stock Incentive Plan ("2014 Plan"). The 2014 Plan makes available up to 275,625 shares of the Company's common stock, as adjusted by the 5% Stock Dividend and prior stock dividends, to be issued to plan participants. The 2014 Plan provides for granting of both incentive and nonqualified stock options, as well as restricted stock and other stock based awards. No new grants will be issued under the 2005 Stock Incentive Plan ("2005 Plan") as this plan has expired.

For the 2014 Plan and the 2005 Plan (the "Plans"), the option price of incentive stock options will not be less than the fair value of the stock at the time an option is granted. Nonqualified stock options may be granted at prices established by the Board of Directors, including prices less than the fair value on the date of grant. Outstanding stock options generally expire ten years from the grant date. Stock options generally vest by the fourth or fifth anniversary of the date of the grant.

A summary of the shares issued and available under each of the Plans is shown below as of March 31, 2020. Share data and exercise price range per share have been adjusted to reflect the 5% Stock Dividend and prior stock dividends. Although the 2005 Plan has expired and no new grants will be issued under this plan, there were options issued before the plan expired that are still outstanding as shown below.

	2005 Plan	2014 Plan
Aggregate shares issuable	253,575	275,625
Options issued, net of forfeited and expired options	(59,870)	(122,047)
Unrestricted stock issued	-	(11,535)
Restricted stock grants issued	-	(14,368)
Cancelled due to Plan expiration	(193,705)	-
Remaining available for grant	-	127,675
Grants issued and outstanding:		
Total vested and unvested shares	1,379	105,404
Fully vested shares	1,379	13,722
Exercise price range	$13.69 to $13.69	$26.00 to $42.62

The Company accounts for all of its stock incentive plans under recognition and measurement accounting principles which require that the compensation cost relating to stock-based payment transactions be recognized in the financial statements. Stock-based compensation arrangements include stock options and restricted stock. All stock-based payments to employees are required to be valued at a fair value on the date of grant and expensed based on that fair value over the applicable vesting period. .

Stock Options

Changes in the stock options outstanding related to the Plans are summarized below. (Dollars in thousands except per share data):

	March 31, 2020		
	Number of Options	Weighted Average Exercise Price	Aggregate Intrinsic Value
Outstanding at January 1, 2020	80,783	$ 40.76	
Issued	26,000	26.00	
Exercised	—	—	
Expired	—	—	
Outstanding at March 31, 2020	106,783	$ 37.17	$ 17
Options exercisable at March 31, 2020	15,101	$ 39.08	$ 17

For the three months ended March 31, 2020 and 2019, the Company recognized $24 thousand each period, in compensation expense for stock options. As of March 31, 2020, there was $410 thousand in unrecognized compensation expense remaining to be recognized in future reporting periods through 2025. The fair value of any stock option grant is estimated at the grant date using the Black-Scholes pricing model. Stock option grants for 26,000 shares were issued during the three months ended March 31, 2020, and no stock option grants were issued during the three months ended March 31, 2019. The fair value of each option granted in 2020 was estimated based on the assumptions noted in the following table:

	For the three months ended March 31, 2020
Expected volatility[1]	24.33%
Expected dividends[2]	4.62%
Expected term (in years)[3]	6.50
Risk-free rate[4]	0.72%

1 Based on the monthly historical volatility of the Company's stock price over the expected life of the options.

2 Calculated as the ratio of historical dividends paid per share of common stock to the stock price on the date of grant.

3 Based on the average of the contractual life and vesting period for the respective option.

4 Based upon an interpolated US Treasury yield curve interest rate that corresponds to the contractual life of the option, in effect at the time of the grant.

Summary information pertaining to options outstanding at March 31, 2020 is shown below. Share and per share data have been adjusted to reflect the 5% Stock Dividend and prior stock dividends.

	Options Outstanding			Options Exercisable	
Exercise Price	Number of Options Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number of Options Exercisable	Weighted-Average Exercise Price
$10.65 to $20.00	1,379	2.9 Years	$ 13.69	1,379	$ 13.69
$20.01 to $30.00	27,103	9.9 Years	26.06	551	27.39
$30.01 to $40.00	20,820	8.9 Years	38.14	1,680	39.52
$40.01 to $42.62	57,481	8.1 Years	42.62	11,491	42.62
Total	106,783	8.7 Years	$ 37.17	15,101	$ 39.08

Stock Grants

Unrestricted stock grants - No unrestricted stock grants were issued in the first quarter of 2020. On February 20, 2019, a total of 11,535 shares of unrestricted stock, as adjusted for the 5% Stock Dividend, were granted to non-employee directors and certain members of executive management for services to be provided during the year ended December 31, 2019. Based on the market price on February 20, 2019 of $38.65, the total expense for these shares of $424 thousand was expensed in 2019 as those services were provided. As of March 31, 2019, $106 thousand of this total had been realized in stock grant expense.

Restricted stock grants - On March 25, 2020, 10,368 restricted shares were granted to non-employee directors, vesting over a four-year period. In September 2019, 4,000 restricted shares were granted to certain members of executive management. As of March 31, 2020, there was $387 thousand in unrecognized compensation expense for restricted stock grants remaining to be recognized in future reporting periods through 2024.

Changes in the restricted stock grants outstanding during the first quarter of 2020 are summarized below. (Dollars in thousands except per share data):

	March 31, 2020		
	Number of Shares	Weighted Average Grant Date Fair Value Per Share	Aggregate Intrinsic Value
Nonvested as of January 1, 2020	4,000	$ 36.00	$ 104
Issued	10,368	26.00	270
Vested	—	—	
Nonvested at March 31, 2020	14,368	$ 28.78	$ 374

Note 7. Fair Value Measurements

Determination of Fair Value

The Company follows ASC 820, "Fair Value Measurements and Disclosures," to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. This codification clarifies that the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company'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 fair value guidance provides a consistent definition of fair value, which focuses on exit price in the principal or most advantageous market for the asset or liability 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 Company 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 Company to measure certain financial assets and liabilities recorded at fair value on a recurring basis in the 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 tables present the balances measured at fair value on a recurring basis as of March 31, 2020 and December 31, 2019 (dollars in thousands):

		Fair Value Measurements at March 31, 2020 Using:		
Description	**Balance**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets:				
U.S. Government agencies	$ 13,013	$ -	$ 13,013	$ -
Mortgage-backed securities/CMOs	67,394	-	67,394	-
Municipal bonds	21,647	-	21,647	-
Total securities available for sale	$102,054	$ -	$ 102,054	$ -

		Fair Value Measurements at December 31, 2019 Using:		
Description	**Balance**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets:				
U.S. Government agencies	$ 14,952	$ -	$ 14,952	$ -
Corporate bonds	7,469	-	7,469	-
Mortgage-backed securities/CMOs	71,732	-	71,732	-
Municipal bonds	19,888	-	19,888	-
Total securities available for sale	$114,041	$ -	$ 114,041	$ -

Certain 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 Company to measure certain assets recorded at fair value on a nonrecurring basis in the consolidated financial statements:

Other Real Estate Owned

Other real estate owned ("OREO") is measured at fair value less cost to sell, based on an appraisal conducted by an independent, licensed appraiser outside of the Company. If the collateral value is significantly adjusted due to differences in the comparable properties, or is discounted by the Company because of marketability, then the fair value is considered Level 3. OREO is measured at fair value on a nonrecurring basis. Any initial fair value adjustment is charged against the Allowance for Loan Losses. Subsequent fair value adjustments are recorded in the period incurred and included in other noninterest expense on the Consolidated Statements of Income. As of March 31, 2020 and December 31, 2019, the Company had no OREO property.

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 when due. The measurement of loss associated with impaired loans can be based on either (a) the observable market price of the loan or the fair value of the collateral, or (b) using the present value of expected future cash flows discounted at the loan's effective interest rate, which is not a fair value measurement. Collateral may be in the form of real estate or business assets including equipment, inventory, and accounts receivable. The vast majority of the collateral is real estate. The value of real estate collateral is determined utilizing an income or market valuation approach based on an appraisal conducted by an independent, licensed appraiser outside of the Company using observable market data (Level 2). However, if the collateral value is significantly adjusted due to differences in the comparable properties, or is discounted by the Company because of marketability, then the fair value is considered Level 3.

Impaired loans that are measured based on expected future cash flows discounted at the loan's effective interest rate rather than the market rate of interest are not recorded at fair value, and are therefore excluded from fair value disclosure requirements.

The value of business equipment is based upon an outside appraisal if deemed significant, or the net book value on the applicable business' financial statements if not considered significant. Likewise, values for inventory and accounts receivables collateral are based on financial statement balances or aging reports (Level 3).

Impaired loans allocated to the Allowance for Loan Losses are measured at fair value on a nonrecurring basis. Any fair value adjustments are recorded in the period incurred as provision for loan losses on the Consolidated Statements of Income. The Company had impaired loans of $2.4 million as of March 31, 2020 and $2.5 million as of December 31, 2019. All impaired loans were measured based on expected future cash flows discounted at the loan's effective interest rate, or fair value of collateral, as noted above.

ASC 825, "Financial Instruments," requires disclosures about fair value of financial instruments for interim periods and excludes certain financial instruments and all non-financial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Company.

The Company uses the exit price notion in calculating the fair values of financial instruments not measured at fair value on a recurring basis.

The carrying values and estimated fair values of the Company's financial instruments as of March 31, 2020 and December 31, 2019 are as follows (dollars in thousands):

		Fair Value Measurements at March 31, 2020 Using:			
	Carrying value	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Fair Value
Assets					
Cash and cash equivalent	$ 31,574	$ 31,574	$ -	$ -	$ 31,574
Available for sale securities	102,054	-	102,054	-	102,054
Loans, net	549,255	-	-	524,649	524,649
Bank owned life insurance	16,519	-	16,519	-	16,519
Accrued interest receivable	2,267	-	409	1,858	2,267
Liabilities					
Demand deposits and					
interest-bearing transaction, money market, and savings accounts	$ 533,400	$ -	$ 533,400	$ -	$ 533,400
Certificates of deposit and other time deposits	101,736	-	102,943	-	102,943
Accrued interest payable	269	-	269	-	269

		Fair Value Measurements at December 31, 2019 Using:			
	Carrying value	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Fair Value
Assets					
Cash and cash equivalent	$ 19,085	$ 19,085	$ -	$ -	$ 19,085
Available for sale securities	114,041	-	114,041	-	114,041
Loans, net	535,324	-	-	523,507	523,507
Bank owned life insurance	16,412	-	16,412	-	16,412
Accrued interest receivable	2,240	-	385	1,855	2,240
Liabilities					
Demand deposits and					
interest-bearing transaction and money market accounts	$ 511,933	$ -	$ 511,933	$ -	$ 511,933
Certificates of deposit and other time deposits	109,278	-	109,848	-	109,848
Accrued interest payable	295	-	295	-	295

The Company assumes interest rate risk (the risk that general interest rate levels will change) as a result of its normal operations. Consequently, the fair values of the Company’s financial instruments will fluctuate when interest rate levels change, and that change may be either favorable or unfavorable to the Company. 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 Company’s overall interest rate risk.

Note 8. Other Comprehensive Income

A component of the Company's other comprehensive income, in addition to net income from operations, is the recognition of the unrealized gains and losses on available for sale securities, net of income taxes. Reclassifications of realized gains and losses on available for sale securities are reported in the income statement as "Gains (losses) on sales and calls of securities" with the corresponding income tax effect reflected as a component of income tax expense. Amounts reclassified out of accumulated other comprehensive income are presented below for the three months ended March 31, 2020 and 2019 (dollars in thousands)

	Three Months Ended	
	March 31, 2020	March 31, 2019
Available for sale securities		
Realized gains on sales of securities	$ 53	$ -
Tax effect	(11)	-
Realized gains, net of tax	$ 42	$ -

Note 9. Segment Reporting

Beginning in 2019, the Company has four reportable segments. 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, require different technology and marketing strategies. The accounting policies of the segments are the same as those described in the summary of significant accounting policies provided earlier in this report.

The four reportable segments are:

- *Bank* - The commercial banking segment involves making loans and generating deposits from individuals, businesses and charitable organizations. Loan fee income, service charges from deposit accounts, and other non-interest-related fees, such as fees for debit cards and ATM usage and fees for treasury management services, generate additional income for the Bank segment.

- *Sturman Wealth Advisors* – Sturman Wealth Advisors, formerly known as VNB Investment Services, offers wealth management and investment advisory services. Revenue for this segment is generated primarily from investment advisory and financial planning fees, with a small and decreasing portion attributable to brokerage commissions.

- *VNB Trust & Estate Services* – VNB Trust & Estate Services offers corporate trustee services, trust and estate administration, IRA administration and custody services. Revenue for this segment is generated from administration, service and custody fees, as well as management fees which are derived from Assets Under Management and incentive income which is based on the investment returns generated on performance-based Assets Under Management. Investment management services currently are offered through in-house and third-party managers. In addition, royalty income, in the form of fixed and incentive fees, from the sale of Swift Run Capital Management, LLC in 2013 is reported as income of VNB Trust & Estate Services. More information on royalty income and the related sale can be found under Summary of Significant Accounting Policies in Note 1 of the notes to consolidated financial statements, which is found in Item 8. Financial Statements and Supplementary Data, in the Company's Form 10-K Report for December 31, 2019.

- *Masonry Capital* - Masonry Capital offers investment management services for separately managed accounts and a private investment fund employing a value-based, catalyst-driven investment strategy. Revenue for this segment is generated from management fees which are derived from Assets Under Management and incentive income which is based on the investment returns generated on performance-based Assets Under Management.

A management fee for administrative and technology support services provided by the Bank is allocated to the other three lines of business previously combined under VNB Wealth. For both the three months ended March 31, 2020 and 2019, management fees totaling $75 thousand were charged by the Bank and eliminated in consolidated totals.

Segment information for the three months ended March 31, 2020 and 2019 is shown in the following tables (dollars in thousands). Note that asset information is not reported below, as the assets previously allocated to VNB Wealth are reported at the Bank level subsequent to the merger of VNBTrust, National Association, into the Bank effective July 1, 2018; also, assets specifically allocated to the VNB Wealth lines of business are insignificant and are no longer provided to the chief operating decision maker.

Three months ended March 31, 2020	Bank	Sturman Wealth Advisors	VNB Trust & Estate Services	Masonry Capital	Consolidated
Net interest income	$ 5,375	$ -	$ -	$ -	$ 5,375
Provision for loan losses	765	-	-	-	765
Noninterest income	1,135	178	258	98	1,669
Noninterest expense	3,963	174	238	168	4,543
Income before income taxes	1,782	4	20	(70)	1,736
Provision for income taxes	342	1	4	(15)	332
Net income	$ 1,440	$ 3	$ 16	$ (55)	$ 1,404

Three months ended March 31, 2019	Bank	Sturman Wealth Advisors	VNB Trust & Estate Services	Masonry Capital	Consolidated
Net interest income	$ 5,568	$ -	$ -	$ -	$ 5,568
Provision for loan losses	684	-	-	-	684
Noninterest income	573	136	346	4	1,059
Noninterest expense	3,799	136	307	169	4,411
Income before income taxes	1,658	—	39	(165)	1,532
Provision for income taxes	312	0	8	(34)	286
Net income	$ 1,346	$ —	$ 31	$ (131)	$ 1,246

Note 10. Leases

On January 1, 2019, the Company adopted ASU No. 2016-02 “Leases (Topic 842)” and all subsequent ASUs that modified Topic 842. The Company elected the prospective application approach provided by ASU 2018-11 and did not adjust prior periods for ASC 842. The Company also elected certain practical expedients within the standard and consistent with such elections did not reassess whether any expired or existing contracts are or contain leases, did not reassess the lease classification for any expired or existing leases, and did not reassess any initial direct costs for existing leases. Lease payments for short-term leases are recognized as lease expense on a straight-line basis over the lease term. Payments for leases with terms longer than twelve months are included in the determination of the lease liability. The right-of-use asset and lease liability are included in other assets and other liabilities, respectively, in the Consolidated Balance Sheets.

Lease liabilities represent the Company’s obligation to make lease payments and are presented at each reporting date as the net present value of the remaining contractual cash flows. Cash flows are discounted at the Company’s incremental borrowing rate in effect at the commencement date of the lease for a term similar to the length of the lease, including any probable renewal options available. Right-of-use assets represent the Company’s right to use the underlying asset for the lease term and are calculated as the sum of the lease liability and if applicable, prepaid rent, initial direct costs and any incentives received from the lessor.

Each of the Company’s long-term lease agreements are classified as operating leases. Certain of these leases offer the option to extend the lease term and the Company has included such extensions in its calculation of the lease liabilities to the extent the options are reasonably assured of being exercised. The lease agreements do not provide for residual value guarantees and have no restrictions or covenants that would impact dividends or require incurring additional financial obligations.

The following tables present information about the Company's leases (dollars in thousands):

	March 31, 2020
Lease liability	$ 3,430
Right-of-use asset	$ 3,397
Weighted average remaining lease term	4.81 years
Weighted average discount rate	2.83%

	Three Months Ended March 31,	
Lease Expense	**2020**	**2019**
Operating lease expense	$ 204	$ 204
Short-term lease expense	28	36
Total lease expense	$ 232	$ 240
Cash paid for amounts included in lease liabilities	$ 199	196

A maturity analysis of operating lease liabilities and reconciliation of the undiscounted cash flows to the total of operating lease liabilities is as follows (dollars in thousands):

Undiscounted Cash Flow	**March 31, 2020**
Nine months ending December 31, 2020	$ 600
Twelve months ending December 31, 2021	807
Twelve months ending December 31, 2022	767
Twelve months ending December 31, 2023	680
Twelve months ending December 31, 2024	469
Twelve months ending December 31, 2025	393
Thereafter	-
Total undiscounted cash flows	$ 3,716
Less: Discount	(286)
Lease liability	$ 3,430

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with Virginia National Bankshares Corporation's consolidated financial statements, and notes thereto, included in the Company's Form 10-K for the year ended December 31, 2019 (the "Company's 2019 Form 10-K"). Per share data for March 31, 2019 has been adjusted to reflect the 5% stock dividend effective July 5, 2019 (the "5% Stock Dividend"). Operating results for the three months ended March 31, 2020 are not necessarily indicative of the results for the year ending December 31, 2020 or any future period.

FORWARD-LOOKING STATEMENTS AND FACTORS THAT COULD AFFECT FUTURE RESULTS

Certain statements contained or incorporated by reference in this quarterly report on Form 10-Q, including but not limited to, statements concerning future results of operations or financial position, borrowing capacity and future liquidity, future investment results, future credit exposure, future loan losses and plans and objectives for future operations, change in laws and regulations applicable to the Company and its subsidiaries, adequacy of funding sources, actuarial expected benefit payment, valuation of foreclosed assets, regulatory requirements, economic environment and other statements contained herein regarding matters that are not historical facts, are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are often characterized by use of qualified words such as "expect," "believe," "estimate," "project," "anticipate," "intend," "will," "should," or words of similar meaning or other statements concerning the opinions or judgement of the Company and its management about future events. While Company management believes such statements to be reasonable, future events and predictions are subject to circumstances that are not within the control of the Company and its management. Actual results may differ materially from those included in the forward-looking statements due to a number of factors, including, without limitation, the effects of and changes in: general economic and market conditions, including the effects of declines in real estate values, an increase in unemployment levels and general economic contraction as a result of COVID-19 or other pandemics; fluctuations in interest rates, deposits, loan demand, and asset quality; assumptions that underlie the Company's allowance for loan losses; the potential adverse effects of unusual and infrequently occurring events, such as weather-related disasters, terrorist acts or public health events (e.g., COVID-19 or other pandemics), and of governmental and societal responses thereto; the performance of vendors or other parties with which the Company does business; competition; technology; laws, regulations and guidance; accounting principles or guidelines; performance of assets under management; and other factors impacting financial services businesses. Many of these factors and additional risks and uncertainties are described in the Company's 2019 Form 10-K and other reports filed from time to time by the Company with the Securities and Exchange Commission. These statements speak only as of the date made, and the Company does not undertake to update any forward-looking statements to reflect changes or events that may occur after this release.

IMPACT OF COVID-19

The COVID-19 pandemic has caused, and will likely continue to cause, economic and social disruption, significantly affecting many industries, including many of our clients. Significant uncertainty exists regarding the magnitude of the impact and duration of this pandemic. Following are brief descriptions of areas within our Company that have been or may be impacted.

Financial Condition and Results of Operations

The Company's consolidated financial statements include estimates and assumptions made by management which affect the reported amounts of assets and liabilities, including the level of the allowance for loan losses (ALLL) that is established. While the Company has not yet experienced any charge-offs directly related to COVID-19, the ALLL calculation and resulting provision for loan losses are impacted by changes in economic conditions. As of March 31, 2020, the Company downgraded the economic qualitative factors within its ALLL model in light of the potential effects of COVID-19 on the economy. If economic conditions continue to worsen, the Company could experience further increases in the required ALLL and record additional provision for loan loss expense. It is possible that asset quality metrics could decline in the future if the effects of COVID-19 are sustained.

While most industries have been adversely impacted by COVID-19, the Company has exposures on its balance sheet as of March 31, 2020 in the following categories of loans that are considered to have higher risk of significant impact:

- Retail trade - $18.5 million, or 3.3% of total loans
- Hotels and motels - $14.5 million, or 2.6% of total loans
- Caterers - $6.3 million, or 1.1% of total loans, and
- Full-service restaurants - $6.1 million, or 1.1% of total loans

Interest income could be reduced due to the economic impact of COVID-19. In accordance with guidance from regulators, we are working with borrowers who have been adversely affected by COVID-19 to defer principal and interest payments for a 90-day period. While interest will continue to accrue to income, in accordance with accounting principles generally accepted in the United States ("GAAP"), if the Company ultimately incurs a credit loss on these deferred payments, interest income would need to be reversed and therefore, interest income in future periods could be negatively affected. As of May 6, 2020, the Company had accommodated 155 deferrals on outstanding loan balances of $18.3 million (of which 131 deferrals on outstanding loan balances of $1.8 million were related to student loans). In accordance with interagency guidance issued in March 2020, these short-term deferrals are not considered troubled debt restructurings.

Within the last month, the Company has devoted significant resources to accept applications for the Small Business Administration (SBA) Paycheck Protection Program (PPP), a program designed to provide a direct incentive for small businesses to keep employees on their payroll. As of May 6, 2020, the Company has closed 495 loans representing $83.9 million in funding, with average fees of 3.4%, assisting many nonprofits and local businesses through this program. Loans funded through the PPP are fully guaranteed by the U.S. government. The Company performed the required due diligence pursuant to the established SBA criteria; nonetheless if a determination was made that certain loans did not meet the criteria established for the program, the Company may be required to establish additional ALLL through provision for loan loss expense which will negatively impact net income.

Throughout the onset of this pandemic, the Company has maintained its high standards of credit quality on organic loan funding to limit credit risk exposure.

Capital and Liquidity

As of March 31, 2020, capital ratios of the Company was in excess of regulatory requirements. While currently included in the category of "well capitalized" by bank regulators, a prolonged economic recession could adversely impact reported and regulatory capital ratios.

The Company maintains access to multiple sources of liquidity. Management has also revisited its capital and liquidity stress tests, as well as capital and liquidity contingency plans to validate how the Company can react effectively to the economic downturn caused by this pandemic and to gauge the amount of SBA PPP loans the Company can and should accept.

Goodwill

As of March 31, 2020, the goodwill on our balance sheet was not deemed to be impaired. However, management may determine that goodwill is required to be evaluated for impairment in the future due to the presence of a triggering event, which may have a negative impact on the Company's results of operations.

Operations, Processes, Controls and Business Continuity Plan

The Company began internal social distancing in mid-March, as well as distancing from the public by keeping our drive-thru services available, and encouraging customers to conduct transactions at ATMs, through online banking and the mobile app. The Company also increased consumer and business mobile deposit limits to encourage customers to make deposits remotely from the safety of their home or business. The Company implemented a schedule whereby the majority of staff members are working remotely at any given time, allowing the remaining essential staff to create more distance between each other within the offices. We increased the number of staff in the client service center to assist more customers by telephone. The client service center was also moved to a larger location to allow the team members to be physically separated in accordance with social distancing guidelines. In addition, the Company enhanced disinfecting procedures to include hospital-grade cleaning solution, increased the frequency of cleaning and issued personal protective equipment, including N-95 and disposable face masks, gloves and thermometers, to employees, along with specific instructions for use, to enhance their safety. Management provides frequent email communications to customers and employees regarding updates on COVID-19, helpful tips and status of Company initiatives, as well as warning customers of potential scams during this pandemic.

The Company's preparedness resulted in minimal impact to the Company's operations as a result of COVID-19. Business continuity planning allowed for successful deployment of the majority of our employees to work in a remote environment. No material operational or internal control risks have been identified to date, and the Company has enhanced fraud-related controls.

APPLICATION OF CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The accounting and reporting policies followed by the Company conform, in all material respects, to GAAP and to general practices within the financial services industry. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. While the Company bases estimates on historical experience, current information and other factors deemed to be relevant, actual results could differ from those estimates.

The Company considers accounting estimates to be critical to reported financial results if (i) the accounting estimate requires management to make assumptions about matters that are highly uncertain, and (ii) different estimates that management reasonably could have used for the accounting estimate in the current period, or changes in the accounting estimate that are reasonably likely to occur from period to period, could have a material impact on the Company's consolidated financial statements. The Company's accounting policies are fundamental to understanding management's discussion and analysis of financial condition and results of operations.

For additional information regarding critical accounting policies, refer to the Application of Critical Accounting Policies and Critical Accounting Estimates section under Item 7 in the Company's 2019 Form 10-K. There have been no significant changes in the Company's application of critical accounting policies since December 31, 2019.

FINANCIAL CONDITION

Total assets

The total assets of the Company as of March 31, 2020 were $717.1 million. This is a $14.5 million increase from the $702.6 million total assets reported at December 31, 2019 and an $81.3 million increase from the $635.8 million reported at March 31, 2019. A $14.4 million increase in gross loans since December 31, 2019, funded by a growth in deposits, was the major reason for the increase in assets since year-end.

Federal funds sold

The Company had overnight federal funds sold of $12.3 million as of March 31, 2020, compared to $4.2 million as of December 31, 2019 and $3.6 million as of March 31, 2019. Any excess funds are sold on a daily basis in the federal funds market. The Company intends to maintain sufficient liquidity at all times to meet its funding commitments.

The Company continues to participate in the Federal Reserve Bank of Richmond's Excess Balance Account ("EBA"). The EBA is a limited-purpose account at the Federal Reserve Bank for the maintenance of excess cash balances held by financial institutions. The EBA eliminates the potential of concentration risk that comes with depositing excess balances with one or multiple correspondent banks.

Securities

The Company's investment securities portfolio as of March 31, 2020 totaled $103.8 million, a decrease of $11.9 million compared with the $115.7 million reported at December 31, 2019 and an increase of $40.8 million from the $63.0 million reported at March 31, 2019. Management proactively manages the mix of earning assets and cost of funds to maximize the earning capacity of the Company. At March 31, 2020 and March 31, 2019, the investment securities holdings represented 14.5% and 9.9% of the Company's total assets, respectively.

The Company's investment securities portfolio included restricted securities totaling $1.7 million as of March 31, 2020, December 31, 2019, and March 31, 2019. These securities represent stock in the Federal Reserve Bank of Richmond ("FRB-R"), the Federal Home Loan Bank of Atlanta ("FHLB-A"), and CBB Financial Corporation ("CBBFC"), the holding company for Community Bankers Bank. The level of FRB-R and FHLB-A stock that the Company is required to hold is determined in accordance with membership guidelines provided by the Federal Reserve Bank Board of Governors and the Federal Home Loan Bank of Atlanta, respectively. Stock ownership in the bank holding company for Community Bankers' Bank provides the Company with several benefits that are not available to non-shareholder correspondent banks. None of these restricted securities are traded on the open market and can only be redeemed by the respective issuer.

At March 31, 2020, the unrestricted securities portfolio totaled $102.1 million. The following table summarizes the Company's available for sale securities by type as of March 31, 2020, December 31, 2019, and March 31, 2019 (dollars in thousands):

	March 31, 2020		December 31, 2019		March 31, 2019	
	Balance	Percent of Total	Balance	Percent of Total	Balance	Percent of Total
U.S. Government agencies	$ 13,013	12.8%	$ 14,952	13.1%	$ 19,227	31.4%
Corporate bonds	—	—	7,469	6.5%	—	—
Mortgage-backed securities/CMOs	67,394	66.0%	71,732	62.9%	24,428	39.8%
Municipal bonds	21,647	21.2%	19,888	17.4%	17,657	28.8%
Total available for sale securities	$ 102,054	100.0%	$ 114,041	100.0%	$ 61,312	100.0%

The securities are held primarily for earnings, liquidity, and asset/liability management purposes and are reviewed quarterly for possible other-than-temporary impairments. During this review, management analyzes the length of time the fair value has been below cost, the expectation for that security's performance, the creditworthiness of the issuer, and the Company's intent and ability to hold the security to recovery or maturity. These factors are analyzed for each individual security.

Loan portfolio

A management objective is to grow loan balances while maintaining the asset quality of the loan portfolio. The Company seeks to achieve this objective by maintaining rigorous underwriting standards coupled with regular evaluation of the creditworthiness of, and the designation of lending limits for, each borrower. The portfolio strategies include seeking industry, loan size, and loan type diversification in order to minimize credit exposure and originating loans in markets with which the Company is familiar. The predominant market area for loans includes Charlottesville, Albemarle County, Harrisonburg, Winchester, Frederick County, Richmond and areas in the Commonwealth of Virginia that are within a 75 mile radius of any Virginia National Bank office.

As of March 31, 2020, total loans were $554.0 million, compared to $539.5 million as of December 31, 2019 and $528.4 million at March 31, 2019. Loans as a percentage of total assets at March 31, 2020 were 77.3%, compared to 83.1% as of March 31, 2019. Loans as a percentage of deposits at March 31, 2020 were 87.2%, compared to 94.8% as of March 31, 2019.

The following table summarizes the Company's loan portfolio by type of loan as of March 31, 2020, December 31, 2019, and March 31, 2019 (dollars in thousands):

	March 31, 2020		December 31, 2019		March 31, 2019	
	Balance	Percent of Total	Balance	Percent of Total	Balance	Percent of Total
Commercial and industrial	$ 79,997	14.4%	$ 80,588	14.9%	$ 85,479	16.2%
Real estate - commercial	259,277	46.8%	250,579	46.4%	249,710	47.3%
Real estate - residential mortgage	121,601	22.0%	120,657	22.4%	98,120	18.6%
Real estate - construction	25,105	4.5%	17,140	3.2%	15,299	2.8%
Consumer loans	67,979	12.3%	70,569	13.1%	79,752	15.1%
Total loans	$553,959	100.0%	$539,533	100.0%	$528,360	100.0%

Loan balances increased $14.4 million, or 2.7%, since December 31, 2019 and increased $25.6 million, or 4.8%, from March 31, 2019. Since year-end, the loan fluctuation consisted of $29.4 million in new funding ($29.0 million from organic loan growth), offset by $8.0 million in payoffs, $6.6 million in normal amortization and $388 thousand in charge-offs. The purchase of loans is considered a secondary strategy, which allows the Company to supplement organic loan growth. Purchased loans with balances outstanding of $113.7 million as of March 31, 2020 were comprised of:

- **Student loans** totaling $42.6 million. The Company purchased two student loan packages in 2015 and a third in the fourth quarter of 2016. A fourth tranche was closed in December 2017. Along with the purchase of these four packages of student loans, the Company purchased surety bonds to fully insure this portion of the Company's consumer portfolio. However, during June 2018, ReliaMax Surety, the insurance company which issued the surety bonds, was placed into liquidation due to insolvency. Loss claims were filed for loans in default as of July 27, 2018, when the surety bonds were terminated, and the Company received payment in the fourth quarter of 2019 on the balance of the claims approved by the liquidator. The liquidator has recently notified the Company that it will be making distributions related to unearned premiums. The Company expects to receive approximately $800 thousand from this distribution. Student loans continue to be profitable for the Company.

- **Loans guaranteed by a U.S. government agency** ("government guaranteed") totaling $35.0 million, inclusive of premium. During the fourth quarter of 2016, the Company began augmenting the commercial and industrial portfolio with government guaranteed loans which represent the portion of loans that are 100% guaranteed by either the United States Department of Agriculture ("USDA") or the Small Business Administration ("SBA"); the originating institution holds the unguaranteed portion of each loan and services it. These government guaranteed portion of loans are typically purchased at a premium. In the event of early prepayment, the Company may need to write off any unamortized premium.

- **Mortgage loans** totaling $29.7 million, inclusive of premium. In each of the fourth quarters of 2019 and 2018, the Company purchased a package of 1-to-4 family residential mortgages. Each of the adjustable rate loans purchased were individually underwritten by the Company prior to the closing of the purchases. The collateral on these loans is located primarily on the East Coast of the United States.

- **Syndicated loans** totaling $6.4 million. Syndicated loans represent shared national credits in leveraged lending transactions and are included in the commercial and industrial portfolio. The Company has developed policies to limit overall credit exposure to the syndicated market, as well as limits by industry and amount per borrower. Management proactively manages shared national credits and has opportunistically increased or decreased exposure over time. In the third quarter of 2019, we elected to sell our interest in a credit which significantly lowered our allowance for loan losses and allowed for a recovery of loan loss provision.

Management will continue to evaluate loan purchase transactions to strengthen earnings, diversity the loan portfolio and supplement organic loan growth.

Loan quality

Non-accrual loans totaled $273 thousand at March 31, 2020, compared to the $299 thousand and $552 thousand reported at December 31, 2019 and March 31, 2019, respectively. The March 31, 2020 and December 31, 2019 non-accrual balances included a loan which has subsequently been foreclosed upon, with the Company being made whole on the loan. The March 31, 2019 non-accrual balance included $311 thousand of student loan balances for which the Company has received payment from the liquidation process in the fourth quarter of 2019.

The Company had loans in its portfolio totaling $733 thousand, $771 thousand and $629 thousand, as of March 31, 2020, December 31, 2019 and March 31, 2019, respectively, that were ninety or more days past due, with all such loans still accruing interest as the Company deemed them to be collectible. Each of the balances noted include one government guaranteed loan with a balance of $548 thousand.

At March 31, 2020, the Company had loans classified as impaired loans in the amount of $2.4 million, compared to $2.5 million at December 31, 2019 and $2.8 million at March 31, 2019. Based on regulatory guidance on Student Lending, the Company has classified 68 of its purchased student loans as TDRs for a total of $1.1 million as of March 31, 2020. These borrowers that should have been in repayment have requested and been granted payment extensions or reductions exceeding the maximum lifetime allowable payment forbearance of twelve months (36 months lifetime allowance for military service), as permitted under the regulatory guidance, and are therefore considered restructurings. Student loan borrowers are allowed in-school deferments, plus an automatic six-month grace period post in-school status, before repayment is scheduled to begin, and these deferments do not count toward the maximum allowable forbearance. Management has evaluated these loans individually for impairment and included any potential loss in the allowance for loan loss; interest continues to accrue on these TDRs during any deferment and forbearance periods.

Management identifies potential problem loans through its periodic loan review process and considers potential problem loans as those loans classified as special mention, substandard, or doubtful.

Allowance for loan losses

In general, the Company determines the adequacy of its allowance for loan losses by considering the risk classification and delinquency status of loans and other factors. 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 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 Company is committed to determining, on an ongoing basis, the adequacy of its allowance for loan losses. The Company applies historical loss rates to various pools of loans based on risk rating classifications. In addition, the adequacy of the allowance is further evaluated by applying estimates of loss that could be attributable to any one of the following eight qualitative factors:

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; and
8) Changes in the level of policy exceptions.

As discussed earlier, the Company utilizes a loss migration model. Migration analysis uses loan level attributes to track the movement of loans through various risk classifications in order to estimate the percentage of losses likely in the portfolio.

The relationship of the allowance for loan losses to total loans appears below (dollars in thousands):

	March 31, 2020	December 31, 2019	March 31, 2019
Loans held for investment at period-end	$ 553,959	$ 539,533	$ 528,360
Allowance for loan losses	$ 4,704	$ 4,209	$ 4,905
Allowance as a percent of period-end loans	0.85%	0.78%	0.93%

The Allowance for Loan Losses as a percentage of assets increased from 0.78% at December 31, 2019 to 0.85% at March 31, 2020. The increase in the allowance for loan losses was primarily driven by deterioration in the economic outlook resulting from the impact of COVID-19.

Provisions for loan losses totaling $765 thousand and $684 thousand were recorded in the three months ended March 31, 2020 and 2019, respectively. The following is a summary of the changes in the allowance for loan losses for the three months ended March 31, 2020 and 2019 (dollars in thousands):

	2020	2019
Allowance for loan losses, January 1	$ 4,209	$ 4,891
Charge-offs	(388)	(709)
Recoveries	118	39
Provision for loan losses	765	684
Allowance for loan losses, March 31	$ 4,704	$ 4,905

For additional insight into management's approach and methodology in estimating the allowance for loan losses, please refer to the earlier discussion of "Allowance for Loan Losses" in Note 4 of the Notes to Consolidated Financial Statements. In addition, Note 4 includes details regarding the rollforward of the allowance by loan portfolio segments. The rollforward tables indicate the activity for loans that are charged-off, amounts received from borrowers as recoveries of previously charged-off loan balances, and the allocation by loan portfolio segment of the provision made during the period. The events that can positively impact the amount of allowance in a given loan segment include any one or all of the following: the recovery of a previously charged-off loan balance; the decline in the amount of classified or delinquent loans in a loan segment from the previous period, which most commonly occurs when these loans are repaid or are foreclosed; or when there are improvements in the ratios used to estimate the probability of loan losses. Improvements to the ratios could include lower historical loss rates, improvements to any of the qualitative factors mentioned above, or reduced loss expectations for individually-classified loans.

Management reviews the Allowance for Loan Losses on a quarterly basis to ensure it is adequate based upon the calculated potential losses inherent in the portfolio. Management believes the allowance for loan losses was adequately provided for as of March 31, 2020 and acknowledges that the allowance for loan losses will most likely increase throughout the year as economic conditions are expected to continue to deteriorate for the foreseeable future.

Premises and equipment

The Company's premises and equipment, net of depreciation, as of March 31, 2020 totaled $6.0 million compared to $6.1 million as of December 31, 2019 and $6.8 million as of March 31, 2019. 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. 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 lives. Upon disposition, assets and related accumulated depreciation are removed from the books, and any resulting gain or loss is charged to income.

As of March 31, 2020, the Company occupied five full-service banking facilities in the cities of Charlottesville and Winchester, as well as the county of Albemarle in Virginia. The Company also operates a drive-through location at 301 East Water Street, Charlottesville, Virginia. The Company closed its Orange, Virginia office effective April 13, 2018; expanded messenger service continues to be available to the customers within and surrounding Orange, Virginia.

The five-story office building at 404 People Place, Charlottesville, Virginia, located in Albemarle County, also serves as the Company's corporate headquarters and operations center, as well as the principal offices of both Masonry Capital and Sturman Wealth Advisors. VNB Trust & Estate Services is located at 112 Third Street, SE, Charlottesville, Virginia.

Both the Arlington Boulevard facility in Charlottesville and the People Place facility also contain office space that is currently under lease to tenants.

Leases

As of March 31, 2020, $3.4 million of right-of-use assets and lease liabilities are included in Other Assets and Other Liabilities, respectively, and resulted from the Company's implementation of ASU 2016-02 "Leases" (Topic 842) in the first quarter of 2019. This implementation required the Company to recognize right-of-use assets, which are assets that represent the Company's right to use, or control the use of, a specified asset for the lease term, offset by the lease liability, which is the Company's obligation to make lease payments arising from a lease, measured on a discounted basis.

Deposits

Depository accounts represent the Company's primary source of funds and are comprised of demand deposits, interest-bearing checking, money market, and savings accounts as well as time deposits. These deposits have been provided predominantly by individuals, businesses and charitable organizations in the Charlottesville/Albemarle, Richmond and Winchester areas.

Total deposits as of March 31, 2020 were $635.1 million, an increase of $13.9 million compared to the balances of $621.2 million at December 31, 2019, and an increase of $77.9 million compared to the $557.2 million total as of March 31, 2019.

Deposit accounts

(dollars in thousands)	March 31, 2020		December 31, 2019		March 31, 2019	
	Balance	% of Total Deposits	Balance	% of Total Deposits	Balance	% of Total Deposits
No cost and low cost deposits:						
Noninterest demand deposits	$190,618	30.0%	$166,975	26.9%	$160,071	28.7%
Interest checking accounts	124,350	19.6%	122,994	19.8%	108,933	19.6%
Money market and savings deposit accounts	218,432	34.4%	221,964	35.7%	157,737	28.3%
Total noninterest and low cost deposit accounts	533,400	84.0%	511,933	82.4%	426,741	76.6%
Time deposit accounts:						
Certificates of deposit	89,681	14.1%	95,621	15.4%	94,278	16.9%
CDARS deposits	12,055	1.9%	13,657	2.2%	36,180	6.5%
Total certificates of deposit and other time deposits	101,736	16.0%	109,278	17.6%	130,458	23.4%
Total deposit account balances	$635,136	100.0%	$621,211	100.0%	$557,199	100.0%

Noninterest-bearing demand deposits on March 31, 2020 were $190.6 million, representing 30.0% of total deposits. Interest-bearing transaction, money market, and savings accounts totaled $342.8 million, and represented 54.0% of total deposits at March 31, 2020. Collectively, noninterest-bearing and interest-bearing transaction and money market accounts represented 84.0% of total deposit accounts at March 31, 2020. These account types are an excellent source of low-cost funding for the Company.

The Company also offers an implemented insured cash sweep (“ICS®”) deposit products. ICS® deposit balances of $16.2 million and $53.7 million are included in the interest checking accounts and the money market and savings deposit accounts balances, respectively, in the table above, as of March 31, 2020. As of December 31, 2019, ICS® deposit balances of $19.3 million and $53.6 million are included in the interest checking accounts and the money market and savings deposit account balances, respectively. All ICS accounts consist of reciprocal balances for the Company’s customers.

The remaining 16.0% of total deposits consisted of certificates of deposit and other time deposit accounts totaling $101.7 million at March 31, 2020. Included in this deposit total are Certificate of Deposit Account Registry Service CDs, known as CDARS™, whereby depositors can obtain FDIC deposit insurance on account balances of up to $50 million. CDARS™ deposits totaled $12.1 million as of March 31, 2020, all of which were reciprocal balances for the Company’s customers.

Borrowings

Short-term borrowings, consisting primarily of Federal Home Loan Bank (FHLB) advances and federal funds purchased, are additional sources of funds for the Company. The level of these borrowings is determined by various factors, including customer demand and the Company's ability to earn a favorable spread on the funds obtained.

The Company has a collateral dependent line of credit with the FHLB of Atlanta. As of March 31, 2020, December 31, 2019, and March 31, 2019, the Company had no outstanding balances from FHLB advances.

Additional borrowing arrangements maintained by the Company include formal federal funds lines with four major regional correspondent banks. The Company had no outstanding balances on these lines as of March 31, 2020, December 31, 2019 or March 31, 2019.

Shareholders' equity and regulatory capital ratios

The following table displays the changes in shareholders' equity for the Company from December 31, 2019 to March 31, 2020 (dollars in thousands):

Equity, December 31, 2019	$	76,107
Net income		1,404
Other comprehensive loss		(448)
Cash dividends declared		(811)
Stock grant expense		15
Equity increase due to expensing of stock options		24
Equity, March 31, 2020	$	76,291

For the calendar year 2019 and beyond, the 2.5% capital conservation buffer, which was phased in over a four year period under Basel III regulatory capital rules, effectively results in the minimum (i) common equity Tier 1 capital ratio of 7.00% of risk-weighted assets; (ii) Tier 1 capital ratio of 8.50% of risk-weighted assets; and (iii) total capital ratio of 10.50% of risk-weighted assets. The minimum leverage ratio remains at 4.00%. For additional information regarding the new capital requirements, refer to the Supervision and Regulation section, under Item 1. Business, found in the Company's 2019 Form 10-K.

Using the new capital requirements, the Company's capital ratios remain well above the levels designated by bank regulators as "well capitalized" at March 31, 2020. Under the current risk-based capital guidelines of federal regulatory authorities, the Company's common equity Tier 1 capital ratio and Tier 1 capital ratio are both at 13.21% of its risk-weighted assets and are in excess of the well-capitalized minimum capital requirements of 6.50% and 8.00%, respectively. Additionally, the Company has a total capital ratio of 14.04% of its risk-weighted assets and leverage ratio of 10.59% of total assets, which are both in excess of the well-capitalized minimum 10.00% and 5.00% levels, respectively, designated by bank regulators under "well capitalized" capital guidelines.

On September 17, 2019 the Federal Deposit Insurance Corporation finalized a rule that introduces an optional simplified measure of capital adequacy for qualifying community banking organizations, referred to as, the community bank leverage ratio (CBLR) framework, as required by the Economic Growth, Regulatory Relief and Consumer Protection Act. The CBLR framework is designed to reduce burden by removing the requirements for calculating and reporting risk-based capital ratios for qualifying community banking organizations that opt into the framework.

In order to qualify for the CBLR framework, a community banking organization must have a tier 1 leverage ratio of greater than 9 percent, less than $10 billion in total consolidated assets, and limited amounts of off-balance-sheet exposures and trading assets and liabilities. A qualifying community banking organization that opts into the CBLR framework and meets all requirements under the framework will be considered to have met the well-capitalized ratio requirements under the Prompt Corrective Action regulations and will not be required to report or calculate risk-based capital.

The CBLR framework was made available for community banking organizations to use in their March 31, 2020 Call Report. The Company has decided not to opt into the CBLR framework.

RESULTS OF OPERATIONS

Non-GAAP presentations

The Company, in referring to its net income and net interest income, is referring to income computed in accordance with GAAP, unless otherwise noted. Management's Discussion and Analysis of Consolidated Financial Condition and Results of Operations also refer to various calculations that are non-GAAP presentations. They include:

- **Fully taxable-equivalent ("FTE") adjustments –** Net interest margin and efficiency ratios are presented on an FTE basis, consistent with SEC guidance in Industry Guide 3 which states that tax exempt income may be calculated on a tax equivalent basis. This is a non-GAAP presentation. The FTE basis adjusts for the tax-exempt status of net interest income from certain investments using a federal tax rate of 21%, where applicable, to increase tax-exempt interest income to a taxable-equivalent basis.

- **Net interest margin –** Net interest margin (FTE) is calculated as net interest income, computed on an FTE basis, expressed as a percentage of average earning assets. The Company believes this measure to be the preferred industry measurement of net interest margin and that it enhances comparability of net interest margin among peers in the industry.

- **Efficiency ratio –** One of the ratios the Company monitors in its evaluation of operations is the efficiency ratio, which measures the cost to produce one dollar of revenue. The Company computes its efficiency ratio (FTE) by dividing noninterest expense by the sum of net interest income (FTE) and noninterest income. A lower ratio is an indicator of increased operational efficiency. This non-GAAP metric is used to assist investors in understanding how management assesses its ability to generate revenues from its non-funding-related expense base, as well as to align presentation of this financial measure with peers in the industry. The Company believes this measure to be the preferred industry measurement of operational efficiency, which is consistent with Federal Deposit Insurance Corporation ("FDIC") studies.

Net interest income is discussed in Management's Discussion and Analysis on a GAAP basis, unless noted as "FTE"; and the reconcilement below shows the fully taxable-equivalent adjustment to net interest income to aid the reader in understanding the computations of net interest margin and the efficiency ratio on a non-GAAP basis (dollars in thousands):

Reconcilement of Non-GAAP Measures:	**For the three months ended**	
	March 31, 2020	**March 31, 2019**
Net interest income	$ 5,375	$ 5,568
Fully taxable-equivalent adjustment	20	21
Net interest income (FTE)	$ 5,395	$ 5,589
Efficiency ratio	64.5%	66.6%
Impact of FTE adjustment	-0.2%	-0.2%
Efficiency ratio (FTE)	64.3%	66.4%
Net interest margin	3.18%	3.76%
Fully tax-equivalent adjustment	0.02%	0.02%
Net interest margin (FTE)	3.20%	3.78%

Net income

Net income for the three months ended March 31, 2020 was $1.4 million, a 12.7% increase compared to the $1.2 million reported for the three months ended March 31, 2019. Net income per diluted share was $0.52 for the quarter ended March 31, 2020 compared to $0.46 per diluted share for the same quarter in the prior year, as adjusted to reflect the 5% Stock Dividend issued in July 2019. The increase in net income for the first quarter of 2020, when compared to the same period of 2019, was predominantly due to a $501 thousand increase in loan swap fee income, offset by a $193 thousand decrease in net interest income and a $132 thousand increase in noninterest expense.

Net interest income

Net interest income (FTE) for the three months ended March 31, 2020 was $5.4 million, a 3.5% decrease compared to net interest income (FTE) of $5.6 million for the three months ended March 31, 2019. Net interest income (FTE) was negatively impacted by the increase in rates paid on deposit accounts, which increased interest expense by $202 thousand, as well as the increased volume of deposits, which increased interest expense by $147 thousand. The increased volume of loans, increasing from an average of $533.4 million in the first quarter of 2019 to $535.8 million in same quarter in the prior year, positively impacted interest income by $28 thousand, yet the lower rate earned on loans, declining from 4.64% to 4.41% for the periods noted, negatively impacted interest income by $254 thousand.

Net interest margin (FTE) is the ratio of net interest income (FTE) to average earning assets for the period. The level of interest rates, together with the volume and mix of earning assets and interest-bearing liabilities, impact net interest income (FTE) and net interest margin (FTE). The net interest margin (FTE) of 3.20% for the three months ended March 31, 2020 was fifty-eight basis points lower than the 3.78% for the three months ended March 31, 2019. Refer to the Reconcilement of Non-GAAP Measures table within the Non-GAAP presentations section for a reconcilement of GAAP to non-GAAP net interest margin.

Total interest income (FTE) for the three months ended March 31, 2020 was $88 thousand higher than the same period in the prior year. The increase in average securities balances was the major contributor to the increased interest income, with average balances increasing from $63.2 million for the first quarter of 2019 to $114.2 million for the first quarter of 2020, increasing interest income by $260 thousand related to the volume increase. The decline in rates earned on loans contributed negatively to the decline in interest income, by $254 thousand.

Interest expense increased $282 thousand for the three months ended March 31, 2020 compared to the same period in the prior year, due to a combination of rate and volume increases. The primary reason for the increase in interest expense is the increased rates paid on deposits to be competitive in the market. The rate paid on interest-bearing deposits averaged 104 basis points in the three months ended March 31, 2020, compared to 90 basis points for the three months ended March 31, 2019. Average balances of interest-bearing deposits also increased, from $380.0 million in the three months ended March 31, 2019 to $460.6 million in the three months ended March 31, 2020. Average balances of borrowed funds decreased from $10.1 million in the three months ended March 31, 2019 to zero in the three months ended March 31, 2020, causing a decrease in interest expense on borrowed funds. A table showing the mix of no cost and low cost deposit accounts is shown under “Financial Condition - Deposits” earlier in this report.

The following tables detail the average balance sheet, including an analysis of net interest income (FTE) for earning assets and interest bearing liabilities, for the three months ended March 31, 2020 and 2019. These tables also include a rate/volume analysis for these same periods (dollars in thousands).

Consolidated Average Balance Sheet and Analysis of Net Interest Income

(dollars in thousands)	For the three months ended March 31, 2020 Average Balance	Interest Income Expense	Average Yield/Cost	March 31, 2019 Average Balance	Interest Income Expense	Average Yield/Cost	Change in Interest Income/ Expense — Change Due to:[4] Volume	Rate	Total Increase/ (Decrease)
ASSETS									
Interest Earning Assets:									
Securities									
Taxable Securities	$102,786	$ 533	2.07%	$ 50,090	$ 277	2.21%	$ 274	$ (18)	$ 256
Tax Exempt Securities [1]	11,425	95	3.33%	13,112	103	3.14%	(14)	6	(8)
Total Securities [1]	114,211	628	2.20%	63,202	380	2.40%	260	(12)	248
Total Loans	535,832	5,871	4.41%	533,358	6,097	4.64%	28	(254)	(226)
Fed Funds Sold	28,898	85	1.18%	3,216	19	2.40%	80	(14)	66
Total Earning Assets	678,941	6,584	3.90%	599,776	6,496	4.39%	368	(280)	88
Less: Allowance for Loan Losses	(4,081)			(4,905)					
Total Non-Earning Assets	45,520			39,668					
Total Assets	$720,380			$634,539					
LIABILITIES AND SHAREHOLDERS' EQUITY									
Interest Bearing Liabilities:									
Interest Bearing Deposits:									
Interest Checking	$122,719	$ 31	0.10%	$102,915	$ 49	0.19%	$ 8	$ (26)	$ (18)
Money Market and Savings Deposits	228,891	664	1.17%	161,507	332	0.83%	167	165	332
Time Deposits	108,941	494	1.82%	115,599	459	1.61%	(28)	63	35
Total Interest-Bearing Deposits	460,551	1,189	1.04%	380,021	840	0.90%	147	202	349
Other borrowed funds	—	—	—	10,051	67	2.70%	(34)	(33)	(67)
Total Interest-Bearing Liabilities	460,551	1,189	1.04%	390,072	907	0.94%	113	169	282
Non-Interest-Bearing Liabilities:									
Demand deposits	177,878			171,274					
Other liabilities	4,405			1,243					
Total Liabilities	642,834			562,589					
Shareholders' Equity	77,546			71,941					
Total Liabilities & Shareholders' Equity	$720,380			$634,530					
Net Interest Income (FTE)		$ 5,395			$ 5,589		$ 255	$ (449)	$ (194)
Interest Rate Spread [2]			2.86%			3.45%			
Interest Expense as a Percentage of Average Earning Assets			0.70%			0.61%			
Net Interest Margin (FTE) [3]			3.20%			3.78%			

(1) Tax-exempt income for investment securities has been adjusted to a fully tax-equivalent basis (FTE), using a Federal income tax rate of 21%. Refer to the Reconcilement of Non-GAAP Measured table within the Non-GAAP Presentations earlier in this section.

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

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

(4) The impact on the net interest income (FTE) resulting from changes in average balances and average rates is shown for the period 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.

Provision for loan losses

A provision for loan losses of $765 thousand was recognized in the first quarter of 2020 primarily driven by deterioration in the economic outlook resulting from the impact of COVID-19. A provision of $684 thousand was recognized in the first quarter of 2019. The allowance for loan losses as a percentage of total loans at March 31, 2020 was 0.85%, compared to 0.78% as of December 31, 2019 and 0.93% as of March 31, 2019. Further discussion of management's assessment of the allowance for loan losses is provided earlier in the report and in Note 4 – Allowance for Loan Losses, found in the Notes to the Consolidated Financial Statements. In management's opinion, the allowance was adequately provided for at March 31, 2020. While we have not experienced any charge-offs related to COVID-19, our ALLL calculation, provision for loan losses, asset quality and collateral values may be significantly impacted by deterioration in economic conditions. We have downgraded the qualitative factors pertaining to economic conditions within our ALLL methodology. Should economic conditions worsen, we could experience further increases in our required ALLL and record additional provision for loan loss exposure.

Noninterest income

The components of noninterest income for the three months ended March 31, 2020 and 2019 are shown below (dollars in thousands):

	For the three months ended		Variance	
	March 31, 2020	**March 31, 2019**	**$**	**%**
Noninterest income:				
Trust income	$ 310	$ 347	$ (37)	-10.7%
Advisory and brokerage income	178	136	42	30.9%
Royalty income	47	4	43	1075.0%
Deposit account fees	179	181	(2)	-1.1%
Debit/credit card and ATM fees	157	157	0	0.0%
Earnings/increase in value of bank owned life insurance	107	110	(3)	-2.7%
Fees on mortgage sales	47	30	17	56.7%
Gains on sales of securities	53	-	53	N/A
Loan swap fee income	509	8	501	6262.5%
Other	82	86	(4)	-4.7%
Total noninterest income	$ 1,669	$ 1,059	$ 610	57.6%

Noninterest income for the three months ended March 31, 2020 of $1.7 million was $610 thousand or 57.6% higher than the amount recorded for the three months ended March 31, 2019. This increase was largely due to the collection of loan swap income during the current quarter of $509 thousand.

Noninterest expense

The components of noninterest expense for the three months ended March 31, 2020 and 2019 are shown below (dollars in thousands):

	For the three months ended		Variance	
	March 31, 2020	**March 31, 2019**	**$**	**%**
Noninterest expense:				
Salaries and employee benefits	$ 2,424	$ 2,346	$ 78	3.3%
Net occupancy	452	479	(27)	-5.6%
Equipment	131	117	14	12.0%
ATM, debit and credit card	54	46	8	17.4%
Bank franchise tax	163	151	12	7.9%
Computer software	140	108	32	29.6%
Data processing	328	316	12	3.8%
FDIC deposit insurance assessment	-	15	(15)	-100.0%
Loan expenses	91	62	29	46.8%
Marketing, advertising and promotion	139	194	(55)	-28.4%
Professional fees	186	203	(17)	-8.4%
Other	435	374	61	16.3%
Total noninterest expense	$ 4,543	$ 4,411	$ 132	3.0%

Noninterest expense for the quarter ended March 31, 2020 of $4.5 million was $132 thousand higher than the quarter ended March 31, 2019. Salaries and employee benefits increased $78 thousand due largely to increased staffing for the new Richmond market. Other noninterest expense increased $61 thousand period over period, primarily due to increased expense of stock grants and cash compensation for directors. Marketing, advertising and promotion expense decreased due to concerted efforts to reduce expenses in 2020. Management continues to evaluate expenses for potential containments and reductions that would have a positive impact on net income on an ongoing basis.

The efficiency ratio (FTE) of 64.3% for the three months ended March 31, 2020 compared favorably to the 66.4% for the same quarter of 2019, due to the increase in noninterest income. Refer to the Reconcilement of Non-GAAP Measures table within the Non-GAAP presentations section for a reconcilement of GAAP to non-GAAP efficiency ratio.

Provision for Income Taxes

The Company benefited from the Tax Cuts and Jobs Act (“Tax Act”) enacted on December 22, 2017, which permanently lowered the corporate income tax rate to 21% effective January 1, 2018, amongst other significant changes to the U.S. tax law. For the three months ended March 31, 2020 and 2019, the Company provided $332 thousand and $286 thousand for Federal income taxes, respectively, resulting in an effective income tax rate of 19.1% and 18.7%, respectively. The effective income tax rates differed from the U.S. statutory rate of 21% primarily due to the effect of tax-exempt income from life insurance policies and municipal bonds.

OTHER SIGNIFICANT EVENTS

None

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not required

ITEM 4. CONTROLS AND PROCEDURES

The Company maintains “disclosure controls and procedures,” as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the “Exchange Act”), that are designed to ensure that information required to be disclosed in reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in Securities and Exchange Commission’s rules and forms, and that such information is accumulated and communicated to management, including the Chief Executive Officer and the Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

In designing and evaluating its disclosure controls and procedures, management recognized that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable assurance that the objectives of the disclosure controls and procedures are met. Additionally, in designing disclosure controls and procedures, management necessarily is required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Based on their evaluation as of the end of the period covered by this quarterly report on Form 10-Q, the Company’s Chief Executive Officer and Chief Financial Officer have concluded that the disclosure controls and procedures were effective at the reasonable assurance level. There was no change in the internal control over financial reporting that occurred during the quarter ended March 31, 2020 that has materially affected, or is reasonably likely to materially affect, the internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

None

ITEM 1A. RISK FACTORS.

Not required

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable

ITEM 5. OTHER INFORMATION.

(a) Required 8-K disclosures.

None

(b) Changes in procedures for director nominations by security holders.

None

ITEM 6. EXHIBITS.

Exhibit Number	Description of Exhibit
3.1	Articles of Incorporation of Virginia National Bankshares Corporation, as amended and restated (incorporated by reference to Exhibit 3.1 to Virginia National Bankshares Corporation's Pre-effective Amendment No. 1 to Form S-4 Registration Statement filed with the Securities and Exchange Commission on April 12, 2013).
3.2	Bylaws of Virginia National Bankshares Corporation (incorporated by reference to Exhibit 3.2 to Virginia National Bankshares Corporation's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 18, 2013).
10.1	Virginia National Bankshares Corporation 2014 Stock Incentive Plan As Amended April 22, 2020
31.1	302 Certification of Principal Executive Officer
31.2	302 Certification of Principal Financial Officer
32.1	906 Certification
101.0	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Balance Sheets as of March 31, 2020 and December 31, 2019, (ii) the Consolidated Statements of Income for the three months ended March 31, 2020 and March 31, 2019, (iii) the Consolidated Statements of Comprehensive Income for the three months ended March 31, 2020 and March 31, 2019, (iv) the Consolidated Statements of Changes in Shareholders' Equity for the quarterly periods within 2020 and 2019, (v) the Consolidated Statements of Cash Flows for the three months ended March 31, 2020 and March 31, 2019 and (vi) the Notes to the Consolidated Financial Statements (furnished herewith).

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

VIRGINIA NATIONAL BANKSHARES CORPORATION
(Registrant)

By: /s/ Glenn W. Rust
Glenn W. Rust
President and Chief Executive Officer

Date: May 11, 2020

By: /s/ Tara Y. Harrison
Tara Y. Harrison
Executive Vice President and Chief Financial Officer

Date: May 11, 2020

Exhibit 10.1

VIRGINIA NATIONAL BANKSHARES CORPORATION
2014 STOCK INCENTIVE PLAN*

1. <u>Purpose and Effective Date</u>.

(a) The purpose of the Virginia National Bankshares Corporation 2014 Stock Incentive Plan (the "Plan") is to further the long-term stability and financial success of the Company (as defined below) by attracting and retaining personnel, including employees, directors and consultants, through the use of stock incentives. The Company believes that ownership of Company Stock will stimulate the efforts of those persons upon whose judgment, interest and efforts the Company and its Affiliates are and will be largely dependent for the successful conduct of their businesses and will further the identification of those persons' interests with the interests of the Company's shareholders.

(b) The Plan was adopted by the Board of Directors of the Company on March 18, 2014 (the "Effective Date"), subject to the approval of the Plan by the Company's shareholders.

2. <u>Certain Definitions</u>. The following terms have the meanings indicated:

(a) *Act.* The Securities Exchange Act of 1934, as amended.

(b) *Affiliate.* The meaning assigned to the term "affiliate" under Rule 12b-2 of the Act.

(c) *Applicable Withholding Taxes.* The aggregate amount of federal, state and local income and payroll taxes that the Company or an Affiliate is required to withhold (based on the minimum applicable statutory withholding rates) in connection with any exercise of an Option or the award, lapse of restrictions or payment with respect to Restricted Stock.

(d) *Award.* The award of an Option, Restricted Stock or Other Stock-Based Award under the Plan.

(e) *Board.* The Board of Directors of the Company.

(f) *Cause.* With respect to any employee or Consultant (1) if the employee or Consultant is a party to any employment or service agreement with the Company or its Affiliates and such agreement provides for a definition of Cause, the definition contained therein; or (2) if no such agreement exists, or is such agreement does not define Cause then (i) the commission of, or plea of guilty or no contest to, a felony or a crime involving moral turpitudes or the commission of any other act involving willful malfeasance or material fiduciary breach with respect to the Company or an Affiliate; (ii) conduct that results in or is reasonably likely to result in harm to the reputation or business of the company or any of its Affiliates; (iii) gross negligence or willful misconduct with respect to the Company or an Affiliate; (iv) materials breach of an agreement with the Company or an Affiliate (including, without limitation, any loyalty, noncompetition, nonsolicitation or confidentiality agreement); or (v) material violation of state or federal securities law. With respect to any Director, a determination by a majority of the disinterested Board members that the Director has engaged in any of the following: (i) malfeasance in office; (ii) gross misconduct or neglect; (iii) false or fraudulent misrepresentation inducing the director's appointment; (iv) willful conversion of corporate funds; or (v) repeated failure to participate in Board meetings on a regular basis despite having received proper notice of the meetings in advance. The Committee, in its absolute discretion, shall determine the effect of all matters and questions relating to whether a Participant has been discharged for Cause.

(g) *Change in Control.*

(i) The acquisition by any Person (as defined below) of beneficial ownership of 50% or more of the then outstanding shares of common stock of the Company;

(ii) Individuals who constitute the Board on the Effective Date of this Plan (the "Incumbent Board") cease to constitute a majority of the Board, provided that any director whose nomination was approved by a vote of at least a majority of the directors then comprising the Incumbent Board will be considered a member of the Incumbent Board, but excluding any such individual whose initial assumption of office is in connection with an actual or threatened election contest or actual or threatened solicitation of proxies or consents by or on behalf of a person other than the Board of directors of the Company, as such terms are used in Rules 14a-11 and 12 under the Act;

(iii) Approval by the shareholders of the Company and consummation of a reorganization, merger, share exchange or consolidation (a "Reorganization"), provided that shareholder approval of a Reorganization will not constitute a Change in Control if, upon consummation of the Reorganization, each of the following conditions is satisfied:

(I) no Person beneficially owns 50% or more of either (1) the then outstanding shares of common stock or voting securities of the corporation or other entity resulting from the transaction or (2) the combined voting power of the then outstanding voting securities of such corporation or other entity entitled to vote generally in the election of members of the board of directors (or similar governing body); or

(II) at least a majority of the members of the board of directors (or similar governing body) of the corporation or other entity resulting from the Reorganization were members of the Incumbent Board at the time of the execution of the initial agreement providing for the Reorganization; or

(iv) Approval by the shareholders of the Company of a complete liquidation or dissolution of the Company, or of the sale or other disposition of all or substantially all of the assets of the Company.

For purposes of this Section 2(g), "Person" means any individual, entity or group (within the meaning of Section 13(d)(3) of the Act), other than any employee benefit plan (or related trust) sponsored or maintained by the Company or any affiliated company, and "beneficial ownership" has the meaning given the term in Rule 13d-3 under the Act.

(h) *Code.* The Internal Revenue Code of 1986, as amended.

(i) *Committee.* The Committee appointed to administer the Plan pursuant to Plan Section 16, or if no such Committee has been appointed, the Board.

(j) *Company.* Virginia National Bankshares Corporation, a Virginia corporation.

(k) *Company Stock.* Common stock of the Company. If the par value of the Company Stock is changed, or in the event of a change in the capital structure of the Company (as provided in Section 14), the shares resulting from such a change shall be deemed to be Company Stock within the meaning of the Plan.

(l) *Consultant.* A person or entity rendering services to the Company or an Affiliate who is not an "employee" for purposes of employment tax withholding under the Code.

(m) *Date of Grant.* The effective date of an Award granted by the Committee.

(n) *Disability or Disabled.* As to an Incentive Stock Option, a Disability within the meaning of Code Section 22(e)(3). As to all other Awards, the Committee shall determine whether a Disability exists and such determination shall be conclusive.

(o) *Fair Market Value.*

(i) If the Company Stock is listed on any established stock exchange or quoted on any established stock market system, its Fair Market Value shall be the closing price for such stock on the Date of Grant as reported by such exchange or stock market system, or, if there are no trades on such date, the value shall be determined as of the last preceding day on which the Company Stock was traded.

(ii) If the Company Stock is not publicly traded, the Fair Market Value shall be determined by the Committee using any reasonable method in good faith, provided that the fair market value of Company Stock subject to an Incentive Stock Option shall be determined in good faith within the meaning of Treasury Regulation § 1.422-2(e)(2).

(iii) Fair Market Value shall be determined as of the Date of Grant specified in the Award.

(p) *Incentive Stock Option.* An Option intended to meet the requirements of, and qualify for favorable federal income tax treatment under, Code Section 422.

(q) *Nonstatutory Stock Option.* An Option that does not meet the requirements of Code Section 422, or that is otherwise not intended to be an Incentive Stock Option and is so designated.

(r) *Option.* A right to purchase Company Stock granted under the Plan, at a price determined in accordance with the Plan.

(s) *Other Stock-Based Award.* A right granted under Section 9.

(t) *Participant.* Any individual who is granted an Award under the Plan.

(u) *Restricted Stock*. Company Stock awarded upon the terms and subject to the restrictions set forth in Section 8.

(v) *Retirement.* Means:

(i) the termination of an employee's employment under conditions which would constitute "normal retirement" or "early retirement" under any tax qualified retirement plan maintained by the Company;

(ii) the termination of an employee's employment after attaining age 65 (except in the case of termination for Cause); or

(iii) the termination of a Non-Employee Director's service as a member of the Board after attaining age 65.

(w) *Rule 16b-3.* Rule 16b-3 promulgated under the Act, including any corresponding subsequent rule or any amendments to Rule 16b-3 enacted after the Effective Date of the Plan.

(x) *10% Shareholder*. A person who owns, directly or indirectly and within the meaning of Section 422 or 424 of the Code, stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or any parent or subsidiary of the Company. Indirect ownership of stock shall be determined in accordance with Code Section 424(d).

3. General. Awards of Options or Restricted Stock may be granted under the Plan. Options granted under the Plan may be Incentive Stock Options or Nonstatutory Stock Options.

4. Stock.

(a) Subject to Section 14 of the Plan, there shall be reserved for issuance under the Plan an aggregate of 250,000 shares of Company Stock; which may include authorized, but unissued, shares. Not more than 250,000 of such shares shall be available as any type of awards other than Incentive Stock Options. Shares allocable to Options granted under the Plan that expire or otherwise terminate and shares that are forfeited pursuant to restrictions on Restricted Stock awarded under the Plan may again be subjected to an Award under this Plan.

(b) The maximum number of shares with respect to which an Award may be granted in any calendar year to any employee during such calendar year shall be 50,000 shares.

5. Eligibility.

(a) Any employee of, director of, or Consultant to the Company or an Affiliate who, in the judgment of the Committee, has contributed or can be expected to contribute to the profits or growth of the Company or the Affiliate is eligible to become a Participant. The Committee shall have the power and complete discretion, as provided in Section 16, to select eligible Participants and to determine for each Participant the terms, conditions and nature of the Award and the number of shares to be allocated as part of the Award; provided, however, that any Award made to a member of the Committee must be approved by the Board. The Committee is expressly authorized to make an Award to a Participant conditioned on the surrender for cancellation of an existing Award.

(b) The grant of an Award shall not obligate the Company or any Affiliate to pay an employee any particular amount of remuneration, to continue the employment of the employee after the grant or to make further grants to the employee at any time thereafter.

(c) Non-Employee Directors and Consultants shall not be eligible to receive the Award of an Incentive Stock Option.

6. Stock Options.

(a) *Grant.* Whenever the Committee deems it appropriate to grant Options, notice shall be given to the Participant stating the number of shares for which Options are granted, the exercise price per share, whether the options are Incentive Stock Options or Nonstatutory Stock Options, and the conditions to which the grant and exercise of the Options are subject. This notice, when duly accepted in writing by the Participant, shall become a stock option agreement between the Company and the Participant. A Participant's stock option agreement shall set forth all restrictions on disposition and transfer applicable to the Option shares.

(b) *Exercise Price.* The Committee shall establish the exercise price of Options. The exercise price of an Option shall be not less than 100% of the Fair Market Value of such shares on the Date of Grant, provided that if the Participant is a 10% Shareholder, the exercise price of an Incentive Stock Option shall not be less than 110% of the Fair Market Value of such shares on the Date of Grant.

(c) *Term.* The Committee shall establish the term of each Option in the Participant's stock option agreement. The term of an Incentive Stock Option shall not be longer than ten years from the Date of Grant, except that an Incentive Stock Option granted to a 10% Shareholder shall not have a term in excess of five years. No Option may be exercised after the expiration of its term or, except as set forth in the Participant's stock option agreement, after the termination of the Participant's employment with the Company and/or its Affiliates.

(d) *Time of Exercise.*

(i) During Participant's Employment. Options may be exercised during their terms in whole or in part at such times as may be specified by the Committee in the Participant's stock option agreement. The Committee may impose such vesting conditions and other requirements as the Committee deems appropriate, and the Committee may include such provisions regarding a Change in Control as the Committee deems appropriate.

(ii) After Participant's Termination of Employment. The Committee shall set forth in the Participant's stock option agreement when, and under what circumstances, an Option may be exercised after termination of the Participant's employment or period of service; provided that no Incentive Stock Option may be exercised after the earlier of (a) (i) three months from the Participant's termination of employment with the Company for reasons other than Disability or death, or (ii) one year from the Participant's termination of employment on account of Disability or death; or (b) the expiration of the Option's term.

(iii) After Participant's Death. If a Participant dies and if the Participant's stock option agreement provides that part or all of the Option may be exercised after the Participant's death, then such portion may be exercised by the executor or administrator of the Participant's estate during the time period specified in the stock option agreement, but not later than the expiration of the Option's term.

(e) *Limit on Exercise of Incentive Stock Options.* An Incentive Stock Option, by its terms, shall be exercisable in any calendar year only to the extent that the aggregate Fair Market Value (determined at the Date of Grant) of the Company Stock with respect to which Incentive Stock Options are exercisable by the Participant for the first time during the calendar year does not exceed $100,000 (the "Limitation Amount"). Incentive Stock Options granted under the Plan and all other plans of the Company (or Affiliate) and any parent or subsidiary of the Company (or Affiliate) shall be aggregated for purposes of determining whether the Limitation Amount has been exceeded. The Board may impose such conditions as it deems appropriate on an Incentive Stock Option to ensure that the foregoing requirement is met. If Incentive Stock Options that first become exercisable in a calendar year exceed the Limitation Amount, the excess Options will be treated as Nonstatutory Stock Options to the extent permitted by law.

(f) *Options Forfeited Upon Termination of Employment for Cause.* If a Participant's employment or services is terminated by the Company or by any Affiliate for Cause, the Participant's Options, both vested and unvested, shall terminate as of the date of the misconduct, as determined by the Committee in its sole discretion.

7. Method of Exercise of Options.

(a) *Exercise.* Options may be exercised by giving written notice of the exercise to the Company, stating the Option being exercised and the number of shares the Participant has elected to purchase under the Option.

(b) *Payment.* In no event shall any shares be issued pursuant to the exercise of an Option until the Participant has made full payment for the shares of Company Stock (including payment of the exercise price and any Applicable Withholding Taxes). Company Stock purchased upon the exercise of an Option granted under the Plan shall be paid for as follows, provided that the Committee may impose such limitations and restrictions on payments with shares of Company Stock as the Committee, in its discretion, deems advisable:

(i) in cash or by check, payable to the order of the Company;

(ii) by delivery of Company Stock that the Participant has previously acquired and owned (valued at Fair Market Value on the date of exercise), provided that such method of payment is then permitted under applicable law and the Company Stock was owned by the Participant at least six months prior to such delivery (or such longer or shorter period of time required to avoid a charge to earnings for financial accounting purposes);

(iii) by withholding and retention by the Company of sufficient shares of Company Stock issuable in connection with the exercise to cover the exercise price (a "net share exercise");

(iv) by delivery of a properly executed exercise notice together with irrevocable instructions to a creditworthy broker to deliver promptly to the Company, from the sale or loan proceeds with respect to the sale of Company Stock or a loan secured by Company Stock, the amount necessary to pay the exercise price and, if required by the Committee, Applicable Withholding Taxes; or

(v) by any combination of the above permitted forms of payment.

(c) *Delivery of Shares.* Upon the exercise of an Option in compliance with the provisions of this section, the receipt by the Company of the payment for the shares of Company Stock so acquired, and satisfaction of the provisions of this Section 7 of the Plan, the Company shall deliver or cause to be delivered, within a reasonable time, to the Participant exercising the Option, either certificate(s) or shares held in book entry form ("Book Entry Shares") for the number of shares of Company Stock with respect to which the Option is exercised. The shares of Company Stock shall be registered in the name of the exercising Participant or in such name jointly with the Participant as the Participant may direct in the written notice of exercise. The Company may place on any certificate or Book Entry Shares representing Company Stock issued upon the exercise of an Option any legend or notation deemed desirable by the Company's counsel to comply with federal or state securities laws. The Company may require of the Participant a customary indication of his or her investment intent.

(d) *Disqualifying Disposition.* If a Participant disposes of shares acquired upon exercise of an Incentive Stock Option within two (2) years from the date the Option is granted or within one (1) year after the issuance of such shares to the Participant, the Participant shall notify the Company of such disposition and provide information regarding the date of disposition, sale price, number of shares disposed of, and any other information relating thereto that the Company may reasonably request.

(e) *Compliance with Rule 16b-3.* Notwithstanding anything herein to the contrary, Awards shall always be granted and exercised in such a manner as to conform to the provisions of Rule 16b-3.

8. <u>Restricted Stock Awards</u>.

(a) *Grant.* Whenever the Committee deems it appropriate to grant a Restricted Stock Award, notice shall be given to the Participant stating the number of shares of Restricted Stock for which the Award is granted, the Date of Grant, and the terms and conditions to which the Award is subject. Certificates or Book Entry Shares representing the shares shall be issued in the name of the Participant, subject to the restrictions imposed by the Plan and the Committee. A Restricted Stock Award may be made by the Committee in its discretion without cash consideration.

(b) *Restrictions on Transferability and Vesting of Restricted Stock Awards.* The Committee may place such restrictions on the transferability and vesting of Restricted Stock as the Committee deems appropriate, including restrictions relating to continued employment and financial performance goals. Without limiting the foregoing, the Committee may provide performance or Change in Control acceleration parameters under which all, or a portion, of the Restricted Stock will vest on the Company's (or an Affiliate's) achievement of established performance objectives. Restricted Stock may not be sold, assigned, transferred, disposed of, pledged, hypothecated or otherwise encumbered until the restrictions on such shares shall have lapsed or shall have been removed pursuant to subsection (c) below.

(c) *Lapse of Restrictions on Transferability.* The Committee shall establish as to each Restricted Stock Award the terms and conditions upon which the restrictions on transferability set forth in paragraph (b) above shall lapse. Such terms and conditions may include, without limitation, the passage of time, the meeting of performance goals, the lapsing of such restrictions as a result of the Disability, death or retirement of the Participant, or the occurrence of a Change in Control.

(d) *Rights of the Participant and Restrictions.* A Participant shall hold shares of Restricted Stock subject to the restrictions set forth in the Award agreement and in the Plan. In other respects, the Participant shall have all the rights of a shareholder with respect to the shares of Restricted Stock, including, but not limited to, the right to vote such shares and the right to receive all cash dividends and other distributions paid thereon. Certificates or Book Entry Shares representing Restricted Stock shall bear a legend or other notation referring to the restrictions set forth in the Plan and the Participant's Award agreement. If stock dividends are declared on Restricted Stock, such stock dividends or other distributions shall be subject to the same restrictions as the underlying shares of Restricted Stock and shall be paid no later than 2 ½ months after the end of the year in which the underlying Restricted Stock vests.

9. Other Stock-Based Awards.

(a) The Committee is authorized to grant other types of equity-based or equity-related Awards not otherwise described by the terms of the Plan (including the grant or offer for sale of unrestricted shares of Company Stock) to Participants in such amounts and subject to such terms and conditions as the Committee shall determine. Such Awards shall be referred to as "Other Stock-Based Awards." Each such Other Stock-Based Award may involve the transfer of actual shares to Participants or payment in cash or otherwise of amounts based on the value of shares of Company Stock.

(b) Each Other Stock-Based Award shall be expressed in terms of shares or units or an equivalent measurement based on shares, as determined by the Committee. If the value of an Other Stock-Based Award will be based on the appreciation of shares from an initial value determined as of the date of grant, then such initial value shall not be less than the Fair Market Value of a share on the date of grant of such Other Stock-Based Award.

10. Applicable Withholding Taxes. Each Participant shall agree, as a condition of receiving an Award, to pay to the Company or the Affiliate, or make arrangements satisfactory to the Company or the Affiliate regarding the payment of, all Applicable Withholding Taxes with respect to the Award. Until the Applicable Withholding Taxes have been paid or arrangements satisfactory to the Company or the Affiliate have been made, no stock certificates or Book Entry Shares (or, in the case of Restricted Stock, no stock certificates or Book Entry Shares free of a restrictive legend or other notation) shall be issued to the Participant. As an alternative to making a cash payment to the Company or the Affiliate to satisfy Applicable Withholding Tax obligations, the Committee may establish procedures permitting the Participant to elect to (a) deliver shares of already owned Company Stock or (b) have the Company or the Affiliate retain that number of shares of Company Stock that would satisfy all or a specified portion of the Applicable Withholding Taxes. Any such election shall be made only in accordance with procedures established by the Committee to avoid a charge to earnings for financial accounting purposes and in accordance with Rule 16b-3.

11. Conditions on Delivery of Stock. The Company will not be obligated to deliver any shares of Company Stock pursuant to the Plan or to remove restrictions from shares previously delivered under the Plan until (i) all conditions of the Award have been met or removed to the satisfaction of the Company, (ii) in the opinion of the Company's counsel, all other legal matters in connection with the issuance and delivery of such shares have been satisfied, including any applicable securities laws and any applicable stock exchange or stock market rules and regulations, and (iii) the Participant has executed and delivered to the Company such representations or agreements as the Company may consider appropriate to satisfy the requirements of any applicable laws, rules, or regulations. The Company may place on a certificate or Book Entry Shares representing Company Stock any legend required to reflect restrictions pursuant to the Plan, and any legend deemed necessary by the Company's counsel to comply with federal or state securities laws. The Company may require a customary written indication of a Participant's investment intent. Until a Participant has been issued a certificate or Book Entry Shares for the shares of Company Stock acquired, the Participant shall possess no shareholder rights with respect to the shares.

12. Nontransferability of Awards.

(a) In general, Awards, by their terms, shall not be transferable by the Participant except by will or by the laws of descent and distribution or except as described below, without prior written approval from the Committee. Options shall be exercisable, during the Participant's lifetime, only by the Participant or by his guardian or legal representative.

(b) Notwithstanding the provisions of (a) and subject to federal and state securities laws, the Committee may on a case by case basis grant or amend Nonstatutory Stock Options that permit a Participant to transfer the Options to one or more immediate family members, to a trust for the benefit of immediate family members, or to a partnership, limited liability company, or other entity the only partners, members, or interest-holders of which are among the Participant's immediate family members. Consideration may not be paid for the transfer of Options. The transferee of an Option shall be subject to all conditions applicable to the Option prior to its transfer. The agreement granting the Option shall set forth the transfer conditions and restrictions. The Committee may impose on any transferable Option and on stock issued upon the exercise of an Option such limitations and conditions as the Committee deems appropriate in its sole discretion.

13. Termination, Modification, Change.

(a) If not sooner terminated by the Board, this Plan shall terminate at the close of business on the day prior to the tenth anniversary of the Effective Date. The Board may at any time terminate, suspend, or modify the Plan; provided that the Board shall not, without stockholder approval, make any revision or amendment that would cause the Plan to fail to comply with any requirement of applicable law, regulation, or rule if such amendment were not approved by the stockholders of the Company including, (1) increasing the total number of shares of Company Stock reserved for issuance pursuant to Awards granted under the Plan (except pursuant to Section 14), (2) expanding the class of persons eligible to receive Awards, or (3) materially increasing the benefits accruing to Participants under the Plan. Notwithstanding the foregoing, the Board may unilaterally amend the Plan and Awards as it deems appropriate to ensure compliance with Rule 16b-3 and to cause Incentive Stock Options to meet the requirements of the Code and regulations thereunder.

(b) No Awards shall be made under the Plan after its termination, and no termination or amendment of the Plan shall, without the consent of the Participant or his representative, adversely affect a Participant's rights under an Award previously granted to him, but it shall be conclusively presumed that any adjustment to cause Incentive Stock Options to meet the requirements of the Code and regulations thereunder or any adjustment pursuant to Section 14, does not adversely affect any such right.

(c) Except in connection with a corporate transaction involving the Company (including, without limitation, any stock dividend, stock split, extraordinary cash dividend, recapitalization, reorganization, merger, consolidation, split-up, spin-off, combination, or exchange of shares), the terms of outstanding Awards may not be amended to reduce the exercise price of outstanding Options or Other Stock-Based Awards or cancel outstanding Options or Other Stock-Based Awards in exchange for cash, other Awards or Options or Other Stock-Based Awards with an exercise price that is less than the exercise price of the original Options or Other Stock-Based Awards without shareholder approval.

14. Change in Capital Structure.

(a) In the event of a stock dividend, stock split or combination of shares, spin-off, reorganization, recapitalization or merger in which the Company is the surviving corporation, or other change in the Company's capital stock (including, but not limited to, the creation or issuance to shareholders generally of rights, options or warrants for the purchase of common stock or preferred stock of the Company), the number and kind of shares of stock or securities of the Company to be issued under the Plan (under outstanding Awards and Awards to be granted in the future), the exercise price of options, and other relevant provisions shall be appropriately adjusted by the Committee, whose determination shall be binding on all persons. If the adjustment would produce fractional shares with respect to any Award, the Committee may adjust appropriately the number of shares covered by the Award so as to eliminate the fractional shares.

(b) In the event of a reorganization, recapitalization or merger in which the Company is the surviving corporation, the result of which is that the Company becomes a majority owned subsidiary of another entity (the "Parent"), then the Committee may take such actions with respect to Awards as the Committee deems appropriate (whose determination shall be binding on all persons), including without limitation causing any such Award then outstanding to be assumed, or new rights substituted therefor, by the Parent.

(c) In the event the Company distributes to its stockholders a dividend, or sells or causes to be sold to a person other than the Company or a subsidiary shares of stock in any corporation (a "Spinoff Company") which, immediately before the distribution or sale, was a majority owned subsidiary of the Company, the Committee shall have the power, in its sole discretion, to make such adjustments as the Committee deems appropriate. The Committee may make adjustments in the number and kind of shares or other securities to be issued under the Plan (under outstanding Awards and Awards to be granted in the future), the exercise price of Options, and other relevant provisions, and, without limiting the foregoing, may substitute securities of a Spinoff Company for securities of the Company. The Committee shall make such adjustments as it determines to be appropriate, considering the economic effect of the distribution or sale on the interests of the Company's shareholders and the Participants in the businesses operated by the Spinoff Company. The Committee's determination shall be binding on all persons. If the adjustment would produce fractional shares with respect to any Award, the Committee may adjust appropriately the number of shares covered by the Award so as to eliminate the fractional shares.

(d) Notwithstanding anything in the Plan to the contrary, the Committee may take the foregoing actions without the consent of any Participant, and the Committee's determination shall be conclusive and binding on all persons for all purposes. The Committee shall make its determinations consistent with Rule 16b-3 and the applicable provisions of the Code.

(e) To the extent required to avoid a charge to earnings for financial accounting purposes, adjustments made by the Committee pursuant to this Section 14 to outstanding Awards shall be made so that both (i) the aggregate intrinsic value of an Award immediately after the adjustment is not greater than or less than the Award's aggregate intrinsic value before the adjustment and (ii) the ratio of the exercise price per share to the market value per share is not reduced.

15. Change in Control. In the event of a Change in Control of the Company, the Committee may take such actions with respect to Awards as the Committee deems appropriate. These actions may include, but shall not be limited to, the following:

(a) At the time the Award is made, provide for the acceleration of the vesting schedule relating to the exercise or realization of the Award so that the Award may be exercised or realized in full on or before a date initially fixed by the Committee;

(b) Provide for the purchase or settlement of any such Award by the Company for any amount of cash equal to the amount which could have been obtained upon the exercise of such Award or realization of a Participant's rights had such Award been currently exercisable or payable;

(c) Make adjustments to Awards then outstanding as the Committee deems appropriate to reflect such Change in Control; provided, however, that to the extent required to avoid a charge to earnings for financial accounting purposes, such adjustments shall be made so that both (i) the aggregate intrinsic value of an Award immediately after the adjustment is not less than or greater than the Award's aggregate intrinsic value before the Award and (ii) the ratio of the exercise price per share to the market value per share is not reduced; or

(d) Cause any such Award then outstanding to be assumed, or new rights substituted therefore, by the acquiring or surviving corporation in such Change in Control.

16. Administration of the Plan.

(a) The Plan shall be administered by the Committee, who shall be appointed by the Board. The Board initially designates the Compensation Committee of the Board to be the Committee for purposes of the Plan. If, at any time, the Compensation Committee is not designated as the Committee and no Committee is appointed, the Plan shall be administered by the Board. To the extent required by Rule 16b-3, all Awards shall be made by members of the Committee who are "Non-Employee Directors" as that term is defined in Rule 16b-3, or by the Board. Awards that are intended to be performance-based for purposes of Code Section 162(m) shall be made by the Committee, or subcommittee of the Committee, comprised solely of two or more "outside directors" as that term is defined for purposes of Code Section 162(m).

(b) Subject to the express provisions of the Plan, the Committee shall have full and final authority to impose such limitations or conditions upon an Award as the Committee deems appropriate to achieve the objectives of the Award and the Plan. Without limiting the foregoing and in addition to the powers set forth elsewhere in the Plan, the Committee shall have the power and complete discretion to determine (i) which eligible persons shall receive an Award and the nature of the Award, (ii) the number of shares of Company Stock to be covered by each Award, (iii) whether Options shall be Incentive Stock Options or Nonstatutory Stock Options, (iv) the Fair Market Value of Company Stock, (v) the time or times when an Award shall be granted, (vi) whether an Award shall become vested over a period of time, according to a performance-based vesting schedule or otherwise, and when it shall be fully vested, (vii) the terms and conditions under which restrictions imposed upon an Award shall lapse, (viii) to the extent permissible under Code Section 409A, whether a Change in Control exists, (ix) factors relevant to the lapse of restrictions on Restricted Stock or Options, (x) when Options may be exercised, (xi) whether to approve a Participant's election with respect to Applicable Withholding Taxes, (xii) conditions relating to the length of time before disposition of Company Stock received in connection with an Award is permitted, (xiii) notice provisions relating to the sale of Company Stock acquired under the Plan, and (xiv) any additional requirements relating to Awards that the Committee deems appropriate. To the extent permitted by applicable law, the Committee may delegate to the President and/or Chief Executive Officer of the Company the power to designate other officers and employees of the Company who will receive Awards and to determine the extent of the Awards to be received by such Participant. Such delegation must be made by a resolution of the Committee that specifies the maximum number of shares that may be allocated as part of the Awards and such other terms and conditions as may be established by the Committee.

(c) The Committee shall have the power to amend the terms of previously granted Awards so long as the terms as amended are consistent with the terms of the Plan and, where applicable, consistent with the qualification of an Option as an Incentive Stock Option. The consent of the Participant must be obtained with respect to any amendment that would adversely affect the Participant's rights under the Award, except that such consent shall not be required if such amendment is for the purpose of complying with Rule 16b-3 or any requirement of the Code applicable to the Award.

(d) The Committee may adopt rules and regulations for carrying out the Plan. The Committee shall have the express discretionary authority to construe and interpret the Plan and the Award agreements, to resolve any ambiguities, to define any terms, and to make any other determinations required by the Plan or an Award agreement. The interpretation and construction of any provisions of the Plan or an Award agreement by the Committee shall be final and conclusive. The Committee may consult with counsel, who may be counsel to the Company, and shall not incur any liability for any action taken in good faith in reliance upon the advice of counsel.

(e) A majority of the members of the Committee shall constitute a quorum, and all actions of the Committee shall be taken by a majority of the members present. Any action may be taken by a written instrument signed by all of the members, and any action so taken shall be fully effective as if it had been taken at a meeting.

17. <u>Notice</u>. All notices and other communications required or permitted to be given under this Plan shall be in writing and shall be deemed to have been duly given if delivered personally, electronically, or mailed first class, postage prepaid, as follows: (a) if to the Company - at its principal business address to the attention of the Secretary; (b) if to any Participant - at the last address of the Participant known to the sender at the time the notice or other communication is sent.

18. <u>Compliance with Code Section 409A</u>. To the extent applicable, this Plan is intended to comply with Section 409A of the Code, and the Committee shall interpret and administer the Plan in accordance therewith. In addition, any provision, including, without limitation, any definition, in this Plan document that is determined to violate the requirements of Section 409A of the Code shall be void and without effect and any provision, including, without limitation, any definition, that is required to appear in this Plan document under Section 409A of the Code that is not expressly set forth shall be deemed to be set forth herein, and the Plan shall be administered in all respects as if such provisions were expressly set forth. In addition, the timing of certain payment of benefits provided for under this Plan shall be revised as necessary for compliance with Section 409A of the Code.

19. <u>Clawback</u>. Notwithstanding any other provisions in this Plan, any Award which is subject to recovery under any law, government regulation or stock exchange listing requirement, will be subject to such deductions and clawback as may be required to be made pursuant to such law, government regulation or stock exchange listing requirement (or any policy adopted by the Company or any Affiliate pursuant to any such law, government regulation or stock exchange listing requirement).

20. **Section 162(m).** To the extent the Committee issues any Award that is intended to be exempt from the deduction limitation of Section 162(m) of the Code, the Committee may, without shareholder or grantee approval, amend the Plan or the relevant agreement for the Award retroactively or prospectively to the extent it determines necessary in order to comply with any subsequent clarification of Section 162(m) of the Code required to preserve the Company's federal income tax deduction for compensation paid pursuant to any such Award.

21. **Rights Under the Plan.** Title to and beneficial ownership of all benefits described in the Plan shall at all times remain with the Company. Participation in the Plan and the right to receive payments under the Plan shall not give a Participant any proprietary interest in the Company or any Affiliate or any of their assets. No trust fund shall be created in connection with the Plan, and there shall be no required funding of amounts that may become payable under the Plan. A Participant shall, for all purposes, be a general creditor of the Company or the Affiliate. The interest of a Participant in the Plan cannot be assigned, anticipated, sold, encumbered or pledged and shall not be subject to the claims of his creditors.

22. **Interpretation and Governing Law.** The terms of this Plan and Awards granted pursuant to the Plan shall be governed, construed and administered in accordance with the laws of the Commonwealth of Virginia, excluding any choice of law rules or principles that might otherwise refer construction or interpretation of any provision of the Plan or an Agreement to the substantive law of another jurisdiction. The Plan and Awards are subject to all present and future applicable provisions of the Code and, to the extent applicable; they are subject to all present and future rulings of the Securities and Exchange Commission with respect to Rule 16b-3. If any provision of the Plan or an Award conflicts with any such Code provision or ruling, the Committee shall cause the Plan to be amended, and shall modify the Award, so as to comply, or if for any reason amendments cannot be made, that provision of the Plan or the Award shall be void and of no effect.

Exhibit 31.1

<u>CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER</u>

I, Glenn W. Rust, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Virginia National Bankshares Corporation;

2. Based on my knowledge, this quarterly 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 quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;

4. The registrant's other certifying officer(s) 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, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control 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 quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and

   (d) Disclosed in this quarterly 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 officer(s) 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 functions):

   (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 control over financial reporting.

Date: May 11, 2020

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

Exhibit 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

I, Tara Y. Harrison, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Virginia National Bankshares Corporation;

2. Based on my knowledge, this quarterly 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 quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;

4. The registrant's other certifying officer(s) 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, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control 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 quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and

   (d) Disclosed in this quarterly 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 officer(s) 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 functions):

   (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 control over financial reporting.

Date: May 11, 2020

/s/ Tara Y. Harrison
Tara Y. Harrison
Executive Vice President and Chief Financial 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 Quarterly Report on Form 10-Q of Virginia National Bankshares Corporation (the "Company") for the period ending March 31, 2020, as filed with the Securities and Exchange Commission, on the date hereof (the "Report"), the undersigned Chief Executive Officer and Chief Financial Officer of the Company 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 Company as of and for the periods covered in the Report.

/s/ Glenn W. Rust
Glenn W. Rust, President and Chief Executive Officer

/s/ Tara Y. Harrison
Tara Y. Harrison, Executive Vice President and Chief Financial Officer

May 11, 2020