



PUBLIC DISCLOSURE

April 18, 2016

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Virginia National Bank

Charter Number 23616

222 East Main Street
Charlottesville, Virginia 22902-2853

Office of the Comptroller of the Currency
4419 Pheasant Ridge Road, Suite 300
Roanoke, Virginia 24014

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

INSTITUTION'S CRA RATING:

This institution is rated Satisfactory.

The Lending Test is rated Satisfactory.

The Community Development Test is rated Satisfactory.

The major factors supporting the institution's rating include:

- The bank's loan to deposit ratio is reasonable when compared to similarly situated banks;
- A substantial majority of the bank's loans originated during the evaluation period were within the bank's assessment areas (AAs);
- The borrower distribution reflects an overall reasonable penetration and satisfactory performance;
- The geographic distribution of loans reflects an overall reasonable dispersion and satisfactory performance; and,
- The bank's community development activities demonstrate adequate responsiveness to the community development needs of its AAs.

Scope of Examination

Virginia National Bank ("VNB" or the Bank) was evaluated under the Intermediate Small Bank examination procedures, which include a lending test and a community development (CD) test. The lending test evaluates the institutions record of meeting the credit needs of its AA through its lending activities. The CD test evaluates the institution's responsiveness to CD needs in its AA through CD lending, qualified investments, and CD services.

CRA activities at VNB were completed using full-scope review procedures for its AA. Our review covered the bank's performance from January 1, 2013 through December 30, 2015. Small Business loans were determined to be the bank's primary loan product of which a sample of loans was included and reviewed as part of this examination.

Description of Institution

Virginia National Bank (“VNB” or the “Bank”) is a financially sound community bank located in Charlottesville, Virginia. Founded in 1998, VNB is a full service intrastate bank. The bank offers its customers traditional commercial and consumer lending, deposit products and services, with a wealth management division providing fiduciary services through a separately chartered subsidiary, VNB Trust, N.A. (“VNBT”). We did not consider activities conducted by VNBT as part of this evaluation.

As of December 31, 2015, Tier I Capital was \$55.1 million. VNB’s gross loans, as of December 31, 2015, totaled \$420 million, or 74 percent of total assets. Table 1 below depicts the loan portfolio by percentage of loan product as of December 31, 2015.

Table 1. Loan Originations by Loan Type.

Loan Product Category	Percent %
1 -4 Family Residential Mortgage	23.25%
Commercial /Commercial Real Estate	37.81%
Commercial and Industrial	19.22%
Secured by Farmland /Agricultural	1%
Construction & Land Development	4.14%
Multi-family Residential	6.08%
Consumer	8.4%
All Other	.12%
Total	100%

*Data obtained from the Uniform Bank Performance Report for the quarter ended December 31, 2015, Page 7A.

VNB is a full service community bank that does not want to deviate from its primary strategic plan of offering traditional locally managed banking services with a primary focus on small business. Small business loans represent a significant portion of VNB’s loan portfolio and are VNB’s primary loan product. The Bank offers a full range of depository products for individuals, businesses, organizations as well as government authorities through commercial and consumer loan products.

VNB faces strong competition from local community banks as well as branches of larger regional and national banks in the assessment area. According to the June 30, 2015 FDIC Summary of Deposits Market Share Report, VNB was ranked fifth out of 23 institutions in their AA with 7.34 percent of deposits. Wells Fargo is ranked first with 15 offices and 20.62 percent of the deposits. Other financial institutions include Bank of America with 8 offices and 15.14 percent of the deposits, Sun Trust Bank with 6 offices and percent of the deposits, Union Bank and Trust with 12 offices and percent of the deposits, and United Bank with 8 offices and percent of the deposits.

VNB has three assessment areas located within the state of Virginia as follows: the Charlottesville AA (MSA 16820), the Winchester AA (MSA 49020), and the Orange County Non MSA AA. VNB operates seven full-service branch offices, one drive-through facility, two

limited services branches and twenty-three Automated Teller Machines (ATMs). All branches are located in Virginia with four in Charlottesville, one in Orange, and two in Winchester City. No new branches were opened nor were any branches closed during this evaluation period.

Table 2 – VNB Full-Service Branch Offices		
	Office Location	Geography Income Level
1	222 E Main Street, Charlottesville, VA	<i>Upper</i>
2	1900 Arlington Blvd, Charlottesville, VA	<i>Upper</i>
3	1580 Seminole Trail Charlottesville, VA	Moderate
4	404 People Place Charlottesville, VA	<i>Upper</i>
5	186 Loudoun Street Winchester City, VA	Moderate
6	3119 Valley Avenue Winchester City, VA	Moderate
7	102 E Main Street, Orange VA	Middle

VNB received a satisfactory CRA rating at its last CRA performance evaluation dated October 15, 2012. This evaluation period covers January 1, 2013 through December 31, 2015. We evaluated VNB using the Intermediate Small Bank standards. There are no legal or financial impediments to VNB’s ability to meet the credit needs of its AA.

SELECTION OF AREAS FOR FULL-SCOPE REVIEW

The Charlottesville AA is in a designated metropolitan statistical area (MSA) and is the bank’s primary market area. The Charlottesville AA received a full scope review. The Winchester AA is a designated MSA and received a full scope review. The Orange County Non MSA AA only includes the County of Orange, Virginia. Therefore, only a limited review was conducted.

DESCRIPITON OF THE ASSESSTMENT AREA

Charlottesville MSA AA

The Charlottesville MSA (#16820) consists of the city of Charlottesville and the counties of Albemarle, Fluvanna, Greene, and Nelson. The AA contains 34 tracts. Table 3 illustrates demographic data on population, families and housing units within the AA.

For purposes of this evaluation, we only assessed the portion of the Charlottesville MSA consisting of the City of Charlottesville and Albemarle County as VNB includes only these two areas within the Charlottesville MSA. The unemployment rate for the AA as of February 2016 was 3.5%. This rate is lower when compared to the state of VA rate at 4.1% and is lower than the national level of 5%.

Table 3 Demographic Information for Full Scope Area: Charlottesville AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	34	5.88	14.71	41.18	35.29	2.94
Population by Geography	142,445	7.00	11.69	45.73	33.75	1.83
Owner-Occupied Housing by Geography	31,653	0.89	9.53	46.16	43.40	0.03
Business by Geography	14,662	2.59	6.04	43.84	46.52	1.00
Farms by Geography	551	0.36	10.53	39.93	49.18	0.00
Family Distribution by Income Level	31,352	19.00	14.92	19.27	46.81	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	10,634	3.68	19.00	51.60	25.73	0.00
Median Family Income		70,998		Median Housing Value		329,310
HUD Adjusted Median Family Income for 2015		80,800		Unemployment Rate		3.5%
Households Below Poverty Level		13%		(BLS February 2016)		

(*) The NA category consists of geographies that have not been assigned an income classification.
 Source 2010 US Census and 2015 HUD updated MFI

The area offers an appealing quality of life and a highly skilled work force to complement its interstate rail and air transportation networks. The area economy is diverse led by education, health services and travel/tourism. The Charlottesville MSA is home to the University of Virginia (“UVA”), the largest employer in the MSA. UVA has a solid reputation and it remains the backbone of the economy in the area, as it is an important driver providing jobs to the area. The other two major employers are University of Virginia Medical Center and State Farm Insurance. UVA’s presence continues to help the area’s healthcare industry due to the younger population. Healthcare hiring in the area has outperformed that of the state of Virginia in recent months.

UVA indirectly supports the tourism industry as visiting families of the more than 21,000 UVA students provide a constant stream of income to local hotels as well as restaurants. Lakeland Tours, another one of the top area employers benefits by arranging travel for the visiting families. While most of the jobs in the travel/tourism industry are low paying, the jobs help to meet the need for part-time employment for the UVA students as well as other area residents.

The area’s challenge is in retaining graduates. The labor force is aging and this does not bode well for the local labor market. On the other hand, it strengthens the demand for healthcare services. A lack of job growth in recent months has caused average worker earnings to lose ground. According to Case-Shiller index, housing prices in the area are heading up after remaining relatively flat in 2014 and is a reflection of UVA driving housing demand rather than other housing fundamentals. Therefore, affordable housing remains a high need for the area.

COMMUNITY CONTACT

We made a community contact during the examination. The contact was a regional non-profit organization focused on affordable housing. The organization’s mission is to promote education, down-payment assistance while providing below market rate loans to first time homebuyers. The contact stated that while the area economy is growing, it is lacking in skilled trade jobs that help to fuel economic development. There is a need for employers that can offer higher skilled trade jobs, particularly in manufacturing. The contact also stated that while the area median income is high there is poverty in the area and affordable housing remains a primary need of the area. The contact stated that the banks in the area have been responsive to the credit needs of the area and that VNB has provided grant support to the area.

Winchester MSA AA

The Winchester MSA AA is comprised of the independent city of Winchester and Frederick County. The AA contains 19 tracts. Table 4 illustrates demographic data on population, families and housing units within the AA. The MSA is located at the northernmost tip of Virginia, at the gateway of Virginia’s Shenandoah Valley and at the intersection of I-66 and I-81. This community is attractive for both business and residential development due to its close proximity to Washington, DC as well as its lower cost which draws a large in-migration of commuters. The unemployment rate for the AA as of February 2016 was 4.1 percent. The rate is below the national average of 5% and matches the state unemployment rate as of February 2016.

Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	19	0.00	21.05	42.11	36.84	0.00
Population by Geography	104,508	0.00	21.87	43.55	34.57	0.00
Owner-Occupied Housing by Geography	27,668	0.00	16.73	45.90	37.37	0.00
Business by Geography	8,489	0.00	31.45	35.33	33.22	0.00
Farms by Geography	282	0.00	21.28	36.88	41.84	0.00
Family Distribution by Income Level	26,740	16.43	18.15	20.39	45.03	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	9,248	0.00	29.74	44.70	25.56	0.00
Median Family Income		61,537		Median Housing Value	257,406	
HUD Adjusted Median Family Income for 2015		75,900		Unemployment Rate	4.1%	
Households Below Poverty Level		9%		(BLS February 2016)		

(*) The NA category consists of geographies that have not been assigned an income classification.
 Source: 2010 US Census and 2015 HUD updated MFI

Valley Health Systems is the largest employer in the area. Healthcare is a segment that will see job growth as the area’s large population continues to expand and retire. As Winchester is primarily a blue-collar city, its big private employers include Rubbermaid, Wal-Mart, Home Depot and Kraft. A stronger job market has spurred a growth in the local housing market.

One downside to the labor force growth is that the new jobs are all in low-wage industry. This limits income growth and weighs on the housing market. Therefore, the commuter base of workers with better quality jobs remains an important component of the local area economy. Population will remain above average due to lower living costs as well as spillover growth from the nation's capital.

COMMUNITY CONTACT

We made a community contact during the examination. The contact was a regional non-profit organization focused on affordable housing. The organization's mission is to build affordable housing in the area. On average, they build three to five homes per year. Currently, the organization is building two homes in North Winchester. Funding for the projects is primarily through grants for sponsor builds. The contact stated there has been growth and improvement in the economy in recent years with the focus on job and skills development. Unemployment still exists as well as the high cost and lack of affordable housing in the area. Approximately, 50% of the housing is rentals and vacant lots. In the city's most recent strategic plan, the emphasis is on economic development verses affordable housing with affordable housing remaining a critical need.. In general, the community contact noted that most of the banks in the area are supportive of the community needs.

Orange County AA (Non MSA)

The Orange County AA consists only of Orange County, Virginia. The AA five census tracts: two middle-income tracts, and three upper-income tracts. Table 5 illustrates demographic data on population, families and housing within the AA. The county's top three private employers are American Woodmark Corporation, Van Holtzbrinck Publishing and Wal-Mart.

Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	5	0.00	0.00	60.00	40.00	0.00
Population by Geography	33,481	0.00	0.00	61.92	38.08	0.00
Owner-Occupied Housing by Geography	9,937	0.00	0.00	57.75	42.25	0.00
Business by Geography	2,265	0.00	0.00	63.80	36.20	0.00
Farms by Geography	203	0.00	0.00	82.27	17.73	0.00
Family Distribution by Income Level	9,308	12.87	11.42	21.69	54.02	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	2,261	0.00	0.00	76.78	23.22	0.00
Median Family Income		48,460	Median Housing Value	250,908		
HUD Adjusted Median Family Income for 2015		52,700	Unemployment Rate	3.71%		
Households Below Poverty Level		10%	(BLS February 2016)			

(*) NA category consists of geographies that have not been assigned an income classification.
 Source: 2010 US Census and 2015 HUD updated MFI

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

LENDING TEST

VNB's performance under the lending test is satisfactory. VNB's loan-to-deposit ratio is reasonable and a majority of the loans originated inside the bank's AA. VNB's record of lending to businesses of different sizes is reasonable. The overall geographic distribution of loans in the AAs reflects reasonable dispersion.

VNB's rating is based on the bank's performance in its AAs. More weight and consideration was given to lending in the Charlottesville AA as the majority of the bank's lending and deposits are located in this AA. In addition, we considered the bank's business strategy and financial condition, the number of loans originated as well as the community credit needs identified through discussions with community contacts. We also considered the state of the area economy, business climate, and market demographics to determine the extent to which opportunities to lend are present in the bank's AA.

LOAN-TO-DEPOSIT RATIO

VNB's loan-to-deposit ratio is reasonable. The bank's average loan-to-deposit ratio for the prior fifteen quarters is 68.58%. While this ratio does not exceed the average loan-to-deposit ratio of 79.17% for similarly situated banks, the loan-to-deposit ratio is reasonable considering its size, financial condition, deposit market share and the level of competition within the AAs.

LENDING IN ASSESSMENT AREA

A substantial majority of VNB loans were in the bank's defined AAs. Based on a sample of VNB's small business loans, a substantial majority of lending to businesses of different sizes is reasonable. The overall geographic distribution of loans in the AA reflects reasonable dispersion. Of the 50 commercial loans sampled, 47 loans originated within VNB's assessment area or 94 percent of the loans made were in the bank's assessment area.

LENDING TO BORROWERS OF DIFFERENT INCOMES AND TO BUSINESSES OF DIFFERENT SIZES

VNB has demonstrated responsiveness to the needs of the bank's AAs small businesses. VNB's borrower distribution reflects an overall reasonable penetration and satisfactory performance. The majority of small businesses loans originated by VNB to businesses represent the smaller dollar amounts needed by small business.

Charlottesville MSA AA

Given the demographics of the AA, the distribution of borrowers reflects reasonable penetration among businesses of different sizes. While the number of loans made to small businesses (those with less than \$1 million in gross annual revenues) within the evaluation

period is less than the percentage of small businesses in the AA, the loan dollar amount is greater than the percentage of small businesses in the AA, therefore the overall volume is reasonable.

Borrower Distribution of Loans to Businesses- Charlottesville AA				
Business Revenue (or Sales)	≤ \$1,000,000	≥ \$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	78.13%	4.13%	17.73%	100%
% of Bank Loans in AA by #	65.63%	34.38%	0.00%	100%
% of Bank Loans in AA by \$	86.89%	13.11%	0.00%	100%

Winchester MSA AA

Given the demographics of the AA, the distribution of borrowers reflects reasonable penetration among businesses of different sizes. While the number of loans made to small businesses (those with less than \$1 million in gross annual revenues) within the evaluation period is less than the percentage of small businesses in the AA, the loan dollar amount is greater than the percentage of small businesses in the AA, therefore the overall volume is reasonable.

Borrower Distribution of Loans to Businesses - Winchester AA				
Business Revenue (or Sales)	≤ \$1,000,000	≥ \$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	79.16%	3.8%	17.03%	100%
% of Bank Loans in AA by #	78.92%	21.08%	0.00%	100%
% of Bank Loans in AA by \$	72.73%	27.27%	0.00%	100%

Orange County AA

The analysis of the distribution of borrowers within this AA is not meaningful due to the low volume of businesses in the AA from our random sample.

There are five census tracts in this AA. Because there are no low- or moderate-income tracts in the Orange County AA, an analysis of this geography would not be meaningful.

GEOGRAPHIC DISTRIBUTION OF LOANS

VNB’s lending to geographies of different income levels within its AAs reflects reasonable dispersion. The bank’s lending in moderate-income geographies is proportionate to the percentage of businesses within those geographies. We focused the analysis for this examination on the Charlottesville AA and Winchester AA. Greater weight was given to the lending in the Charlottesville AA as the majority of the bank’s lending and deposits are

located in this AA. We did not identify any apparent gaps of areas of low penetration in the bank's lending pattern.

Charlottesville MSA AA

The portion of the Charlottesville MSA AA examined included only the City of Charlottesville and Albemarle County. There are 34 census tracts located in the Charlottesville AA. There are two low-income tract and five moderate-income tracts. The distribution of loans to businesses reflects reasonable dispersion throughout the AA. The percentage of loans to businesses located in low-income geographies is less than the percentage of businesses in the low- income geography. However, this is reasonable given performance context. The percentage of loans to businesses located in moderate-income geographies exceeds the percentage of businesses in the moderate-income geographies. This performance is good.

Geographic Distribution of Loans to Businesses - Charlottesville AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Business	% of Number of Loans	% of AA Business	% of Number of Loans	% of AA Business	% of Number of Loans	% of AA Business	% of Number of Loans
Small Business	2.03%	0.00%	6.39%	4.76%	44.03%	47.62%	47.11%	47.62%

Source: Dun & Bradstreet data; Loan Sample

Winchester MSA AA

There are 19 census tracts located in the Winchester AA. There are no low-income tracts in this AA, but there are four moderate-income tracts. The distribution of loans to businesses reflects reasonable dispersion throughout the AA. The percentage of loans to businesses located in moderate-income geographies is less than the percentage of businesses in the moderate- income geography. While the percentage of loans to businesses does not exceed the percentage of businesses in the moderate-income geographies, this is reasonable since the geographic distribution of loans reflects reasonable dispersion and is indicative of satisfactory performance. During the assessment period, VNB only had a part-time business lender in the Winchester AA. This has contributed to a reduction in the bank's lending volume in the Winchester MSA, and may impact the bank's lending ability in the moderate income census tracts.

Geographic Distribution of Loans to Businesses - Winchester AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Business	% of Number of Loans	% of AA Business	% of Number of Loans	% of AA Business	% of Number of Loans	% of AA Business	% of Number Of Loans
Small Business	0.00%	0.00%	26.40%	25.00%	38.24%	50.00%	35.36%	25.00%

Responses to Complaints

There were no complaints regarding the bank's CRA performance during the evaluation period.

COMMUNITY DEVELOPMENT TEST

The community development test is rated satisfactory. In evaluating performance under the Community test, we considered the bank's capacity to lend and invest in the community, the availability of investment and community development lending opportunities as well as the bank's responsiveness in providing services to the communities in which it does business.

The bank's performance under the community development test is Satisfactory. VNB's community development activities demonstrate adequate responsiveness to the community development needs of its AA when considering the bank's capacity, performance context, and the availability of community development opportunities in the AA.

Number and Amount of Community Development Loans

VNB originated thirty qualified CD loans totaling \$14.7 million during the evaluation period. The qualified loans went to various organizations that promote economic development in the AA through permanent job creation as well as to provide affordable housing to low- and moderate-income individuals. Most of these organizations are located within low- or moderate-income geographies. A majority of the loans made during the evaluation period benefited the Charlottesville AA, with a few loans that benefited the Winchester AA. This is appropriate since VNB has the most market presence in the Charlottesville AA. There were no community development loans made within the Orange County AA.

Number and Amount of Qualified Investments

The bank did not have any qualified investments in their AA during the evaluation period. Management reported that there were minimal to no investments available for purchase that would directly affect the AA. The bank had one prior period investment, totaling \$1.96 million made within the bank's primary market, the Charlottesville AA.

VNB also had qualified donations totaling \$233,622 thousand during the evaluation period. The donations were to service organizations that promote community

development by providing community services such as youth programs, health care, as well as food and housing assistance to low- and moderate-income families in the Virginia AA.

Extent to Which the Bank Provides Community Development Services

During the evaluation period, four employees provided technical services and support to five qualified community development organizations. The organizations function to promote economic development or to provide services to qualified low-income families in the AA. Three of the four employees provide lending expertise to their respective organizations to make recommendations on approving and denying loan requests. The fourth employee lends financial expertise to provide and/or disperse funding to non-profit organizations.

Responsiveness to Community Development Needs

The bank's community development performance demonstrates adequate responsiveness to community development needs in its AA. The bank's community development activities demonstrate adequate responsiveness to the CD needs of its AAs. This takes into consideration the bank's capacity and the need and availability of such opportunities for CD activities in the bank's AAs. There were no identified, unmet CD needs during the evaluation period.

Accessibility of Services

VNB's services are accessible to its AA residents through its branch offices and ATM network as well as online banking. In order to determine the extent of accessibility of VNB's delivery systems, population demographics, branches and ATM locations were considered.

VNB operates all seven of its full-service branch offices within its AAs. Of these seven full-service branch offices, three offices representing 43 percent of the total are located within moderate- income geographies. This is good since the three AAs have a total of eleven LMI geographies, two in low-income and nine in moderate-income geographies. In comparison of the total AA population, the vast majority resides within middle-income AA geographies.

Additionally, the financial services offered are reasonable for the bank's size. The bank's seven branch offices have hours of operation typical for the market with Saturday hours also available at all but one branch office. VNB has ATMs available at all but one branch and two Drive Thru facilities. VNB has an informational website at <http://www.vnbpeople.com>. The website provides access to online banking and contains additional information for its listing of products and services. VNB offers a number of checking and savings accounts with minimum opening deposit amounts that are appropriate for LMI customers. Being able to open an account with a small deposit

presents customers with an alternative to conducting banking transactions with companies that charge high fees for money orders and similar transactions. Through the BankOn lending product, the bank participates in the small dollar-lending program. VNB is the only bank to participate in this lending program that allows the bank to lend at a reasonable rate to individuals in the AA who are referred through this program.

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

Pursuant to 12 C.F.R. 25.28(c), or 12 C.F.R. 195.28(c), in determining a national bank's (bank) or Federal savings association's (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any assessment area by an affiliate whose loans have been considered as part of the bank's or FSA's lending performance.

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.