UNITED STATES
OFFICE OF THE COMPTROLLER OF THE CURRENCY
WASHINGTON, D. C. 20219

FORM 10-Q

(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2013

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ____________________ to ____________________

OCC Charter Number: 23616

VIRGINIA NATIONAL BANK

(Exact name of registrant as specified in its charter)

Virginia	54-1902129
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

222 East Main Street
Charlottesville, Virginia 22902
(Address of principal executive offices)

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

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). ☐ Yes ☐ No

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

Large accelerated filer ☐ Accelerated filer ☐

Non-accelerated filer ☐ (Do not check if a smaller reporting company) Smaller reporting company ☒

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

Indicate the number of shares outstanding of each of the issuer’s classes of common stock as of August 9, 2013:

Class of Stock	Shares Outstanding
Common Stock, Par Value $2.50	2,690,220

VIRGINIA NATIONAL BANK

FORM 10-Q

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	(Unaudited) June 30, 2013	December 31, 2012
ASSETS		
Cash and due from banks	$ 10,833	$ 15,647
Federal funds sold	31,666	56,131
Securities:		
Available for sale, at fair value	119,152	110,853
Held to maturity, at amortized cost (Fair value - $2,733 in 2013, $6,060 in 2012)	2,699	5,991
Restricted securities, at cost	1,645	1,729
Total securities	123,496	118,573
Total loans	293,855	284,860
Allowance for loan losses	(3,547)	(3,267)
Total loans, net	290,308	281,593
Premises and equipment, net	10,099	10,654
Other real estate owned, net of valuation allowance	2,550	1,746
Bank owned life insurance	12,372	12,150
Accrued interest receivable and other assets	5,416	11,112
Total assets	$ 486,740	$ 507,606
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Demand deposits:		
Noninterest-bearing	$ 117,951	$ 131,559
Interest-bearing	74,758	80,916
Money market deposit accounts	105,135	102,804
Certificates of deposit and other time deposits	126,083	130,143
Total deposits	423,927	445,422
Securities sold under agreements to repurchase	9,032	4,000
Accrued interest payable and other liabilities	800	4,245
Total liabilities	433,759	453,667
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; 2,690,220 shares issued and outstanding in 2013 and 2012 (including 575 non-vested shares at June 30, 2013 and December 31, 2012)	6,724	6,724
Capital surplus	27,867	27,809
Retained earnings	19,474	18,254
Accumulated other comprehensive income (loss)	(1,084)	1,152
Total shareholders' equity	52,981	53,939
Total liabilities and shareholders' equity	$ 486,740	$ 507,606

See Notes to Interim Consolidated Financial Statements.

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

	For Three Months Ended		For Six Months Ended	
	June 30, 2013 (Unaudited)	June 30, 2012 (Unaudited)	June 30, 2013 (Unaudited)	June 30, 2012 (Unaudited)
Interest and dividend income:				
Loans, including fees	$ 3,248	$ 3,714	$ 6,520	$ 7,484
Federal funds sold	12	46	37	59
Investment securities				
Taxable	440	460	887	930
Tax exempt	113	14	216	22
Dividends	19	21	39	36
Other	6	2	6	2
Total interest and dividend income	3,838	4,257	7,705	8,533
Interest expense:				
Demand and savings deposits	61	75	119	125
Certificates and other time deposits	191	271	398	568
Federal funds purchased and securities sold under agreements to repurchase	1	1	3	2
Total interest expense	253	347	520	695
Net interest income	3,585	3,910	7,185	7,838
Provision for loan losses	45	60	265	191
Net interest income after provision for loan losses	3,540	3,850	6,920	7,647
Noninterest income:				
Trust income	837	622	1,412	1,268
Customer service fees	238	243	464	515
Debit/credit card and ATM fees	189	188	355	356
Earnings/increase in value of bank owned life insurance	111	64	222	128
Gain on sale of securities	16	29	16	29
Other	89	63	143	102
Total noninterest income	1,480	1,209	2,612	2,398
Noninterest expenses:				
Salaries and employee benefits	1,982	2,180	4,009	4,441
Net occupancy expense	507	531	1,022	1,074
Equipment expense	160	236	332	459
Other	1,246	1,533	2,335	2,762
Total noninterest expenses	3,895	4,480	7,698	8,736
Income before income taxes	1,125	579	1,834	1,309
Provision for income taxes	309	168	480	397
Net income	$ 816	$ 411	$ 1,354	$ 912
Earnings per share, basic	0.30	0.15	0.50	0.34
Earnings per share, diluted	0.30	0.15	0.50	0.34
Weighted average shares outstanding, basic	2,690,220	2,690,220	2,690,220	2,690,220
Weighted average shares outstanding, diluted	2,690,324	2,690,220	2,690,299	2,690,220

See Notes to Interim Consolidated Financial Statements.

VIRGINIA NATIONAL BANK AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(dollars in thousands)

	For Three Months Ended		For Six Months Ended	
	June 30, 2013 (Unaudited)	June 30, 2012 (Unaudited)	June 30, 2013 (Unaudited)	June 30, 2012 (Unaudited)
Net income	$ 816	$ 411	$ 1,354	$ 912
Other comprehensive (loss)				
Unrealized (losses) on securities, net of tax of ($950) and ($1,147) for the three months and six months ended June 30, 2013 and net of tax of ($73) and ($158) for the three months and six months ended June 30, 2012	(1,844)	(141)	(2,225)	(308)
Reclassification adjustment net of tax of ($5) for the three and six months ended June 30, 2013 and net of tax of ($10) for the three and six months ended June 30, 2012	(11)	(19)	(11)	(19)
Total other comprehensive (loss)	(1,855)	(160)	(2,236)	(327)
Total comprehensive income (loss)	$ (1,039)	$ 251	$ (882)	$ 585

See Notes to Interim Consolidated Financial Statements.

VIRGINIA NATIONAL BANK AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the Six Months Ended June 30, 2013 and 2012

(dollars in thousands)

Unaudited	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2012	$ 6,724	$ 27,809	$ 18,254	$ 1,152	$ 53,939
Stock option/grant expense		58			58
Cash dividend			(134)		(134)
Net income			1,354		1,354
Other comprehensive (loss)				(2,236)	(2,236)
Balance, June 30, 2013	$ 6,724	$ 27,867	$ 19,474	$ (1,084)	$ 52,981

Unaudited	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2011	$ 6,723	$ 27,705	$ 12,773	$ 1,720	$ 48,921
Stock option/grant expense		64			64
Net income			912		912
Other comprehensive (loss)				(327)	(327)
Balance, June 30, 2012	$ 6,723	$ 27,769	$ 13,685	$ 1,393	$ 49,570

See Notes to Interim Consolidated Financial Statements.

VIRGINIA NATIONAL BANK AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

(dollars in thousands)

	For the six months ended	
	June 30, 2013 (Unaudited)	**June 30, 2012 (Unaudited)**
Cash flows from operating activities:		
Net income	$ 1,354	$ 912
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	265	191
Net amortization and accretion	511	333
Gain on sale of securities	(16)	(29)
Depreciation and amortization	678	723
Stock option/stock grant expense	58	64
Earnings/increase in value of bank owned life insurance	(222)	(128)
OREO writedown	-	262
Decrease in accrued interest receivable and other assets	6,847	498
(Decrease) increase in accrued interest payable and other liabilities	(3,445)	33
Net cash provided by operating activities	6,030	2,859
Cash flows from investing activities:		
Net decrease (increase) in restricted securities	84	(2)
Purchases of held-to-maturity securities	-	(4,044)
Purchases of available-for-sale securities	(39,854)	(19,025)
Maturities and prepayments of held-to-maturity securities	1,275	-
Maturities and prepayments of available-for-sale securities	16,979	3,426
Sales of held-to-maturity securities	2,013	-
Sales of available-for-sale securities	10,698	4,073
Net increase in loans	(9,784)	(6,676)
Proceeds from sales of other real estate owned	-	323
Purchase of premises and equipment	(123)	(1,433)
Net cash used in investing activities	(18,712)	(23,358)
Cash flows from financing activities:		
Net (decrease) increase in demand deposits, NOW accounts and money market accounts	(17,435)	43,384
Net (decrease) increase in certificates of deposit	(4,060)	7,984
Net (decrease) increase in repurchase agreements	5,032	(339)
Cash dividend	(134)	-
Net cash (used in) provided by financing activities	(16,597)	51,029
Net (decrease) increase in cash and cash equivalents	$ (29,279)	$ 30,530
Cash and cash equivalents:		
Beginning of period	$ 71,778	$ 57,044
End of period	$ 42,499	$ 87,574
Supplemental disclosures		
Cash payments for:		
Interest	$ 541	$ 724
Income taxes	$ 2,053	$ 160
Supplemental disclosures of non-cash investing activities		.
Change in unrealized loss on securities available for sale	$ (3,388)	$ (495)
Transfer of loans to foreclosed assets	$ 804	$ -

See Notes to Interim Consolidated Financial Statements.

1. Organization

Virginia National Bank ("Bank") was organized under federal law as a national banking association to engage in a general banking business aimed at serving the community in and around Charlottesville and Albemarle County, Virginia. In a common stock offering beginning on June 5, 1998, and ending on June 26, 1998, the Bank sold 1,870,000 shares of its Common Stock, par value $2.50 per share, at $10 per share. After approval by the Office of the Comptroller of the Currency of the Bank's application to organize a new national bank, and approval of the Bank's application for insurance of its deposits by the Federal Deposit Insurance Corporation, Virginia National Bank opened for business on July 29, 1998, at 222 East Main Street in Charlottesville, Virginia.

On May 18, 2007, the Office of the Comptroller of the Currency ("OCC") granted conditional approval to the Bank's application to establish a new national trust bank with the title VNBTrust, National Association ("VNBTrust"), which is now operating as a wholly owned subsidiary of the Bank. Additionally, the OCC approved the Bank's application for VNBTrust to create a wholly owned operating subsidiary, VNB Investment Management Company, LLC, a Delaware limited liability corporation, which has approval to organize and manage two private investment funds. One fund, known as Swift Run Capital, LP is in operation. In January, 2010, VNB Investment Management Company changed its name to Swift Run Capital Management, LLC. See financial statement note 11 for additional information regarding Swift Run Capital Management, LLC.

Principles of Consolidation – The consolidated financial statements include the accounts of Virginia National Bank (Bank) and its wholly-owned subsidiary, VNBTrust, N.A. All significant intercompany balances and transactions have been eliminated in consolidation.

2. Basis of Presentation

The accounting and reporting policies of Virginia National Bank conform to accounting principles generally accepted in the United States of America and to the reporting guidelines prescribed by regulatory authorities. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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, deferred tax assets and other real estate owned. In the opinion of Management, all adjustments (consisting of normal recurring items) considered necessary for a fair presentation have been included. Operating results for the three-month and six month period ended June 30, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013. The statements should be read in conjunction with the Notes to Consolidated Financial Statements included in the Bank's Form 10-K for the year ended December 31, 2012.

3. Securities

The amortized cost and fair values of securities held to maturity as of June 30, 2013 are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(dollars in thousands)		
Corporate bonds	$ 2,011	$ 26	$ -	$ 2,037
Municipal securities	688	8	-	696
	$ 2,699	$ 34	$ -	$ 2,733

The amortized cost and fair values of securities held to maturity as of December 31, 2012 are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(dollars in thousands)			
Corporate bonds	$ 4,024	$ 50	$ -	$ 4,074
Municipal securities	1,967	19	-	1,986
	$ 5,991	$ 69	$ -	$ 6,060

The amortized cost and fair values of securities available for sale as of June 30, 2013 are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(dollars in thousands)			
U.S. Government agencies	$ 50,843	$ 1,166	59	$ 51,950
Corporate bonds	7,065	1	101	6,965
Asset-backed securities	2,161	-	44	2,117
Mortgage-backed securities/CMOs	38,714	28	1,048	37,694
Municipal bonds	22,012	2	1,588	20,426
	$ 120,795	$ 1,197	$ 2,840	$ 119,152

The amortized cost and fair values of securities available for sale as of December 31, 2012 are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(dollars in thousands)			
U.S. Government agencies	$ 61,664	$ 1,842	$ 9	$ 63,497
Corporate bonds	4,037	-	14	4,023
Asset-backed securities	1,151	-	7	1,144
Mortgage-backed securities/CMOs	25,260	43	137	25,166
Municipal bonds	16,996	87	60	17,023
	$ 109,108	$ 1,972	$ 227	$ 110,853

In addition, the Bank held restricted securities of $1,645,000 as of June 30, 2013 and $1,729,000 as of December 31, 2012. These restricted securities are carried at cost and are comprised of Federal Reserve Bank stock and Federal Home Loan Bank of Atlanta stock.

The Bank's securities portfolio is comprised of fixed rate and adjustable rate bonds, whose prices move inversely with interest rates. At the end of any accounting period, the portfolio may have both unrealized gains and losses. Unrealized losses within the Bank's portfolio typically occur as market interest rates rise. Such unrealized losses are considered temporary in nature. An "other-than-temporary impairment" ("OTTI") is considered to exist if any of the following conditions are met: it is more likely than not that the Bank will be required to sell the security before recovery of its amortized cost basis, or the Bank does not expect to recover the security's entire amortized cost basis (even if the Bank does not intend to sell). In the event that a security would suffer an impairment for a reason that was "other than temporary," the Bank 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 June 30, 2013, Management has concluded that none of its investment securities have an other-than-temporary impairment based upon the information available, at this time. 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.

At June 30, 2013, 72 of the 97 securities in the portfolio had an unrealized loss. The following table recaps all unrealized losses in the Bank's securities portfolio at June 30, 2013: The Bank had no unrealized losses on held-to-maturity securities as of June 30, 2013 or December 31, 2012.

(dollars in thousands)	Continuous Unrealized Loss Position of Less Than 12 Months		Continuous Unrealized Loss Position of 12 Months or More		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
U.S. Government agencies	$ 2,941	$ 59	$ -	$ -	$ 2,941	$ 59
Corporate bonds	5,981	101	-	-	5,981	101
Asset-backed securities	2,117	44	-	-	2,117	44
Mortgage-backed/CMOs	32,882	1,048	-	-	32,882	1,048
Municipal bonds	19,710	1,571	293	17	20,003	1,588
	$ 63,631	$ 2,823	$ 293	$ 17	$ 63,924	$ 2,840

At December 31, 2012, 29 of the 74 securities in the portfolio had an unrealized loss. The following table recaps all unrealized losses in the Bank's securities portfolio at December 31, 2012:

(dollars in thousands)	Continuous Unrealized Loss Position of Less Than 12 Months		Continuous Unrealized Loss Position of 12 Months or More		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
U.S. Government agencies	$ 991	$ 9	$ -	$ -	$ 991	$ 9
Corporate bonds	4,023	14	-	-	4,023	14
Asset-backed securities	1,144	7	-	-	1,144	7
Mortgage-backed/CMOs	19,740	137	-	-	19,740	137
Municipal bonds	5,806	60	-	-	5,806	60
	$ 31,704	$ 227	$ -	$ -	$ 31,704	$ 227

Securities having carrying values of $15,472,000 at June 30, 2013 were pledged to secure deposits and for other purposes required by law. At December 31, 2012, securities having carrying values of $7,307,000 were similarly pledged.

4. Loans

The composition of the loan portfolio by loan classification at June 30, 2013 and December 31, 2012 appears below.

	June 30, 2013	December 31, 2012
	(dollars in thousands)	
Commercial	$ 49,767	$ 45,370
Real estate construction and land		
Residential construction	450	-
Other construction and land	19,155	14,193
Total construction and land	19,605	14,193
Real estate mortgage:		
1-4 family	54,690	56,820
Home equity loans	32,206	31,433
Multifamily mortgages	20,852	23,033
Commercial owner occupied	53,894	57,487
Commercial nonowner occupied	50,046	44,569
Total real estate mortgage	211,688	213,342
Consumer		
Consumer revolving credit	1,805	1,938
Consumer all other credit	10,990	10,017
Total consumer loans	12,795	11,955
Total loans	293,855	284,860
Less: Allowance for loan losses	(3,547)	(3,267)
Net loans	$ 290,308	$ 281,593

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 Bank will be unable to collect all principal and interest amounts 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.

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.

Troubled Debt Restructurings ("TDRs") are considered impaired loans. TDRs occur when the Bank 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.

At June 30, 2013, the Bank had seven loans in the amount of $1,891,000 classified as impaired loans. Of this total, $497,000 were non-accrual loans, and the remaining $1,394,000 were TDR's which are still accruing interest. At December 31, 2012, the Bank had nine loans in the amount of $2,816,000 classified as impaired loans. Seven of these loans were non-accrual for a total of $1,403,000. Of this non-accrual total, two loans totaling $248,000 were also classified as TDRs. The remaining $1,413,000 in impaired loans was for two additional loans classified as TDRs but were still accruing interest.

Following is a further breakdown by class of the loans classified as impaired loans as of June 30, 2013 and December 31, 2012. These loans are reported at their recorded investment, which is the carrying amount of the loan as reflected on the Bank'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 six months ended June 30, 2013 or the twelve months ended December 31, 2012. Interest income recognized is for the six months ended June 30, 2013 or the twelve months ended December 31, 2012.

June 30, 2013	**Recorded Investment**	**Unpaid Principal Balance**	**Associated Allowance**	**Average Recorded Investment**	**Interest Income Recognized**
			(dollars in thousands)		
Impaired loans without a valuation allowance:					
Other real estate construction and land	$ 82	$ 112	$ -	$ 83	$ -
1-4 family residential mortgages	227	230	-	227	5
Commercial owner occupied real estate	1,167	1,199	-	1,174	21
Commercial non-owner occupied real estate	147	168	-	152	-
Impaired loans with a valuation allowance					
1-4 family residential mortgages	159	159	90	26	1
Commercial non-owner occupied real estate	109	109	16	18	-
Total impaired loans	$ 1,891	$ 1,977	$ 106	$ 1,680	$ 27

December 31, 2012	**Recorded Investment**	**Unpaid Principal Balance**	**Associated Allowance**	**Average Recorded Investment**	**Interest Income Recognized**
			(dollars in thousands)		
Impaired loans without a valuation allowance:					
Other real estate construction and land	$ 194	$ 229	$ -	$ 337	$ 25
1-4 family residential mortgages	294	341	-	195	4
Commercial owner occupied real estate	2,328	2,671	-	915	22
Impaired loans with a valuation allowance	-	-	-	-	-
Total impaired loans	$ 2,816	$ 3,241	$ -	$ 1,447	$ 51

The impaired loans classified as non-accruals are shown below by class:

Non-accrual balance	**June 30, 2013**	**December 31, 2012**
	(dollars in thousands)	
Other real estate construction and land	$ 82	$ 194
1-4 family residential mortgages	159	65
Commercial owner occupied real estate	-	1,144
Commercial non-owner occupied real estate	256	-
Total nonaccrual loans	$ 497	$ 1,403

Two other loans which are still accruing interest for a total of $1.4 million have been identified as TDR loans and have had their terms modified at a below market rate.

There were no loans modified as TDRs during the six months ended June 30, 2013. Additionally, two loans modified as TDRs subsequently defaulted during the six months ended June 30, 2013, a residential real estate and an owner occupied commercial real estate loan for $65 thousand and $183 thousand respectively. For the period ended December 31, 2012, there were no TDRs that went into default that had been modified during the previous twelve months.

5. Allowance for Loan Losses

The allowance for loan losses is maintained at a level which, in Management's judgment, is adequate to absorb 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, trends in historical loss experience, specific impaired loans, and economic conditions. To determine the total allowance for loan losses, the Bank 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.

Management has an established methodology to determine the adequacy of the allowance for loan losses that assesses the risks and losses inherent in the loan portfolio. For purposes of determining the allowance for loan losses, the Bank has segmented certain loans in the portfolio by product type. Within these segments, the Bank has sub-segmented its portfolio by classes within the segments, based on the associated risks within these classes.

LOAN SEGMENTS	**LOAN CLASSES**
Commercial	Commercial and industrial
Real estate construction	Residential construction Other construction and land
Real estate mortgages	1-4 family mortgages Home equity lines of credit Multifamily mortgages Commercial owner occupied real estate Commercial non-owner occupied real estate
Consumer	Consumer revolving credit Consumer all other credit

Based on the internal risk ratings assigned to each credit, a historical loss factor is assigned to the balances for each class of loans, using a cumulative historical loss rate for the most recent eight quarters. The Bank's internal creditworthiness grading system is based on experiences with similarly graded loans. Category ratings are reviewed quarterly by experienced senior lenders based on each borrower's situation. Additionally, internal monitoring and review of credits is conducted on an annual basis and sixty percent of credits are reviewed by an external loan review group.

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	**RATINGS DESCRIPTIONS AND HISTORICAL LOSS FACTOR APPLIED**
Excellent	0% applied, as these loans are secured by cash and represent a minimal risk. The Bank has never experienced a loss for this category.
Good	0% applied, as these loans are secured by marketable securities within margin and represent a low risk. The Bank has never experienced a loss for this category.
Pass	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 statement 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 an acceptable financial statement but is leveraged • Watch – acceptable risk loans which require more attention than normal servicing Historical loss factor for loans rated "pass" 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. 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.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The following represents the loan portfolio designated by the internal risk ratings assigned to each credit as of June 30, 2013:

Internal Risk Rating Grades	Excellent	Good	Pass	Special Mention	Sub-standard	Doubtful	TOTAL
			(dollars in thousands)				
Commercial loans	$ 4,025	$ 21,461	$ 23,384	$ 257	$ 640	$ -	$ 49,767
Real estate construction							
Residential construction	-	-	450	-	-	-	450
Other construction and land	-	-	18,104	543	508	-	19,155
Real estate mortgages							
1-4 family mortgages	-	1,946	50,790	865	1,089	-	54,690
Home equity lines of credit	-	-	31,952	-	254	-	32,206
Multifamily mortgages	-	-	20,852	-	-	-	20,852
Commercial owner occupied	-	-	51,719	-	2,175	-	53,894
Commercial nonowner occupied	-	-	46,764	576	2,706	-	50,046
Consumer loans							
Consumer revolving credit	-	1,308	487	-	10	-	1,805
Consumer all other credit	214	8,271	2,448	-	57	-	10,990
Total Loans	$ 4,239	$ 32,986	$ 246,950	$ 2,241	$ 7,439	$ -	$ 293,855

The following represents the loan portfolio designated by the internal risk ratings assigned to each credit as of December 31, 2012:

Internal Risk Rating Grades (dollars in thousands)	Excellent	Good	Pass	Special Mention	Sub-standard	Doubtful	TOTAL
Commercial loans	$ 3,868	$ 17,422	$ 23,424	$ 260	$ 396	$ -	$ 45,370
Real estate construction:							
Residential construction	-	-	-	-	-	-	-
Other construction and land	-	-	13,016	549	628	-	14,193
Real estate mortgages:							
1-4 family mortgages	-	1,958	52,502	1,063	1,297	-	56,820
Home equity lines of credit	-	-	31,168	-	265	-	31,433
Multifamily mortgages	-	-	23,033	-		-	23,033
Commercial owner occupied	-	-	54,132	-	3,355	-	57,487
Commercial nonowner occupied	-	-	41,350	710	2,509	-	44,569
Consumer loans:							
Consumer revolving credit	-	1,146	783	-	9	-	1,938
Consumer all other credit	234	6,685	3,043	-	55	-	10,017
Total Loans	$ 4,102	$ 27,211	$ 242,451	$ 2,582	$ 8,514	$ -	$ 284,860

In addition to the historical factors, the adequacy of the Bank's allowance for credit 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
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
8) Changes in the level of policy exceptions

It has been the Bank's experience that the first four factors drive losses to a much greater extent than the last four factors; therefore, the first four factors are weighted more heavily. Although the markets served by the Bank remain stronger than the national economy as a whole, Management continues to pay close attention on a case-by-case basis for any yet unforeseen potential ripple effects of the housing downturn and the related financial market fallout.

Like the historical factors, qualitative factors are not assessed against loans rated "excellent" or rated "good," since these are fully collateralized by cash or readily marketable securities.

Impaired loans are individually evaluated and, if deemed appropriate, a specific allocation is made for these loans. In reviewing the seven loans in the amount of $1,891,000 classified as impaired loans at June 30, 2013, two, in the amount of $268,000, were allocated a valuation allowance which totaled $106,000. There was no specific valuation allowance on the remaining five loans 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 customer.

Allowance for Credit Losses Rollforward by Portfolio Segment

As of June 30, 2013

(dollars in thousands)	Commercial	Real Estate Construction	Real Estate Mortgage	Consumer	Unallocated	Total
Allowance for credit losses:						
Balance as of January 1, 2013	$ 303	$ 168	$ 2,750	$ 46	$ -	$ 3,267
Charge-offs	(22)	-	(33)	-	-	(55)
Recoveries	12	-	42	16	-	70
Provision for/(Recovery of) allowance for loan losses	38	75	176	(24)	-	265
Ending Balance	$ 331	$ 243	$ 2,935	$ 38	$ -	$ 3,547
Ending Balance:						
Individually evaluated for impairment	$ -	$ -	$ 106	$ -	$ -	$ 106
Collectively evaluated for impairment	331	243	2,829	38	-	3,441
Financing Receivables:						
Ending Balance	$ 49,767	$ 19,605	$ 211,688	$ 12,795	$ -	$ 293,855
Individually evaluated for impairment	-	82	1,809	-	-	1,891
Collectively evaluated for impairment	49,767	19,523	209,879	12,795	-	291,964

Allowance for Credit Losses Rollforward by Portfolio Segment

As of December 31, 2012

(dollars in thousands)	Commercial	Real Estate Construction	Real Estate Mortgage	Consumer	Unallocated	Total
Allowance for credit losses:						
Balance as of January 1, 2012	$ 397	$ 319	$ 2,954	$ 68	$ 3	$ 3,741
Charge-offs	(132)	(27)	(431)	(18)	-	(608)
Recoveries	7	107	69	30	-	213
Provision for/(Recovery of) allowance for loan losses	31	(231)	158	(34)	(3)	(79)
Ending Balance	$ 303	$ 168	$ 2,750	$ 46	$ -	$ 3,267
Ending Balance:						
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	303	168	2,750	46	-	3,267
Financing Receivables:						
Ending Balance	$ 45,370	$ 14,193	$ 213,342	$ 11,955	$ -	$ 284,860
Individually evaluated for impairment	-	194	2,622	-	-	2,816
Collectively evaluated for impairment	45,370	13,999	210,720	11,955	-	282,044

As previously mentioned, one of the major factors that the Bank 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 Bank 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 changed to non-accrual status.

As of June 30, 2013 and December 31, 2012, the Bank showed the following aging of past due loans. Also included are loans that are 90 or more days past due but still accruing, because they are well secured and in the process of collection. As of June 30, 2013, the Bank had no loans which were 90 days or more past due but still accruing. At December 31, 2012, the Bank reported one loan with a balance of $35,000 that was 90 or more days past due but still accruing.

Past Due Aging as of June 30, 2013

(dollars in thousands)	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	$ -	$ -	$ -	$ -	$ 49,767	$ 49,767	$ -
Real estate construction							
Residential construction	-	-	-	-	450	450	-
Other construction and land	-	-	38	38	19,117	19,155	-
Real estate mortgages							
1-4 family mortgages	155	151	159	465	54,225	54,690	-
Home equity lines of credit	-	-	-	-	32,206	32,206	-
Multifamily mortgages	-	-	-	-	20,852	20,852	-
Commercial owner occupied	-	-	-	-	53,894	53,894	-
Commercial nonowner occupied	-	147	109	256	49,790	50,046	-
Consumer loans							
Consumer revolving credit	-	-	-	-	1,805	1,805	-
Consumer all other credit	-	-	-	-	10,990	10,990	-
Total loans	$ 155	$ 298	$ 306	$ 759	$ 293,096	$ 293,855	$ -

Past Due Aging as of December 31, 2012

(dollars in thousands)	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	$ -	$ 74	$ -	$ 74	$ 45,296	$ 45,370	$ -
Real estate construction							
Residential construction	-	-	-	-	-	-	-
Other construction and land	38	-		38	14,155	14,193	35
Real estate mortgages							
1-4 family mortgages	181	-	-	181	56,639	56,820	-
Home equity lines of credit	-	-	35	35	31,398	31,433	-
Multifamily mortgages	-	-	-	-	23,033	23,033	-
Commercial owner occupied	-	-	961	961	56,526	57,487	-
Commercial nonowner occupied	-	-	-	-	44,569	44,569	-
Consumer loans							
Consumer revolving credit	-	-	-	-	1,938	1,938	-
Consumer all other credit	9	-	-	9	10,008	10,017	-
Total Loans	$ 228	$ 74	$ 996	$ 1,298	$ 283,562	$ 284,860	$ 35

6. Earnings Per Share

The following shows the weighted average number of shares used in computing earnings per share and the effect on weighted average number of shares of diluted potential common stock for the six months ended June 30, 2013 and 2012. Potential dilutive common stock has no effect on income available to common shareholders.

Three Months Ended	June 30, 2013			June 30, 2012		
	Net Income	Weighted Average Shares	Per Share Amount	Net Income	Weighted Average Shares	Per Share Amount
Net income, basic	$ 816	2,690,220	$ 0.30	$ 411	2,690,220	$ 0.15
Effect of dilutive stock options		104	-		-	-
Diluted Average Common Shares	$ 816	$ 2,690,324	$ 0.30	$ 411	$ 2,690,220	$ 0.15

Six Months Ended	June 30, 2013			June 30, 2012		
	Net Income	Weighted Average Shares	Per Share Amount	Net Income	Weighted Average Shares	Per Share Amount
Net income, basic	$ 1,354	2,690,220	$ 0.50	$ 912	2,690,220	$ 0.34
Effect of dilutive stock options		79	-		-	-
Diluted Average Common Shares	$ 1,354	$ 2,690,299	$ 0.50	$ 912	$ 2,690,220	$ 0.34

For the period ended June 30, 2013, 227,789 option shares were considered anti-dilutive, and were excluded from this calculation. For the period ended June 30, 2012, 248,294 option shares were considered anti-dilutive.

7. Stock Compensation Plans

At the Annual Meeting of Shareholders of Virginia National Bank, held on May 17, 1999, shareholders approved the Virginia National Bank 1998 Stock Incentive Plan (“1998 Stock Plan”). An aggregate of 430,100 shares were issuable under the 1998 Stock Plan. Options for 381,089 shares have been issued, net of forfeited and expired options. No new grants will be issued under this Plan. At June 30, 2013, stock options covering 7,216 shares of VNB Common Stock were issued and outstanding. Of the total issuance, all were fully vested. These options are exercisable for a 10-year period from the date of grant at an exercise price per share ranging from $18.61 to $23.30.

At the Annual Meeting of Shareholders of Virginia National Bank, held on May 21, 2003, shareholders approved the Virginia National Bank 2003 Stock Incentive Plan (“2003 Stock Plan”). An aggregate of 128,369 shares were issuable under the 2003 Stock Plan. Options for 127,240 shares have been issued, net of forfeited and expired options. At June 30, 2013, stock options for 52,850 shares were outstanding. Of this total, 46,072 stock options were fully vested. All unvested stock options vest by the fourth or fifth anniversary of the date of the grant. These options are exercisable for a 10-year period from the date of grant at an exercise price per share ranging from $15.65 to $24.78.

At the Annual Meeting of Shareholders of Virginia National Bank, held on May 16, 2005, shareholders approved the Virginia National Bank 2005 Stock Incentive Plan, and the Amended and Restated 2005 Stock Incentive Plan was approved by shareholders at the annual meeting held on May 15, 2006 (as amended, “2005 Stock Plan”). An aggregate of 230,000 shares are presently issuable under the 2005 Stock Plan. Options for 169,591 shares have been issued, net of forfeited and expired options. At June 30, 2013, stock options for 168,298 shares were outstanding. Of this total, 154,555 stock options were fully vested. All of the unvested stock options vest by the fourth or fifth anniversary of the date of the grant. These options are generally exercisable for a 10-year period from the date of grant at an exercise price per share ranging from $11.74 to $36.74.

The Bank accounts for all plans under recognition and measurement accounting principles which require that the compensation cost relating to share-based payment transactions be recognized in financial statements. Share-based compensation arrangements include share options, restricted share plans, performance-based awards, share appreciation rights and employee share purchase plans. All share-based payments to employees are required to be valued using a fair value method on the date of grant and expensed based on that fair value over the applicable vesting period.

All three stock plans provide for granting of both incentive and nonqualified stock options. The option price of incentive options will not be less than the fair market value of the stock at the time an option is granted. Nonqualified options may be granted at a price established by the Board of Directors, including prices less than the fair market value on the date of grant. All options expire ten years from the grant date.

Changes in the stock options outstanding related to the 1998 Plan, the 2003 Plan and the 2005 Plan are summarized as follows:

	June 30, 2013	
	Number of Options	Weighted Average Exercise Price
Outstanding at January 1, 2013	232,421	$ 26.63
Granted	5,000	15.09
Forfeited	9,057	27.42
Outstanding at June 30, 2013	228,364	$ 26.35
Options exercisable at June 30, 2013	207,842	$ 27.18

The fair value of any grant is estimated at the grant date using the Black-Scholes option-pricing model that uses the assumptions noted in the following table. There were no grants issued for the six month period ended June 30, 2012.

	For the six months ended June 30, 2013
Expected volatility[1]	60.10% - 60.15%
Expected dividends	0.00%
Expected term (in years)[2]	4.0
Risk-free rate[3]	0.67%

[1] Based on the historical volatility of the Bank's stock price over the expected life of the options.

[2] Based on the vesting period for the respective option.

[3] 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.

For the six months ended June 30, 2013, the Bank recognized $58,000 in compensation expense for stock options and restricted stock grants. As of June 30, 2013, there was $133,000 in unamortized compensation expense remaining to be recognized in future reporting periods through 2017.

There was $23,306 in aggregate intrinsic value for options outstanding or exercisable at June 30, 2013. There was $1,593 in aggregate intrinsic value for options outstanding or exercisable at June 30, 2012.

Summary information pertaining to options outstanding at June 30, 2013 is as follows:

Exercise Price	Options Outstanding	Weighted-Average Remaining Contractual Life	Weighted Average Exercise Price	Options Exercisable	Weighted-Average Exercise Price
$11.74 to 20.00	50,404	5.9 Years	$ 17.31	35,175	$ 17.73
$20.01 to 30.00	88,720	3.8 Years	24.45	83,428	24.57
$30.01 to 36.74	89,240	3.0 Years	33.34	89,240	33.34
Total	228,364	4.0 Years	$ 26.35	207,842	$ 27.18

The weighted average remaining contractual term for non-vested awards at June 30, 2013 was 0.9 years. As of June 30 2013, there were 575 shares of restricted stock outstanding and $4,670 of total unrecognized compensation expense related to the non-vested awards. No restricted stock grants were awarded during 2012 or the first six months of 2013.

8. Fair Value Measurements

Determination of Fair Value

The Bank uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with the "Fair Value Measurements and Disclosures" topic of FASB ASC, the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a 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 Bank'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.

Fair value guidance provides a consistent definition of fair value, which focuses on exit price 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 Bank 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 Bank to measure certain financial assets and liabilities recorded at fair value on a recurring basis in the financial statements:

<u>Securities available for sale</u>

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 table presents the balances measured at fair value on a recurring basis as of June 30, 2013:

		Fair Value Measurements at June 30, 2013 Using:		
(dollars in thousands)	**Balance as of June 30, 2013**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Securities available for sale:				
U.S. Government agencies	$ 51,950	$ -	$ 51,950	$ -
Corporate bonds	6,965	-	6,965	-
Asset-backed securities	2,117	-	2,117	-
Mortgage-backed securities/CMOs	37,694	-	37,694	-
Municipal bonds	20,426	-	20,426	-
Total securities available for sale	$ 119,152	$ -	$ 119,152	$ -

The following table presents the balances measured at fair value on a recurring basis as of December 31, 2012:

(dollars in thousands)	Balance as of December 31, 2012	Fair Value Measurements at December 31, 2012 Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Securities available for sale:				
U.S. Government agencies	$ 63,497	$ -	$ 63,497	$ -
Corporate bonds	4,023	-	4,023	-
Asset-backed securities	1,144	-	1,144	-
Mortgage-backed securities/CMOs	25,166	-	25,166	-
Municipal bonds	17,023	-	17,023	-
Total securities available for sale	$ 110,853	$ -	$ 110,853	$ -

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

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. The measurement of loss associated with impaired loans can be based on either the observable market price of the loan or the fair value of the collateral. 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 Bank 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 Bank because of marketability, then the fair value is considered Level 3.

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 Bank had $1,891,000 and $2,816,000 in impaired loans as of June 30, 2013 and December 31, 2012, respectively. Two of the impaired loans reported as of June 30, 2013, and none of the loans reported as of December 31, 2012 required a valuation allowance 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 customer.

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 Bank. If the collateral value is significantly adjusted due to differences in the comparable properties, or is discounted by the Bank 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. The Bank had three OREO properties carried at a balance of $2,550,000 as of June 30, 2013 and two at a balance of $1,746,000 as of December 31, 2012.

The following table presents the Bank's assets that were measured at fair value on a nonrecurring basis during the period:

		Fair Value Measurements at June 30, 2013 Using:		
(dollars in thousands)	Balance as of June 30, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Impaired Loans	$ 162	$ -	$ -	$ 162
Other Real Estate Owned	2,550	-	-	2,550

The following table presents the Bank's assets measured at fair value on a nonrecurring basis as of December 31, 2012:

		Fair Value Measurements at December 31, 2012 Using:		
(dollars in thousands)	Balance as of December 31, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Other Real Estate Owned	$ 1,746	$ -	$ -	$ 1,746

The following methods and assumptions were used by the Bank in estimating the fair value disclosures for financial instruments:

Cash and Short-Term Investments

For those short-term instruments, including cash, due from banks and federal funds sold, the carrying amount is a reasonable estimate of fair value.

Securities

Fair values for securities are based on market prices of identical or similar securities. 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). Restricted securities are not included in this valuation.

Loan Receivables

The fair value of performing loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar remaining maturities. This calculation ignores loan fees and certain factors affecting the interest rates charged on various loans such as the borrower's creditworthiness and compensating balances and dissimilar types of real estate held as collateral. The fair value of impaired loans is measured as described within the Impaired Loans section of this note.

Bank Owned Life Insurance

The carrying amounts of Bank Owned Life Insurance approximate fair value.

Accrued Interest

The carrying amounts of accrued interest approximate fair value.

Deposit Liabilities

The fair value of demand deposits, interest-bearing transaction accounts, and certain money market deposits is the amount payable on demand at the reporting date. The fair value of fixed-maturity certificates of deposit is estimated by discounting the future cash flows using the rates currently offered for deposits of similar remaining maturities (Level 2).

Short-Term Borrowings

The carrying amounts of securities sold under agreements to repurchase approximate fair value.

Off-Balance Sheet Financial Instruments

At June 30, 2013 and December 31, 2012, the fair values of loan commitments and standby letters of credit are immaterial. Therefore, they have not been included in the following table.

The carrying values and estimated fair values of the Bank's financial instruments as of June 30, 2013 are as follows:

(dollars in thousands)	Carrying value	Fair Value Measurement at June 30, 2013 using: 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	$ 42,499	$ 42,499	$ -	$ -	$ 42,499
Securities	121,851	-	121,885	-	121,885
Loans, net	290,308	-	-	291,378	291,378
Bank owned life insurance	12,372	-	12,372	-	12,372
Accrued interest receivable	1,400	-	1,400	-	1,400
Liabilities					
Demand deposits and interest-bearing transaction and money market accounts	$ 297,844	$ -	$ 297,844	$ -	$ 297,844
Certificates of deposit	126,083	-	126,417	-	126,417
Securities sold under agreements to repurchase	9,032	-	9,032	-	9,032
Accrued interest payable	133	-	133	-	133

The carrying values and estimated fair values of the Bank's financial instruments as of December 31, 2012 are as follows:

(dollars in thousands)	Carrying value	Fair Value Measurement at December 31, 2012 using: 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	$ 71,778	$ 71,778	$ -	$ -	$ 71,778
Securities	116,844	-	116,913	-	116,913
Loans, net	281,593	-	-	289,246	289,246
Bank owned life insurance	12,150	-	12,150	-	12,150
Accrued interest receivable	1,367	-	1,367	-	1,367
Liabilities					
Demand deposits and interest-bearing transaction and money market accounts	$ 315,279	$ -	$ 315,279	$ -	$ 315,279
Certificates of deposit	130,143	-	130,602	-	130,602
Securities sold under agreements to repurchase	4,000	-	4,000	-	4,000
Accrued interest payable	154	-	154	-	154

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

9. Recent Accounting Pronouncements

In December 2011, the FASB issued ASU 2011-11, "Balance Sheet (Topic 210) – Disclosures about Offsetting Assets and Liabilities." This ASU requires entities to disclose both gross information and net information about both instruments and transactions eligible for offset in the balance sheet and instruments and transactions subject to an agreement similar to a master netting arrangement. An entity is required to apply the amendments for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the disclosures required by those amendments retrospectively for all comparative periods presented. The adoption of the new guidance did not have a material impact on the Bank's consolidated financial statements.

In January 2013, the FASB issued ASU 2013-01, "Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities." The amendments in this ASU clarify the scope for derivatives accounted for in accordance with Topic 815, Derivatives and Hedging, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements and securities borrowing and securities lending transactions that are either offset or subject to netting arrangements. An entity is required to apply the amendments for fiscal years, and interim periods within those years, beginning on or after January 1, 2013. The adoption of the new guidance did not have a material impact on the Bank's consolidated financial statements.

In February 2013, the FASB issued ASU 2013-02, "Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income." The amendments in this ASU require an entity to present (either on the face of the statement where net income is presented or in the notes) the effects on the line items of net income of significant amounts reclassified out of accumulated other comprehensive income. In addition, the amendments require a cross-reference to other disclosures currently required for other reclassification items to be reclassified directly to net income in their entirety in the same reporting period. Companies should apply these amendments for fiscal years, and interim periods within those years, beginning on or after December 15, 2012. The Bank has included the required disclosures from ASU 2013-02 in the consolidated financial statements.

10. Comprehensive Income

Components of the Bank's comprehensive income, in addition to net income from operations, is the recognition of the unrealized gains and losses on available-for-sale ("AFS") securities, net of income taxes. Reclassifications of unrealized gains and losses on AFS securities are reported in the income statement as "Gain on sale of securities" with the corresponding income tax effect reflected as a component of income tax expense. Realized gains on sales of securities for the three and six months ended June 30, 2013 was $16 thousand with tax expense of $5 thousand, resulting in a net gain of $11 thousand. Sales for the three and six month period ended June 30, 2012 was $29 thousand with tax expense of $19 thousand for a net gain of $10 thousand.

11. Subsequent Events

Swift Run Capital Management, LLC.

On July 18, 2013, VNBTrust, National Association ("VNBTrust"), a wholly-owned subsidiary of Virginia National Bank, completed the sale of all of the membership interests of its subsidiary company, Swift Run Capital Management, LLC ("SRC Management"), to SRCM Holdings, LLC. SRC Management serves as the general partner of the private investment fund Swift Run Capital, L.P. (the "Fund"). The Fund represented less than 7 percent of the total assets managed by VNBTrust and its subsidiary at June 30, 2013. SRCM Holdings, LLC is a newly-formed Delaware limited liability company owned and managed by the chief investment officer of VNBTrust, who has been the manager of SRC Management since the Fund was formed.

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 Bank's consolidated financial statements, and notes thereto, for the year ended December 31, 2012, included in the 2012 Form 10-K. Operating results for the three and six months ended June 30, 2013 are not necessarily indicative of the results for the year ending December 31, 2013 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 Bank, adequacy of funding sources, actuarial expected benefit payment, valuation of foreclosed assets, our ability to hold to maturity securities designated as held to maturity, regulatory requirements, economic environment and other statements contained herein regarding matters that are not historical facts, are “forward-looking statements” as defined in the Securities Exchange Act of 1934. These statements are not historical facts but instead are subject to numerous assumptions, risks and uncertainties, and represent only our belief regarding future events, many of which, by their nature, are inherently uncertain and outside our control. Any forward-looking statements the Bank may make speak only as of the date on which such statements are made. Our actual results and financial position may differ materially from the anticipated results and financial condition indicated in or implied by these forward-looking statements, and the Bank makes no commitment to update or revise forward-looking statements in order to reflect new information or subsequent events or changes in expectations.

Factors that could cause our actual results to differ materially from those in the forward-looking statements include, but are not limited to, the following: inflation, interest rates, market and monetary fluctuations; geopolitical developments including acts of war and terrorism and their impact on economic conditions; the effects of, and changes in, trade, monetary and fiscal policies and laws, including interest rate policies of the Federal Reserve Board; changes, particularly declines, in general economic conditions and in the local economies in which the Bank operates; the financial condition of the Bank's borrowers; competitive pressures on loan and deposit pricing and demand; changes in technology and their impact on the marketing of new products and services and the acceptance of these products and services by new and existing customers; the willingness of customers to substitute competitors' products and services for the Bank's products and services; the impact of changes in financial services laws and regulations (including laws concerning taxes, banking, securities and insurance); changes in accounting principles, policies and guidelines; other risks and uncertainties described from time to time in press releases and other public filings; and the Bank's performance in managing the risks involved in any of the foregoing. The foregoing list of important factors is not exclusive, and the Bank will not update any forward-looking statement, whether written or oral, that may be made from time to time.

APPLICATION OF CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

The Bank 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 Bank's financial statements. Accounting policies related to the allowance for loan losses are considered to be critical, as these policies involve considerable subjective judgment and estimation by management.

For additional information regarding critical accounting policies, refer to Note 1 - Summary of Significant Accounting Policies in the notes to consolidated financial statements included in the 2012 Form 10-K. There have been no significant changes in the Bank's application of critical accounting policies related to the allowance for loan losses since December 31, 2012.

Non-GAAP Presentations

The Bank, in referring to its net income, is referring to income reported under GAAP. This Management's Discussion and Analysis also refers to the efficiency ratio which is computed by dividing non-interest expense by the sum of net interest income and non-interest income. This is a non-GAAP financial measure which may provide important information concerning the Bank's operational efficiency. Non-GAAP measures have inherent limitations as analytic tools, are not required to be uniformly applied and are not audited. To mitigate these factors, we have procedures in place to ensure that these non-GAAP measures are determined using the appropriate GAAP components and that these measures are properly reflected to facilitate consistent period-to-period comparisons. Comparison of our efficiency ratio with those of other companies may not be possible because other companies may calculate the efficiency ratio differently.

FINANCIAL CONDITION

Total Assets

The total assets of the Bank as of June 30, 2013 were $486.7 million. This is a $20.9 million decrease from the December 31, 2012 total asset figure of $507.6 million, and a $29.1 million decrease from the June 30, 2012 total asset figure of $515.8 million. The balance sheet decline reported in the first six months of 2013 was attributable in part to cyclical deposit outflows from certain large deposit customers and a decrease in the unrealized gain position of the Bank's investment portfolio due to recent increases in longer term market interest rates.

Federal Funds Sold

The Bank had overnight federal funds sold of $31.7 million at June 30, 2013, compared to $56.1 million at December 31, 2012. At June 30, 2012, the Bank had overnight federal funds sold of $77.1 million. The Bank 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 Banks for the maintenance of excess cash balances held by financial institutions. The Federal Reserve Bank requires the Bank to have its participation in the EBA program managed by a pass-through correspondent bank. The Bank's pass-through correspondent is Community Bankers Bank of Midlothian, Virginia. The EBA eliminates the potential of concentration risk that comes with depositing excess balances with one or multiple correspondent banks. Balances on deposit in the EBA are considered to be on deposit with the Federal Reserve Bank, with the correspondent bank acting "as agent". Balances in the EBA cannot be used to satisfy reserve balance requirements or contractual clearing agreements with the Federal Reserve Bank. The Bank initially started participating in this program in March 2012.

The fluctuation in federal funds sold balances is affected by lending activities and levels of deposit accounts. The overnight federal funds sold balance is a reflection of the Bank's excess funds position on any given day. The Bank's Liquidity Management Policy provides guidance on maintaining the proper level of overnight liquidity and contingency funding needs so the Bank can meet the potential lending needs of its borrowers, as well as immediate withdrawal requests by its depositors, while deploying any excess funding in a profitable manner.

Securities

The Bank's investment portfolio as of June 30, 2013 totaled $123.5 million or an increase of $4.9 million from the $118.6 million reported at December 31, 2012. In accordance with ASC 320, "Investments - Debt and Equity Securities," the Bank has designated its unrestricted securities portfolio as either (a) Held to maturity ("HTM") or (b) Available for sale ("AFS"). As of June 30, 2013, the HTM portfolio totaled $2.7 million and consisted of corporate bonds, and tax exempt municipals. The AFS portfolio totaled $119.2 million and consisted of United States government-sponsored agency securities, municipal and corporate bonds, and mortgage-backed securities.

The Bank's holdings of restricted securities totaled $1.6 million and consisted of stock in the Federal Reserve Bank of Richmond and the Federal Home Loan Bank of Atlanta. The level of restricted securities the Bank is required to hold is determined in accordance with membership guidelines provided by both the Federal Reserve Bank Board of Governors and the Federal Home Loan Bank of Atlanta.

The Bank's investment portfolio's growth during 2013 is primarily focused on maximizing the earning capacity of the Bank's excess liquidity by moving funds from overnight federal funds and into investment securities. Changes in deposit balances and in loan production will impact the overall level of the investment portfolio.

Loan Portfolio

As of June 30, 2013 total loans held for investment were $293.9 million, an increase of $9.0 million or 3.2% from the $284.9 million at December 31, 2012. The total at June 30, 2013 decreased 1.7% from the June 30, 2012 balance of $299.1 million. Loans held for investment as a percentage of total assets and as a percentage of deposits at June 30, 2013 were 60.4% and 69.3%, respectively. In this period of lower loan demand, the Bank continues to pursue new loan initiatives to promote lending to new and existing qualified borrowers. At the same time, Management is maintaining its underwriting standards in order to maintain strong loan quality. The results of the Bank's efforts are reflected by continued loan growth.

The following table summarizes the Bank's loan portfolio by type of loan as of June 30, 2013 (dollars in thousands):

	June 30, 2013 Balance	Percent of Total
Commercial, financial and industrial	$ 49,767	16.94%
Real estate - commercial	124,792	42.47%
Real estate - residential mortgage	86,896	29.57%
Real estate - construction	19,605	6.67%
Consumer installment and other	12,795	4.35%
Total loans	$ 293,855	100.00%

Allowance for Loan Losses

The allowance for loan losses as a percentage of total loans at June 30, 2013 was 1.21%, compared to a ratio of 1.15% at December 31, 2012.

The following is a summary of the changes in the allowance for loan losses for the six months ended June 30, 2013 and June 30, 2012 (dollars in thousands):

	2013	2012
Allowance for loan losses, January 1	$ 3,267	$ 3,741
Chargeoffs	(55)	(232)
Recoveries	70	84
Provision for loan losses	265	191
Allowance for loan losses, June 30	$ 3,547	$ 3,784

The relationship of the allowance for loan losses to total loans at June 30, 2013, December 31, 2012, and June 30, 2012 appears below (dollars in thousands):

	June 30, 2013	December 31, 2012	June 30 2012
Loans held for investment at period-end	$ 293,855	$ 284,860	$ 299,060
Allowance for loan losses	$ 3,547	$ 3,267	$ 3,784
Allowance as a percent of period-end loans	1.21%	1.15%	1.27%

The allowance-to-total loans ratio at June 30, 2013 was 1.21%, at March 31, 2013 ratio was reported as 1.19%, both ratios being higher than the 1.15% reported at December 31, 2012. While the level of total classified loans declined at June 30, 2013 from the levels at March 31, 2013 and December 31, 2012, Management determined that an additional allowance allocation of $106 thousand was needed against impaired loans balance of $1.9 million.

Management recorded a provision for the allowance for loan losses of $45 thousand for the three months ended June 30, 2013, or $15 thousand less than the $60 thousand that was recorded for the three months ended June 30, 2012. An improvement in classified loans and delinquencies during the second quarter of 2013 is namely attributable to the reduction in the quarterly provision amount when compared to the prior year. For the six months ended June 30, 2013, the recorded provision was $265 thousand, or $74 thousand greater than the six months ended June 30, 2012.

In general, the Bank 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 Bank is committed to determining, on an ongoing basis, the adequacy of its allowance for loan losses. The Bank 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 qualitative factors:

- National and local economic trends;
- Underlying collateral values;
- Loan delinquency status and trends;
- Loan risk classifications;
- Industry concentrations;
- Lending policies;

- Experience, ability and depth of lending staff; and
- Levels of policy exceptions

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 5 of the *Notes to Interim Consolidated Financial Statements*, where Management details the roll forward of the allowance by loan portfolio segments. The 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 table for the Allowance for Credit Losses Rollforward as of December 31, 2012 shows that Management recaptured some of the provision attributed to the allowance for loan segments based upon the most current evaluation. Among the events that can 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 adequacy of the Allowance for Loan Losses on a quarterly basis to ensure it is adequate based upon the calculated probable future losses the Bank may experience. Management believes the allowance for loan losses was adequately provided for as of June 30, 2013.

Risk Elements

At June 30, 2013 the Bank had seven loans in the amount of $1.9 million classified as impaired loans. Of this total, $497 thousand were non-accrual loans, and the remaining $1.4 million were Troubled Debt Restructurings (TDRs) which are still accruing interest.

At the end of 2012, the Bank had seven loans in the amount of $1.4 million classified as non-accrual, in addition to two loans in the amount of $1.4 million classified as TDRs which were still accruing interest, for a total of $2.8 million in impaired loans. The Bank had no loans past due ninety or more days and still accruing interest in its portfolio as of June 30, 2013, and only one for $35,000 as of December 31, 2012.

Management identifies potential problem loans through its periodic loan review process and defines potential problem loans as those loans classified as substandard, doubtful, or loss, excluding all non-performing loans, where information known by Management indicates serious doubt that the borrower will be able to comply with the present payment terms.

Premises and Equipment

The Bank's premises and equipment, net of depreciation, as of June 30, 2013 totaled $10.1 million as compared to the December 31, 2012 amount of $10.7 million. 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 June 30, 2013, Virginia National Bank occupied four sites in Charlottesville and Albemarle County, Virginia, one office in Orange County, Virginia, and two offices in Winchester, Virginia. The Bank's original full-service banking facility is located at 222 East Main Street, Charlottesville, Virginia. On March 15, 1999, a full-service banking facility was opened at 1580 Seminole Trail, Charlottesville, Virginia. On December 21, 1999, a full-service banking facility was opened at 1900 Arlington Boulevard, Charlottesville, Virginia. On November 8, 2000, a full-service banking facility was opened at 102 East Main Street, Orange, Virginia. On January 28, 2002, a full-service banking facility was opened at 186 North Loudoun Street, Winchester, Virginia. On December 29, 2003, a full-service banking facility was opened at 3119 Valley Avenue in Winchester. On April 28, 2008, a full-service banking office was opened at 404 People Place, Charlottesville, Virginia. Additionally, this multi-story office building houses the Bank's Operations Center and several administrative offices. The Arlington Boulevard and People Place facilities also contain office space that is currently under lease to tenants. The Bank's wholly-owned subsidiary, VNBTrust, is located at 310 4th Street NE, Suite 102, in Charlottesville.

Deposits

Total deposits as of June 30, 2013 were $423.9 million, compared to $445.4 million at December 31, 2012; a decrease of $21.5 million or 4.8%. The Bank reported $463.2 million in deposits as of June 30, 2012, which is a decrease of $39.3 million from June 30. 2013. The year-over-year decline in deposits included the discontinuation of an agreement with Financial Software Solutions, LLC ("FSS") in the third quarter of 2012, whereby the Bank no longer accepted bankruptcy trustee deposit accounts provided through FSS. Deposit balances for the bankruptcy trustee program at June 30, 2012 totaled $7.9 million. The Bank's highly diversified deposit customer base tends to have cyclical fluctuations. Other deposit outflows were the result of cyclical movements of cash by large customer depositors. A review of annual deposit balance changes for 2010, 2011 and 2012 produces deposit balance increases at rates of 3.4%, 1.0% and 8.1%, respectively. Management believes that many depositors sought the safety of FDIC deposit insurance during the recent recession, which resulted in deposit balance increases seen over the last several years. However, with an improving economy and consumer confidence returning, there is an expectation that these "parked" funds will return to the stock and bond markets. As of June 30, 2013, deposit balances for the first six months of 2013 decreased 4.8% from December 31, 2012.

Non-interest bearing demand deposits on June 30, 2013 were $118.0 million, representing 27.8% of total deposits. Interest-bearing transaction and money market accounts totaled $179.9 million, and represent 42.4% of total deposits at June 30, 2013. Collectively, non-interest bearing and interest-bearing transaction and money market accounts represented 70.3% and 70.8% of total deposit accounts at June 30, 2013 and December 31, 2012, respectively. These account types are an excellent source of low-cost funding for the Bank.

Certificates of deposit and other time deposit accounts totaled $126.1 million at June 30, 2013. Included in this deposit total are brokered deposits totaling $28.4 million as of June 30, 2013, compared to $28.7 million at December 31, 2012. These brokered deposits are reciprocal relationships established under the Certificate of Deposit Account Registry Service (CDARS)™, whereby depositors can obtain FDIC deposit insurance on account balances of up to $50 million.

RESULTS OF OPERATIONS

Net Income

Net income for the three months ended June 30, 2013 was $816 thousand which is an increase of $405 thousand, or 98.5% increase over the $411 thousand reported for the three months ended June 30, 2012. Earnings per share (basic and diluted) were $0.30 per share for the quarter ended June 30, 2013 as compared to $0.15 per share for the year-earlier period. The increase in net income for the second quarter of 2013 as compared to the same period of 2012 is attributable to a decrease in provision for loan losses, higher non-interest income and lower non-interest expenses. The changes in non-interest income and non-interest expense were primarily the result of a management-sponsored financial strategic plan that was set to go into full-effect in 2013. Net interest income for the second quarter of 2013 was $325 thousand lower than the second quarter of 2012. The effective income tax rate for the second quarter of 2013 was 27.5% as compared to 29.0% for the second quarter of 2012.

Net income for the first six months of 2013 was $1,354 thousand or 48.5% higher than the reported net income of $912 thousand during the same period in 2012. Earnings per share for the first half of 2013 was $0.50 per share and is $0.16 greater than the $0.34 per share reported in the first half of 2012. The $442 thousand increase in net income during the first six months of 2013 from the first six months of 2012 is attributable to an increase of $214 thousand increase in non-interest income, and a $1,038 thousand decrease in non-interest expense. Net income was negatively impacted by a $653 thousand decrease in net interest income, a $74 thousand increase in provision for loan losses, and an $83 thousand increase in the provision for income taxes. The effective income tax rate for the first six months of 2013 was 26.2% as compared to 30.3% for the same period in 2012.

Net Interest Income

Net interest income for the three months ended June 30, 2013 was $3.585 million, which is a decrease of $325 thousand or 8.3% when compared to net interest income of $3.910 million for the three months ended June 30, 2012. Interest from earning assets declined $419 thousand or 9.8% in the three months ended June 30, 2013 to $3.838 million as compared to the $4.257 million earned for the three months ended June 30, 2012. The tax-equivalent earning asset yield for the second quarter ended June 30, 2013 was 3.45% as compared to 3.59% for 14 basis points less than the second quarter of 2012. Partially offsetting the decline in interest income was a decrease in interest expense of $94 thousand or 27.1% to $253 thousand for the three months ended June 30, 2013 as compared to $347 thousand for the three months ended June 30, 2012. This resulted in the Bank's cost of funds decreasing 7 basis points to 0.23% for the quarter ended June 30, 2013, as opposed to 0.30% for the second quarter of 2012. The Bank's net interest income continues to benefit from having one of the lowest cost of funds among community banks in the country.

For the six months ended June 30, 2013, the Bank recorded $7.185 million in net interest income, or $653 thousand less than the $7.838 recorded for the same six months a year ago. The Bank's tax-equivalent net interest margin for the first half of 2013 was 3.23% or 20 basis points lower than the 3.43% reported for the same period in 2012. The earning asset yield, as computed on a tax-equivalent basis, was 3.46% on average earning asset balances of $453.9 million for the six months ended June 30, 2013. The earning asset yield for the six months ended June 30, 2012 was 3.74% on average balances of $459.6 million; or 28 basis points greater than the same period in 2013. The Bank's cost of funds for the six months ended June 30, 2013 was 0.24% or 8 basis points less than the 0.32% reported for the six months ended June 30, 2012.

Provision for Loan Losses

The total provision for loan loss expense for the second quarter of 2013 was $45 thousand or $15 thousand less than the provision of $60 thousand reported for the second quarter of 2012. Year to date through June 30, 2013, $265 thousand has been recorded as a provision for loan loss, or $74 thousand greater as compared to $191 thousand for the same period in 2012. Further discussion of Management's assessment of the Allowance for Loan Losses is provided earlier in the report and in Note 5 – Allowance for Loan Losses, found in the Notes to the Interim Consolidated Financial Statements.

Non-Interest Income

Non-interest income for the quarter ended June 30, 2013 was $1.480 million compared to $1.209 million for the quarter ended June 30, 2012, an increase of $271 thousand or 22.4%. The primary increases in non-interest income for the second quarter of 2013, as compared to the second quarter of 2012, came from trust services ($215 thousand), increases in cash value of bank owned life insurance ($47 thousand) and from brokerage services ($12.6 thousand).

Since March 2012, Management has been restructuring the investment securities portfolio to diversify the holdings. As a result of this effort, certain securities have been sold and a gain of $16 thousand on the sale of securities occurred during the second quarter of 2013. During the second quarter of 2012, a $29 thousand gain was recorded as part of this restructuring effort.

For the first six months of 2013, non-interest income was $2.612 million, or an 8.9% increase from the $2.398 million reported for the first six months of 2012. The higher revenue was primarily the result of increases in VNBTrust fees ($144 thousand), increases in the value of bank owned life insurance ($94 thousand), brokerage services ($16 thousand). Deposit customer service fees continue to show a decline as fees banks are allowed to charge become limited by Federal regulations. For the first six months of 2013, deposit customer service fees decreased $51 thousand as compared to the first six months of 2012.

Non-Interest Expense

Non-interest expense totaled $3.895 million for the three months ended June 30, 2013, a decline of $585 thousand or 13.1% when compared to non-interest expense of $4.480 million for the same period in 2012. This level of decline in non-interest expense is what management sought to achieve through the enacted financial strategic plan discussed earlier in this report. The financial strategic plan called for a double-digit reduction in full-time staff positions as of January 1, 2013, as certain services (no longer deemed to be efficient contributors to the Bank's business model) or where technology improvements reduced staffing needs. Salaries and employee benefits declined $198 thousand, or 9.1%, in the three months ended June 30, 2013 and totaled $1.982 million, as compared to the prior year period of $2.180 million. Net occupancy and equipment expense for the second quarter of 2013 totaled $507 thousand and $160 thousand, respectively. Net occupancy expense decreased $24 thousand over the prior year, due to decreases in depreciation, rental expense and increases in rental income. Equipment expense declined $76 thousand primarily as a result of lower equipment maintenance expense and depreciation expense. Other non-interest expenses totaled $1.246 million for the three months ended June 30, 2013, a decrease of $287 thousand, or 18.7%, as compared to $1.533 for the three months ended June 30, 2012. This decline was primarily the result of a one-time OREO valuation write down of $262 thousand in the second quarter of 2012.

For the six months ended June 30, 2013, non-interest expense was $7.698 million, a decrease of $1.038 million or 11.9%, compared to the $8.736 million reported for the first six months of 2012. The year over year reductions are attributable in part to the successful execution of the Bank's financial strategic plan, as well as a decline in OREO write downs. Salaries and employee benefits declined $432 thousand, or 9.7%, in the six months ended June 30, 2013 and totaled $4.009 million, as compared to the prior year period of $4.441 million. Other non-interest expenses of $2.335 million for the first half of 2013 declined $427 thousand or 15.5% from $2.762 million in the first half of 2012. The one-time OREO valuation write down in 2012 of $262 thousand, previously discussed, was the primary factor in the year over year decline in other non-interest expense. Lower FDIC Deposit Insurance premiums, a decrease in losses from fraudulent transactions, and decreased costs from card-based expenses and telecommunications expenses also contributed to the year over year decrease in other expenses. Net occupancy expense and equipment expense declined $52 thousand and $127 thousand, respectively, for the first six months of 2013 as compared to the same period in 2012. Net occupancy expense realized declines in depreciation expense, rental expense, utilities, and an increase in rental income. Equipment expense recorded lower depreciation expense and maintenance expense.

Liquidity

Liquidity measures the Bank's ability to meet current and future cash flow needs as they become due. The liquidity of a financial institution reflects its ability to accommodate possible outflows in deposit accounts, meet loan requests and commitments, maintain reserve requirements, pay operating expenses, manage operations on an ongoing basis, capitalize on new business opportunities and take advantage of interest rate market opportunities. The ability of a financial institution to meet its current financial obligations is a function of its balance sheet structure, its ability to liquidate assets and its access to alternative sources of funds. Management seeks to ensure the Bank's funding needs are met by maintaining a level of liquid funds through proactive balance sheet management and access to other funding sources through correspondent banking relationships.

Asset liquidity is provided by maintaining assets that are readily convertible into cash, are capable of being pledged, or will mature in the near future. Our liquid assets may include cash, interest-bearing deposits in banks, investment securities available for sale and federal funds sold. Liability liquidity is provided by access to funding sources including deposits, borrowed funds and federal funds lines of credit. Available borrowing arrangements maintained by the Bank include federal funds lines with three correspondent banks and with the Federal Home Loan Bank of Atlanta, as well as access to the discount window at the Federal Reserve Bank of Richmond. Each of our sources of liquidity is subject to various factors beyond our control; one example could be that the federal funds lines may not be available to be drawn upon if the Bank's financial condition deteriorates and capital levels decline below minimum regulatory capital requirements.

Any excess funds are sold on a daily basis in the federal funds market. On June 30, 2013 the Bank sold $31.7 million in the overnight federal funds market.

Shareholders' Equity and Regulatory Capital Ratios

The following table displays the changes in shareholders' equity from December 31, 2012, to June 30, 2013 (in thousands):

Equity, December 31, 2012	$	53,939
Net income		1,354
Change in net unrealized gains on AFS securities		(2,236)
Dividends paid		(134)
Equity increase due to expensing of stock options/grants		58
Equity, June 30, 2013	$	52,981

The Bank's capital ratios remain above the levels designated by bank regulators as "well capitalized" at June 30, 2013. Under the risk-based capital guidelines of federal regulatory authorities, the Bank has a Tier 1 risk-based capital ratio of 15.29% and a total risk-based capital ratio of 16.29%. Both are well in excess of the minimum capital requirements of 4.00% and 8.00%, respectively. Additionally, the Bank has a leverage capital ratio of approximately 11.10%, which is well in excess of the minimum 5.00% level designated by bank regulators under "well capitalized" capital guidelines.

OTHER SIGNIFICANT EVENTS

None

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not required

ITEM 4. CONTROLS AND PROCEDURES

The Bank 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 Principal Executive Officer and Principal 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 was 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 Bank's Principal Executive Officer and Principal 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 June 30, 2013 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 Association of Virginia National Bank, as amended [a]
3.2	Bylaws of Virginia National Bank, as amended [b]
4.0	Form of Common Stock Certificate of Virginia National Bank [c]
10.1	Form of Virginia National Bank 1998 Stock Incentive Plan [d]
10.2	Form of Virginia National Bank 2003 Stock Incentive Plan [e]
10.3	Form of Virginia National Bank Amended and Restated 2005 Stock Incentive Plan [f]
10.4	Reorganization Agreement and Plan of Share Exchange, dated as of March 6, 2013, by and between Virginia National Bank and Virginia National Bankshares Corporation [g]
31.1	302 Certification of Principal Executive Officer
31.2	302 Certification of Principal Financial Officer
32.1	906 Certification

[a] Incorporated herein by reference from Virginia National Bank's Definitive Proxy Statement filed with the Office of the Comptroller of the Currency on April 16, 2012.

[b] Incorporated herein by reference from Virginia National Bank's 2012 Annual Report on Form 10-K filed with the Office of the Comptroller of the Currency on March 28, 2013.

[c] Incorporated herein by reference from Virginia National Bank's Registration Statement on Form SB-2 filed with the Office of the Comptroller of the Currency's Southeastern District Office on May 21, 1998, as amended.

[d] Incorporated herein by reference from Virginia National Bank's Definitive Proxy Statement filed with the Office of the Comptroller of the Currency on or around April 16, 1999.

[e] Incorporated herein by reference from Virginia National Bank's Definitive Proxy Statement filed with the Office of the Comptroller of the Currency on April 24, 2003.

[f] Incorporated herein by reference from Virginia National Bank's Definitive Proxy Statement filed with the Office of the Comptroller of the Currency on or around March 30, 2006.

[g] Incorporated herein by reference from Virginia National Bank's Form 8-K filed with the Office of the Comptroller of the Currency on or around March 12, 2013.

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 BANK
(Registrant)

By: /s/ Glenn W. Rust
Glenn W. Rust
(Principal Executive Officer)

Date: August 12, 2013

By: /s/ Ronald E. Baron
Ronald E. Baron
(Principal Financial Officer)

Date: August 12, 2013

Exhibit 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

I, Glenn W. Rust, certify that:

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

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 officers 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 officers 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: August 12, 2013

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

Exhibit 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

I, Ronald E. Baron, certify that:

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

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 officers 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 officers 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: August 12, 2013

/s/ Ronald E. Baron
Ronald E. Baron
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 of Virginia National Bank (the “Bank”) on Form 10-Q for the period ending June 30, 2013 as filed with the Office of the Comptroller of the Currency on the date hereof (the “Report”), the undersigned Chief Executive Officer and Chief Financial Officer of the Bank 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 Bank as of and for the periods covered in the Report.

/s/ Glenn W. Rust
Glenn W. Rust, Principal Executive Officer

/s/ Ronald E. Baron
Ronald E. Baron, Principal Financial Officer

August 12, 2013