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 March 31, 2012

[ ] 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 May 10, 2012:

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
(in thousands, except share data)

	[Unaudited] March 31, 2012	December 31, 2011
ASSETS		
Cash and due from banks	$ 10,085	$ 12,477
Federal funds sold	66,054	44,567
Securities:		
Available for sale, at fair value	83,743	84,150
Held to maturity, at amortized cost	10,022	5,988
Restricted securities, at cost	1,731	1,728
Total securities	95,496	91,866
Total loans	294,647	292,532
Allowance for loan losses	(3,794)	(3,741)
Total loans, net	290,853	288,791
Premises and equipment, net	11,644	10,692
Other real estate owned, net of valuation allowance	4,242	4,242
Bank owned life insurance	6,933	6,869
Accrued interest receivable and other assets	4,209	4,562
Total assets	$ 489,516	$ 464,066
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Demand deposits:		
Noninterest-bearing	$ 135,770	$ 120,989
Interest-bearing	70,296	68,622
Money market deposit accounts	89,668	90,815
Certificates of deposit and other time deposits	140,661	131,442
Total deposits	436,395	411,868
Securities sold under agreements to repurchase	3,109	2,623
Accrued interest payable and other liabilities	704	654
Total liabilities	440,208	415,145
Shareholders' equity:		
Preferred stock, $2.50 par value, 2,000,000 shares authorized, no shares outstanding	-	-
Common stock, $2.50 par value, 5,000,000 shares authorized; 2,690,220 shares issued (including 863 restricted shares)	6,723	6,723
Capital surplus	27,758	27,705
Retained earnings	13,274	12,773
Accumulated other comprehensive income	1,553	1,720
Total shareholders' equity	49,308	48,921
Total liabilities and shareholders' equity	$ 489,516	$ 464,066

See Notes to Interim Consolidated Financial Statements.

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

	Three Months Ended	
	March 31, 2012 [UNAUDITED]	March 31, 2011 [UNAUDITED]
Interest and dividend income:		
Loans, including fees	$ 3,770	$ 3,983
Federal funds sold	13	16
Held to maturity securities:		
Taxable	27	26
Tax exempt	8	8
Available for sale securities:		
Taxable	443	378
Dividends	15	12
Total interest and dividend income	4,276	4,423
Interest expense:		
Demand and savings deposits	50	51
Certificates and other time deposits	297	412
Federal funds purchased and securities sold under agreements to repurchase	1	1
Total interest expense	348	464
NET INTEREST INCOME	3,928	3,959
Provision for loan losses	131	-
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	3,797	3,959
Noninterest income:		
Trust income	646	553
Customer service fees	272	254
Debit/credit card and ATM fees	168	156
Earnings/increase in value of bank owned life insurance	64	53
Other	39	46
Total noninterest income	1,189	1,062
Noninterest expenses:		
Salaries and employee benefits	2,261	2,452
Net occupancy expense	543	614
Equipment expense	223	245
Other	1,229	1,285
Total noninterest expenses	4,256	4,596
INCOME BEFORE INCOME TAXES	730	425
Provision for income taxes	229	136
NET INCOME	$ 501	$ 289
Earnings per share, basic	$ 0.19	$ 0.11
Earnings per share, diluted	$ 0.19	$ 0.11
Weighted average shares outstanding, basic	2,690,220	2,690,220
Weighted average shares outstanding, diluted	2,690,220	2,693,854

See Notes to Interim Consolidated Financial Statements. Per share information for all periods have been restated to reflect a 1.15 to 1 stock dividend paid on June 30, 2011.

VIRGINIA NATIONAL BANK AND SUBSIDIARY
STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME
(in thousands)

	Three Months Ended	
	March 31, 2012 [UNAUDITED]	March 31, 2011 [UNAUDITED]
Net income	$ 501	$ 289
Other comprehensive income (loss)		
Unrealized gains (losses) on securities, net of tax of ($85) as of March 31, 2012 and tax of $29 as of March 31, 2011	(167)	56
Total comprehensive income	$ 334	$ 345

See Notes to Interim Consolidated Financial Statements

VIRGINIA NATIONAL BANK AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the Three Months Ended March 31, 2012
(In thousands)
(Unaudited)

	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance, December 31, 2011	$6,723	$27,705	$12,773	$1,720	$48,921
Stock option/grant expense		53			53
Net income			501		501
Other comprehensive income				(167)	(167)
Balance, March 31, 2012	$6,723	$27,758	$13,274	$1,553	$49,308

VIRGINIA NATIONAL BANK AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the Three Months Ended March 31, 2011
(In thousands)
(Unaudited)

	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance, December 31, 2010	$5,842	$22,196	$16,566	$917	$45,521
Stock option/grant expense		80			80
Net income			289		289
Other comprehensive income				56	56
Balance, March 31, 2011	$5,842	$22,276	$16,855	$973	$45,946

See Notes to Interim Consolidated Financial Statements.

VIRGINIA NATIONAL BANK AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	For the Three Months Ended March 31, 2012 (Unaudited)	For the Three Months Ended March 31, 2011 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 501	$ 289
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	131	-
Net amortization and accretion	165	111
Depreciation and amortization	362	399
Stock option/stock grant expense	53	80
Decrease in accrued interest receivable and other assets	374	3,459
Increase (decrease) in accrued interest payable and other liabilities	50	(2,208)
Net cash provided by operating activities	1,636	2,130
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net increase in restricted securities	(3)	(5)
Purchases of held-to-maturity securities	(4,044)	(25,897)
Net (increase) decrease in loans	(2,193)	9,278
Purchase of premises and equipment	(1,314)	(235)
Net cash used in investing activities	(7,554)	(16,859)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in demand deposits, NOW accounts and money market accounts	15,308	4,401
Net increase (decrease) in certificates of deposit	9,219	(13)
Net increase in repurchase agreements	486	145
Net cash provided by financing activities	25,013	4,533
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	19,095	(10,196)
CASH AND CASH EQUIVALENTS:		
Beginning of period	$ 57,044	$ 73,526
End of period	$ 76,139	$ 63,330
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash payments for:		
Interest	$ 369	$ 488
Income taxes	$ -	$ 1,010
SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING ACTIVITIES		.
Change in unrealized gain (loss) on securities available for sale	$ (252)	$ 85

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, is in operation. In January, 2010, VNB Investment Management Company, changed its name to Swift Run Capital Management, LLC.

On May 16, 2011, the Bank's Board of Directors declared a 15% stock dividend, payable on June 30, 2011 to all shareholders of record on June 15, 2011. To ensure comparability, average share and per share information for all periods have been restated to reflect the stock dividend.

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 and deferred tax assets. 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 period ended March 31, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012. The statements should be read in conjunction with the Notes to Financial Statements included in the Bank's Form 10-K for the year ended December 31, 2011.

(3) 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. 407,427 options have been issued, net of forfeitures. No new grants will be issued under this Plan. At March 31, 2012, stock options covering approximately 30,679 shares of VNB Common Stock were issued and outstanding. Of the total issuance, all are fully vested. These options are exercisable for a 10-year period from the date of grant at an exercise price per share ranging from $15.97 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 are presently issuable under the 2003 Stock Plan. 127,240 options have been issued, net of forfeitures. At March 31, 2012, 52,850 stock options are outstanding. Of this total, 37,857 stock options are 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. 185,149 options have been issued, net of forfeitures. At March 31, 2012, 183,856 stock options are outstanding. Of this total, 165,544 stock options are 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:

	March 31, 2012	
	Number of Options	Weighted Average Exercise Price
Outstanding at January 1, 2012	278,310	$25.83
Granted	--	--
Forfeited	(10,925)	$21.41
Outstanding at March 31, 2012	267,385	$26.01
Options exercisable at March 31, 2012	234,079	$26.95
Weighted-average fair value of options granted during the year	--	

The fair value of any grant is estimated at the grant date using the Black-Scholes option-pricing model.

For the quarter ended March 31, 2012, the Bank recognized $52,028 in compensation expense for stock options. As of March 31, 2012, there was $178,968 in unamortized compensation expense remaining to be recognized in future reporting periods through 2015.

There was $1,593 in aggregate intrinsic value for options outstanding or exercisable at March 31, 2012.

There was no intrinsic value for options exercised during the quarter ended March 31, 2012, as no options were exercised in the period.

Summary information pertaining to options outstanding at March 31, 2012 is as follows:

	Options Outstanding			Options Exercisable	
Exercise Price	Number Outstanding	Weighted-Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
$11.74 to 20.00	68,866	4.5 Years	$17.45	48,695	$17.64
20.01 to 30.00	96,340	5.1 Years	24.62	83,886	24.90
30.01 to 36.74	102,179	4.1 Years	33.09	101,498	33.10
Total	267,385	4.6 Years	$26.01	234,079	$26.95

For the first quarter of 2012, the Bank recorded $876 in expense related to restricted stock grants. The weighted average remaining contractual term for non-vested awards at March 31, 2012 was 1.6 years. As of March 31, 2012, there were 863 shares of restricted stock outstanding and $8,756 of total unrecognized compensation expense related to the non-vested awards. No restricted stock grants were awarded during 2011 or the first quarter of 2012.

(4) Securities

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in Thousands)		
U.S. Government agencies	$ 4,010	$ 37	$ -	$ 4,047
Corporate bonds	4,039	35	-	4,074
Tax exempt municipals	1,973	41	-	2,014
	$ 10,022	$ 113	$ -	$ 10,135

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in Thousands)		
U.S. Government agencies	$ 81,390	$ 2,353	$ -	$ 83,743

The amortized cost and fair values of securities held to maturity as of December 31, 2011 are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in Thousands)		
U.S. Government agencies	$ 4,013	$ 49	$ -	$ 4,062
Tax exempt municipals	1,975	44	-	2,019
	$ 5,988	$ 93	$ -	$ 6,081

The amortized cost and fair values of securities available for sale as of December 31, 2011 are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in Thousands)		
U.S. Government agencies	$ 81,545	$ 2,605	$ -	$ 84,150

In addition, the Bank held restricted securities of $1,731,000 as of March 31, 2012 and $1,728,000 as of December 31, 2011. 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 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 impairment is considered "other than temporary" if any of the following conditions are met: the Bank intends to sell the security, 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 writedown would be included in earnings as a realized loss. The Bank does not intend to sell any securities; additionally, it is more likely than not that the Bank will not be required to sell any securities before recovery of its amortized cost basis, and the Bank expects to recover all of its securities' amortized cost basis. All securities in the portfolio are rated at least Aa/AA.

At March 31, 2012 and at December 31, 2011, none of the securities in the portfolio had an unrealized loss.

(5) Loans

The composition of the loan portfolio by loan classification at March 31, 2012 and December 31, 2011 appears below.

	March 31, 2012	December 31, 2011
	(in Thousands)	
Commercial	$ 41,481	$ 42,157
Real estate construction and land		
Residential construction	152	91
Other construction and land	18,411	17,384
Total construction and land	18,563	17,475
Real estate mortgage:		
1-4 family	58,991	59,995
Home equity loans	33,724	32,802
Multifamily mortgages	16,526	18,309
Commercial owner occupied	59,057	60,248
Commercial nonowner occupied	53,047	50,054
Total real estate mortgage	221,345	221,408
Consumer		
Consumer revolving credit	1,457	1,430
Consumer all other credit	11,801	10,062
Total consumer loans	13,258	11,492
Total loans	294,647	292,532
Less: Allowance for loan losses	(3,794)	(3,741)
Net loans	$ 290,853	$ 288,791

Accounting guidance requires certain disclosures about investments in impaired loans and the allowance for loan losses and interest income recognized on 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.

Additionally, Troubled Debt Restructurings are considered impaired loans. Troubled Debt Restructurings 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 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 March 31, 2012, the Bank had seven loans in the amount of $637,000 classified as non-accrual loans and impaired loans. At December 31, 2011, the Bank had four loans in the amount of $403,000 classified as non-accrual, in addition to one loan of $2,721,000 classified as a Troubled Debt Restructuring (TDR) which was still accruing interest, for a total of $3,124,000 in impaired loans. The TDR loan was paid off in the first quarter of 2012. At both March 31, 2012 and December 31, 2011, there was no valuation allowance on any of these 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.

Following is a further breakdown by class of the loans classified as impaired loans as of March 31, 2012 and December 31, 2011. 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 investment in impaired loans is computed using month-end balances for these loans.

March 31, 2012	Recorded Investment	Unpaid Principal Balance	Associated Allowance	Average Recorded Investment	Interest Income Recognized
			(in Thousands)		
Impaired loans without a valuation allowance:					
Other real estate construction and land	$ 372	$ 483	$ -	$ 347	$ 2
1-4 family residential mortgages	97	113	-	75	9
Commercial owner occupied real estate	168	183	-	56	1
Impaired loans with a valuation allowance	-	-	-	-	-
Total impaired loans	$ 637	$ 779	$ -	$ 478	$ 12

December 31, 2011	Recorded Investment	Unpaid Principal Balance	Associated Allowance	Average Recorded Investment	Interest Income Recognized
			(in Thousands)		
Impaired loans without a valuation allowance:					
Other real estate construction and land	338	447	-	475	23
Commercial owner occupied real estate	2,721	2,721	-	2,757	147
1-4 family residential mortgages	65	71	-	1,755	26
Impaired loans with a valuation allowance	-	-	-	-	-
Total impaired loans	$ 3,124	$ 3,239	$ -	$ 4,987	$ 196

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

Non-accrual balance	March 31, 2012	December 31, 2011
	(in Thousands)	
Other real estate construction and land	$ 372	$ 338
Commercial owner occupied real estate	168	-
1-4 family residential mortgages	97	65
Total nonaccrual loans	$ 637	$ 403

There have been no loan modifications during the quarters ended March 31, 2012 or March 31, 2011 for loans identified as Troubled Debt Restructuring (TDR) loans and no TDR loans that have subsequently defaulted during the year.

(6) 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 collectibility 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 nonowner occupied real estate
Consumer	Consumer revolving credit Consumer all other credit

Based on the internal risk ratings assigned to each credit, an historical factor is assigned to the balances for each class of loans, using a cumulative eight quarter rolling basis. 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 and external monitoring and review of credits are conducted on an annual basis.

Loans that trend upward toward more positive risk ratings generally have a lower risk factor associated. 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	DESCRIPTION/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.

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

Internal Risk Rating Grades	Excellent	Good	Pass	Special Mention (in Thousands)	Sub-standard	Doubtful	TOTAL
Commercial loans	$ 772	$ 14,307	$ 25,593	$ 4	$ 805	$ -	$ 41,481
Real estate construction							
Residential construction	-	-	152	-	-	-	152
Other construction and land	-	-	13,447	3,575	1,389	-	18,411
Real estate mortgages							
1-4 family mortgages	-	1,975	54,562	1,205	1,249	-	58,991
Home equity lines of credit	-	-	33,310	35	379	-	33,724
Multifamily mortgages	-	-	16,147	-	379	-	16,526
Commercial owner occupied	-	-	55,260	229	3,568	-	59,057
Commercial nonowner occupied	-	-	47,487	597	4,963	-	53,047
Consumer loans							
Consumer revolving credit	39	862	555	-	1	-	1,457
Consumer all other credit	206	7,662	3,862	-	71	-	11,801
Total Loans	$ 1,017	$ 24,806	$ 250,375	$ 5,645	$ 12,804	$ -	$ 294,647

The following represents the loan portfolio designated by the internal risk ratings assigned to each credit as of December 31, 2011:

Internal Risk Rating Grades	Excellent	Good	Pass	Special Mention (in Thousands)	Sub-standard	Doubtful	TOTAL
Commercial loans	$ 707	$ 15,432	$ 24,505	$ 5	$ 1,508	$ -	$ 42,157
Real estate construction							
Residential construction	-	-	91	-	-	-	91
Other construction and land	-	-	12,436	3,587	1,361	-	17,384
Real estate mortgages							
1-4 family mortgages	-	1,978	55,510	1,213	1,294	-	59,995
Home equity lines of credit	-	-	32,658	35	109	-	32,802
Multifamily mortgages	-	-	17,927	-	382	-	18,309
Commercial owner occupied	-	-	53,694	230	6,324	-	60,248
Commercial nonowner occupied	-	-	42,899	2,132	5,023	-	50,054
Consumer loans							
Consumer revolving credit	-	847	583	-	-	-	1,430
Consumer all other credit	208	5,540	4,264	-	50	-	10,062
Total Loans	$ 915	$ 23,797	$ 244,567	$ 7,202	$ 16,051	$ -	$ 292,532

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. This uncertainty has led to downgrades in the first four factors for all segments and classes over the past several years.

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 $637,000 classified as impaired loans at March 31. 2012, there was no specific valuation allowance on any of these 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 March 31, 2012

	Commercial	Real Estate Construction	Real Estate Mortgage	Consumer	Unallocated	Total
Allowance for credit losses:			*(In Thousands)*			
Balance as of January 1, 2012	$ 397	$ 319	$ 2,954	$ 68	$ 3	$ 3,741
Charge-offs	-	-	(98)	-	-	(98)
Recoveries	2	-	8	10	-	20
Provision for Loan Losses	(10)	(35)	137	(12)	51	131
Ending Balance	$ 389	$ 284	$ 3,001	$ 66	$ 54	$ 3,794
Ending Balance:						
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	389	284	3,001	66	54	3,794
Financing Receivables:			*(In Thousands)*			
Ending Balance	$ 41,481	$ 18,563	$ 221,345	$ 13,258	$ -	$ 294,647
Ending Balance:						
Individually evaluated for impairment	-	372	265	-	-	637
Collectively evaluated for impairment	41,481	18,191	221,080	13,258	-	294,010

Allowance for Credit Losses Rollforward by Portfolio Segment
As of December 31, 2011

	Commercial	Real Estate Construction	Real Estate Mortgage	Consumer	Unallocated	Total
Allowance for credit losses:			(In Thousands)			
Balance as of January 1, 2011	$ 476	$ 488	$ 2,644	$ 122	$ -	$ 3,730
Charge-offs	-	(31)	(518)	(11)	-	(560)
Recoveries	11	-	3	22	-	36
Provision for Loan Losses	(90)	(138)	825	(65)	3	535
Ending Balance	$ 397	$ 319	$ 2,954	$ 68	$ 3	$ 3,741
Ending Balance:						
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	397	319	2,954	68	3	3,741
Financing Receivables:			(In Thousands)			
Ending Balance	$ 42,157	$ 17,475	$ 221,408	$ 11,492	$ -	$ 292,532
Ending Balance:						
Individually evaluated for impairment	-	338	2,786	-	-	3,124
Collectively evaluated for impairment	42,157	17,137	218,622	11,492	-	289,408

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 March 31, 2012 and December 31, 2011, 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 March 31, 2012, the Bank had no loans which were 90 days or more past due but still accruing. At year-end 2011, the Bank showed a balance of $388,000 for two loans 90 or more days past due but still accruing.

Past Due Aging as of March 31, 2012	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
			(in Thousands)				
Commercial loans	$ 173	$ -	$ -	$ 173	$ 41,308	$ 41,481	$ -
Real estate construction							
Residential construction	-	-	-	-	152	152	-
Other construction and land	-	39	-	39	18,372	18,411	-
Real estate mortgages							
1-4 family mortgages	178	-	35	213	58,778	58,991	-
Home equity lines of credit	-	-	-	-	33,724	33,724	-
Multifamily mortgages	-	-	-	-	16,526	16,526	-
Commercial owner occupied	229	168	-	397	58,660	59,057	-
Commercial nonowner occupied	-	-	-	-	53,047	53,047	-
Consumer loans							
Consumer revolving credit	-	-	-	-	1,457	1,457	-
Consumer all other credit	76	18	-	94	11,707	11,801	-
Total Loans	$ 656	$ 225	$ 35	$ 916	$ 293,731	$ 294,647	$ -

Past Due Aging as of December 31, 2011	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
			(in Thousands)				
Commercial loans	$ -	$ -	$ -	$ -	$ 42,157	$ 42,157	$ -
Real estate construction							
Residential construction	-	-	-	-	91	91	-
Other construction and land	-	-	388	388	16,996	17,384	388
Real estate mortgages							
1-4 family mortgages	286	-	-	286	59,709	59,995	-
Home equity lines of credit	-	35	-	35	32,767	32,802	-
Multifamily mortgages	-	-	-	-	18,309	18,309	-
Commercial owner occupied	-	-	-	-	60,248	60,248	-
Commercial nonowner occupied	-	-	-	-	50,054	50,054	-
Consumer loans							
Consumer revolving credit	-	-	-	-	1,430	1,430	-
Consumer all other credit	92	-	-	92	9,970	10,062	-
Total Loans	$ 378	$ 35	$ 388	$ 801	$ 291,731	$ 292,532	$ 388

(7) 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 three months ended March 31, 2012 and 2011. Potential dilutive common stock consists of stock options and unvested stock grants. Potential dilutive common stock has no effect on income available to common shareholders. Average share and per share information for all periods have been restated to reflect a 1.15 to 1 stock dividend paid on June 30, 2011.

	For the Three Months Ended March 31, 2012		For the Three Months Ended March 31, 2011	
Basic EPS	2,690,220	$0.19	2,690,220	$0.11
Effect of dilutive securities and stock options	0		3,634	
Diluted EPS	2,690,220	$0.19	2,693,854	$0.11

As of March 31, 2012, 267,385 option shares were considered anti-dilutive, and were excluded from this calculation. As of March 31, 2011, 263,824 option shares were considered anti-dilutive.

(8) Recent Accounting Pronouncements

In April 2011, the FASB issued ASU 2011-03, "Transfers and Servicing (Topic 860) – Reconsideration of Effective Control for Repurchase Agreements." The amendments in this ASU remove from the assessment of effective control (1) the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee and (2) the collateral maintenance implementation guidance related to that criterion. The amendments in this ASU are effective for the first interim or annual period beginning on or after December 15, 2011. The guidance should be applied prospectively to transactions or modifications of existing transactions that occur on or after the effective date. Early adoption is not permitted. The adoption of the new guidance did not have a material impact on the Bank's consolidated financial statements.

In May 2011, the FASB issued ASU 2011-04, "Fair Value Measurement (Topic 820) – Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs." This ASU is the result of joint efforts by the FASB and International Accounting Standards Board (IASB) to develop a single, converged fair value framework on how (not when) to measure fair value and what disclosures to provide about fair value measurements. The ASU is largely consistent with existing fair

value measurement principles in U.S. GAAP (Topic 820), with many of the amendments made to eliminate unnecessary wording differences between U.S. GAAP and International Financial Reporting Standards (IFRS). The amendments are effective for interim and annual periods beginning after December 15, 2011 with prospective application. Early application is not permitted. The Bank has included the required disclosures in its consolidated financial statements.

In June 2011, the FASB issued ASU 2011-05, "Comprehensive Income (Topic 220) – Presentation of Comprehensive Income." The objective of this ASU is to improve the comparability, consistency and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income by eliminating the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity. The amendments require that all non-owner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The single statement of comprehensive income should include the components of net income, a total for net income, the components of other comprehensive income, a total for other comprehensive income, and a total for comprehensive income. In the two-statement approach, the first statement should present total net income and its components followed consecutively by a second statement that should present all the components of other comprehensive income, a total for other comprehensive income, and a total for comprehensive income. The amendments do not change the items that must be reported in other comprehensive income, the option for an entity to present components of other comprehensive income either net of related tax effects or before related tax effects, or the calculation or reporting of earnings per share. The amendments in this ASU should be applied retrospectively. The amendments are effective for fiscal years and interim periods within those years beginning after December 15, 2011. Early adoption is permitted because compliance with the amendments is already permitted. The amendments do not require transition disclosures. The Bank has included the required disclosures in its consolidated financial statements.

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 Bank does not expect the adoption of ASU 2011-11 to have a material impact on its consolidated financial statements.

In December 2011, the FASB issued ASU 2011-12, "Comprehensive Income (Topic 220) – Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05." The amendments are being made to allow the Board time to redeliberate whether to present on the face of the financial statements the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income for all periods presented. While the Board is considering the operational concerns about the presentation requirements for reclassification adjustments and the needs of financial statement users for additional information about reclassification adjustments, entities should continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect before ASU 2011-05. All other requirements in ASU 2011-05 are not affected by ASU 2011-12, including the requirement to report comprehensive income either in a single continuous financial statement or in two separate but consecutive financial statements. Public entities should apply these requirements for fiscal years, and interim periods within those years, beginning after December 15, 2011. The Bank has included the required disclosures in its consolidated financial statements.

(9) 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.

The recent 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:

Securities available for sale

Securities available for sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted market prices, when available (Level 1). If quoted market prices are not available, fair values are measured utilizing independent valuation techniques of identical or similar securities for which significant assumptions are derived primarily from or corroborated by observable market data. Third party vendors compile prices from various sources and may determine the fair value of identical or similar securities by using pricing models that consider observable market data (Level 2).

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

		Fair Value Measurements at March 31, 2012 Using:		
Description	Balance as of March 31, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:	(in Thousands)	(in Thousands)	(in Thousands)	(in Thousands)
Available for sale securities				
U.S. Government agencies	$ 83,743	$ —	$ 83,743	$ —

The following table presents the balances measured at fair value on a recurring basis as of December 31, 2011:

		Fair Value Measurements at December 31, 2011 Using:		
Description	Balance as of December 31, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:	(in Thousands)	(in Thousands)	(in Thousands)	(in Thousands)
Available for sale securities				
U.S. Government agencies	$ 84,150	$ —	$ 84,150	$ —

Certain financial 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 financial 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. Fair value would be measured based on the value of the collateral securing the loans. Collateral may be in the form of real estate or business assets including equipment, inventory, and accounts receivable. The value of real estate collateral would be 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 is a house or building in the process of construction or if an appraisal of the real estate property is over two years old, then the fair value would be considered Level 3. The value of business equipment would be based upon an outside appraisal if deemed significant, or the net book value on the applicable business' financial statements if not considered significant using observable market data. Likewise, values for inventory and accounts receivables collateral would be based on financial statement balances or aging reports (Level 3). Impaired loans allocated to the Allowance for Loan Losses would be measured at fair value on a nonrecurring basis. Any fair value adjustments would be recorded in the period incurred as provision for loan losses on the Consolidated Statements of Income. The Bank had a total of $637,000 in impaired loans as of March 31, 2012. None of these impaired loans required a specific valuation allowance.

Other Real Estate Owned

Certain assets such as other real estate owned (OREO) are measured at fair value less cost to sell. The value of the real estate would be 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 is a house or building in the process of construction or if an appraisal of the real estate property is over two years old, then the fair value would be considered Level 3. Any fair value adjustments would be recorded in the period incurred as non-interest expense on the Consolidated Statements of Income. Currently, the Bank has five OREO properties carried at a balance of $4,242,000 as of March 31, 2012 and December 30, 2011. There has been no expense related to the valuation of OREO properties for the quarter ended March 31, 2012 or the year ended December 31, 2011.

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 March 31, 2012 Using:		
Description	Net Carrying Value as of March 31, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:	(in Thousands)	(in Thousands)	(in Thousands)	(in Thousands)
Other Real Estate Owned (OREO)	$ 4,242	$ —	$ 4,242	$ —

The following table presents the Bank's assets that were measured at fair value on a nonrecurring basis as of December 31, 2011:

Description	Net Carrying Value as of December 31, 2011	Fair Value Measurements at December 31, 2011 Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:	(in Thousands)	(in Thousands)	(in Thousands)	(in Thousands)
Other Real Estate Owned (OREO)	$ 4,242	$ —	$ 4,242	$ —

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.

Loan Receivables

For variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. The fair value of other loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

Accrued Interest

The carrying amounts of accrued interest approximate fair value.

Deposit Liabilities

The fair value of demand deposits, savings 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.

Short-Term Borrowings

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

Off-Balance Sheet Financial Instruments

At March 31, 2012 and December 31, 2011, 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 March 31, 2012 are as follows:

		Fair Value Measurement at March 31, 2012 using:			
	Carrying value	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Fair Value
Assets	(in Thousands)	(in Thousands)	(in Thousands)	(in Thousands)	(in Thousands)
Cash and cash equivalent	$ 76,139	$ 76,139			$ 76,139
Securities	93,765		93,878		93,878
Loans, net	290,853		293,676		293,676
Bank owned life insurance	6,933		6,933		6,933
Accrued interest receivable	1,503		1,503		1,503
Liabilities					
Demand deposits and interest-bearing transaction and money market accounts	$ 295,734		$ 295,734		$ 295,734
Certificates of deposit	140,661		140,748		140,748
Securities sold under agreements to repurchase	3,109		3,109		3,109
Accrued interest payable	192		192		192

The carrying values and estimated fair values of the Bank's financial instruments as of December 31, 2011 are as follows:

		Fair Value Measurement at December 31, 2011 using:			
	Carrying value	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Fair Value
Assets	(in Thousands)	(in Thousands)	(in Thousands)	(in Thousands)	(in Thousands)
Cash and cash equivalent	$ 57,044	$ 57,044			$ 57,044
Securities	90,138		90,231		90,231
Loans, net	288,791		285,793		285,793
Bank owned life insurance	6,869		6,869		6,869
Accrued interest receivable	1,369		1,369		1,369
Liabilities					
Demand deposits and interest-bearing transaction and money market accounts	$ 280,426		$ 280,426		$ 280,426
Certificates of deposit	131,442		131,435		131,435
Securities sold under agreements to repurchase	2,623		2,623		2,623
Accrued interest payable	213		213		213

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.

(10) Subsequent Events

In preparing these financial statements, the Bank has evaluated events and transactions for potential recognition or disclosure through the date the financial statements were issued.

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

CRITICAL ACCOUNTING POLICIES

General

The Bank's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The financial information contained within our statements is, to a significant extent, financial information that is based on measures of the financial effects of transactions and events that have already occurred. A variety of factors could affect the ultimate value that is obtained either when earning income, recognizing an expense, recovering an asset or relieving a liability. We use historical loss factors as one factor in determining the inherent loss that may be present in our loan portfolio. Actual losses could differ significantly from the historical factors that we use. In addition, GAAP itself may change from one previously acceptable method to another method. Although the economics of our transactions would be the same, the timing of events that would impact our transactions could change.

Allowance for Loan Losses

The allowance for loan losses is an estimate of the losses that may be sustained in our loan portfolio. The allowance is based on two basic principles of accounting: (i) ASC 450, "Accounting for Contingencies," which requires that losses be accrued when they are probable of occurring and estimatable, and (ii) ASC 310, "Receivables," which requires that losses be accrued based on the differences between the value of collateral, present value of future cash flows or values that are observable in the secondary market and the loan balance.

In general, banks determine the adequacy of their allowance for loan losses by considering the risk classification and delinquency status of loans and other factors. A bank's 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 continually monitors the adequacy of the allowance for loan losses to determine the appropriate accrual for the Bank's bad debt expense.

Non-GAAP Presentations

The Bank, in referring to its net income, is referring to income under accounting principles generally accepted in the United States of America, or "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. 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 March 31, 2012 were $489.5 million. This is a 5.5% increase from the December 31, 2011 total asset figure of $464.1 million, and a 6.2% increase from the March 31, 2011 total asset figure of $461.0 million. As a liability-driven institution, the total footings of the Bank will be a reflection of the strength of the Bank's funding sources, primarily deposits and repurchase agreements. Balance sheet growth of $28.5 million during the past year was funded by an increase of $24.3 million in deposits.

Federal Funds Sold

The Bank had overnight federal funds sold of $66.1 million at March 31, 2012, compared to $44.6 million at December 31, 2011. At March 31, 2011, the Bank had overnight federal funds sold of $51.5 million. The fluctuation in federal funds sold is offset by increases or decreases in other areas of the balance sheet. The overnight federal funds sold is a reflection of the Bank's excess funds position on any given day, as well as a reflection of the Bank's liquidity position. The Bank is constantly assessing the proper level of overnight liquidity to ensure that enough cash is always available to 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.

Loan Portfolio

As of March 31, 2012, loans held for investment were $294.6 million, an increase of $2.1 million from the $292.5 million at December 31, 2011. The quarter-end total was up 1.8% from the March 31, 2011 balance of $289.4 million. Loans held for investment as a percentage of assets and deposits at March 31, 2012 were 60.2% and 67.5%, respectively. In this period of low loan demand, the Bank has been pursuing 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 starting to be realized in loan growth.

The following table summarizes the Bank's loan portfolio by type of loan as of March 31, 2012 (in thousands):

	March 31, 2012 Balance	Percent of Total
Commercial, financial and industrial	$ 41,481	14.08%
Real estate - commercial	112,104	38.05%
Real estate - residential mortgage	109,241	37.07%
Real estate - construction	18,563	6.30%
Consumer installment and other	13,258	4.50%
Total loans	$ 294,647	100.00%

Securities

The Bank's investment portfolio as of March 31, 2012 totaled $95.5 million. 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 March 31, 2012, the HTM portfolio totaled $10.0 million and consisted of a United States government-sponsored agency security, corporate bonds and tax free municipals. The AFS portfolio totaled $83.8 million and consisted of United States government-sponsored agency securities. The Bank's holdings of restricted securities totaled $1.7 million and consisted of stock in the Federal Reserve Bank and the Federal Home Loan Bank.

The Bank's investment portfolio as of December 31, 2011 totaled $91.9 million. As of December 31, 2011, the HTM portfolio totaled $6.0 million and consisted of a United States government-sponsored agency security and tax free municipals. The AFS portfolio totaled $84.2 million and consisted of United States government-sponsored agency securities. The Bank's holdings of restricted securities totaled $1.7 million and consisted of stock in the Federal Reserve Bank and the Federal Home Loan Bank.

Allowance for Loan Losses

The following is a summary of the changes in the allowance for loan losses for the three months ended March 31, 2012 and for the three months ended March 31, 2011 (in thousands):

	2012	2011
Allowance for loan losses, January 1	$ 3,741	$ 3,730
Chargeoffs	(98)	-
Recoveries	20	7
Provision for loan losses	131	-
Allowance for loan losses, March 31	$ 3,794	$ 3,737

The relationship of the allowance to total loans at March 31, 2012 and March 31, 2011 appears below (in thousands):

	March 31, 2012	March 31, 2011
Loans held for investment at period-end	$ 294,647	$ 289,360
Allowance for loan losses	$ 3,794	$ 3,737
Allowance as a percent of period-end loans	1.29%	1.29%

In general, the Bank determines the adequacy of their 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. Thereafter, the adequacy of the allowance is evaluated through reference to 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 6 of the *Notes to Interim Condensed Consolidated Financial Statements*.

Risk Elements

The Bank had seven loans identified as impaired loans and non-accrual loans in the amount of $637,000 and had no loans past due ninety or more days and still accruing interest in its portfolio as of March 31, 2012. At the end of 2011, the Bank had four loans in the amount of $403,000 classified as non-accrual, in addition to one loan of $2,721,000 classified as a Troubled Debt Restructuring (TDR) which was still accruing interest, for a total of $3,124,000 in impaired loans. Additionally, the Bank had loans totaling $388,000 past due ninety or more days and still accruing interest in its portfolio as of December 31, 2011. At March 31, 2011, the Bank had seven non-accrual loans in the amount of $4,532,000 and had one loan of $36,000 past due ninety or more days and still accruing interest in its portfolio. In addition this same TDR loan was carried at $2,754,000 at March 31, 2011. The TDR loan was paid off in the first quarter of 2012.

Of the $4,532,000 classified as non-accrual loans as of March 31, 2011, the largest loan totaling $2,493,000, was collateralized by deeds of trust on properties valued in excess of $4.6 million. After paying off the other financial institution which held the first deed of trust on one of the properties, the properties securing this non-accrual loan were booked into Other Real Estate Owned (OREO) during the second quarter of 2011 at a carrying amount of $3,562,000. The next largest loan classified as a non-accrual loan was carried with a balance of $980,000 and was fully collateralized by a deed of trust. This loan was paid in full in the third quarter of 2011.

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 March 31, 2012 were $11.6 million as compared to the December 31, 2011 amount of $10.7 million. The primary reason for the increase was due to the Bank purchasing the land on which the Bank's 29 North Office is located at 1580 Seminole Trail in Charlottesville, Virginia. The property was purchased in February 2012 for $1.2 million from Sunny Hill Land Trust. The purchase terminated the land lease for the property, decreasing rental expenses for the Bank.

Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed by the straight-line method based on the estimated useful lives of assets. Expenditures for repairs and maintenance are charged to expense as incurred. The costs of major renewals and betterments are capitalized and depreciated over their estimated useful lives. Upon disposition, assets and related accumulated depreciation are removed from the books, and any resulting gain or loss is charged to income.

As of March 31, 2012, the Bank occupied five sites in Charlottesville and Albemarle County, Virginia, one office (and a satellite facility) in Orange County, Virginia, and two offices in Winchester, Virginia. The original full-service banking facility is located at 222 East Main Street, Charlottesville, Virginia. VNBTrust is located at 310 4th Street NE, Suite 102, in Charlottesville. 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.

At the end of February, 2011, the Bank closed the lobby of its banking facility at 28904 North James Madison Highway, in Arvonia, Virginia. The Bank owns the property on which this facility is located and operates a limited-service automated teller machine (ATM) on this site.

Deposits

Total deposits as of March 31, 2012 were $436.4 million, compared to $411.9 million at December 31, 2011. The Bank had $412.1 million in deposits as of March 31, 2011. This year's March 31, 2012 balance is 5.9% higher than the balance as of year end 2011.

Non-interest bearing demand deposits on March 31, 2012 were $135.8 million, representing a strong 31.1% of total deposits. Interest-bearing transaction and money market accounts totaled $159.9 million on the same date, and certificates of deposit and other time deposits totaled $140.7 million.

Included in these deposit totals are brokered deposits totaling $42.9 million as of March 31, 2012, compared to $42.4 million at December 31, 2011. As of March 31, 2012, $32.1 million of these brokered deposits are reciprocal relationships established under the Certificate of Deposit Account Registry Service (CDARS)™ , whereby depositors can obtain FDIC insurance on deposits up to $50 million. The remaining brokered deposits of $10.8 million represent bankruptcy trustee deposits placed through an agreement entered during the third quarter of 2011 with Financial Software Solutions, L.L.C, which provides its Trust*e*Solutions™ system to the bankruptcy trustees.

RESULTS OF OPERATIONS

Net Income

Net income for the first quarter of 2012 of $501,000 was 73.4% higher than the reported net income of $289,000 during the same period of 2011. Pre-tax income for the first three months of 2012 was $730,000, compared to pre-tax income of $425,000 reported for the first three months of 2011.

The $212,000 increase in net income from the first three months of 2012 to the first three months of 2011 is attributable to a $340,000 decrease in non-interest expense and a $127,000 increase in non-interest income. Income was negatively impacted by a $31,000 decrease in net interest income, a $131,000 increase in provision for loan loss expense, and a $93,000 increase in income taxes.

Net Interest Income

Net interest income for the first three months of 2012 was $3,928,000, compared to net interest income of $3,959,000 million for the first three months of the prior year. Variables that may have an impact on net interest income are the mix and volume of earning assets and interest-bearing liabilities, as well as market interest rates. Despite average earning assets of $441.4 million for the first quarter of 2012 being 4.1% higher than the $424.2 million in average earning assets for the first quarter of 2011, net interest income declined slightly due to the interest rate compression experienced during this period of historically low interest rates as well as the mix of the earning assets. A decline in loan demand and loan runoff negatively impacted net interest income and the net interest margin. For the first three months of 2012, net interest margin was 3.58%, compared with the net interest margin of 3.78% recorded during the same period of 2011.

The Bank's policy is to maintain an approximate balance between the terms to maturity and repricing of deposit liabilities and the assets funded by those liabilities. Another factor that affects the Bank's net interest margin is the mix between non-interest bearing and interest-bearing deposits changes. A continuing positive influence on the Bank's net interest margin is the Bank's level of non-interest bearing demand deposits, which averaged 29.5% of total deposits for the first three months of 2012.

Provision for Loan Losses

The quality of the loans in the Bank's portfolio remains good. The total provision for loan loss expense for the first three months of 2012 was $131,000. As loans have increased since year-end 2011, this provision was taken to meet the estimated amount needed in the allowance for loan losses. No provision expense was taken during the first three months of 2011 due to loan portfolio runoff and lower loan demand. In addition to the provision for loan losses being affected by the net change of the loan portfolio, other factors affecting this estimate include the level of any charge-offs or recoveries, and the consideration of the risk classification and delinquency status of its loans. The Bank's allowance for loan losses increased slightly from 1.28% of total loans held for investment at December 31, 2011 to 1.29% of total loans held for investment at March 31, 2012. Please refer to the earlier discussion of 'Allowances for Loan Losses' in Note 6 of the *Notes to Interim Condensed Consolidated Financial Statements* for additional insight into management's approach and methodology in estimating the allowance for loan losses.

Non-Interest Income

Total non-interest income for the three months ended March 31, 2012 was $1.2 million, compared to $1.1 million for the same period of 2011. The increase in non-interest income was primarily attributed to non-performance-based fees of $646,000 earned by VNBTrust for this period in 2012, an increase of $93,000 over the $553,000 in fees for the same period in 2011.

Non-Interest Expense

Total non-interest expense for the three months ended March 31, 2012 was $4.3 million, compared to $4.6 million for the same period in 2011. This decrease was mainly attributable to a decrease in personnel expenses. Personnel expenses for the first three months of 2011 were $2.3 million, compared to $2.5 million expensed in this period last year.

Net occupancy expenses of $543,000 in the first three months of 2012 were lower by $71,000 than the same period in 2011. Equipment expenses of $223,000 in the first three months of 2012 have decreased slightly from the $245,000 incurred during the first three months of 2011. All other non-interest expense totaled $1.2 million for the first quarter of 2012, down from the $1.3 million expensed in this same period last year primarily as a result of lower professional and consulting fees.

One of the ratios the Bank examines in its evaluation of non-interest expense is the efficiency ratio, which measures the cost to produce one dollar of revenue. A lower ratio, computed by dividing non-interest expense by the sum of net interest income and non-interest income, is an indicator of increased efficiency. For the first three months of 2012, the efficiency ratio was 83.2%, while an efficiency ratio of 91.5% was realized in the first three months of 2011. This improvement in the efficiency ratio reflects the continuing effects of the expense controls put into place in 2011 as non-performing offices and processes were eliminated.

Liquidity

Liquidity represents the Bank's ability to provide funds to meet customer demand for loan and deposit withdrawals without impairing profitability. Effective management of balance sheet liquidity is necessary to fund growth in earning assets and to pay liability maturities and depository customers' withdrawal requirements. The Bank has instituted Asset/Liability Management policies, including but not limited to a computer simulation model, to support liquidity controls and to enhance its management of interest rate risk and financial condition.

Since its opening, the Bank's customer base has provided a reliable and steadily increasing source of funds and liquidity. In addition, maturities within the securities portfolio, repayment of loan proceeds and a significant portfolio of overnight investments are additional primary sources of liquidity. The Bank has numerous secondary sources of liquidity including access to borrowing arrangements. Available borrowing arrangements maintained by the Bank include formal federal funds lines with two other commercial banks and access to the discount window at the Federal Reserve Bank of Richmond. On December 3, 2001, the Federal Home Loan Bank (FHLB) of Atlanta approved the Bank's application for membership, providing yet another source of secondary liquidity.

Any excess funds are sold on a daily basis in the federal funds market. On March 31, 2012, the Bank sold $66.1 million in the overnight federal funds market. As opportunities have arisen for prudently investing this excess cash in either loans or securities, the Bank has done so. The Bank intends to maintain sufficient liquidity at all times to meet its funding commitments.

Shareholders' Equity

The following table displays the changes in shareholders' equity from December 31, 2011, to March 31, 2012 (in thousands):

Equity, December 31, 2011	$	48,921
Net income		501
Change in net unrealized gains on AFS securities		(167)
Equity increase due to expensing of stock options/grants		53
Equity, March 31, 2012	$	49,308

The Bank's risk based capital ratios remain above the levels designated as "Well Capitalized" on March 31, 2012. Under the risk-based capital guidelines of federal regulatory authorities, the Bank has a Tier 1 risk-based capital ratio of 13.51% and a total risk-based capital ratio of 14.59%. 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 10.12%.

Credit Risk and Loan Quality

Respect for loan quality in order to meet the customer expectations that the Bank stand as a reliable and consistent source of credit is entirely consistent with the responsibility to protect the Bank's depositors and build shareholder value over the long term. Virginia National Bank maintains a diversified loan portfolio by extending credit for commercial, real estate, personal and other loans. Within each category, the portfolio is further diversified. Loan officers are expected to seek and make as many sound and profitable loans as permitted within the parameters established by the Bank's asset/liability management policies. In doing so, it is recognized that risks must be taken, and that some level of losses is inevitable. Such losses must be kept within aggregate levels that bear an appropriate relationship to profits generated, the prevailing economic environment and accumulated reserve and capital levels.

During the first three months of 2012, $98,000 in loan balances were charged off, and there were $20,000 in recoveries of prior charged-off loans. During the same period in 2011, no loan balances were charged off, and there were $7,000 in recoveries of prior charged-off loans. There were $637,000 in non-performing loans, defined as those past due ninety or more days and still accruing interest or those placed on non-accrual status, at March 31, 2012. At March 31, 2011, there were $4,568,000 in non-performing loans.

OTHER SIGNIFICANT EVENTS

None

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not required

ITEM 4. CONTROLS AND PROCEDURES

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of the date of this report. Based on that evaluation, our principal executive officer and principal financial officer have concluded that these controls and procedures are effective. There were no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation.

Disclosure controls and procedures are our controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

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 required

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]
	Form of Virginia National Bank 2003 Stock Incentive Plan [e]
	Form of Virginia National Bank Amended and Restated 2005 Stock Incentive Plan [f]
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 2009 Annual Report on Form 10-K, filed with the Office of the Comptroller of the Currency on March 26, 2010.

[b] Incorporated herein by reference from Virginia National Bank's 2011 Annual Report on Form 10-K, filed with the Office of the Comptroller of the Currency on March 28, 2012.

[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.

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: May 11, 2012

By: /s/ Ronald E. Baron

Ronald E. Baron
(Principal Financial Officer)

Date: May 11, 2012

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: May 11, 2012

/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: May 11, 2012

/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 March 31, 2012 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

May 11, 2012