UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2024

OR

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

Commission File Number 001-40305

VIRGINIA NATIONAL BANKSHARES CORPORATION
(Exact name of Registrant as specified in its Charter)

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

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock	VABK	The Nasdaq Capital Market

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES ☐ NO ☒

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. YES ☐ NO ☒

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES ☒ NO ☐

Indicate by check mark whether the Registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit such files). YES ☒ NO ☐

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

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

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☐

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

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

The aggregate market value of the common stock held by non-affiliates of the Registrant, computed by reference to the last reported sale price of the common stock quoted on The NASDAQ Capital Market, on June 30, 2023 (the last business day of the Registrant's most recently completed second fiscal quarter) was approximately $152.2 million.

The number of shares of Registrant's Common Stock outstanding as of March 26, 2025 was 5,391,979.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement to be used in conjunction with the registrant's 2025 Annual Meeting of Shareholders are incorporated into Part III of this Form 10-K.

INDEX

Glossary of Acronyms and Defined Terms

2014 Plan	-	2014 Stock Incentive Plan
2022 Plan	-	2022 Stock Incentive Plan
ACH	-	Automated Clearing House
ACL	-	Allowance for credit losses
Acquired Loans	-	Loans acquired from Fauquier
AFS	-	Available for sale
ALCO	-	Asset Liability Committee
ASC	-	Accounting Standards Codification
ASC 326	-	ASU 2016-13, *Financial Instruments and Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*
ASC 350	-	ASC 350, *Goodwill and Other Intangible Assets*
ASC 718	-	ASC 718, *Compensation - Stock Compensation*
ASC 820	-	ASC 820, *Fair Value Measurements and Disclosures*
ASU	-	Accounting Standards Update
ATM	-	Automated teller machine
AUM	-	Assets under management
the Bank	-	Virginia National Bank
BHCA	-	Bank Holding Company Act of 1956
BOLI	-	Bank-owned life insurance
bps	-	Basis points
CAA	-	Consolidated Appropriations Act, 2021
CAMELS	-	International rating system bank supervisory authorities use to rate financial institutions
CBBFC	-	Community Bankers' Bank Financial Corporation
CBLR	-	Community Bank Leverage Ratio
CDARS™	-	Certificates of Deposit Account Registry Service
CECL	-	Current expected credit losses
CET1	-	Common equity tier 1
CFPB	-	Consumer Financial Protection Bureau
CMO	-	Collateralized Mortgage Obligation
Code	-	Internal Revenue Code of 1986, as amended
CODM	-	Chief operating decision maker(s)
the Company	-	Virginia National Bankshares Corporation and its subsidiaries
CRA	-	Community Reinvestment Act of 1977
CRE	-	Commercial Real Estate
CTA	-	Corporate Transparency Act
DIF	-	Deposit Insurance Fund
Dodd-Frank Act	-	Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010
Effective Date	-	April 1, 2021
EGRRCPA	-	Economic Growth, Regulatory Relief, and Consumer Protection Act of 2018
EPS	-	Earnings per common share
Exchange Act	-	Securities Exchange Act of 1934, as amended
Fauquier	-	Fauquier Bankshares, Inc. and its subsidiaries
FASB	-	Financial Accounting Standards Board
FDIA	-	Federal Deposit Insurance Act
FDIC	-	Federal Deposit Insurance Corporation
FDICIA	-	Federal Deposit Insurance Corporation Improvement Act
Federal Reserve	-	Board of Governors of the Federal Reserve System
Federal Reserve Act	-	Federal Reserve Act of 1913, as amended
Federal Reserve Bank or FRB	-	Federal Reserve Bank of Richmond
FHLB	-	Federal Home Loan Bank of Atlanta
FinCEN	-	Financial Crimes Enforcement Network
FOMC	-	Federal Reserve Board’s Federal Open Market Committee
Form 10-K	-	Annual Report on Form 10-K for the year ended December 31, 2024
FTE	-	Fully taxable equivalent
GAAP or U.S. GAAP	-	Accounting principles generally accepted in the United States

ICS®	-	Insured Cash Sweep®
LIHTC	-	Low-income housing tax credits
Masonry Capital	-	Masonry Capital Management, LLC
MBS	-	Mortgage-Backed Securities
Merger	-	Mergers of Fauquier Bankshares, Inc. and The Fauquier Bank with and into the Company and the Bank, respectively
Nasdaq	-	The Nasdaq Stock Market, LLC
NIST	-	National Institute of Standards and Technology
NOW	-	Negotiable order of withdrawal
NPA	-	Nonperforming assets
OCC	-	Office of the Comptroller of the Currency
OFAC	-	Office of Foreign Assets Control
OREO	-	Other real estate owned
OTTI	-	Other than temporary impairment
PCA	-	Prompt Corrective Action
PCI	-	Purchased credit impaired
PCD		Purchased loans with credit deterioration
PII	-	Personally identifiable information
PPP	-	Paycheck Protection Program
Reorganization	-	Reorganization Agreement and Plan of Share Exchange dated March 6, 2013 between the Bank and the Company
SBA	-	Small Business Administration
SCC	-	Virginia State Corporation Commission
SEC	-	U.S. Securities and Exchange Commission
Securities Act	-	Securities Act of 1933, as amended
SOFR	-	Secured Overnight Funding Rate
TDR	-	Troubled debt restructuring
TFB	-	The Fauquier Bank
Topic 606	-	ASU No. 2014-09, *"Revenue from Contracts with Customers: Topic 606"*
VCDPA	-	Virginia Consumer Data Protection Act
VNBTrust	-	VNBTrust, National Association

FORWARD-LOOKING STATEMENTS AND FACTORS THAT COULD AFFECT FUTURE RESULTS

Certain statements contained or incorporated by reference in this annual report on Form 10-K are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, including but not limited to, statements concerning future results of operations or financial position, borrowing capacity and future liquidity, future investment results, future credit exposure, future loan losses, plans and objectives for future operations, changes in laws and regulations applicable to the Company and its subsidiaries, adequacy of funding sources, actuarial expected benefit payments, valuation of foreclosed assets, regulatory requirements, economic environment and other statements contained herein regarding matters that are not historical facts. Such statements are often characterized by use of qualified words such as “expect,” “believe,” “estimate,” “project,” “anticipate,” “intend,” “will,” “should,” or words of similar meaning or their derivatives, or other statements concerning the opinions or judgment of the Company and its management about future events. These statements are not historical facts but instead are subject to numerous assumptions, risks and uncertainties, and represent only management’s belief regarding future events, many of which, by their nature, are inherently uncertain and outside management’s control. Although the Company believes that management’s expectations with respect to forward-looking statements are based upon reasonable assumptions within the bounds of its existing knowledge of the Company’s business and operations, there can be no assurance that actual future results, performance, or achievements of, or trends affecting, the Company will not differ materially from any projected future results, performance, achievements or trends expressed in or implied by such forward-looking statements. Any forward-looking statements made by the Company speak only as of the date on which such statements are made. The Company’s actual results and financial position may differ materially from the anticipated results and financial condition indicated in or implied by these forward-looking statements.

Factors that could cause the Company's actual results to differ materially from those in the forward-looking statements include, but are not limited to, the following:

- inflation, interest rates, market and monetary fluctuations;
- liquidity and capital requirements;
- market disruptions including pandemics or significant health hazards, severe weather conditions, natural disasters, terrorist activities, financial crises, political crises, war and other military conflicts or other major events, the governmental and societal responses thereto, or the prospect of these events;
- changes, particularly declines, in general economic and market conditions in the local economies in which the Company operates, including the effects of declines in real estate values;
- the effects of, and changes in, trade, monetary and fiscal policies and laws, including interest rate policies of the Federal Reserve;
- the impact of changes in laws, regulations and guidance related to financial services, including, but not limited to, taxes, banking, securities and insurance;
- changes in accounting principles, standards, policies and guidelines;
- the financial condition of the Company’s borrowers;
- the Company's ability to attract, hire, train and retain qualified employees;
- an increase in unemployment levels;
- competitive pressures on loan and deposit pricing and demand;
- fluctuation in asset quality;
- assumptions that underlie the Company’s ACL;
- the value of securities held in the Company's investment portfolio;
- performance of assets under management;
- cybersecurity threats or attacks and the development and maintenance of reliable electronic systems;
- changes in technology and their impact on the marketing of new products and services and the acceptance of these products and services by new and existing customers;

- the willingness of customers to substitute competitors' products and services for the Company's products and services;
- the risks and uncertainties described from time-to-time in the Company's press releases and filings with the SEC; and
- the Company's performance in managing the risks involved in any of the foregoing.

More information on factors that could affect the Company's forward-looking statements is included under Item 1A. Risk Factors. All risk factors and uncertainties described herein and therein should be considered in evaluating forward-looking statements, all forward-looking statements are expressly qualified by this cautionary statement, and undue reliance should not be placed on such forward-looking statements. The actual results or developments anticipated may not be realized or, even if substantially realized, may not have the expected consequences to or effects on the Company's business or operations. Forward-looking statements speak only as of the date they are made, and the Company is not obligated to update, and does not intend to assume any such obligation to update, any forward-looking statement, whether written or oral, that may be made from time-to-time by or on behalf of the Company, whether as a result of new information, future events or otherwise, except as required by law.

Part I

Item 1. BUSINESS.

General

The Company was incorporated under the laws of the Commonwealth of Virginia on February 21, 2013 at the direction of the Board of Directors of the Bank for the purpose of acquiring all of the outstanding shares of the Bank and becoming the holding company of the Bank. On June 19, 2013, the shareholders of the Bank approved the Reorganization Agreement and Plan of Share Exchange, dated March 6, 2013, whereby the Bank would reorganize into a holding company structure. On December 16, 2013, when the Reorganization became effective, the Bank became a wholly-owned subsidiary of the Company, and each share of the Bank's common stock was exchanged for one share of the Company's common stock.

The Company is regulated under the BHCA and is subject to inspection, examination and supervision by the Federal Reserve. The Company is also under the jurisdiction of the SEC and is subject to the disclosure and regulatory requirements of the Exchange Act as administered by the SEC.

Virginia National Bank, the principal operating subsidiary of the Company, was organized in 1998 under federal law as a national banking association to engage in a general commercial and retail banking business. The Bank received its charter from the OCC and commenced operations on July 29, 1998. The Bank received fiduciary powers in January 2000. The Bank's deposits are insured up to the maximum amount provided by the FDIC.

Prior to July 2018, the Bank had one wholly owned subsidiary, VNBTrust, a national trust bank formed in 2007. Effective July 1, 2018, VNBTrust was merged into the Bank. The Bank continues to offer trust and estate administration services under the name of VNB Trust and Estate Services.

The Bank, through its financial subsidiary Fauquier Bank Services, Inc., has equity ownership interests in Bankers Insurance, LLC, a Virginia independent insurance company, and Bankers Title Shenandoah, LLC, a title insurance company, both of which are owned by a consortium of Virginia community banks.

The Bank has another subsidiary, Special Properties Acquisition - VA, LLC, which was originally formed by Fauquier to hold other real estate owned; however, there are no assets currently held by this subsidiary.

The Bank is subject to the supervision, examination and regulations of the OCC and is also subject to regulations of the FDIC, the Federal Reserve and the CFPB.

During 2018, the Company formed Masonry Capital Management, LLC, a registered investment advisor, which offers investment advisory and management services to clients through separately managed accounts and a private investment fund. The membership interests in this business line were sold to an officer of the Company effective April 1, 2024. Per the terms of the sale agreement, the Company will receive an annual revenue-share amount for a period of six years. No expenses have been or will be incurred by the Company related to Masonry Capital subsequent to April 1, 2024.

References to the Company's subsidiaries in this document include both the Bank and Masonry Capital.

In addition, the Company owns Fauquier Statutory Trust II ("Trust II"), which is an unconsolidated subsidiary. The subordinated debt owed to Trust II is reported as a liability of the Company.

The main offices of the Company, the Bank and VNB Trust Estate Services, as well as corporate and Bank operations, are located in Charlottesville, Virginia.

Products and Services

The Bank offers a full range of banking and related financial services, including checking accounts, NOW accounts, money market deposit accounts, certificates of deposit, individual retirement accounts, CDARS™, ICS® and other depository services. The Bank actively solicits such accounts from individuals, businesses and charitable organizations within its trade areas. Other services offered by the Bank include ATMs, internet banking, treasury and cash management services and merchant card services. In addition, the Bank is affiliated with Visa®, which is accepted worldwide, and offers debit cards to consumer and business customers.

The Bank also offers short- to long-term commercial, real estate and consumer loans. The Bank is committed to being a reliable and consistent source of credit, providing loans that are priced based upon an overall banking relationship, easy access to the Bank's local decision makers who possess strong local market knowledge, local delivery, fast response, and continuity in the banking relationship.

Trust and estate administration services are offered through VNB Trust and Estate Services.

The Company primarily serves the Virginia communities in and around the cities of Charlottesville, Winchester, Manassas and Richmond, and the counties of Albemarle, Fauquier, Frederick and Prince William. Refer to Item 2. Properties for additional information regarding locations. The Bank's locations are well-positioned in attractive markets. Within its market areas, there are various types of industry including higher education, medical and professional services, research and development companies and retail.

Competition

The Company engages in highly competitive activities. Each activity involves competition with other banks, as well as with non-banking enterprises that offer financial products and services that compete directly with the Company's product and service offerings. The Company actively competes with other banks in its efforts to obtain deposits and make loans, in the scope and types of services offered, in interest rates paid on time deposits and charged on loans, and in other aspects of banking.

In addition to competing with other community and commercial banks within and outside its primary service areas, the Company competes with other institutions engaged in the business of making loans or accepting deposits, such as credit unions, insurance companies, small loan companies, finance companies, fintech companies, certain governmental agencies and other enterprises. Competition for deposits and loans is affected by various factors including, without limitation, interest rates offered, the number and location of branches and types of products offered, digital capabilities, and the reputation of the institution. Credit unions increasingly have been allowed to expand their membership definitions, yet they continue to enjoy a favorable tax status.

The market areas served by the Company are highly competitive with respect to banking. Many of the Company's competitors have substantially greater resources and lending limits than the Company and offer certain services such as extensive and established branch networks that the Company does not expect to match. Deposit competition is also very strong. Management believes, however, that a market exists for the personal and customized financial services an independent, community bank can offer.

Social

To develop young talent in the financial industry, the Company has created the Finance Career & Leadership Academy ("FCLA"), which is an instructional program designed to not only provide advanced personal finance and employment readiness training, but also a path to career opportunities in banking for high school juniors and seniors within the Company's communities. Currently held in Charlottesville, Virginia, the FCLA runs as an in-person series of classroom meetings.

This program is offered free-of-charge to those students accepted into the FCLA. Up to eight students are accepted into each session. The program provides quality financial training that gives young people the perspective and tools necessary to level the economic playing field and make responsible financial decisions. Also, included in the curriculum is a comprehensive study of employment readiness and professionalism concepts and strategies aimed to increase the marketability and employability of the participants. In order to begin a successful career and have a successful financial future, these young adults must be prepared to effectively communicate with a multi-generational workforce and have the skills necessary to manage their own finances intelligently and productively.

This program also offers the potential opportunity for training necessary to enter a lucrative career without incurring six-figure debt and four lost years of earning potential, as the most promising and top performing students from the Academy are considered for VNB's College Program (the Commercial Banking/Staff Development Program). The Company's partnership with the Center for Financial Training and Education Alliance (CFTEA) has allowed the Company to create a credentialing program specifically designed to prepare students to meet the demands of the industry, and to do so without the prohibitive cost of a four-year degree. This bank-sponsored, comprehensive, free training program consists of 16 courses of which 13 are accredited college/university courses (39 credit hours that are transferable to a 2 or 4-year college/university) and work projects. Participants receive full-time pay with full fringe benefits (includes 401k with company match) while completing the program and, if successful in the program, have the potential opportunity for a career with VNB. Also, once employed, should they choose, they may go on to complete a 2 or 4-year degree at the Company's expense.

Employees

The Company has a shared vision of guiding principles, core values and strategies that work and have guided the Company through both good and challenging times. The Company strives to ensure that its constituents, including its shareholders, customers, board, executive management and high performing employees, believe in it as well. The Company believes that the shared vision, when properly aligned and communicated to all constituents, will produce more than above average performance in key metrics. As part of the shared vision, the Company is committed to its shareholders, customers, employees and communities. A critical part of this commitment is attracting and retaining high performing employees. To attract and retain high performing employees, the Company provides a competitive compensation and benefits program, including wellness benefits.

At December 31, 2024, the Company had 146 full-time equivalent employees, of which 9 were part-time employees. None of its employees are represented by any collective bargaining unit. The Company considers relations with its employees to be good. We strive for the Company's workforce to reflect the diversity of the customers and communities we serve. The Company's selection and promotion process are without bias and include the active recruitment of minorities and women. At December 31, 2024, women represented 75% of the Company's employees and racial and ethnic minorities represented 17% of the Company's employees. At December 31, 2024, 35% of the Company's employees have been employed by the Company or its subsidiaries for at least 10 years.

The Company owns BOLI policies on each executive officer and certain other senior officers of the Company. BOLI is a bank-eligible asset designed to recover costs of providing pre- and post-retirement benefits and/or to finance general employee benefit expenses. Under BOLI policies, each executive officer and certain other senior officers of the Company are the insured, and the Company is the owner and beneficiary of the policies. The insured has no claim to the insurance policy or to the policy's cash value. Under separate split dollar agreements, a portion of any death benefit may be paid to the beneficiaries of the insured officer, subject to the terms and restrictions of the split dollar endorsement agreement between the insured officer and the Company.

Supervision and Regulation

The Company and the Bank are extensively regulated under both federal and state laws. The following description briefly addresses certain historic and current provisions of federal and state laws and certain regulations, proposed regulations and the potential impacts on the Company and the Bank. To the extent statutory or regulatory provisions or proposals are described in this report, the description is qualified in its entirety by reference to the particular statutory or regulatory provisions or proposals.

The Company

General. As a bank holding company registered under the BHCA, the Company is subject to supervision, regulation, and examination by the Federal Reserve. The Company is also registered under the bank holding company laws of Virginia and is subject to supervision, regulation, and examination by the Bureau of Financial Institutions of the Virginia State Corporation Commission.

Regulatory Environment. Banking and other financial services statutes, regulations and policies are continually under review by Congress, state legislatures and federal and state regulatory agencies. The scope of the laws and regulations, and the intensity of the supervision to which the Company and its subsidiaries are subject, have increased in recent years, initially in response to the 2008 financial crisis, and more recently in light of other factors, including continued turmoil and stress in the financial markets, technological factors, market changes, and increased scrutiny of proposed bank mergers and acquisitions by federal and state bank regulators.

Proposals to change the laws, regulations and policies governing the banking industry are frequently raised at both the state and federal levels. The Trump administration may seek to implement a regulatory reform agenda that is significantly different than the agenda and policies of the previous administration, which the Company expects may significantly impact the rulemaking, supervision, examination and enforcement priorities of the federal banking agencies. On January 20, 2025, President Donald J. Trump issued a presidential memorandum titled "Regulatory Freeze Pending Review" that directs federal agencies to (1) not propose or issue any rules until they are reviewed and approved by a department or agency head appointed by the President, (2) immediately withdraw any unpublished rules to allow for the review by a department or agency head as described above, and (3) consider postponing for 60 days from the date of the executive order the effective date for any rules that have been published in the Federal Register, or any rules that have been issued but have not taken effect, to allow for review of any questions of fact, law or policy. Subsequent to that presidential memorandum, the administration has taken actions that have reduced available staffing at certain regulatory agencies, and reduced the current regulatory and enforcement activities of certain regulatory agencies, among other substantive impacts.

The Company continues to experience ongoing regulatory reform and these regulatory changes could have a significant effect on how the Company and the Bank conduct business. The specific impacts of regulatory reforms cannot yet be fully predicted and will depend to a large extent on the specific regulations that are likely to be adopted in the future. Further, a change in the manner in which laws, regulations and regulatory guidance are interpreted by regulatory agencies or courts may have a material impact on the Company's business, operations and earnings.

Permitted Activities. The permitted activities of a bank holding company are limited to managing or controlling banks, furnishing services to or performing services for its subsidiaries, and engaging in other activities that the Federal Reserve determines by regulation or order to be so closely related to banking, or managing or controlling banks, as to be a proper incident thereto. In determining whether a particular activity is permissible, the Federal Reserve must consider whether the performance of such an activity reasonably can be expected to produce benefits to the public that outweigh possible adverse effects. Possible benefits include greater convenience, increased competition, and gains in efficiency. Possible adverse effects include undue concentration of resources, decreased or unfair competition, conflicts of interest, and unsound banking practices. Despite prior approval, the Federal Reserve may order a bank holding company or its subsidiaries to terminate any activity or to terminate ownership or control of any subsidiary when the Federal Reserve has reasonable cause to believe that a serious risk to the financial safety, soundness or stability of any bank subsidiary of that bank holding company may result from such an activity.

Banking Acquisitions; Changes in Control. The BHCA and related regulations require, among other things, the prior approval of the Federal Reserve in any case where a bank holding company proposes to (i) acquire direct or indirect ownership or control more than 5% of the outstanding voting stock of any bank or bank holding company (unless it already owns a majority of such voting shares), (ii) acquire all or substantially all of the assets of another bank or bank holding company, or (iii) merge or consolidate with any other bank holding company. In determining whether to approve a proposed acquisition, the Federal Reserve will consider, among other factors, the following: the effect of the acquisition on competition; the public benefits expected to be received from the acquisition; any outstanding regulatory compliance issues of any institution that is a party to the transaction; the projected capital ratios and levels on a post-acquisition basis; the financial condition of each institution that is a party to the transaction and of the combined institution after the transaction; the parties' managerial resources, as well as risk management and governance processes and systems; the parties' compliance with the Bank Secrecy Act and anti-money laundering requirements; the acquiring institution's performance under the CRA and its compliance with fair housing and other consumer protection laws; and the data security and cybersecurity infrastructure of the constituent organizations and the combined organization.

In September 2024, the OCC approved a final rule updating its regulation for business combinations involving national banks and a policy statement clarifying its review of applications under the Bank Merger Act. The future effectiveness of the OCC's final rule and policy statement remains unclear.

Subject to certain exceptions, the BHCA and the Change in Bank Control Act, together with the applicable regulations, require Federal Reserve approval (or, depending on the circumstances, no notice of disapproval) prior to any person or company's acquiring "control" of a bank or bank holding company. A conclusive presumption of control exists if an individual or company acquires the power, directly or indirectly, to direct the management or policies of an insured depository institution or to vote 25% or more of any class of voting securities of any insured depository institution. A rebuttable presumption of control may exist if a person or company acquires 5% or more but less than 25% of any class of voting securities and certain other relationships are present between the investor and the bank holding company, or if certain other ownership thresholds for voting or total equity have been exceeded.

In addition, Virginia law requires the prior approval of the SCC for (i) the acquisition by a Virginia bank holding company of more than 5% of the voting shares of a Virginia bank or a Virginia bank holding company, or (ii) the acquisition by any other person of control of a Virginia bank holding company or a Virginia bank.

Source of Strength. Federal Reserve policy has historically required bank holding companies to act as a source of financial and managerial strength to their subsidiary banks. The Dodd-Frank Act codified this policy as a statutory requirement. Under this requirement, the Company is expected to commit resources to support the Bank, including at times when the Company may not be in a financial position to provide such resources. Any capital loans by a bank holding company to any of its subsidiary banks are subordinate in right of payment to depositors and to certain other indebtedness of such subsidiary banks. In the event of a bank holding company's bankruptcy, any commitment by the bank holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank will be assumed by the bankruptcy trustee and entitled to priority of payment.

Safety and Soundness. There are a number of obligations and restrictions imposed on bank holding companies and their subsidiary banks by law and regulatory policy that are designed to minimize potential loss to the depositors of such depository institutions and the FDIC insurance fund in the event of a depository institution insolvency, receivership, or default. For example, under the Federal Deposit Insurance Company Improvement Act of 1991, to avoid receivership of an insured depository institution subsidiary, a bank holding company is required to guarantee the compliance of any subsidiary bank that may become "undercapitalized" with the terms of any capital restoration plan filed by such subsidiary with its appropriate federal bank regulatory agency up to the lesser of (i) an amount equal to 5% of the institution's total assets at the time the institution became undercapitalized, or (ii) the amount that is necessary (or would have been necessary) to bring the institution into compliance with all applicable capital standards as of the time the institution fails to comply with such capital restoration plan.

Under the Federal Deposit Insurance Act, the federal bank regulatory agencies have adopted guidelines prescribing safety and soundness standards. These guidelines establish general standards relating to capital management, internal controls and information systems, internal audit systems, information systems, data security, loan documentation, credit underwriting, interest rate exposure and risk management, vendor management, corporate governance, and asset growth, as well as compensation, fees, and benefits. In general, the guidelines require, among other things, appropriate systems and practices to identify and manage the risk and exposures specified in the guidelines.

Capital Requirements. The Federal Reserve imposes certain capital requirements on bank holding companies under the BHCA, including a minimum leverage ratio and a minimum ratio of “qualifying” capital to risk-weighted assets. These requirements are described below under “The Bank – Capital Requirements.” Subject to its capital requirements and certain other restrictions, the Company is able to borrow money to make a capital contribution to the Bank, and such loans may be repaid from dividends paid by the Bank to the Company.

Limits on Dividends and Other Payments. The Company is a legal entity, separate and distinct from its subsidiaries. A significant portion of the revenues of the Company result from dividends paid to it by the Bank. There are various legal limitations applicable to the payment of dividends by the Bank to the Company and to the payment of dividends by the Company to its shareholders. The Bank is subject to various statutory and regulatory restrictions on its ability to pay dividends to the Company. The OCC has advised that a national bank should generally pay dividends only out of current operating earnings. Under current regulations, prior regulatory approval is required if cash dividends declared by the Bank in any given year exceed net income for that year, plus retained net profits of the two preceding years. The payment of dividends by the Bank or the Company may be limited by other factors, such as requirements to maintain capital above regulatory guidelines. Bank regulatory agencies have the authority to prohibit the Bank or the Company from engaging in an unsafe or unsound practice in conducting its respective business. The payment of dividends, depending on the financial condition of the Bank or the Company, could be deemed to constitute such an unsafe or unsound practice.

Under the FDIA, insured depository institutions, such as the Bank, are prohibited from making capital distributions, including the payment of dividends, if, after making such distributions, the institution would become “undercapitalized” (as such term is used in the statute). Based on the Bank’s current financial condition, the Company does not expect that this provision will have any impact on its ability to receive dividends from the Bank.

In addition, the Company’s ability to pay dividends is limited by restrictions imposed by the Virginia Stock Corporation Act on Virginia corporations. In general, dividends paid by a Virginia corporation may be paid only if, after giving effect to the distribution, (i) the corporation is still able to pay its debts as they become due in the usual course of business, or (ii) the corporation’s total assets are greater than or equal to the sum of its total liabilities plus (unless the corporation’s articles of incorporation permit otherwise) the amount that would be needed, if the corporation were to be dissolved at the time of the distribution, to satisfy the preferential rights, upon the dissolution, of shareholders whose preferential rights are superior to those receiving the distribution.

The Bank

General. The Bank is supervised and regularly examined by the OCC. The various laws and regulations administered by the OCC and the other bank regulatory agencies affect corporate practices, such as the payment of dividends, incurrence of debt, and acquisition of financial institutions and other companies; they also affect business practices, such as the payment of interest on deposits, the charging of interest on loans, types of business conducted and location of offices. Certain of these laws and regulations are referenced above under “The Company.”

Regulatory Capital Requirements. The OCC and the other federal bank regulatory agencies have issued risk-based and leverage capital guidelines applicable to U.S. banking organizations. Those regulatory agencies may from time-to-time require that a banking organization maintain capital above the minimum levels because of its financial condition or actual or anticipated growth.

The OCC and the other federal bank regulatory agencies have adopted rules to implement the Basel III capital framework as outlined by the Basel Committee on Banking Supervision and standards for calculating risk-weighted assets and risk-based capital measurements (collectively, the Basel III Final Rules) that apply to banking institutions they supervise. For the purposes of these capital rules, (i) CET1 capital consists principally of common stock (including surplus) and retained earnings; (ii) Tier 1 capital consists principally of CET1 plus non-cumulative preferred stock and related surplus, and certain grandfathered cumulative preferred stocks and trust preferred securities; and (iii) Tier 2 capital consists of other capital instruments, principally qualifying subordinated debt and preferred stock, and limited amounts of an institution’s ACL. Each regulatory capital classification is subject to certain adjustments and limitations, as implemented by the Basel III Final Rules. The Basel III Final Rules also establish risk weightings that are applied to many classes of assets held by community banks, importantly including applying higher risk weightings to certain commercial real estate loans. The Basel III Final Rules also include a requirement that banks maintain additional capital known as the “capital conservation buffer.”

The Basel III Final Rules and capital conservation buffer require banks and bank holding companies to maintain:

i. a minimum ratio of CET1 to risk-weighted assets of at least 4.5%, plus a 2.5% capital conservation buffer (which is added to the minimum CET1 ratio, effectively resulting in a required ratio of CET1 to risk-weighted assets of at least 7.0%);

ii. a minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0%, plus the 2.5% capital conservation buffer (effectively resulting in a required Tier 1 capital ratio of 8.5%);

iii. a minimum ratio of total (that is, Tier 1 plus Tier 2) capital to risk-weighted assets of at least 8.0%, plus the 2.5% capital conservation buffer (effectively resulting in a required total capital ratio of 10.5%), and

iv. a minimum leverage ratio of 4.0%, calculated as the ratio of Tier 1 capital to average total assets, subject to certain adjustments and limitations.

The Basel III Final Rules provide deductions from and adjustments to regulatory capital measures, primarily to CET1, including deductions and adjustments that were not applied to reduce CET1 under historical regulatory capital rules. For example, mortgage servicing rights, deferred tax assets dependent upon future taxable income, and significant investments in non-consolidated financial entities must be deducted from CET1 to the extent that any one such category exceeds 25% of CET1.

The Basel III Final Rules permanently include in Tier 1 capital trust preferred securities issued prior to May 19, 2010 by bank holding companies with less than $15 billion in total assets, subject to a limit of 25% of Tier 1 capital. The Company expects that its trust preferred securities will be included in the Company's regulatory capital as Tier 1 capital instruments until their maturity.

The Tier 1, CET1, total capital to risk-weighted assets, and leverage ratios of the Company were 17.94%, 17.94%, 18.77% and 11.68%, respectively, as of December 31, 2024, thus exceeding the minimum requirements. The Tier 1, CET1, total capital to risk-weighted assets, and leverage ratios of the Bank were 17.77%, 17.77%, 18.60% and 11.55%, respectively, as of December 31, 2024, also exceeding the minimum requirements.

With respect to the Bank, to be "well capitalized" under the revised "prompt corrective action" regulations, a bank must have the following minimum capital ratios: (i) a CET1 capital ratio of at least 6.5%; (ii) a Tier 1 capital to risk-weighted assets ratio of at least 8.0%; (iii) a total capital to risk-weighted assets ratio of at least 10.0%; and (iv) a leverage ratio of at least 5.0%. The Bank exceeds the thresholds to be considered well capitalized as of December 31, 2024. See "Prompt Corrective Action" below.

In July 2023, the Federal Reserve and the FDIC issued proposed rules to implement the final components of the Basel III agreement, often known as the "Basel III endgame." These proposed rules contain provisions that apply to banks with $100 billion or more in total assets and that will significantly alter how those banks calculate risk-based assets. These proposed rules do not apply to holding companies or banks with less than $100 billion in assets, such as the Company and the Bank, but the final impacts of these rules cannot yet be predicted. The comment window for these proposed rules closed on January 16, 2024.

Community Bank Leverage Ratio. As required by the EGRRCPA, qualifying banks with less than $10 billion in consolidated assets could elect to be subject to a 9% leverage ratio applied using less complex leverage calculations commonly referred to as the community bank leverage ratio CBLR. Banks that opt into the CBLR framework and maintain a leverage ratio of greater than 9% are not subject to other risk-based and leverage capital requirements and are deemed to meet Basel III Final Rules' well capitalized ratio requirements. As of December 31, 2024, the Bank has not elected to apply the CBLR framework, but the Bank continues to assess the potential impact of opting in to the CBLR framework as part of its ongoing capital management and planning processes.

Small Bank Holding Company Policy Statement. Bank holding companies with less than $3 billion in assets may rely on the Federal Reserve Board's Small Bank Holding Company Policy Statement. In addition to meeting the asset threshold, a bank holding company must not engage in significant nonbanking activities, not conduct significant off-balance sheet activities, and not have a material amount of debt or equity securities outstanding and registered with the SEC (subject to certain exceptions). The Federal Reserve Board may, in its discretion, exclude any bank holding company from the application of the Small Bank Holding Company Policy Statement if such action is warranted for supervisory purposes.

In August 2018, the Federal Reserve Board issued an interim final rule to apply the Small Bank Holding Company Policy Statement to bank holding companies with consolidated total assets of less than $3 billion. The policy statement, which, among other things, exempts certain bank holding companies from minimum consolidated regulatory capital ratios that apply to other bank holding companies. As a result of the interim final rule, which was effective August 30, 2018, the Company expects that it will be treated as a small bank holding company and will not be subject to regulatory capital requirements. The comment period on the interim final rule closed on October 29, 2018, and, to date, the Federal Reserve

Board has not issued a final rule to replace the interim final rule. The Bank remains subject to the regulatory capital requirements described above.

Prompt Corrective Action. Federal banking regulators are authorized and, under certain circumstances, required to take certain actions against banks that fail to meet their capital requirements. The federal bank regulatory agencies have additional enforcement authority with respect to undercapitalized depository institutions. “Well capitalized” institutions may generally operate without additional supervisory restriction. With respect to “adequately capitalized” institutions, such banks (i) cannot normally pay dividends or make any capital contributions that would leave them undercapitalized, (ii) cannot pay management fees to a controlling person if, after paying the fee, they would be undercapitalized, and (iii) cannot accept, renew, or roll over any brokered deposit unless they have applied for and been granted a waiver by the FDIC.

Immediately upon becoming “undercapitalized,” a depository institution becomes subject to the provisions of Section 38 of the FDIA, which: (i) restrict payment of capital distributions and management fees; (ii) require that the appropriate federal banking agency monitor the condition of the institution and its efforts to restore its capital; (iii) require submission of a capital restoration plan; (iv) restrict the growth of the institution’s assets; and (v) require prior approval of certain expansion proposals. The appropriate federal banking agency for an undercapitalized institution also may take any number of discretionary supervisory actions if the agency determines that any of these actions is necessary to resolve the problems of the institution at the least possible long-term cost to the DIF, subject in certain cases to specified procedures. These discretionary supervisory actions include: (i) requiring the institution to raise additional capital; (ii) restricting transactions with affiliates; (iii) requiring divestiture of the institution or the sale of the institution to a willing purchaser; and (iv) any other supervisory action that the agency deems appropriate. These and additional mandatory and permissive supervisory actions may be taken with respect to significantly undercapitalized and critically undercapitalized institutions. The Bank met the definition of being “well capitalized” as of December 31, 2024.

As described above in “The Bank – Regulatory Capital Requirements,” the capital rules issued by the OCC incorporate new requirements into the prompt corrective action framework.

Deposit Insurance. The deposits of the Bank are insured up to applicable limits by the Deposit Insurance Fund of the FDIC and are subject to deposit insurance assessments based on average total assets minus average tangible equity to maintain the DIF. The basic limit on FDIC deposit insurance coverage is $250 thousand per depositor. Under the FDIA, the FDIC may terminate deposit insurance upon a finding that the institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations as an insured depository institution, or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC, subject to administrative and potential judicial hearing and review processes. The FDIC may also suspend deposit insurance temporarily during the hearing process for the permanent termination of insurance if the institution has no tangible capital. If deposit insurance is terminated, the deposits at the institution at the time of termination, less subsequent withdrawals, shall continue to be insured for a period from six months to two years, as determined by the FDIC. Management is aware of no existing circumstances that could result in termination of the Bank’s deposit insurance.

Deposit Insurance Assessments. The DIF is funded by assessments on banks and other depository institutions calculated based on average consolidated total assets minus average tangible equity (defined as Tier 1 capital). As required by the Dodd-Frank Act, the FDIC has adopted a large-bank pricing assessment scheme, set a target “designated reserve ratio” (described in more detail below) of 2% for the DIF and, in lieu of dividends, provides for a lower assessment rate schedule when the reserve ratio reaches 2% and 2.5%. An institution's assessment rate is based on a statistical analysis of financial ratios that estimates the likelihood of failure over a three-year period, which considers the institution’s weighted average CAMELS composite rating, and is subject to further adjustments including those related to levels of unsecured debt and brokered deposits.

The Dodd-Frank Act transferred to the FDIC increased discretion with regard to managing the required amount of reserves for the DIF, or the “designated reserve ratio.” The FDIA requires that the FDIC consider the appropriate level for the designated reserve ratio on at least an annual basis. On October 18, 2022, the FDIC adopted a final rule to increase initial base deposit insurance assessment rate schedules uniformly by 2 basis points, beginning in the first quarterly assessment period of 2023. As a result of this final rule, the total base assessment rates beginning with the first quarter of 2023 for institutions with less than $10 billion in assets that have been insured for at least five years range from 2.5 bps to 32 bps. This increase in assessment rate schedules is intended to increase the likelihood that the reserve ratio reaches 1.35% by the statutory deadline of September 30, 2028. The new assessment rate schedules will remain in effect unless and until the reserve ratio meets or exceeds 2%. Progressively lower assessment rate schedules will take effect when the reserve ratio reaches 2%, and again when it reaches 2.5%.

In November 2023, the FDIC issued a final rule to implement a special DIF assessment following the FDIC's use of the "systemic risk" exception to the least-cost resolution test in connection with the failures and resolutions of Silicon Valley Bank and Signature Bank. Banks with less than $5 billion of uninsured deposits, such as the Bank, are exempt from this special assessment.

In 2024 and 2023, the Company expensed $700 thousand and $710 thousand, respectively, in deposit insurance assessments.

Transactions with Affiliates. Pursuant to Sections 23A and 23B of the Federal Reserve Act and Regulation W, the authority of the Bank to engage in transactions with related parties or "affiliates" or to make loans to insiders is limited. Loan transactions with an affiliate generally must be collateralized and certain transactions between the Bank and its affiliates, including the sale of assets, the payment of money or the provision of services, must be on terms and conditions that are substantially the same, or at least as favorable to the Bank, as those prevailing for comparable nonaffiliated transactions. In addition, the Bank generally may not purchase securities issued or underwritten by affiliates.

Loans to executive officers, directors, or to any person who directly or indirectly, or acting through or in concert with one or more persons, owns, controls, or has the power to vote more than 10% of any class of voting securities of a bank, are subject to Sections 22(g) and 22(h) of the Federal Reserve Act and their corresponding regulations (Regulation O) and Section 13(k) of the Exchange Act relating to the prohibition on personal loans to executives (which exempts financial institutions in compliance with the insider lending restrictions of Section 22(h) of the Federal Reserve Act). Among other things, these loans must be made on terms substantially the same as those prevailing on transactions made to unaffiliated individuals and certain extensions of credit to those persons must first be approved in advance by a disinterested majority of the entire Board of Directors. Section 22(h) of the Federal Reserve Act prohibits loans to any of those individuals where the aggregate amount exceeds an amount equal to 15% of an institution's unimpaired capital and surplus plus an additional 10% of unimpaired capital and surplus in the case of loans that are fully secured by readily marketable collateral, or when the aggregate amount on all of the extensions of credit outstanding to all of these persons would exceed the Bank's unimpaired capital and unimpaired surplus. Section 22(g) of the Federal Reserve Act identifies limited circumstances in which the Bank is permitted to extend credit to executive officers.

Community Reinvestment Act. The Bank is subject to the requirements of the CRA. The CRA imposes on financial institutions an affirmative and ongoing obligation to meet the credit needs of the local communities, including low- and moderate-income neighborhoods. The CRA requires the appropriate federal banking agency, in connection with its examination of a bank, to assess the bank's record in meeting such credit needs. In addition, in order for a bank holding company, like the Company, to commence any new activity permitted by the BHC Act, or to acquire any company engaged in any new activity permitted by the BHC Act, each insured depository institution subsidiary of the bank holding company must have received a rating of at least "satisfactory" in its most recent examination under the CRA. Under the CRA, institutions are assigned a rating of "outstanding," "satisfactory," "needs to improve," or "substantial non-compliance." The Bank received a "satisfactory" CRA rating in its most recent examination.

On October 24, 2023, the federal banking regulatory agencies jointly issued a final rule to modernize CRA regulations consistent with the following key goals: (i) to encourage banks to expand access to credit, investment, and banking services in low-income and moderate-income communities; (ii) to adapt to changes in the banking industry, including internet and mobile banking and the growth of non-branch delivery systems; (iii) to provide greater clarity and consistency in the application of the CRA regulations, including adoption of a new metrics-based approach to evaluating bank retail lending and community development financing; and (iv) to tailor CRA evaluations and data collection to bank size and type, recognizing that differences in bank size and business models may impact CRA evaluations and qualifying activities. Most of the final CRA rule's requirements will be applicable beginning January 1, 2026, with certain requirements, including the data reporting requirements, applicable as of January 1, 2027. The Bank is evaluating the expected impact of the modernized CRA regulations, but currently does not anticipate any material impact to its business, operations or financial condition due to the modified CRA regulations.

The legality of the modernized CRA regulations is being challenged and a preliminary injunction against enforcing new rules implementing the modified CRA regulations has been granted. In addition, the updated CRA regulations may be impacted by the presidential memorandum entitled "Regulatory Freeze Pending Review" described above.

Confidentiality of Customer Information. The Company and the Bank are subject to various laws and regulations that address the privacy of nonpublic personal financial information of customers. A financial institution must provide to its customers information regarding its policies and procedures with respect to the handling of customers' personal information. Each institution must conduct an internal risk assessment of its ability to protect customer information. These privacy laws and regulations generally prohibit a financial institution from providing a customer's personal financial information to unaffiliated parties without prior notice and approval from the customer.

The CFPB published its final rule to update Regulation P pursuant to the amended Gramm-Leach-Bliley Act in 2018. Under this rule, certain qualifying financial institutions are not required to provide annual privacy notices to customers. To qualify, a financial institution must not share nonpublic personal information about customers except as described in certain statutory exceptions which do not trigger a customer's statutory opt-out right. In addition, the financial institution must not have changed its disclosure policies and practices from those disclosed in its most recent privacy notice. The rule sets forth timing requirements for delivery of annual privacy notices in the event that a financial institution that qualified for the annual notice exemption later changes its policies or practices in such a way that it no longer qualifies for the exemption.

Data privacy and data protection are areas of increasing state legislative focus. In March 2021, the Governor of Virginia signed into law the VCDPA, which went into effect on January 1, 2023. The VCDPA grants Virginia residents the right to access, correct, delete, know, and opt-out of the sale and processing for targeted advertising purposes of their personal information, similar to the protections provided by consumer data privacy laws in California and in Europe. The VCDPA also imposes data protection assessment requirements and authorizes the Attorney General of Virginia to enforce the VCDPA but does not provide a private right of action for consumers. The Bank is exempt from the VCDPA, but certain third-party vendors of the Company or the Bank are subject to the VCDPA, which could negatively impact the products or services that the Company obtains from those vendors.

In October 2023, the CFPB proposed a new rule that would require a provider of payment accounts or products, such as the Bank, to make certain data available to consumers upon request regarding the products or services they obtain from the provider. The proposed rule is intended to give consumers control over their financial data, including with whom it is shared, and encourage competition in the provision of consumer financial products and services. Based on its expected asset size, the Company expects to begin complying with this rule in 2028 or 2029.

These laws and regulations impose compliance costs and create obligations and, in some cases, reporting obligations, and compliance with these laws, regulations, and obligations may require the Company to use significant resources.

Anti-Money Laundering Laws and Regulations. The Company is subject to several federal laws that are designed to combat money laundering, terrorist financing, and transactions with persons, companies or foreign governments designated by U.S. authorities ("AML laws"). This category of laws includes the Bank Secrecy Act of 1970, the Money Laundering Control Act of 1986, the USA PATRIOT Act of 2001, and the Anti-Money Laundering Act of 2020.

The AML laws and their implementing regulations require insured depository institutions, broker-dealers, and certain other financial institutions to have policies, procedures, and controls to detect, prevent, and report money laundering and terrorist financing. The AML laws and their regulations also provide for information sharing, subject to conditions, between federal law enforcement agencies and financial institutions, as well as among financial institutions, for counter-terrorism purposes. Federal banking regulators are required, when reviewing bank holding company acquisition and bank merger applications, to take into account the effectiveness of the anti-money laundering activities of the applicants. To comply with these obligations, the Company has implemented appropriate internal practices, procedures, and controls.

Office of Foreign Assets Control. OFAC which is a division of the U.S. Treasury, is responsible for helping to ensure that United States entities do not engage in transactions with "enemies" of the United States, as defined by various Executive Orders and Acts of Congress. If the Bank finds a name of an "enemy" of the United States on any transaction, account, or wire transfer that is on an OFAC list, it must freeze such account or place transferred funds into a blocked account, and report it to OFAC. Failure to comply with OFAC requirements could have serious legal, financial and reputational consequences for the Company. To comply with these obligations, the Company has implemented appropriate internal practices, procedures, and controls.

Cybersecurity. The federal banking agencies have adopted guidelines for establishing information security standards and cybersecurity programs for implementing safeguards under the supervision of a financial institution's board of directors. These guidelines, along with related regulatory materials, increasingly focus on risk management and processes related to information technology and the use of third parties in the provision of financial products and services. The federal banking agencies expect financial institutions to establish lines of defense and ensure that their risk management processes also address the risk posed by compromised customer credentials, and also expect financial institutions to maintain sufficient business continuity planning processes to ensure rapid recovery, resumption and maintenance of the institution's operations after a cyber-attack. If the Company or the Bank fails to meet the expectations set forth in this regulatory guidance, the Company or the Bank could be subject to various regulatory actions and any remediation efforts may require significant resources of the Company or the Bank. In addition, all federal and state banking agencies continue to increase focus on cybersecurity programs and risks as part of regular supervisory exams.

On November 18, 2021, the federal bank regulatory agencies issued a final rule to improve the sharing of information about cybersecurity incidents that may affect the U.S. banking system. The rule requires a banking organization to notify its primary federal regulator of any significant computer-security incident as soon as possible and no later than 36 hours after the banking organization determines that a cybersecurity incident has occurred. Notification is required for incidents that have materially affected or are reasonably likely to materially affect the viability of a banking organization's operations, its ability to deliver banking products and services, or the stability of the financial sector. In addition, the rule requires a bank service provider to notify affected banking organization customers as soon as possible when the provider determines that it has experienced a computer-security incident that has materially affected or is reasonably likely to materially affect banking organization customers for four or more hours. The rule became effective on May 1, 2022.

Corporate Transparency Act

On January 1, 2021, as part of the 2021 National Defense Authorization Act, Congress enacted the Corporate Transparency Act ("CTA"), which requires the Financial Crimes Enforcement Network ("FinCEN") to issue regulations implementing reporting requirements for "reporting companies" (as defined in the CTA) to disclose beneficial ownership interests of certain U.S. and foreign entities by January 1, 2022. The CTA imposes additional reporting requirements on entities not previously subject to such beneficial ownership disclosure regulations and also contains exemptions for several different types of entities, including among others: (i) certain banks, bank holding companies, and credit unions; (ii) money transmitting businesses registered with FinCEN; and (iii) certain insurance companies. Reporting companies subject to the CTA are required to provide specific information with respect to beneficial owner(s) (as defined in the CTA) as well as satisfy initial filing obligations (for newly-formed reporting companies) and submit on-going periodic reports. Non-compliance with FinCEN regulations promulgated under the CTA may result in civil fines and criminal penalties.

On September 29, 2022, FinCEN issued a final rule to implement the beneficial ownership reporting requirements of the CTA, which became effective January 1, 2024, and would have required reporting of beneficial ownership for entities that were formed or first registered prior to 2024 by January 1, 2025. Beginning in December 2024, U.S. federal courts have issued preliminary injunctions against enforcement of the CTA, including a stay of the beneficial ownership reporting requirements pending resolution of a lawsuit challenging the CTA's constitutionality. On February 18, 2025, the U.S. District Court for the Eastern District of Texas lifted the preliminary injunction blocking enforcement of the beneficial ownership reporting requirements under the CTA. Pending further court action, beneficial ownership information reporting obligations are back in effect and a majority of companies must now report by March 21, 2025; however, recent FinCEN guidance indicates that FinCEN will not issue any fines or penalties, or take any other enforcement actions, based on failure to file or update reports pursuant to the CTA by the current deadlines.

The Company and the Bank continue to monitor regulatory developments related to the CTA, including future rule makings, and will continue to assess the ultimate impact of the CTA on the Company and the Bank. the Company cannot currently predict the nature and timing of future developments related to the CTA.

Stress Testing. The federal banking agencies have implemented stress testing requirements for certain large or risky financial institutions, including bank holding companies and state-chartered banks and they emphasize that all banking organizations, regardless of size, should have the capacity to analyze the potential effect of adverse market conditions or outcomes on the organization's financial condition. Based on existing regulatory guidance, the Company and the Bank are expected to consider the institution's interest rate risk management, commercial real estate loan concentrations and other credit-related information, and funding and liquidity management during this analysis of adverse market conditions or outcomes.

Call Reports and Examination Cycle. All institutions, regardless of size, submit a quarterly call report that includes data used by federal banking agencies to monitor the condition, performance, and risk profile of individual institutions and the industry as a whole. The EGRRCPA contained provisions expanding the number of regulated institutions eligible to use streamlined call report forms. In June 2019, the federal banking agencies issued a final rule to permit insured depository institutions with total assets of less than $5 billion that do not engage in certain complex or international activities to file the most streamlined version of the quarterly call report, and to reduce data reportable on certain streamlined call report submissions.

Federal Home Loan Bank of Atlanta. The Bank is a member of the FHLB of Atlanta, which is one of 11 regional FHLBs that provide funding to their members for making housing loans as well as for affordable housing and community development loans. Each regional FHLB serves as a reserve, or central bank, for the members within its assigned region. Each FHLB makes loans to members in accordance with policies and procedures established by the Board of Directors of the FHLB. As a member, the Bank must purchase and maintain stock in the FHLB. At December 31, 2024, the Bank owned $2.1 million of FHLB stock.

Consumer Financial Protection. The CFPB is the federal regulatory agency that is responsible for implementing, examining and enforcing compliance with federal consumer financial laws for institutions with more than $10 billion of assets and, to a lesser extent, smaller institutions. The CFPB supervises and regulates providers of consumer financial products and services, and has rulemaking authority in connection with numerous federal consumer financial protection laws (for example, but not limited to, the Truth-in-Lending Act (TILA), the Real Estate Settlement Procedures Act (RESPA), the Electronic Funds Transfer Act (EFTA), the Equal Credit Opportunity Act (ECOA), the Home Ownership and Equity Protection

Act (HOEPA), the Fair Credit and Reporting Act (FCRA), the Fair Debt Collection Practices Act (FDCPA) and the Home Mortgage Disclosure Act (HMDA)). To comply with these obligations, the Company has implemented appropriate internal practices, procedures, and controls.

Because the Company and the Bank are smaller institutions (i.e., with assets of $10 billion or less), most consumer protection aspects of the Dodd-Frank Act will continue to be applied to the Company by the Federal Reserve Board and to the Bank by the OCC. However, the CFPB may include its own examiners in regulatory examinations by a smaller institution's principal regulators and may require smaller institutions to comply with certain CFPB reporting requirements. In addition, regulatory positions taken by the CFPB and administrative and legal precedents established by CFPB enforcement activities, including in connection with supervision of larger bank holding companies and banks, could influence how the Federal Reserve Board and OCC apply consumer protection laws and regulations to financial institutions that are not directly supervised by the CFPB. The precise effect of the CFPB's consumer protection activities on the Company and the Bank cannot be determined with certainty.

On March 30, 2023, the CFPB issued a final rule amending Regulation B to implement Section 1071 of the Dodd-Frank Act, which amended ECOA to require the collection of certain small business lending data. As a result of ongoing litigation, all deadlines for compliance with the amendments to Regulation B are currently stayed. If implemented as issued, the final rule would require the Bank to compile, maintain, and submit to the bureau certain small business lending data, including data on applications for credit by women-owned, minority-owned, and small businesses. The Bank is unable to determine the date that the Section 1071 final rule will become effective or the date that the Bank will be required to comply with its requirements. The Bank is evaluating the expected impact of the Section 1071 final rule, but currently does not anticipate any material impact to its business, operations or financial condition due to this final rule.

In January 2025, the CFPB adopted amendments to Regulation E and Regulation Z that would impose the disclosure requirements of TILA on extensions of overdraft credit, with certain exemptions, for financial institutions with greater than $10 billion in assets. While this rule does not apply to banks with less than $10 billion in assets, including the Bank, the Bank cannot determine the ultimate impact such a regulatory change would have on the broader market for overdraft products and services, which may include a downward pressure on the interest and fees that a bank is able to charge for consumer transactions that overdraw deposit accounts. The impact of such changes on the Bank or its financial condition and results of operations cannot be determined at this time. Beginning in January 2025, multiple lawsuits challenging these amendments were filed, and these rules may be subject to the presidential memo titled "Regulatory Freeze Pending Review" described above.

Mortgage Banking Regulation. In connection with making mortgage loans, the Company and the Bank are subject to rules and regulations that, among other things, establish standards for loan origination, prohibit discrimination, provide for inspections and appraisals of property, require credit reports on prospective borrowers, in some cases restrict certain loan features and fix maximum interest rates and fees, require the disclosure of certain basic information to mortgagors concerning credit and settlement costs, limit payment for settlement services to the reasonable value of the services rendered, and require the maintenance and disclosure of information regarding the disposition of mortgage applications based on race, gender, geographical distribution and income level. The Company and the Bank are also subject to rules and regulations that require the collection and reporting of significant amounts of information with respect to mortgage loans and borrowers.

The Company's and the Bank's mortgage origination activities are subject to Regulation Z, which implements the TILA. Certain provisions of Regulation Z require creditors to make a reasonable and good faith determination based on verified and documented information that a consumer applying for a mortgage loan has a reasonable ability to repay the loan according to its terms. Creditors are required to determine consumers' ability to repay in one of two ways. The first alternative requires the creditor to consider the following eight underwriting factors when making the credit decision: (i) current or reasonably expected income or assets; (ii) current employment status; (iii) the monthly payment on the covered transaction; (iv) the monthly payment on any simultaneous loan; (v) the monthly payment for mortgage-related obligations; (vi) current debt obligations, alimony, and child support; (vii) the monthly debt-to-income ratio or residual income; and (viii) credit history. Alternatively, the creditor can originate "qualified mortgages," which are entitled to a presumption that the creditor making the loan satisfied the ability-to-repay requirements. In general, a "qualified mortgage" is a mortgage loan without negative amortization, interest-only payments, balloon payments, or terms exceeding 30 years. In addition, to be a qualified mortgage, the points and fees paid by a consumer cannot exceed 3% of the total loan amount, and the consumer's debt-to-income ratio ("DTI") must be below the prescribed threshold. Qualified mortgages that are "higher-priced" (e.g. subprime loans) garner a rebuttable presumption of compliance with the ability-to-repay rules, while qualified mortgages that are not "higher-priced" (e.g. prime loans) are given a safe harbor of compliance. Small creditors, as described below, may originate qualified mortgages that are not restricted by the specific DTI threshold (however, the DTI must still be considered). Small creditors are those financial institutions that meet the following requirements: (i) have assets below $2 billion (adjustable annually by CFPB); (ii) originated no more than 2 thousand first-lien, closed-end residential mortgages subject to the ability-to-repay requirements in the preceding calendar year; and (iii) hold the qualified mortgage loan in its portfolio after origination. The Company, as a small creditor, does comply with the "qualified mortgage rules" and the other applicable TILA requirements.

Incentive Compensation. In 2016, the SEC and the federal banking agencies proposed rules that prohibit covered financial institutions (including bank holding companies and banks) from establishing or maintaining incentive-based compensation arrangements that encourage inappropriate risk-taking by providing covered persons (consisting of senior executive officers and significant risk takers, as defined in the rules) with excessive compensation, fees or benefits that could lead to material financial loss to the financial institution. The proposed rules outline factors to be considered when analyzing whether compensation is excessive and whether an incentive-based compensation arrangement encourages inappropriate risks that could lead to material loss to the covered financial institution, and establishes minimum requirements that incentive-based compensation arrangements must meet to be considered to not encourage inappropriate risks and to appropriately balance risk and reward. The proposed rules also impose additional corporate governance requirements on the boards of directors of covered financial institutions and impose additional record-keeping requirements. The comment period for these proposed rules closed and a final rule has not yet been published. In May 2024, the FDIC, OCC and two other federal bank regulatory agencies re-proposed the regulatory text of the 2016 proposed rules and requested comment on specific alternatives, given the passage of time since the 2016 proposed rules was issued, as well as additional supervisory experience, changes in industry practice, and other developments. The SEC and Federal Reserve did not join in such re-proposal, and on March 3, 2025, the FDIC withdrew this proposal.

Future Regulation

From time-to-time, various legislative and regulatory initiatives are introduced in Congress and state legislatures, as well as by regulatory agencies. Such initiatives may include proposals to expand or contract the powers of bank holding companies and depository institutions or proposals to substantially change the financial institution regulatory system. Such legislation could change banking statutes and the operating environment of the Company and the Bank in substantial and unpredictable ways. If enacted, such legislation could increase or decrease the cost of doing business, limit or expand permissible activities, or affect the competitive balance among banks, savings associations, credit unions, and other financial institutions. The Company cannot predict whether any such legislation will be enacted, and, if enacted, the effect that it, or any implementing regulations, would have on the financial condition or results of operations of the Company or the Bank.

Effect of Governmental Monetary Policies

The Company's operations are affected not only by general economic conditions but also by the policies of various regulatory authorities. In particular, the Federal Reserve uses monetary policy tools to impact money market and credit market conditions and interest rates to influence general economic conditions. These policies have a significant impact on overall growth and distribution of loans, investments, and deposits; they affect market interest rates charged on loans or paid for time and savings deposits. Federal Reserve monetary policies have had a significant effect on the operating results of commercial banks, including the Company, in the past and are expected to do so in the future.

Reporting Obligations under Securities Laws; Availability of Information

The Company is subject to the periodic and other reporting requirements of the Exchange Act, including the filing of annual, quarterly and other reports with the SEC. Prior to the Reorganization in 2013, the Bank filed the periodic and annual reports required under the Exchange Act with the OCC. Annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, plus any amendments to these reports, are available, free of charge, at *www.vnbcorp.com*. The Company's SEC filings are posted and available as soon as reasonably practicable after the reports are filed electronically with the SEC. The information on the Company's website is not incorporated into this report or any other filing the Company makes with the SEC. The SEC maintains an internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at *www.sec.gov*.

Item 1A. RISK FACTORS.

The Company's business is subject to risk. The following discussion, along with management's discussion and analysis, the information contained in "Forward Looking Statements and Factors that Could Affect Future Results," and the financial statements and footnotes, sets forth the most significant risks and uncertainties that management believes could adversely affect the Company's business, financial condition or results of operations, and that investors in the Company's securities should carefully consider. Additional risks and uncertainties that management is not aware of or that management currently deems immaterial may also have a material adverse effect on the Company's business, financial condition or results of operations. There is no assurance that this discussion covers all potential risks that the Company may face.

Credit Risks

The Company's credit standards and its on-going credit assessment processes might not protect it from significant credit losses.

The Company assumes credit risk by virtue of making loans and extending loan commitments and letters of credit. The Company manages credit risk through a program of underwriting standards, the review of certain credit decisions and a continuous quality assessment process of credit already extended. The Company's exposure to credit risk is managed through the use of consistent underwriting standards that emphasize local lending while avoiding highly leveraged transactions, as well as excessive industry and other concentrations. The Company's credit administration function employs risk management techniques to help ensure that problem loans are promptly identified. While these procedures are designed to provide the Company with the information needed to implement policy adjustments where necessary and to take appropriate corrective actions, there can be no assurance that such measures will be effective in avoiding undue credit risk.

The Company's ACL may be insufficient and any increases in the ACL may have a material adverse effect on the Company's financial condition and results of operations.

On January 1, 2023, the Company adopted ASC 326, more commonly referred to as "CECL," which replaced prior accounting principles for the recognition of loan losses based on losses that have been incurred with a requirement to record an allowance for credit losses that represents expected credit losses over the lifetime of all loans in the Company's portfolio. Under ASC 326, the Company's estimate of expected credit losses is based on reasonable and supportable forecasts of future economic conditions and loan performance. While the adoption of ASC 326 does not affect ultimate loan performance or cash flows of the Company from making loans, the period in which expected credit losses affect net income of the Company may not be similar to the recognition of loan losses under prior accounting guidance, and recognizing an ACL based on expected credit losses may create more volatility in the level of the Company's ACL and results of operations, including based on volatility in economic forecasts and expectations of loan performance in future periods, as actual results may differ materially from management's estimates. If the Company is required to materially increase the level of ACL for any reason, such increase could adversely affect the Company's business, financial condition, and results of operations.

The level of the ACL reflected management's evaluation of the level of loans outstanding, the level of nonperforming loans, historical loan loss experience, delinquency trends, underlying collateral values, the amount of actual losses charged to the reserve in a given period and assessment of present and anticipated economic conditions. The determination of the appropriate level of the ACL inherently involved a high degree of subjectivity and required the Company to make significant estimates of credit risks and future trends, all of which could undergo material changes. Although the Company believed the ACL was a reasonable estimate of known and inherent losses in the loan portfolio at the time, it could not precisely predict such losses or be certain that the ACL would be adequate in the future. Deterioration of economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside the Company's control, may have required an increase in the ACL. In addition, bank regulatory agencies and the Company's auditors periodically reviewed its ACL and may have required an increase in the provision for loan losses or the recognition of further loan charge-offs, based on judgments different from those of management. No adjustments to the ACL have been recommended or required as a result of audits.

The Company's focus on lending to small to mid-sized community-based businesses may increase its credit risk.

Most of the Company's commercial business and commercial real estate loans are made to small and mid-sized businesses and 501(c)3 organizations. These businesses generally have fewer financial resources in terms of capital or borrowing capacity than larger entities and have a heightened vulnerability to economic conditions. If general economic conditions in the market areas in which the Company operates negatively impact this important customer sector, the Company's results of operations and financial condition may be adversely affected. Moreover, a portion of these loans have been made by the Company in recent years and the borrowers may not have experienced a complete business or economic cycle. Any deterioration of the borrowers' businesses may hinder their ability to repay their loans with the Company, which could have a material adverse effect on its financial condition and results of operations. Steps to mitigate such risks include underwriting multiple sources of repayment, including but not limited to, business cash flow, personal guarantees, collateral, and government guarantees, where applicable. Although the Company has taken these mitigation steps, there is no guarantee that such practices will be effective to prevent the increased credit risk.

The Company's concentration in loans secured by real estate may increase its future credit losses, which would negatively affect the Company's financial results.

The Company offers a variety of secured loans, including commercial lines of credit, commercial term loans, real estate, construction, home equity, consumer and other loans. Credit risk and credit losses can increase if its loans are concentrated to borrowers who, as a group, may be uniquely or disproportionately affected by economic or market conditions. As of December 31, 2024, approximately 76.4% of the Company's loans are secured by real estate, both residential and commercial. The Company has established concentration limits that are regularly monitored by management and reported to the Board. A major change in the real estate market in the regions in which the Company operates, resulting in a deterioration in real estate values, or in the local or national economy, could adversely affect the Company's customers' ability to pay these loans, which in turn could adversely impact the Company. Risk of loan defaults and foreclosures are inherent in the banking industry, and the Company tries to limit its exposure to this risk by carefully underwriting and monitoring its extensions of credit. The Company cannot fully eliminate credit risk, and as a result, credit losses may occur in the future.

The Company has a moderate concentration of credit exposure in commercial real estate and loans with this type of collateral are viewed as having higher risk of default.

As of December 31, 2024, the Company had approximately $453.9 million in loans secured by non-owner occupied commercial real estate, which represented approximately 36.7% of total loans outstanding at that date and 226% of regulatory capital. Such category of loans consists of $309.8 million of non-owner occupied commercial real estate, $107.2 million of multifamily and $37.0 million of construction, land development and other land loans. These types of loans are generally viewed as having higher risk of default than residential real estate loans. They are also typically larger than residential real estate loans and consumer loans and depend on cash flows from the property to service the debt, successful completion of construction projects and, for development loans, sale of the underlying asset. It may be more difficult for commercial real estate borrowers to repay their loans in a timely manner, as commercial real estate borrowers' abilities to repay their loans frequently depend on the successful rental of their properties. Some degree of instability in the commercial real estate markets is expected in the coming quarters as loans are refinanced in markets with higher vacancy rates under current economic conditions. The outlook for commercial real estate remains dependent on the broader economic environment and, specifically, how major subsectors respond to a higher interest rate environment and higher prices for commodities, goods and services. Cash flows may be affected significantly by general economic conditions, and a sustained downturn in the local economy or in occupancy rates in the local economy where the property is located could increase the likelihood of default. Because the Company's loan portfolio contains a number of commercial real estate loans with relatively large balances, the deterioration of one or a few of these loans could cause a significant increase in its percentage of nonperforming loans. An increase in nonperforming loans could result in a loss of earnings from these loans, an increase in the provision for credit losses and an increase in charge-offs, all of which could have a material adverse effect on the Company's financial condition. The Company's banking regulators generally give commercial real estate lending greater scrutiny and may require banks with higher levels of commercial real estate loans to implement improved underwriting, internal controls, risk management policies and portfolio stress testing, as well as possibly higher levels of ACL and capital as a result of commercial real estate lending growth and exposures, which could have a material adverse effect on the Company's results of operations. Steps to mitigate such risks include underwriting multiple sources of repayment, including but not limited to, business cash flow, personal guarantees, collateral, and government guarantees, where applicable. In addition, the Company has established concentration limits that are regularly monitored by management and reported to the Board. Although the Company has taken these mitigation steps, there is no guarantee that such practices will be effective to prevent the increased credit risk.

The Company's results of operations are significantly affected by the ability of borrowers to repay their loans.

A significant source of risk for the Company is the possibility that losses will be sustained because borrowers, guarantors and related parties may fail to perform in accordance with the terms of their loan agreements. Most of the Company's loans are secured but some loans are unsecured. With respect to the secured loans, the collateral securing the repayment of these loans may be insufficient to cover the obligations owed under such loans. Collateral values may be adversely affected by changes in economic, environmental and other conditions, declines in the value of real estate, changes in interest rates, changes in monetary and fiscal policies of the federal government, terrorist activity, environmental contamination and other external events. In addition, collateral appraisals that are out of date or that do not meet industry-recognized standards may create the impression that a loan is adequately collateralized when it is not. The Company has adopted underwriting and credit monitoring procedures and policies, including regular reviews of appraisals and borrower financial statements, that management believes are appropriate to mitigate the risk of loss. An increase in nonperforming loans could result in a net loss of earnings from these loans, an increase in the provision for credit losses and an increase in loan charge-offs, all of which could have a material adverse effect on the Company's financial condition and results of operations.

Market Risks

The Company may be adversely impacted by changes in market conditions.

The Company is directly and indirectly affected by changes in market conditions. Market risk generally represents the risk that values of assets and liabilities or revenues will be adversely affected by changes in market conditions. As a financial institution, market risk is inherent in the financial instruments associated with the Company's operations and activities, including loans, deposits, securities, and short-term borrowings. A few of the market conditions that may shift from time-to-time, thereby exposing the Company to market risk, include fluctuations in interest rates, equity and futures prices, and price deterioration or changes in value due to changes in market perception or actual credit quality of issuers. The Company's investment securities portfolio, in particular, may be impacted by market conditions beyond its control, including rating agency downgrades of the securities, defaults of the issuers of the securities, lack of market pricing of the securities, and inactivity or instability in the credit markets. Any changes in these conditions, in current accounting principles or interpretations of these principles could impact the Company's assessment of fair value and thus the determination of other-than-temporary impairment of the securities in the investment securities portfolio, which could adversely affect the Company's earnings and capital ratios.

Asset values also directly impact revenues in the Company's wealth management businesses. The Company receives asset-based management fees based on the value of clients' portfolios or investments in funds managed by the Company and, in some cases, the Company may also receive performance fees based on increases in the value of such investments. Declines in asset values can reduce the value of clients' portfolios or fund assets, which in turn can result in lower fees earned for managing such assets.

Weaknesses in economic or market conditions, or adverse developments in the financial services industry, could pose challenges for the Company and could adversely affect the results of operations, liquidity, and financial condition[.

Deterioration in, or uncertain, economic conditions could adversely affect the Company's business which is directly affected by general economic and market conditions; broad trends in industry and finance; legislative and regulatory changes; changes in governmental monetary and fiscal policies, including trade policies and tariffs; and inflation, all of which are beyond the Company's control. Prolonged periods of inflation may impact profitability by negatively impacting fixed costs and expenses, including increasing funding costs and expense related to talent acquisition and retention, and negatively impacting the demand for products and services. Additionally, inflation may lead to a decrease in consumer and commercial purchasing power and an increase in default rates on loans. Any deterioration in economic conditions, in particular a prolonged economic slowdown within the Company's geographic region or a broader disruption in the economy, possibly as a result of a pandemic or other widespread public health emergency, acts of terrorism, or outbreak of domestic or international hostilities (including the ongoing military conflicts between Russia and Ukraine or and in the Middle East), or unanticipated events in the banking industry, such as high-profile bank failures in 2023, could result in the following consequences, any of which could hurt business materially; declines in real estate values and home sales and increases in the financial stress on borrowers and unemployment rates, all of which could lead to increases in loan delinquencies, problem assets and foreclosures, and a deterioration in the value of collateral for loans made by the Company's various business segments; an increase in the level of loan losses exceeding the level the Company has provided in its ACL, which would reduce the Company's earnings; a decline in demand for the Company's products and services; changes in the fair value of financial instruments held by the Company or its subsidiaries; or declines in available sources or amounts of liquidity and funding. Events in the financial services industry, such as the high-profile bank failures in 2023, may also cause concern and uncertainty about the financial services industry generally, which may result in sudden deposit outflows, increased borrowing and funding costs, and increased competition for liquidity, any of which could have a material adverse impact on the Company's business, financial condition, and results of operations.]

Inflation can have an adverse impact on the Company's business and on its customers.

During 2022, the United States experienced the highest level of inflation since the 1980s. In response, the Federal Reserve increased the federal funds target rate at the fastest pace in over 40 years, increasing 425 bps during 2022 and an additional 100 bps in 2023, before declining by 100bps during 2024 and early 2025. Price-wage inflation may cause the Company to give higher than normal raises to employees and start new employees at a higher wage. Furthermore, the Company's customers are also affected by inflation and the rising costs of goods and services used in their households and businesses, which could have a negative impact on their ability to repay their loans with the Company. As market interest rates rise, the value of the Company's investment securities generally decreases, although this effect can be less pronounced for floating rate instruments. Higher interest rates reduce the demand for loans and increase the attractiveness of alternative investment and savings products, like U.S. Treasury securities and money market funds, which can make it difficult to attract and retain deposits.

The Company's business is subject to interest rate risk, and variations in interest rates and inadequate management of interest rate risk may negatively affect financial performance.

Changes in the interest rate environment may reduce the Company's profits. It is expected that the Company will continue to realize income from the differential or "spread" between the interest earned on loans, securities, and other interest-earning assets, and interest paid on deposits, borrowings and other interest bearing liabilities. Net interest spreads are affected by the difference between the maturities and repricing characteristics of interest-earning assets and interest bearing liabilities. In addition, loan volume and yields are affected by market interest rates on loans, and the current interest rate environment encourages extreme competition for new loan originations from qualified borrowers. The Company's management cannot ensure that it can minimize interest rate risk. If the interest rates paid on deposits and other borrowings increase at a faster rate than the interest rates received on loans and other investments, the Company's net interest income, and therefore earnings, could be adversely affected. Earnings could also be adversely affected if the interest rates received on loans and other investments fall more quickly than the interest rates paid on deposits and other borrowings. Accordingly, changes in levels of market interest rates could materially and adversely affect the net interest spread, asset quality, loan origination volume and the Company's overall profitability.

The Company relies upon independent appraisals to determine the value of the real estate that secures a significant portion of its loans and the value of any foreclosed properties that may be carried on its books, and the values indicated by such appraisals may not be realizable if it is forced to foreclose upon such loans or liquidate such foreclosed property.

As indicated above, a significant portion of the Company's loan portfolio consists of loans secured by real estate and it may also hold foreclosed properties from time-to-time. The Company relies upon independent appraisers to estimate the value of such real estate. Appraisals are only estimates of value and the independent appraisers may make mistakes of fact or judgment that adversely affect the reliability of their appraisals. In addition, events occurring after the initial appraisal may cause the value of the real estate to increase or decrease. As a result of any of these factors, the real estate securing some of the Company's loans and any foreclosed properties that may be held by the Company may be more or less valuable than anticipated. If a default occurs on a loan secured by real estate that is less valuable than originally estimated, the Company may not be able to recover the outstanding balance of the loan. It may also be unable to sell any foreclosed properties for the values estimated by their appraisals. The Company had no foreclosed property as of December 31, 2024 or December 31, 2023.

Liquidity Risks

The Company's liquidity needs could adversely affect results of operations and financial condition.

The Company's primary sources of funds are deposits and loan repayments. While scheduled loan repayments are a relatively stable source of funds, they are subject to the ability of borrowers to repay the loans. The ability of borrowers to repay loans can be adversely affected by a number of factors, including, but not limited to, changes in economic conditions, adverse trends or events affecting business industry groups, reductions in real estate values or markets, availability of, and/or access to, sources of refinancing, business closings or lay-offs, pandemics or endemics, inclement weather, natural disasters and international instability. Deposit levels may be affected by a number of factors, including, but not limited to, rates paid by competitors, general interest rate levels, regulatory capital requirements, returns available to customers on alternative investments and general economic conditions. Additionally, negative news about the Company or the banking industry in general could negatively impact market and/or customer perceptions of the Company, which could lead to a loss of depositor confidence and an increase in deposit withdrawals, particularly among those with uninsured deposits. Furthermore, as many regional banking organizations experienced in 2023, the failure of other financial institutions may cause deposit outflows as customers spread deposits among several different banks so as to maximize their amount of FDIC insurance, move deposits to banks deemed "too big to fail" or remove deposits from the banking system entirely. As of December 31, 2024, approximately 27.4% of the Company's deposits were uninsured and the Company relies on these deposits for liquidity. Accordingly, the Company may be required from time-to-time to rely on secondary sources of liquidity to meet withdrawal demands or otherwise fund operations. Such sources include FHLB advances, sales of securities and loans, federal funds lines of credit from correspondent banks and borrowings from the Federal Reserve Discount Window, as well as additional out-of-market time deposits and brokered deposits. While the Company believes that these sources are currently adequate, there can be no assurance they will be sufficient or available to meet future liquidity demands, particularly if the Company continues to grow and experiences increasing loan demand. The Company may be required to slow or discontinue loan growth, capital expenditures or other investments, or liquidate assets should such sources not be adequate.

Recent negative developments affecting the banking industry, and resulting media coverage, have eroded customer confidence in the banking system.

The closures of Silicon Valley Bank and Signature Bank in March 2023, and First Republic Bank in May 2023, and concerns about similar future events, have generated significant market volatility among publicly traded bank holding companies and, in particular, regional banks. More recently, concerns about commercial real estate concentrations at regional and community banks have exacerbated this volatility. These market developments have negatively impacted customer confidence in the safety and soundness of regional and community banks. As a result, customers may choose to maintain deposits with larger financial institutions or invest in higher yielding short-term fixed income securities, all of which could materially adversely impact the Company's liquidity, loan funding capacity, net interest margin, capital and results of operations. While federal bank regulators took action to ensure that depositors of the failed banks had access to their deposits, including uninsured deposit accounts, there is no guarantee that such actions will be successful in restoring customer confidence in regional and community banks and the banking system more broadly. Furthermore, there is no guarantee that regional bank failures or bank runs similar to the ones that occurred in 2023 will not occur in the future and, if they were to occur, they may have a material and adverse impact on customer and investor confidence in regional and community banks negatively impacting the Company's liquidity, capital, results of operations and stock price.

The Company may need to raise additional capital in the future and may not be able to do so on acceptable terms, or at all.

Access to sufficient capital is critical in order to enable the Company to implement its business plan, support its business, expand its operations and meet applicable capital requirements. The inability to have sufficient capital, whether internally generated through earnings or raised in the capital markets, could adversely impact the Company's ability to support and to grow its operations. If the Company grows its operations faster than it generates capital internally, it will need to access the capital markets. The Company may not be able to raise additional capital in the form of additional debt or equity on acceptable terms, or at all. The Company's ability to raise additional capital, if needed, will depend on, among other things, conditions in the capital markets at that time, the Company's financial condition and its results of operations. Economic conditions and a loss of confidence in financial institutions may increase the Company's cost of capital and limit access to some sources of capital. Further, if the Company needs to raise capital in the future, it may have to do so when many other financial institutions are also seeking to raise capital and would then have to compete with those institutions for investors. An inability to raise additional capital on acceptable terms when needed could have a material adverse impact on the Company's business, financial condition and results of operations.

Strategic Risks

The Company faces strong and growing competition from financial services companies and other companies that offer banking and other financial services, which could negatively affect the Company's business.

The Company encounters substantial competition from other financial institutions in its market area and competition is increasing. Ultimately, the Company may not be able to compete successfully against current and future competitors. Many competitors offer the same banking services that the Company offers in its service area. These competitors include national, regional and community banks. The Company also faces competition from many other types of financial institutions, including finance companies, mutual and money market fund providers, brokerage firms, insurance companies, credit unions, financial subsidiaries of certain industrial corporations and financial technology companies. Increased competition may result in reduced business for the Company.

Additionally, banks and other financial institutions with larger capitalization and financial intermediaries not subject to bank regulatory restrictions have larger lending limits and are thereby able to serve the credit needs of larger customers. Areas of competition include interest rates for loans and deposits, efforts to obtain loans and deposits, and range and quality of products and services provided, including new technology-driven products and services. If the Company is unable to attract and retain banking customers, it may be unable to continue to grow loan and deposit portfolios and its results of operations and financial condition may otherwise be adversely affected.

The Company may not be able to successfully manage its long-term growth, which may adversely affect its results of operations and financial condition.

The Company's ability to continue to grow depends, in part, upon its ability to (i) open new branch offices or acquire existing branches or other financial institutions, (ii) attract deposits to those locations, and (iii) identify attractive loan and investment opportunities.

The Company may not be able to successfully implement its growth strategy if it is unable to identify attractive markets, locations or opportunities to expand in the future, or if the Company is subject to regulatory restrictions on growth or expansion of its operations. The Company's ability to manage its growth successfully also will depend on whether it can maintain capital levels adequate to support its growth, maintain cost controls and asset quality and successfully integrate any businesses the Company acquires into its organization. As the Company identifies opportunities to implement its growth strategy by opening new branches or acquiring branches or other banks, it may incur increased personnel, occupancy and other operating expenses. In the case of new branches, the Company must absorb those higher expenses while it begins to generate new deposits, and there is a further time lag involved in redeploying new deposits into attractively priced loans and other higher yielding assets.

The Company may consider acquiring other businesses or expanding into new product lines that it believes will help it fulfill its strategic objectives. The Company expects that other banking and financial companies, some of which have significantly greater resources, will compete with it to acquire financial services businesses. This competition could increase prices for potential acquisitions that the Company believes are attractive. Acquisitions may also be subject to various regulatory approvals. If the Company fails to receive the appropriate regulatory approvals, it will not be able to consummate acquisitions that it believes are in its best interests.

When the Company enters into new markets or new lines of business, its lack of history and familiarity with those markets, customers and lines of business may lead to unexpected challenges or difficulties that inhibit its success. The Company's plans to expand could depress earnings in the short run, even if it efficiently executes a growth strategy leading to long-term financial benefits.

Operational Risks

The Company is subject to a variety of operational risks, including reputational risk, legal and compliance risk, and the risk of fraud or theft by employees or outsiders.

The Company is exposed to many types of operational risks, including reputational risk, legal and compliance risk, the risk of fraud or theft by employees or outsiders, unauthorized transactions by employees, operational errors, clerical or record-keeping errors, and errors resulting from faulty or disabled computer or communications systems.

Reputational risk, or the risk to the Company's earnings and capital from negative public opinion, could result from the Company's actual or alleged conduct in any number of activities, including lending practices, corporate governance, and from actions taken by government regulators and community organizations in response to those activities. Negative public opinion can adversely affect the Company's ability to attract and keep customers and employees and can expose it to litigation and regulatory action.

Further, if any of the Company's financial, accounting, or other data processing systems fail or have other significant issues, the Company could be adversely affected. The Company depends on internal systems and outsourced technology to support these data storage and processing operations. The Company's inability to use or access these information systems at critical points in time could unfavorably impact the timeliness and efficiency of the Company's business operations. It could be adversely affected if one of its employees causes a significant operational break-down or failure, either as a result of human error or where an individual purposefully sabotages or fraudulently manipulates its operations or systems. The Company is also at risk of the impact of natural disasters, terrorism and international hostilities on its systems and from the effects of outages or other failures involving power or communications systems operated by others. The Company may also be subject to disruptions of its operating systems arising from events that are wholly or partially beyond its control (for example, computer viruses or electrical or communications outages), which may give rise to disruption of service to customers and to financial loss or liability. In addition, there have been instances where financial institutions have been victims of fraudulent activity in which criminals pose as customers to initiate wire and automated clearinghouse transactions out of customer accounts. Although the Company has policies and procedures in place to verify the authenticity of its customers, it cannot guarantee that such policies and procedures will prevent all fraudulent transfers. Such activity can result in financial liability and harm to the Company's reputation. If any of the foregoing risks materialize, it could have a material adverse effect on the Company's business, financial condition and results of operations.

Changes in accounting standards could impact reported earnings.

The authorities that promulgate accounting standards, including the FASB, the SEC and other regulatory authorities, periodically change the financial accounting and reporting standards that govern the preparation of the Company's Consolidated Financial Statements. These changes are difficult to predict and can materially impact how the Company records and reports its financial condition and results of operations. In some cases, the Company could be required to apply a new or revised standard retroactively, resulting in the restatement of financial statements for prior periods. Such changes could also require the Company to incur additional personnel or technology costs.

Failure to maintain effective systems of internal and disclosure control could have a material adverse effect on the Company's results of operation and financial condition.

Effective internal and disclosure controls are necessary for the Company to provide reliable financial reports and effectively prevent fraud and to operate successfully as a public company. The Company is also required to establish and maintain an adequate internal control structure over financial reporting pursuant to regulations of the FDIC. As a public company, the Company is required by the Sarbanes-Oxley Act to design and maintain a system of internal control over financial reporting and include management's assessment regarding internal control over financial reporting. If the Company cannot provide reliable financial reports or prevent fraud, its reputation and operating results would be harmed. As part of the Company's ongoing monitoring of internal control, it may discover material weaknesses or significant deficiencies in its internal control that require remediation. A "material weakness" is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of a company's annual or interim financial statements will not be prevented or detected on a timely basis.

The Company's inability to maintain the operating effectiveness of the controls described above could result in a material misstatement to the Company's financial statements or other disclosures, which could have an adverse effect on its business, financial condition or results of operations. In addition, any failure to maintain effective controls or to timely effect any necessary improvement of the Company's internal and disclosure controls could, among other things, result in losses from fraud or error, harm the Company's reputation or cause investors to lose confidence in its reported financial information, all of which could have a material adverse effect on its results of operation and financial condition.

The Company depends on the accuracy and completeness of information about customers and counterparties, and the Company's financial condition could be adversely affected if it relies on misleading or incorrect information.

In deciding whether to extend credit or to enter into other transactions with customers and counterparties, the Company may rely on information furnished to it by or on behalf of customers and counterparties, including financial statements and other financial information, which it does not independently verify. The Company also may rely on representations of customers and counterparties as to the accuracy and completeness of that information and, with respect to financial statements, on reports of independent auditors. For example, in deciding whether to extend credit to customers, the Company may assume that a customer's audited financial statements conform with GAAP and present fairly, in all material respects, the financial condition, results of operations and cash flows of that customer. The Company's financial condition and results of operations could be negatively impacted to the extent it relies on financial statements that do not comply with GAAP or are materially misleading.

The Company's success depends on its management team, and the unexpected loss of any of these personnel could adversely affect operations.

The Company's success is, and is expected to remain, highly dependent on its management team. This is particularly true because, as a community bank, the Company depends on the management team's ties to the community and customer relationships to generate business. The Company's growth will continue to place significant demands on management, and the loss of any such person's services may have an adverse effect upon growth and profitability. If the Company fails to retain or continue to recruit qualified employees, growth and profitability could be adversely affected.

The Company relies on other companies to provide key components of its business infrastructure.

Third parties provide key components of the Company's business operations such as data processing, recording and monitoring transactions, online banking interfaces and services, internet connections and network access. While the Company has performed due diligence and selected these third-party vendors carefully, it does not control their actions. Any problem caused by these third parties, including poor performance of services, failure to provide services, disruptions in communication services provided by a vendor and failure to handle current or higher volumes, could adversely affect the Company's ability to deliver products and services to its customers and otherwise conduct its business, and may harm its reputation. Financial or operational difficulties of a third-party vendor could also hurt the Company's operations if those difficulties interfere with the vendor's ability to serve the Company. Replacing these third-party vendors could also create significant delay and expense. Accordingly, use of such third-parties creates an unavoidable inherent risk to the Company's business operations.

The soundness of other financial institutions could adversely affect the Company.

The Company's ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial services institutions are interrelated as a result of trading, clearing, counterparty or other relationships. The Company has exposure to many different industries and counterparties, and routinely executes transactions with counterparties in the financial industry. As a result, defaults by, or even rumors or questions about, one or more financial services institutions, or the financial services industry generally, have led to market-wide liquidity problems and could lead to losses or defaults by the Company or by other institutions. Many of these transactions expose the Company to credit risk in the event of default of its counterparty or customer. In addition, credit risk may be exacerbated when the collateral held cannot be realized upon or is liquidated at prices insufficient to recover the full amount of the financial instrument exposure due. There is no assurance that any such losses would not materially and adversely affect results of operations.

The Company's operations may be adversely affected by cybersecurity risks.

In the ordinary course of business, the Company collects and stores sensitive data, including proprietary business information and personally identifiable information related to its customers and employees in systems and on networks. The secure processing, maintenance, and use of this information is critical to operations and the Company's business strategy. The Company has invested in accepted technologies, and continually reviews processes and practices that are designed to protect its networks, computers, and data from damage or unauthorized access. Despite these security measures, the Company's computer systems and infrastructure may be vulnerable to attacks by hackers or breached due to employee error, malfeasance or other disruptions. A breach of any kind could compromise systems and the information stored there could be accessed, damaged or disclosed. A breach in security could result in legal claims, regulatory penalties, disruption in operations, and damage to the Company's reputation, which could adversely affect its business and financial condition. Furthermore, as cyber threats continue to evolve and increase, the Company may be required to expend significant additional financial and operational resources to modify or enhance its protective measures, or to investigate and remediate any identified information security vulnerabilities.

In addition, multiple major U.S. retailers have experienced data systems incursions reportedly resulting in the thefts of credit and debit card information, online account information and other financial or privileged data. Retailer incursions affect cards issued and deposit accounts maintained by many banks, including Virginia National Bank. Although the Company's systems are not breached in retailer incursions, these events can cause it to reissue a significant number of cards and take other costly steps to avoid significant theft loss to the Company and its customers. In some cases, the Company may be required to reimburse customers for the losses they incur. Other possible points of intrusion or disruption not within the Company's control include internet service providers, electronic mail portal providers, social media portals, distant-server (cloud) service providers, electronic data security providers, data processing service providers, telecommunications companies, and smart phone manufacturers.

Consumers may increasingly decide not to directly use banks to complete their financial transactions, which would have a material adverse impact on the Company's financial condition and operations.

Technology and other changes are allowing parties to complete financial transactions through alternative methods that historically have involved banks. For example, consumers can now maintain funds that would have historically been held as bank deposits in brokerage accounts, mutual funds, general-purpose reloadable prepaid cards, or in other types of assets, including cryptocurrencies or other digital assets. Consumers can also complete transactions such as paying bills or transferring funds directly without the assistance of banks. The process of eliminating banks as intermediaries, known as "disintermediation," could result in the loss of fee income, as well as the loss of customer deposits and the related income generated from those deposits. The loss of these revenue streams and the loss of deposits as a lower cost source of funds could have a material adverse effect on the Company's financial condition and results of operations.

The Company's ability to operate profitably may be dependent on its ability to integrate or introduce various technologies into its operations.

The market for financial services, including banking and consumer finance services, is increasingly affected by advances in technology, including developments in telecommunications, data processing, computers, automation, online banking and tele-banking. The Company's ability to compete successfully in its market may depend on the extent to which it is able to implement or exploit such technological changes. If the Company is not able to afford such technologies, properly or timely anticipate or implement such technologies, or effectively train its staff to use such technologies, its business, financial condition or operating results could be adversely affected.

Legal, Regulatory and Compliance Risks

The Company operates in a highly regulated industry and the laws and regulations that govern the Company's operations, corporate governance, executive compensation and financial accounting, or reporting, including changes in them or the Company's failure to comply with them, may adversely affect the Company.

The Company is subject to extensive regulation and supervision that govern almost all aspects of its operations. These laws and regulations, among other matters, prescribe minimum capital requirements, impose limitations on the Company's business activities, limit the dividends or distributions that it can pay, restrict the ability of institutions to guarantee its debt and impose certain specific accounting requirements that may be more restrictive and may result in greater or earlier charges to earnings or reductions in its capital than GAAP. Compliance with laws and regulations can be difficult and costly, and changes to laws and regulations often impose additional compliance costs.

The Company is currently facing increased regulation and supervision of its industry. The Dodd-Frank Act instituted major changes to the banking and financial institutions regulatory regimes. Other changes to statutes, regulations or regulatory policies or supervisory guidance, including changes in interpretation or implementation of statutes, regulations, policies or supervisory guidance, could affect the Company in substantial and unpredictable ways. Such additional regulation and supervision has increased, and may continue to increase, the Company's costs and limit its ability to pursue business opportunities. Further, the Company's failure to comply with these laws and regulations, even if the failure was inadvertent or reflects a difference in interpretation, could subject it to restrictions on its business activities, fines and other penalties, any of which could adversely affect the Company's results of operations, capital base and the price of its securities. Further, any new laws, rules and regulations could make compliance more difficult or expensive or otherwise adversely affect the Company's business and financial condition.

Regulations issued by the CFPB could adversely impact earnings due to, among other things, increased compliance costs or costs due to noncompliance.

The CFPB significantly influences consumer financial laws, regulation and policy through rulemaking related to enforcement of the Dodd-Frank Act's prohibitions against unfair, deceptive, and abusive consumer finance products or practices, which are directly affecting the business operations of financial institutions offering consumer financial products or services, including the Company. This agency's broad rulemaking authority includes identifying practices or acts that are unfair, deceptive, or abusive in connection with any consumer financial transaction, financial product, or service. In particular, the CFPB's interpretation of the Dodd-Frank Act's prohibitions against unfair, deceptive, and abusive consumer finance products or practices may ultimately affect products or services currently offered by the Company and its subsidiaries and may affect the amount of revenue that may be derived from these products and services in the future, especially revenue from overdraft products offered by the Bank. Although the CFPB has supervisory jurisdiction over banks with $10 billion or greater in assets, rules, regulations, and policies issued by the CFPB may also apply to the Company or its subsidiaries by virtue of the adoption of such policies and practices by the Federal Reserve and the OCC. Further, the CFPB may include its own examiners in regulatory examinations by the Company and the Bank's primary regulators. The limitations and restrictions imposed by the CFPB may produce significant, material effects on the Company's business, financial condition, and results of operations.

The Company is subject to laws regarding the privacy, information security and protection of personal information and any violation of these laws or another incident involving personal, confidential or proprietary information of individuals could damage the Company's reputation and otherwise adversely affect its business.

The Company's business requires the collection and retention of large volumes of customer data, including PII in various information systems that the Company maintains and in those maintained by third party service providers. The Company also maintains important internal company data such as PII about its employees and information relating to its operations. The Company is subject to complex and evolving laws and regulations governing the privacy and protection of PII of individuals (including customers, employees and other third-parties). For example, the Company's business is subject to the Gramm-Leach-Bliley Act of 1999, which, among other things: (i) imposes certain limitations on the Company's ability to share nonpublic PII about its customers with nonaffiliated third parties; (ii) requires that the Company provides certain disclosures to customers about its information collection, sharing and security practices and affords customers the right to "opt out" of any information sharing by it with nonaffiliated third parties (with certain exceptions); and (iii) requires that the Company develops, implements and maintains a written comprehensive information security program containing appropriate safeguards based on the Company's size and complexity, the nature and scope of its activities, and the sensitivity of customer information it processes, as well as plans for responding to data security breaches. Various federal and state banking regulators and states have also enacted data breach notification requirements with varying levels of individual, consumer, regulatory or law enforcement notification in the event of a security breach. Ensuring that the Company's collection, use, transfer and storage of PII complies with all applicable laws and regulations can increase the Company's costs. Furthermore, the Company may not be able to ensure that customers and other third parties have appropriate controls in place to protect the confidentiality of the information that they exchange with the Company, particularly where such information is transmitted by electronic means. If personal, confidential or proprietary information of customers or others were to be mishandled or misused, the Company could be exposed to litigation or regulatory sanctions under privacy and data protection laws and regulations. Concerns regarding the effectiveness of the Company's measures to safeguard PII, or even the perception that such measures are inadequate, could cause the Company to lose customers or potential customers and thereby reduce its revenues. Accordingly, any failure, or perceived failure, to comply with applicable privacy or data protection laws and regulations may subject the Company to inquiries, examinations and investigations that could result in requirements to modify or cease certain operations or practices or in significant liabilities, fines or penalties, and could damage the Company's reputation and otherwise adversely affect its operations, financial condition and results of operations.

The Company's business and earnings are impacted by governmental, fiscal and monetary policy over which it has no control.

The Company is affected by domestic monetary policy. The Federal Reserve regulates the supply of money and credit in the United States, and its policies determine in large part the Company's cost of funds for lending, investing and capital raising activities and the return it earns on those loans and investments, both of which affect the Company's net interest margin. The actions of the Federal Reserve also can materially affect the value of financial instruments that the Company holds, such as loans and debt securities, and also can affect the Company's borrowers, potentially increasing the risk that they may fail to repay their loans. The Company's business and earnings also are affected by the fiscal or other policies that are adopted by various regulatory authorities of the United States. Changes in fiscal or monetary policy are beyond the Company's control and hard to predict.

Risks Related to the Company's Common Stock

The Company is not obligated to pay dividends and its ability to pay dividends is limited.

The Company's ability to make dividend payments on its common stock depends primarily on certain regulatory considerations and the receipt of dividends and other distributions from the Bank. There are various regulatory restrictions on the ability of banks, such as the Bank, to pay dividends or make other payments to their holding companies. The Company is currently paying a quarterly cash dividend to holders of its common stock at a rate of $0.33 per share. Although the Company has paid a quarterly cash dividend to the holders of its common stock since July 2013, holders of its common stock are not entitled to receive dividends, and the Company is not obligated to pay dividends in any particular amounts or at any particular times. Regulatory, economic and other factors may cause the Company's Board to consider, among other things, the reduction of dividends paid on its common stock.

Future issuances of the Company's common stock could adversely affect the market price of the common stock and could be dilutive.

The Company's Board, without the approval of shareholders, could from time-to-time decide to issue additional shares of common stock or shares of preferred stock, which may adversely affect the market price of the shares of common stock and could be dilutive to the Company's shareholders. Any sale of additional shares of the Company's common stock may be at prices lower than the current market value of the Company's shares. In addition, new investors may have rights, preferences and privileges that are senior to, and that could adversely affect, the Company's existing shareholders. For example, preferred stock would be senior to common stock in right of dividends and as to distributions in liquidation. The Company cannot predict or estimate the amount, timing, or nature of its future offerings of equity securities. Thus, the Company's shareholders bear the risk of future offerings diluting their stock holdings, adversely affecting their rights as shareholders, and/or reducing the market price of the Company's common stock.

An investment in the Company's common stock is not an insured deposit.

The Company's common stock is not a bank deposit and, therefore, it is not insured against loss by the FDIC or by any other public or private entity. An investment in the Company's common stock is inherently risky for the reasons described in this "Risk Factors" section and elsewhere in this report and is subject to the same market forces that affect the price of common stock in any company and, as a result, shareholders may lose some or all of their investment.

The Company qualifies as a "smaller reporting company," and the reduced disclosure obligations applicable to smaller reporting companies may make its common stock less attractive to investors.

The Company is a "smaller reporting company" as defined in federal securities laws, and will remain a smaller reporting company until the fiscal year following the determination that the market value of its voting and non-voting common shares held by non-affiliates is more than $250 million measured on the last business day of its second fiscal quarter, or its annual revenues are less than $100 million during the most recently completed fiscal year and the market value of its voting and non-voting common shares held by non-affiliates is more than $700 million measured on the last business day of its second fiscal quarter. Smaller reporting companies have reduced disclosure obligations, such as an exemption from providing selected financial data and an ability to provide simplified executive compensation information and only two years of audited financial statements. If some investors find the Company's common stock less attractive because the Company may rely on these reduced disclosure obligations, there may be a less active trading market for its common stock and its stock price may be more volatile.

While the Company's common stock is currently listed on the Nasdaq Capital Market, it has less liquidity than stocks for larger companies listed on national securities exchanges.

The trading volume in the Company's common stock on the Nasdaq Capital Market has been relatively low when compared with larger companies listed on national securities exchanges. There is no assurance that a more active and liquid trading market for the common stock will exist in the future. Consequently, shareholders may not be able to sell a substantial number of shares for the same price at which shareholders could sell a smaller number of shares. In addition, the Company cannot predict the effect, if any, that future sales of its common stock in the market, or the availability of shares of common stock for sale in the market, will have on the market price of the common stock. Sales of substantial amounts of common stock in the market, or the potential for large amounts of sales in the market, could cause the price of the Company's common stock to decline, or reduce the Company's ability to raise capital through future sales of common stock.

General Risk Factors

The Company is exposed to risk of environmental liabilities with respect to properties to which it takes title.

In the course of its business, the Company may foreclose and take title to real estate, potentially becoming subject to environmental liabilities associated with the properties. The Company may be held liable to a governmental entity or to third parties for property damage, personal injury, investigation and clean-up costs or the Company may be required to investigate or clean up hazardous or toxic substances or chemical releases at a property. Costs associated with investigation or remediation activities can be substantial. If the Company is the owner or former owner of a contaminated site, it may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from the property. These costs and claims could adversely affect the Company's business.

Severe weather, earthquakes, other natural disasters, pandemics, endemics, acts of war or terrorism and other external events could significantly impact the Company's business.

Severe weather, earthquakes, other natural disasters, pandemics, acts of war or terrorism and other adverse external events could have a significant impact on the Company's ability to conduct business. Such events could affect the stability of the deposit base, impair the ability of borrowers to repay outstanding loans, impair the value of collateral securing loans, cause significant property damage, results in loss of revenue and/or cause the Company to incur additional expenses. Although management has established disaster recovery policies and procedures, the occurrence of any such events could have a material adverse effect on the Company's business, financial condition and results of operations.

Item 1B. UNRESOLVED STAFF COMMENTS.

None

Item 1C. CYBERSECURITY.

Cybersecurity Risk Management and Strategy

As a corporation committed to maintaining the integrity, confidentiality, and availability of the Company's digital assets and sensitive information, the Company recognizes the critical importance of cybersecurity in today's interconnected business landscape. The Company's cybersecurity measures are designed to safeguard the Company's systems, networks, data, and information from unauthorized access, disruption, or misuse.

The Company recognizes that cybersecurity is fundamental to maintaining trust with shareholders, customers, and other stakeholders. By prioritizing cybersecurity as a strategic imperative, the Company strives to safeguard business operations, sensitive information, and integrity which preserves the value delivered to all the Company's constituents.

Key components of the Company's cybersecurity program:

- Risk Management: The Company continuously assesses and mitigates cybersecurity risks across the organization by leveraging industry best practices and frameworks such as NIST Cybersecurity Framework.
- Governance and Oversight: The Company's Board of Directors (the Board) regularly reviews cybersecurity matters, ensuring alignment with business objectives and regulatory requirements. A designated Information Technology Strategic Committee, which includes many subject matter experts from the Board and Executive Management, meets quarterly to provide additional focus and expertise in this area.
- Security Controls: The Company has implemented robust technical and procedural controls to protect information assets, including firewalls, intrusion detection systems, encryption, access controls, and multifactor authentication. These controls are tested periodically by external technology audit firms with penetration tests and security audits.
- Policy Controls: Annually all employees sign off on the Company's data and device controls. The Company ensures that all information access points are the Company's assets and all data passing through these access points are accessible by the Company and can be deleted whenever the Company deems necessary.
- Employee Training and Awareness: Ongoing cybersecurity training and awareness programs are implemented to educate employees about potential threats, phishing attacks, social engineering tactics, and best practices for safeguarding company information.
- Incident Response: The Company maintains a comprehensive incident response plan to promptly detect, contain, and recover from cybersecurity incidents. Regular testing and simulation exercises ensure readiness and effectiveness of response capabilities.
- Third-Party Risk Management: The Company regularly evaluates and monitors the cybersecurity posture of third-party vendors and partners with whom data is shared or relied upon for critical services, to ensure they meet the Company's security standards.
- Continuous Improvement: The Company regularly reviews and makes enhancements to the cybersecurity program to adapt to emerging threats, technological advancements, and changes in regulatory requirements. Implementation of new technologies, practices, and infrastructures to target security vulnerabilities is ongoing.
- Compliance and Reporting: The Company adheres to relevant cybersecurity regulations and standards applicable to the Company's industry and maintains transparency by disclosing material cybersecurity incidents or risks in accordance with regulatory obligations.

The Company had no material cybersecurity incidents in 2024.

Item 2. PROPERTIES.

The Company and its subsidiaries currently occupy twelve full-service and one limited-service banking facilities in the cities of Charlottesville, Manassas, Richmond and Winchester, and the counties of Albemarle, Fauquier and Prince William. The Company's main office, a full-service banking facility and operations are located at 404 People Place, Charlottesville, Virginia. VNB Trust and Estate Services is located at 103 Third Street, SE, Charlottesville, Virginia. Of the thirteen locations used as bank branches, five of the buildings are owned by the Company, six are leased from nonaffiliates and two are leased from affiliates described below. One former branch location is currently under contract to be sold. Leases with affiliates are described below.

The five-story building located at 404 People Place, Charlottesville, Virginia, just east of the Charlottesville city limits on Pantops Mountain, was constructed by the Bank on a pad site leased in 2005 from Pantops Park, LLC for a term of twenty years, with seven five-year renewal options. William D. Dittmar, Jr., a director of the Company and the Bank, is the manager and indirect owner of Pantops Park, LLC. The building, consisting of approximately 43,000 square feet, was completed in early 2008, and the Bank opened this full-service office in April 2008. In addition to the Company's use of this building as outlined in the preceding paragraph, a portion of the additional space is leased to tenants.

The drive-through location at 301 East Water Street, Charlottesville, which is a limited-service banking facility, and the adjoining office space located at 112 Third Street, SE, Charlottesville Virginia is leased from East Main Investments, LLC. Hunter E. Craig, a director of the Company and the Bank, serves as manager of East Main Investments, LLC, which is owned by Mr. Craig and his spouse.

See Note 6 – Premises and Equipment and Note 7 – Leases in the Notes to Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data for information with respect to the amounts at which the Company's premises and equipment are carried and commitments under long-term leases. All of the Company's properties are in good operating condition and are adequate for the Company's present and anticipated future needs.

Item 3. LEGAL PROCEEDINGS.

In the ordinary course of its operations, the Company and/or its subsidiaries are parties to various legal proceedings from time-to-time. Based on the information presently available, and after consultation with legal counsel, management believes that the ultimate outcome of such proceedings, in the aggregate, will not have a material adverse effect on the business or financial condition of the Company and its subsidiaries.

Item 4. MINE SAFETY DISCLOSURES.

Not applicable

Part II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Common Stock Performance and Dividends

Virginia National Bankshares Corporation's common stock is listed for trading on the Nasdaq Capital Market under the symbol VABK. As of December 31, 2024, the Company had issued and outstanding 5,370,912 shares of common stock, which included 65,889 shares of restricted stock that have not yet vested. As of March 26, 2025, there were approximately 660 shareholders of record.

The payment of dividends is at the discretion of the Company's Board of Directors and is subject to various federal and state regulatory limitations. As a bank holding company, the ability to pay dividends is dependent upon the overall performance and capital requirements of the Bank.

On June 28, 2023, the Company's Board of Directors approved a share repurchase plan of up to 5% of outstanding common stock. The program was announced in a Current Report on Form 8-K on July 17, 2023. The first repurchases of stock under this plan occurred in February 2024. There were no shares of the Company's common stock repurchased during the three months ending December 31, 2024.

The data in the table below represents the high sales and low sales prices that occurred between January 1, 2023 and December 31, 2024 as reported by Nasdaq. Additionally, the table shows the dividends declared per quarter in 2024 and 2023.

					Dividends Declared	
	2024		2023		2024	2023
	High	Low	High	Low		
First Quarter	$ 37.21	$ 27.50	$ 41.74	$ 34.69	$ 0.33	$ 0.33
Second Quarter	$ 32.96	$ 24.06	$ 36.77	$ 27.30	$ 0.33	$ 0.33
Third Quarter	$ 42.00	$ 29.80	$ 38.49	$ 30.01	$ 0.33	$ 0.33
Fourth Quarter	$ 44.00	$ 37.50	$ 43.08	$ 24.96	$ 0.33	$ 0.33
Total					$ 1.32	$ 1.32

Equiniti Trust Company, LLC (formerly American Stock Transfer and Trust Company) is the Company's stock transfer agent and registrar.

Recent Issuances of Unregistered Securities

No unregistered shares were issued in 2024 or 2023.

Item 6. [RESERVED].

Not applicable.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following discussion provides information about the major components of the results of operations and financial condition, liquidity, and capital resources of Virginia National Bankshares Corporation. This discussion and analysis should be read in conjunction with the Consolidated Financial Statements and Notes to Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data.

Application of Critical Accounting Policies and Critical Accounting Estimates

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

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

Following are the accounting policies and estimates that the Company considers as critical:

- ***Allowance for credit losses*** **-** The Company establishes the ACL through charges to earnings in the form of a provision for credit losses. Loan losses are charged against the ACL for the difference between the carrying value of the loan and the estimated net realizable value or fair value of the collateral, if collateral dependent, when management believes that the collectability of the principal is unlikely. Subsequent recoveries, if any, are credited to the ACL. The ACL represents management's current estimate of expected credit losses over the contractual term of loans held for investment, and is recorded at an amount that, in management's judgment, reduces the recorded investment in loans to the net amount expected to be collected. Management's judgment in determining the level of the ACL is based on evaluations of historical loan losses, current conditions and reasonable and supportable forecasts relevant to the collectability of loans. Various national economic variables are utilized in the development of the ACL, including the national unemployment rate and national gross domestic product. In addition, management's estimate of expected credit losses is based on the remaining life of certain consumer loans held for investment, and changes in expected prepayment behavior may result in changes in the remaining life of loans and expected credit losses. Management also assesses the risk of credit losses arising from changes in general market, economic and business conditions; the nature and volume of the loan portfolio; the volume and severity of delinquencies and adversely classified loan balances and the value of underlying collateral in determining the recorded balance of the ACL. This evaluation is inherently subjective because it requires estimates that are susceptible to significant revision as more information becomes available. In evaluating the level of the ACL, the Company considers a range of possible assumptions and outcomes related to the various factors identified above. The level of the ACL is particularly sensitive to changes in the actual and forecasted national unemployment rate and changes in current conditions or reasonably expected future conditions affecting the collectability of loans.
- ***Fair value measurements*** are used by the Company to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. The Company's valuation methodologies may produce a fair value calculation that may not be indicative of net realized value or reflective of future fair values. While management believes the Company's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. Additional discussion of valuation methodologies is presented in Note 17 – Fair Value Measurements, in the Notes to Consolidated Financial Statements.
- ***Intangible asset*** accounting policies require that goodwill and other intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but tested for impairment at least annually, or more frequently if events and circumstances exist that indicate that a goodwill impairment test should be performed. Intangible assets with definite useful lives are amortized over their

estimated useful lives, which range from 3 to 10 years, to their estimated residual values. Goodwill is the only intangible asset with an indefinite life on the Company's Consolidated Balance Sheets. Additional discussion of the accounting policies and composition of goodwill and other intangibles assets is presented in Note 1 – Summary of Significant Accounting Policies and Note 8 – Goodwill and Other Intangible Assets, in the Notes to Consolidated Financial Statements.

- ***Income tax*** accounting policies have the objective to recognize the amount of taxes payable or refundable for the current year and the deferred tax assets and liabilities for future tax consequences of events that have been recognized in an entity's financial statements or tax returns. Judgment is required in assessing the future tax consequences of events that have been recognized in the Company's Consolidated Financial Statements or tax returns. Fluctuations in the actual outcome of these future tax consequences could impact the Company's consolidated financial condition or results of operations.

  See Note 1 – Summary of Significant Accounting Policies and Note 11 – Income Taxes, in the Notes to Consolidated Financial Statements, for further detail on the accounting policies for income taxes and for components of the deferred tax assets and liabilities.

Non-GAAP Presentations

The accounting and reporting policies of the Company conform to GAAP and prevailing practices in the banking industry. However, certain non-GAAP measures are used by management to supplement the evaluation of the Company's performance. These include adjusted tangible book value per share and the following fully-taxable equivalent measures: net interest income-FTE, efficiency ratio-FTE and net interest margin-FTE. Interest on tax-exempt loans and securities is presented on a taxable-equivalent basis (which converts the income on loans and investments for which no income taxes are paid to the equivalent yield as if income taxes were paid) using the federal corporate income tax rate of 21% that was applicable for all periods presented.

Management believes that the use of these non-GAAP measures provides meaningful information about operating performance by enhancing comparability with other financial periods, other financial institutions, and between different sources of interest income. The non-GAAP measures used by management enhance comparability by excluding the effects of (1) balances of intangible assets, including goodwill, that vary significantly between institutions and (2) tax benefits that are not consistent across different opportunities for investment. These non-GAAP financial measures should not be considered an alternative to GAAP-basis financial statements, and other banks and bank holding companies may define or calculate these or similar measures differently. Net income is discussed in Management's Discussion and Analysis on a GAAP basis unless noted as "non-GAAP."

A reconcilement of the non-GAAP financial measures used by the Company to evaluate and measure the Company's performance to the most directly comparable GAAP financial measures is presented below:

(Dollars in thousands, except per share data) **Reconcilement of Non-GAAP Measures:**	**Year Ended December 31**	
	2024	**2023**
Fully taxable-equivalent measures		
Net interest income	$ 46,376	$ 48,969
Fully taxable-equivalent adjustment	347	347
Net interest income (FTE) [1]	$ 46,723	$ 49,316
Efficiency ratio [2]	62.4%	58.7%
Impact of FTE adjustment	-0.4%	-0.4%
Efficiency ratio (FTE) [3]	62.0%	58.3%
Net interest margin	3.08%	3.34%
Fully tax-equivalent adjustment	0.02%	0.02%
Net interest margin (FTE) [1]	3.10%	3.36%
Other financial measures		
Book value per share	$ 29.85	$ 28.52
Impact of intangible assets	(2.15)	(2.40)
Tangible book value per share (non-GAAP)	$ 27.70	$ 26.12

1 FTE calculations use a Federal income tax rate of 21%.
2 The efficiency ratio, GAAP basis, is computed by dividing noninterest expense by the sum of net interest income and noninterest income.
3 The efficiency ratio, FTE, is computed by dividing noninterest expense by the sum of net interest income (FTE) and noninterest income.

Results of Operations

Consolidated Return on Assets and Equity and Other Key Ratios

The ratio of net income to average total assets and average shareholders' equity and certain other ratios for the years indicated are as follows:

	2024	**2023**
Return on average assets	1.06%	1.22%
Return on average equity	10.78%	13.81%
Average equity to average assets	9.80%	8.85%
Cash dividend payout ratio	41.80%	33.47%
Efficiency ratio (FTE)	62.00%	58.30%

Net income for the year ended December 31, 2024 was $17.0 million, or $3.15 per diluted share, an 11.9% decrease compared to $19.3 million, or $3.58 per diluted share for the year ended December 31, 2023. This decrease was the result of a $2.6 million decrease in net interest income and a $1.5 million decrease in noninterest income, offset by a $397.0 thousand decrease in noninterest expense. Each component of such year-over-year changes are described in more detail below.

The efficiency ratio (FTE) was 62.0% for the year ended December 31, 2024, compared to 58.3% for the same period of 2023, increasing due to the fluctuations in net interest income, noninterest income and noninterest expense noted above.

The Company had three reportable segments during the periods presented: the Bank, VNB Trust and Estate Services and Masonry Capital.

- *Bank* - The Bank's commercial banking activities involve making loans, taking deposits and offering related services to individuals, businesses and charitable organizations. Loan fee income, service charges from deposit accounts, and other non-interest-related revenue, such as fees for debit cards and ATM usage and fees for treasury management services, generate additional income for this segment.
- *VNB Trust and Estate Services* - This segment offers corporate trustee services, trust and estate administration, IRA administration and custody services and offers in-house investment management services. Revenue for this segment is generated from administration, service and custody fees, as well as management fees which are derived from Assets Under Management. Investment management services currently are offered through affiliated and third-party managers.
- *Masonry Capital* - Masonry Capital offers investment management services for separately managed accounts and a private investment fund employing a value-based, catalyst-driven investment strategy. Revenue for this segment is generated from management fees which are derived from Assets Under Management and incentive income which is based on the investment returns generated on performance-based Assets Under Management. Note that the membership interests in this business line were sold to an officer of the Company effective April 1, 2024. Subsequent to the date of sale, the Company will receive an annual revenue-share amount for a period of six years. No expenses have been or will be incurred by the Company related to Masonry Capital subsequent to April 1, 2024.

The Bank segment earned net income of $17.2 million in 2024, a $2.2 million decrease compared to the $19.4 million netted in 2023. VNB Trust and Estate Services realized a net loss of $275.0 thousand in 2024, compared to a net loss of $307.0 thousand in 2023. Masonry Capital realized a net loss of $2 thousand in the first quarter of 2024 prior to the sale of the business line, compared to net income of $145 thousand in 2023.

Details of the changes in the various components of net income are further discussed below.

Net Interest Income

Net interest income is computed as the difference between the interest income on earning assets and the interest expense on deposits and other interest bearing liabilities. Net interest income represents the principal source of revenue for the Company and accounted for 85.9% of the total revenue in 2024. Net interest margin (FTE) is the ratio of taxable-equivalent net interest income to average earning assets for the period. The level of interest rates and the volume and mix of earning assets and interest bearing liabilities impact net interest income (FTE) and net interest margin (FTE).

The following table details the average balance sheet, including an analysis of net interest income (FTE) for earning assets and interest bearing liabilities, for the years ended December 31, 2024, 2023, and 2022.

Consolidated Average Balance Sheets and Analysis of Net Interest Income (FTE)

	2024			2023			2022		
(Dollars in thousands)	**Average Balance**	**Interest Income Expense**	**Average Yield/ Cost**	**Average Balance**	**Interest Income Expense**	**Average Yield/ Cost**	**Average Balance**	**Interest Income Expense**	**Average Yield/ Cost**
ASSETS									
Interest earning assets:									
Securities									
Taxable securities	$ 249,858	$ 7,120	2.85%	$ 400,189	$ 11,921	2.98%	$ 373,680	$ 8,696	2.33%
Tax exempt securities [1]	66,399	1,649	2.48%	66,895	1,655	2.47%	65,861	1,582	2.40%
Total securities [1]	316,257	8,769	2.77%	467,084	13,576	2.91%	439,541	10,278	2.34%
Loans:									
Real estate	908,356	51,532	5.67%	839,326	47,996	5.72%	847,238	38,011	4.49%
Commercial	220,276	12,430	5.64%	100,122	5,121	5.11%	81,410	3,583	4.40%
Consumer	37,013	2,572	6.95%	41,140	2,936	7.14%	49,619	2,637	5.31%
Total Loans	1,165,645	66,534	5.71%	980,588	56,053	5.72%	978,267	44,231	4.52%
Fed funds sold	14,663	765	5.22%	3,825	207	5.41%	100,033	1,088	1.09%
Other interest bearing deposits	8,220	206	2.51%	15,489	501	3.23%	161,260	1,467	0.91%
Total earning assets	1,504,785	76,274	5.07%	1,466,986	70,337	4.79%	1,679,101	57,064	3.40%
Less: Allowance for credit losses	(8,350)			(7,907)			(5,702)		
Total non-earning assets	109,500			115,908			124,525		
Total assets	$ 1,605,935			$ 1,574,987			$ 1,797,924		
LIABILITIES AND SHAREHOLDERS' EQUITY									
Interest bearing liabilities:									
Interest bearing deposits:									
Interest checking	$ 269,136	$ 272	0.10%	$ 321,154	$ 346	0.11%	$ 409,504	$ 230	0.06%
Money market and savings deposits	425,386	11,803	2.77%	421,083	9,673	2.30%	563,374	2,097	0.37%
Time deposits	333,139	15,410	4.63%	220,348	8,617	3.91%	144,564	657	0.45%
Total interest bearing deposits	1,027,661	27,485	2.67%	962,585	18,636	1.94%	1,117,442	2,984	0.27%
Borrowings	36,111	1,691	4.68%	37,286	1,934	5.19%	-	-	-
Federal Funds Purchased	489	29	5.93%	2,632	138	5.24%	-	-	-
Junior subordinated debt	3,482	346	9.94%	3,436	313	9.11%	3,389	200	5.90%
Total interest bearing liabilities	1,067,743	29,551	2.77%	1,005,939	21,021	2.09%	1,120,831	3,184	0.28%
Non-interest bearing liabilities:									
Demand deposits	370,178			418,091			526,389		
Other liabilities	10,597			9,989			9,581		
Total liabilities	1,448,518			1,434,019			1,656,801		
Shareholders' equity	157,417			139,443			141,123		
Total liabilities & shareholders' equity	$ 1,605,935			$ 1,573,462			$ 1,797,924		
Net interest income (FTE)		$ 46,723			$ 49,316			$ 53,880	
Interest rate spread [2]			2.30%			2.70%			3.12%
Cost of funds			2.06%			1.48%			0.19%
Interest expense as a percentage of average earning assets			1.96%			1.43%			0.19%
Net interest margin (FTE) [3]			3.10%			3.36%			3.21%

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

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

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

The purpose of the volume and rate analysis below is to describe the impact on the net interest income (FTE) of the Company resulting from changes in average balances and average interest rates for the periods indicated. The change in interest due to both volume and rate has been allocated to volume and rate changes in proportion to the relationship of the absolute dollar amounts of the change in each. Interest income is reported on a tax-equivalent basis.

Volume and Rate Analysis

2024 compared to 2023

	Change due to:		Increase/
(Dollars in thousands)	Volume	Rate	(Decrease)
Assets:			
Securities	$ (4,316)	$ (491)	$ (4,807)
Loans:			
Real estate	3,919	(383)	3,536
Commercial	6,730	579	7,309
Consumer	(288)	(76)	(364)
Total loans	10,361	120	10,481
Federal funds sold	566	(8)	558
Other interest bearing deposits	(170)	(125)	(295)
Total earning assets	$ 6,441	$ (504)	$ 5,937
Liabilities and Shareholders' equity:			
Interest bearing deposits:			
Interest checking	$ (54)	(20)	$ (74)
Money market and savings	100	2,030	2,130
Time deposits	5,005	1,788	6,793
Total interest bearing deposits	5,051	3,798	8,849
Short term borrowings	(59)	(184)	(243)
Federal funds purchased	(125)	16	(109)
Junior subordinated debt	4	29	33
Total interest bearing liabilities	4,871	3,659	8,530
Change in net interest income	$ 1,570	$ (4,163)	$ (2,593)

2023 compared to 2022

	Change due to:		Increase/
(Dollars in thousands)	Volume	Rate	(Decrease)
Assets:			
Securities	$ 677	$ 2,623	$ 3,300
Loans:			
Real estate	(483)	10,468	9,985
Commercial	922	616	1,538
Consumer	(501)	800	299
Total loans	(62)	11,884	11,822
Federal funds sold	(1,857)	976	(881)
Other interest bearing deposits:	(2,220)	1,254	(966)
Total earning assets	$ (3,462)	$ 16,737	$ 13,275
Liabilities and Shareholders' equity:			
Interest bearing deposits:			
Interest checking	$ (58)	174	$ 116
Money market and savings	(657)	8,233	7,576
Time deposits	513	7,447	7,960
Total interest bearing deposits	(202)	15,854	15,652
Short term borrowings	-	1,934	1,934
Federal funds purchased	-	138	138
Junior subordinated debt	3	110	113
Total interest bearing liabilities	(199)	18,036	17,837
Change in net interest income	$ (3,263)	$ (1,299)	$ (4,562)

For 2024, net interest income (FTE) of $46.7 million was recognized, a decrease of $2.6 million over 2023. Net interest income (FTE) for 2023 totaled $49.3 million, a $4.6 million decrease over the 2022 total of $53.9 million. Average earning assets increased $37.8 million or 2.6% in 2024 compared to 2023 and decreased $212.1 million or 12.6% in 2023 compared to 2022. The increase in the average balance of loans in the real estate and commercial categories were the primary drivers of the increase in interest income from 2023 to 2024. The average balance for loans as a percentage of earnings assets for 2024 was 77.5%, compared to 66.8% and 58.3% in 2023 and 2022, respectively.

The 2024 net interest margin (FTE) declined 26 bps to 3.10% from 3.36% in 2023. The 2023 net interest margin (FTE) improved 15 bps from 3.21% in 2022. The tax-equivalent yield on average earning assets for 2024 of 5.07% was 28 bps higher than the 2023 yield of 4.79%. The 2023 tax-equivalent yield on average earning assets was 139 bps higher than the comparable 2022 yield of 3.40%. Loan yields for 2024 were 5.71%, declining only 1 bp from the loan yield of 5.72% for 2023. Average loans for 2024 of $1.2 billion were $185.1 million higher than the 2023 average of $980.6 million.

The increase in rates paid on deposits in 2024 compared to 2023 negatively impacted net interest income. Interest expense as a percentage of average earning assets increased to 196 bps for 2024, compared to 143 bps and 19 bps for 2023 and 2022, respectively. Net interest margin will be impacted by future changes in short-term and long-term interest rate levels on deposits, as well as the impact from the competitive environment. A continuing primary driver of the Company's low cost of funds compared to peers is the Company's level of non-interest bearing demand deposits and low-cost deposit accounts. Following is a table illustrating the average balances of deposit accounts as a percentage of total deposit account balances.

(Dollars in thousands)	2024		2023		2022	
	Average Balance	**% of Total Deposits**	**Average Balance**	**% of Total Deposits**	**Average Balance**	**% of Total Deposits**
Non-interest demand deposits	$ 370,178	26.5%	$ 418,091	30.3%	$ 526,389	32.0%
Interest checking accounts	269,136	19.3%	321,154	23.2%	409,504	24.9%
Money market and savings deposit accounts	425,386	30.4%	421,083	30.5%	563,374	34.3%
Total non-interest and low-cost deposit accounts	$ 1,064,700	76.2%	$1,160,328	84.0%	$1,499,267	91.2%
Time deposits	333,139	23.8%	220,348	16.0%	144,564	8.8%
Total deposit account balances	$ 1,397,839	100.0%	$1,380,676	100.0%	$1,643,831	100.0%

Provision for Credit Losses

The level of the ACL reflects changes in the size of the portfolio or in any of its components, as well as management's continuing evaluation of industry concentrations, specific credit risks, loan loss experience, current loan portfolio quality, and economic, political and regulatory conditions. Additional information concerning management's methodology in determining the adequacy of the ACL is contained later in this section under allowance for credit losses, in addition to Note 1 – Summary of Significant Accounting Policies and Note 5 – Allowance for Credit Losses of the Notes to Consolidated Financial Statements, found in Item 8. Financial Statements and Supplementary Data.

Based on management's continuing evaluation of the loan portfolio in 2024, the Company recorded a net recovery of provision for credit losses of $600 thousand, which is net of a $118 thousand provision for unfunded commitments, compared to provision expense of $734 thousand, which includes a $38 thousand provision for unfunded commitments, in 2023 and provision expense of $106 thousand in 2022. The decrease in 2024 is primarily the result of the impact of declining expected loss rates on most of the pools of loans within the CECL segmentation. The increase in 2023 is primarily the result of the adoption of ASC 326, which increased the ACL by $2.5 million effective January 1, 2023, as well as increase in provision related to organic loan growth.

The ACL as a percentage of total loans was 0.68% at December 31, 2024 compared to 0.77% at December 31, 2023.

The following is a summary of the changes in the ACL for the years ended December 31, 2024, 2023, and 2022:

(Dollars in thousands)	2024	2023	2022
Allowance for credit losses, January 1	$ 8,395	$ 5,552	$ 5,984
Impact of ASC 326 adoption	-	2,491	-
Charge-offs	(759)	(721)	(1,255)
Recoveries	1,537	377	717
Provision for (recovery of) credit losses	(718)	696	106
Allowance for credit losses, December 31	$ 8,455	$ 8,395	$ 5,552
Allowance for credit losses as a percentage of period-end total loans	0.68%	0.77%	0.59%

Noninterest Income

The major components of noninterest income are detailed below. Year-to-year variances are shown for each noninterest income category.

(Dollars in thousands)	For the year ended December 31		Variance	
	2024	2023	$	%
Noninterest income:				
Trust and estate services fees	$ 1,152	$ 968	$ 184	19.0%
Performance fees	-	376	(376)	-100.0%
Investment management income	-	632	(632)	-100.0%
Deposit account fees	1,363	1,593	(230)	-14.4%
Debit/credit card and ATM fees	1,914	2,277	(363)	-15.9%
Bank owned life insurance income	1,155	1,764	(609)	-34.5%
Gains on sale of assets, net	36	112	(76)	-67.9%
Gain on early redemption of debt	904	-	904	---
Gain on termination of interest rate swap	-	460	(460)	-100.0%
Losses on sales of AFS, net	(4)	(206)	202	-98.1%
Other	1,069	1,125	(56)	-5.0%
Total noninterest income	$ 7,589	$ 9,101	$ (1,512)	-16.6%

Noninterest income of $7.6 million for the year ended December 31, 2024 decreased $1.5 million over the prior year, as a result of the following:

- Investment management income of $632 thousand and performance fees of $376 thousand were recognized in 2023 related to the Masonry business line. The membership interests in this business line were sold to an officer of the Company effective April 1, 2024. Subsequent to the date of sale, the Company will receive an annual revenue-share amount for a period of six years. See below for impact of the sale on Masonry on 2024's noninterest expense.
- Proceeds of bank owned life insurance were collected in 2023 related to the death of a former employee.
- These decreases were partially offset by a $904 gain on early redemption of debt realized in 2024.

Noninterest Expense

The major components of noninterest expense are detailed below. Year-over-year variances are shown for each noninterest expense category.

(Dollars in thousands)	December 31,	December 31,	Variance	
	2024	2023	$	%
Noninterest expense:				
Salaries and employee benefits	$ 15,933	$ 15,900	$ 33	0.2%
Net occupancy	3,662	4,017	(355)	-8.8%
Equipment	720	762	(42)	-5.5%
Bank franchise tax	1,452	1,220	232	19.0%
Computer software	917	778	139	17.9%
Data processing	2,647	2,799	(152)	-5.4%
FDIC deposit insurance assessment	700	710	(10)	-1.4%
Marketing, advertising and promotion	730	1,098	(368)	-33.5%
Professional fees	894	674	220	32.6%
Core deposit intangible amortization	1,301	1,493	(192)	-12.9%
Other	4,710	4,612	98	2.1%
Total noninterest expense	$ 33,666	$ 34,063	$ (397)	-1.2%

Noninterest expense of $33.7 million for the year ended December 31, 2024 decreased $397.0 thousand from the prior year, predominantly due to continued efficiencies gained from the Merger in the areas of occupancy and data processing. In addition, management reduced the level of marketing, advertising and promotion expense in 2024 compared to 2023. Normal, recurring increases in salaries and employee benefits in the form of merit increases and benefit costs were offset by a reduction in salaries and employee benefits related to Masonry, as that business line was sold effective April 1, 2024. At December 31, 2024, the Company had 146 full-time equivalent employees compared to 155 at December 31, 2023.

Core deposit intangible amortization expense is a result of the Merger and amounted to $1.3 million in 2024 and $1.5 million in 2023.

Provision for Income Taxes

The provision for income taxes is based upon the results of operations, adjusted for the effect of certain tax-exempt income and non-deductible expenses. In addition, certain items of income and expense are reported in different periods for financial reporting and tax return purposes. The tax effects of these temporary differences are recognized currently in the deferred income tax provision or benefit. Deferred tax assets or liabilities are computed based on the difference between the financial statement and the income tax bases of assets and liabilities using the applicable enacted marginal tax rate.

For 2024, the Company provided $3.9 million for Federal income taxes, resulting in an effective income tax rate of 18.8%. In 2023, the Company provided $4.0 million for Federal income taxes, resulting in an effective income tax rate of 17.2%. The effective tax rate was higher in 2024 due to the adoption of the proportional method of accounting for LIHTCs, as described in Note 26 - Investment in Affordable Housing Projects of the Notes to Consolidated Financial Statements which is found in Item 8. Financial Statements and Supplementary Data. In addition, the effective tax rate was lower in 2023 due to the nontaxability of proceeds from bank owned life insurance as a result of the death of a former employee. The effective income tax rates for 2024 and 2023 were lower than the U.S. statutory rate of 21% due to the effect of tax-exempt income from municipal bonds and tax-exempt interest from bank owned life insurance policies.

More information on income taxes, including net deferred taxes can be found in Note 11 – Income Taxes of the Notes to Consolidated Financial Statements which is found in Item 8. Financial Statements and Supplementary Data.

BALANCE SHEET ANALYSIS

Securities

The investment securities portfolio has a primary role in the management of the Company's liquidity requirements and interest rate sensitivity, as well as generating significant interest income. Investment securities also play a key role in diversifying the Company's balance sheet. In addition, a portion of the investment securities portfolio is pledged as collateral for public fund deposits. Changes in deposit and other funding balances and in loan production will impact the overall level of the investment portfolio.

As of December 31, 2024, the Company's investment portfolio totaled $269.7 million, with obligations of U.S. government corporations and government-sponsored enterprises amounting to $163.9 million, or approximately 61% of the total. The Company's investment portfolio totaled $429.0 million as of December 31, 2023.

During the years ended December 31, 2024, and December 31, 2023, $40.0 million and $49.8 million of securities were sold incurring pre-tax losses of $4 thousand and $206 thousand, respectively. All of these sales were part of strategic decisioning to reinvest proceeds into higher yielding assets. Management proactively manages the mix of earning assets and cost of funds to maximize the earning capacity of the Company.

In accordance with ASC 320, "Investments - Debt and Equity Securities," the Company has categorized its unrestricted securities portfolio as Available for Sale. Securities classified as AFS may be sold in the future, prior to maturity. Any decision to sell a security classified as AFS would be based on various factors, including significant movements in interest rates, changes in the maturity mix of the Company's assets and liabilities, liquidity needs, regulatory capital considerations, and other similar factors. AFS securities are carried at fair value. Net aggregate unrealized gains or losses on these securities are included, net of taxes, as a component of shareholders' equity. All of the Company's unrestricted securities were investment grade or better as of December 31, 2024. Management has evaluated whether the decline in fair value is the result of credit losses and has determined that no credit loss provision is required as of December 31, 2024 related to the AFS portfolio. AFS securities included gross unrealized losses of $53.0 million as of December 31, 2024.

(Dollars in thousands)	December 31, 2024		December 31, 2023	
	Amount	**Percent**	**Amount**	**Percent**
U.S. Treasury securities	$ 1,493	1%	$ 121,708	29%
U.S. Government agencies	29,635	11%	39,581	9%
MBS/CMOs	132,811	50%	155,144	37%
Corporate bonds	17,591	7%	19,129	5%
Municipal bonds	82,007	31%	85,033	20%
Total available for sale securities at fair value	$ 263,537	100%	$ 420,595	100%

All mortgage-backed securities included in the above tables were issued by U.S. government agencies and corporations. At December 31, 2024, the securities issued by political subdivisions or agencies were highly rated with 93% of the municipal bonds having A+ or higher ratings. Approximately 63% of the municipal bonds are general obligation bonds, and issuers are geographically diverse. The Company held no issues that exceeded 10% of the Company's shareholders' equity at December 31, 2024.

The Company's holdings of restricted securities totaled $6.2 million and $8.4 million at December 31, 2024 and December 31, 2023, respectively, and consisted of stock in the Federal Reserve Bank, stock in the FHLB, and stock in CBB Financial Corporation, the holding company for Community Bankers' Bank, and an investment in an SBA loan fund. The Bank is required to hold stock in the Federal Reserve Bank and the FHLB as a condition of membership with each of these correspondent banks. The amount of stock required to be held by the Bank is periodically assessed by each bank, and the Bank may be subject to purchase or surrender stock held in these banks, as determined by their respective calculations. Stock ownership in the bank holding company for Community Bankers' Bank provides the Bank with several benefits that are not available to non-shareholder correspondent banks. None of these stock issues are traded on the open market and can only be redeemed by the respective issuer. Restricted stock holdings are recorded at cost.

The table shown below details the amortized cost and fair value of AFS securities at December 31, 2024 based upon contractual maturities, by major investment categories. Expected maturities may differ from contractual maturities because issuers have the right to call or prepay obligations. The tax-equivalent yield is based upon a federal tax rate of 21%. Refer to the Reconcilement of Non-GAAP Measures table within the Non-GAAP Presentations section earlier in Item 7.

Maturity Distribution and Average Yields

Contractual Maturities of Debt Securities at December 31, 2024

(Dollars in thousands)	Amortized Cost	Fair Value	Weighted Average Yield (FTE)	% of Debt Securities
U.S. Treasury securities				
One year or less	$ 1,500	$ 1,493	2.65%	
After one year to five years	-	-	0.00%	
	$ 1,500	$ 1,493	2.65%	0.4%
U.S. Government-sponsored agencies:				
One year or less	$ -	$ -	0.00%	
After one to five years	12,218	10,826	1.29%	
After five years to ten years	18,780	15,863	1.68%	
Ten years or more	4,000	2,946	1.79%	
	$ 34,998	$ 29,635	1.55%	11.1%
MBS/CMOs				
One year or less	$ -	$ -	0.00%	
After one year to five years	5,212	4,954	2.13%	
After five years to ten years	1,965	1,815	2.19%	
Ten years or more	151,377	126,042	1.99%	
	$ 158,554	$ 132,811	2.00%	50.2%
Corporate bonds				
One year or less	$ 9,992	$ 9,931	3.55%	
After one to five years	7,790	7,660	3.26%	
	$ 17,782	$ 17,591	3.42%	5.6%
Municipal bonds				
One year or less	$ 610	$ 608	2.46%	
After one to five years	4,801	4,661	2.81%	
After five to ten years	23,280	21,031	1.93%	
Ten years or more	75,002	55,707	2.32%	
	$ 103,693	$ 82,007	2.25%	32.7%
Total Debt Securities Available for Sale	$ 316,527	$ 263,537	2.11%	100.0%

Weighted average yield is calculated based on the relative amortized cost of the securities. Yields on tax-exempt securities have been computed on a tax-equivalent basis using the federal corporate income tax rate of 21%.

As stated, the preceding table reflects the distribution of the contractual maturities of the investment portfolio at December 31, 2024. Management's investment portfolio strategy is to structure the portfolio so that it is a constant source of liquidity for the balance sheet. In order to achieve greater liquidity in the portfolio, securities that have a monthly flow of principal repayments become a key component. To illustrate the difference between contractual maturity and average life, consider the difference for the fixed rate mortgage-backed securities (MBS) component of this portfolio. At December 31, 2024, the weighted average maturity of the fixed rate MBS sector was 15.6 years, and the projected average life for this group of securities is 6.0 years.

Another indication of the investment portfolio's liquidity potential is shown by the projected annual principal cash flow from maturities, callable bonds, and monthly principal repayments. For the next three years, the principal cash flows are estimated to be $33.5 million for 2025, $24.4 million for 2026, and $30.9 million for 2027, based upon rates remaining at current levels. This represents approximately 28% of the investment portfolio's AFS balance at December 31, 2024 that will be available to support the future liquidity needs of the Company. Cash flow projections are subject to change based upon changes to market interest rates.

Loan Portfolio

The Company’s objective is to maintain the historically strong credit quality of the loan portfolio by maintaining rigorous underwriting standards. These standards coupled with regular evaluation of the creditworthiness of, and the designation of lending limits for, each borrower has helped the Company achieve this objective. The primary portfolio strategy includes seeking industry and loan size diversification in order to minimize credit exposure and originating loans in markets with which the Company is familiar. The predominant market area for loans includes Charlottesville, Albemarle County, Fauquier County, Prince William County, Winchester, Frederick County, Manassas, and Richmond, as well as other areas in Virginia, Maryland, West Virginia and the District of Columbia.

The Company’s loan portfolio totaled $1.2 billion as of December 31, 2024 or 76.4% of total assets. Loan balances increased $143.3 million, or 13.1%, from the balance of $1.1 billion as of December 31, 2023. Note that all loan balances are presented net of credit and other fair value discounts, when applicable. The table below shows the composition of the loan portfolio:

(Dollars in thousands)	As of December 31,	
	2024	**2023**
Commercial loans	$ 257,671	$ 152,517
Real estate mortgage:		
Construction and land	36,977	33,682
1-4 family residential mortgages	313,610	317,558
Commercial	593,496	550,867
Total real estate mortgage	$ 944,083	$ 902,107
Consumer	34,215	38,041
Total loans	$ 1,235,969	$ 1,092,665
Less: Allowance for credit losses	(8,455)	(8,395)
Net loans	$ 1,227,514	$ 1,084,270

At December 31, 2024, the loan-to-deposit ratio stood at 86.8%, compared to 77.5% at December 31, 2023.

Based on underwriting standards, loans may be secured in whole or in part by collateral such as liquid assets, accounts receivable, equipment, inventory and real property. The collateral securing any loan may depend on the type of loan and may vary in value based on market conditions.

The Company’s real estate loan portfolio increased by $42.0 million to a balance of $944.1 million at December 31, 2024 from $902.1 million at December 31, 2023. This category comprises 76.4% of all loans, and these loans are secured by mortgages on real property located principally in the Company's market area. Of this amount, approximately $313.6 million represented loans on 1-4 family residential properties. Commercial real estate loans totaled $593.5 million as of December 31, 2024. Sources of repayment are from the borrower’s operating profits, cash flows and liquidation of pledged collateral. The remaining real estate loans were comprised of construction and land development loans which totaled $37.0 million as of December 31, 2024.

Of the $593.5 million of commercial mortgages held on the balance sheet as of December 31, 2024, $309.8 million consists of non-owner occupied commercial real estate, $107.2 million of multifamily, and $176.5 million of owner occupied CRE. No CRE loans were over 90 days past due as of December 31, 2024.

The following table details the Company's levels of non-owner occupied commercial real estate as of December 31, 2024, along with the average loan size and % of risk ratings for each category:

Loan Type *(dollars in thousands)*	Balance	% of Total CRE	Average Loan Size	Special Mention	Sub-standard	Nonaccrual
Hotels	$ 45,840	14.80%	$ 5,730	0.00%	0.00%	0.00%
Office Building	61,893	19.98%	$ 764	0.00%	0.00%	0.00%
Warehouses/Industrial	61,243	19.77%	$ 2,112	0.00%	0.00%	0.00%
Retail	120,655	38.95%	$ 1,856	0.89%	0.00%	0.00%
Day Cares / Schools	10,606	3.42%	$ 1,178	14.25%	0.00%	0.00%
All Other Commercial Buildings	9,520	3.07%	$ 865	0.00%	0.00%	0.00%
Total Non-Owner Occupied CRE	$ 309,757					

As of December 31, 2024, the Company's commercial and industrial loan portfolio totaled $257.7 million, a $105.2 million increase from the $152.5 million balance at year-end 2023. This category, representing approximately 20.8% of all loans, includes loans made to individuals and small to medium-sized businesses, as well as loans purchased in the government guaranteed market. As of December 31, 2024 and December 31, 2023, the portfolio of government guaranteed loans, included in the commercial loan balance, was $218.3 million and $109.7 million, respectively.

Consumer loans, comprised of student loans purchased, revolving credit, and other fixed payment loans, totaled $34.2 million as of December 31, 2024 or 2.8% of all loans. Consumer loans ended 2024 with balances $3.8 million lower than the prior year-end, primarily due to normal amortization within the student loan portfolio.

The following table presents the maturity/repricing distribution of the Company's loans at December 31, 2024. The table also presents the portion of loans that have fixed interest rates or variable/floating interest rates that fluctuate over the life of the loans in accordance with changes in an interest rate index such as the Wall Street Journal prime rate or U.S. Treasury bond indices.

Maturities and Sensitivities of Loans to Changes in Interest Rates

(Dollars in thousands)	**As of December 31, 2024**				
	One Year or Less	**After One to Five Years**	**After Five to 15 Years**	**After 15 Years**	**Total**
Fixed Rate:					
Commercial loans	$ 577	$ 14,854	$ 10,501	$ 1,604	$ 27,536
Real estate construction and land	9,911	13,672	2,352	-	25,935
1-4 family residential mortgages	2,362	38,618	65,538	52,113	158,631
Commercial mortgages	32,550	194,818	13,993	-	241,361
Consumer	7,656	8,236	421	69	16,382
Total fixed rate loans	$ 53,056	$ 270,198	$ 92,805	$ 53,786	$ 469,845
Variable Rate:					
Commercial loans	$ 181,991	$ 28,977	$ 16,195	$ 2,971	$ 230,134
Real estate construction and land	2,434	8,512	96	5,236	16,278
1-4 family residential mortgages	43,727	102,034	3,984	8,068	157,813
Commercial mortgages	86,427	243,330	14,308	188	344,253
Consumer	427	2,781	14,438	-	17,646
Total variable rate loans	$ 315,006	$ 385,634	$ 49,021	$ 16,463	$ 766,124
Total loans	$ 368,062	$ 655,832	$ 141,826	$ 70,249	$ 1,235,969

Total loans at December 31, 2024 and 2023 included loans purchased in connection with the Merger. These loans were recorded at estimated fair value on the date of acquisition without the carryover of the related allowance for loan loss. The following table presents the outstanding principal balance and the carrying amount of purchased loans as of December 31, 2024:

(Dollars in thousands)	**December 31, 2024**		
	Acquired Loans - Purchased Credit Deteriorated	**Acquired Loans - Purchased Performing**	**Acquired Loans - Total**
Outstanding principal balance	$ 25,598	$ 228,376	$ 253,974
Carrying amount:			
Commercial	$ 14	$ 3,915	$ 3,929
Real estate construction and land	564	1,605	2,169
1-4 family residential mortgages	9,380	128,386	137,766
Commercial mortgages	11,199	91,826	103,025
Consumer	23	277	300
Total acquired loans	$ 21,180	$ 226,009	$ 247,189

Loan Asset Quality

Intrinsic to the lending process is the possibility of loss. While management endeavors to minimize this risk, it recognizes that loan losses will occur and that the amount of these losses will fluctuate depending on the risk characteristics of the loan portfolio, which in turn depend on current and future economic conditions, the financial condition of borrowers, the realization of collateral, and the credit management process.

Generally, loans are placed on non-accrual status when management believes, after considering economic and business conditions and collections efforts, that it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement, or when the loan is past due for 90 days or more, unless the debt is both well-secured and in the process of collection.

At December 31, 2024 and 2023, the Company had loans classified as non-accrual with balances of $2.3 million and $1.9 million, respectively. The non-accrual balance as of December 31, 2024 consists of twelve loans to eleven borrowers and 100% of such balance is secured by real estate.

Loans 90 days or more past due and still accruing interest amounted to $754 thousand as of December 31, 2024, compared to $879 thousand as of December 31, 2023. The 2024 balance includes three loans totaling $705 thousand which are 100% government-guaranteed, and three student loans totaling $49 thousand. No CRE loans were 90 days or more past due as of December 31, 2024.

Allowance for Credit Losses

The relationship of the ACL to total loans and nonaccrual loans appears below:

(Dollars in thousands)	**2024**	**2023**
Total loans	$ 1,235,969	$ 1,092,665
Nonaccrual loans	$ 2,267	$ 1,852
Allowance for credit losses	$ 8,455	$ 8,395
Nonaccrual loans to total loans	0.18%	0.17%
ACL to total loans	0.68%	0.77%
ACL to nonaccrual loans	372.96%	453.29%

See Note 4 – Loans and Note 5 – Allowance for Credit Losses in the accompanying Notes to Consolidated Financial Statements included in Item 8. Financial Statements and Supplementary Data for further details regarding the Company's loan asset quality measurements.

Activity for the ACL is provided in the following table:

As of and for the year ended December 31, 2024

(Dollars in thousands)	Commercial Loans	Real Estate Construction and Land	1-4 Family Residential Mortgages	Real Estate Mortgages	Consumer Loans	Total
Allowance for Credit Losses:						
Balance as of beginning of year	$ 193	$ 462	$ 1,492	$ 5,261	$ 987	$ 8,395
Charge-offs	(288)	-	-	-	(471)	(759)
Recoveries	723	-	11	573	230	1,537
Provision for (recovery of) credit losses	132	275	1,048	(2,301)	128	(718)
Balance at end of year	$ 760	$ 737	$ 2,551	$ 3,533	$ 874	$ 8,455
Average loans	$ 220,276	$ 36,757	$ 312,533	$ 559,066	$ 37,013	$ 1,165,645
Net charge-offs (recoveries) to average loans	-0.20%	0.00%	0.00%	-0.10%	0.65%	-0.07%

As of and for the year ended December 31, 2023

(Dollars in thousands)	Commercial Loans	Real Estate Construction and Land	1-4 Family Residential Mortgages	Real Estate Mortgages	Consumer Loans	Total
Allowance for Loan Losses:						
Balance as of beginning of year	$ 194	$ 221	$ 1,618	$ 2,820	$ 699	$ 5,552
Impact of ASC 326 adoption	(11)	440	14	1,577	471	2,491
Charge-offs	-	-	-	-	(721)	(721)
Recoveries	168	-	10	42	157	377
Provision for (recovery of) loan losses	(158)	(199)	(150)	822	381	696
Balance at end of year	$ 193	$ 462	$ 1,492	$ 5,261	$ 987	$ 8,395
Average loans	$ 100,122	$ 35,767	$ 317,355	$ 486,204	$ 41,140	$ 980,588
Net charge-offs (recoveries) to average loans	-0.17%	0.00%	0.00%	-0.01%	1.37%	0.04%

As of December 31, 2024, the ACL was $8.5 million, an increase of $60 thousand from $8.4 million at December 31, 2023, due to the increased balances in the loan portfolio and also impacted by net recoveries of previously charged-off loans due to strong and successful collection efforts. Management's estimates for the ACL resulted in the Company's ACL to total loans outstanding ratio of 0.68% at December 31, 2024, compared to 0.77% at December 31, 2023.

During 2024, there were $759 thousand in loan balances charged off, with a total of $1.5 million in recoveries of previously charged-off balances, resulting in net charge-offs of $778 thousand. During 2023, there were $721 thousand in loan balances charged off, with a total of $377 thousand in recoveries of previously charged-off balances, resulting in net charge-offs of $344 thousand. The ratio of net charge-offs to average loans was 0.07% (net recovery) and 0.04% for 2024 and 2023, respectively.

The table below provides an allocation of year-end ACL by loan type; however, allocation of a portion of the allowance to one loan category does not preclude its availability to absorb losses in other categories.

Allocation of the Allowance for Credit Losses

(Dollars in thousands)	December 31, 2024	
	Allowance	Percentage of loans in each category to total loans
Commercial loans	$ 760	20.85%
Real estate construction and land	737	2.99%
1-4 family residential mortgages	2,551	25.37%
Real estate mortgages	3,533	48.02%
Consumer	874	2.77%
Total	$ 8,455	100.00%

(Dollars in thousands)	December 31, 2023	
	Allowance	Percentage of loans in each category to total loans
Commercial loans	$ 193	13.95%
Real estate construction and land	462	3.08%
1-4 family residential mortgages	1,492	29.07%
Real estate mortgages	5,261	50.42%
Consumer	987	3.48%
Total	$ 8,395	100.00%

Deposits

Depository accounts represent the Company's primary source of funding and are comprised of demand deposits, interest bearing checking accounts, money market deposit accounts and time deposits. These deposits have been provided predominantly by individuals, businesses and charitable organizations in the Charlottesville/Albemarle County, Fauquier County, Manassas, Prince William County, Richmond and Winchester market areas.

Depository accounts held by the Company as of December 31, 2024, totaled $1.4 billion, an increase of $14.4 million or 1.0% compared to the December 31, 2023 balance.

At December 31, 2024, the balances of non-interest bearing demand deposits were $374.1 million or 26.3% of total deposits, a 0.3% increase from $372.9 million at December 31, 2023. Interest bearing transaction and money market accounts totaled $741.0 million at December 31, 2024, an increase of $23.4 million compared to $717.7 million at December 31, 2023. The Company offers ICS®, which allows customers access to multi-million-dollar FDIC insurance on funds placed into demand deposit and/or money market deposit accounts. As of December 31, 2024, the reciprocal ICS® balances included in demand deposit and money market accounts were $44.5 million and $122.1 million, respectively. The Company's low-cost deposit accounts, which include both non-interest and interest bearing checking accounts as well as money market accounts, represented 78.3% of total deposit account balances at December 31, 2024 compared to 77.4% of total deposit account balances at December 31, 2023.

Certificates of deposit and other time deposit balances decreased $10.1 million to $308.4 million at December 31, 2024 from the balance of $318.6 million at December 31, 2023. Included in this deposit total were reciprocal relationships under CDARS™, whereby depositors can obtain FDIC insurance on deposits up to $50 million. These reciprocal CDARS™ deposits totaled $4.9 million and $5.5 million at December 31, 2024 and 2023, respectively.

Average Balances and Rates Paid
(Dollars in thousands)

	Years Ended December 31			
	2024		2023	
	Average Balance	Average Rate	Average Balance	Average Rate
Non-interest bearing demand deposits	$ 370,178		$ 418,091	
Interest bearing deposits:				
Interest checking	269,136	0.10 %	321,154	0.11 %
Money market and savings deposits	425,386	2.77 %	421,083	2.30 %
Time deposits	333,139	4.63 %	220,348	3.91 %
Total interest bearing deposits	$ 1,027,661	2.67 %	$ 962,585	1.94 %
Total deposits	$ 1,397,839		$ 1,380,676	

As of December 31, 2024 and 2023, the estimated amounts of total uninsured deposits were $389.6 million and $360.0 million, respectively.

Maturities of time deposits in excess of FDIC insurance limits as of December 31, 2024 were as follows:

(Dollars in thousands)	Amount	Percentage
Three months or less	$ 43,967	43.0 %
Over three months to six months	31,217	30.6 %
Over six months to one year	14,976	14.7 %
Over one year	11,938	11.7 %
Totals	$ 102,098	100.0 %

Borrowings

Borrowings, consisting primarily of FHLB advances and federal funds purchased, are additional sources of funds for the Company. The level of these borrowings is determined by various factors, including customer demand and the Company's ability to earn a favorable spread on the funds obtained.

The Company has a collateral dependent line of credit with the FHLB. As of December 31, 2024, the Company had $20.0 million in outstanding advances from the FHLB, compared to $66.5 million in outstanding advances as of December 31, 2023.

Additional borrowing arrangements maintained by the Bank include formal federal funds lines with five correspondent banks. The Company had $236 thousand in federal funds purchased as of December 31, 2024 compared to $3.5 million at of December 31, 2023 and no outstanding balance at December 31, 2022.

Borrowings, excluding federal funds purchased, consist of the following as of December 31, 2024, 2023, and 2022:

(Dollars in thousands)	2024	2023
Federal funds purchased	$ 236	$ 3,462
FHLB advances	20,000	66,500
Total borrowings	$ 20,236	$ 69,962
Maximum amount at any month-end during the year	$ 55,702	$ 80,808
Annual average balance outstanding	$ 36,600	$ 39,917
Annual average interest rate paid	4.70%	5.19%
Annual average interest rate, including impact of fair value mark	4.82%	4.92%

Details on available borrowing lines can be found later under Liquidity in the Asset/Liability Management section.

Junior Subordinated Debt

In 2006, a subsidiary of Fauquier, Fauquier Statutory Trust II, privately issued $4.0 million face amount of the trust's Floating Rate Capital Securities in a pooled capital securities offering. Simultaneously, the trust used the proceeds of that sale to purchase $4.0 million principal amount of the Fauquier's Floating Rate Junior Subordinated Deferrable Interest Debentures due 2036. As of December 31, 2024, total capital securities were $3.5 million, as adjusted to fair value as of the date of the Merger. The interest rate on the capital security resets every three months at 1.70% above the then current three-month CME Term SOFR plus a spread adjustment of 0.26% and is paid quarterly.

The Trust II issuance of capital securities and the respective subordinated debentures are callable at any time. The subordinated debentures are an unsecured obligation of the Company and are junior in right of payment to all present and future senior indebtedness of the Company. The capital securities are guaranteed by the Company on a subordinated basis.

ASSET/LIABILITY MANAGEMENT

The Company's primary earnings source is its net interest income; therefore, the Company devotes significant time and resources to assist in the management of interest rate risk and asset quality. The Company's net interest income is affected by changes in market interest rates and by the level and composition of interest-earning assets and interest bearing liabilities. The Company's objectives in its asset/liability management are to utilize its capital effectively, to provide adequate liquidity and to enhance net interest income, without taking undue risks or subjecting the Company unduly to interest rate fluctuations. The Company takes a coordinated approach to the management of its liquidity, capital and interest rate risk. This risk management process is governed by policies and limits established by the Bank's Asset/Liability Committee, which are reviewed and approved by the Bank's Board of Directors. This committee, which is comprised of directors and members of management, meets to review, among other things, economic conditions, interest rates, yield curves, cash flow projections, expected customer actions, liquidity levels, capital ratios and repricing characteristics of assets, liabilities and financial instruments.

Market Risk

Market risk is the risk of loss in a financial instrument arising from adverse changes in market indices such as interest rates. The Company's principal market risk exposure is interest rate risk. Interest rate risk is the exposure to changes in market interest rates. Interest rate sensitivity is the relationship between market interest rates and net interest income due to the repricing characteristics of assets and liabilities. The Company monitors the interest rate sensitivity of its balance sheet positions by examining its near-term sensitivity and its longer-term gap position. In its management of interest rate risk, the Company utilizes several financial and statistical tools including traditional gap analysis and sophisticated income simulation models.

A traditional gap analysis is prepared based on the maturity and repricing characteristics of interest-earning assets and interest bearing liabilities for selected time bands. The mismatch between repricings or maturities within a time band is commonly referred to as the "gap" for that period. A positive gap (asset sensitive) where interest rate sensitive assets exceed interest rate sensitive liabilities generally will result in the net interest margin increasing in a rising rate environment and decreasing in a falling rate environment. A negative gap (liability sensitive) will generally have the opposite result on the net interest margin. The Company's balance sheet structure is primarily short-term in nature with a substantial portion of rate-sensitive assets and rate-sensitive liabilities repricing or maturing within one year, as shown in the Gap Interest Sensitivity Analysis table below.

Gap Interest Sensitivity Analysis
As of December 31, 2024

	Within 90 Days	90 to 365 Days	One to Four Years	Over Four Years	Non Rate Sensitive	Total
Assets						
Loans	$ 224,342	$ 289,844	$ 552,970	$ 165,074	$ 3,739	$ 1,235,969
Investment securities	17,414	39,126	91,346	174,769	(52,925)	269,730
Interest bearing deposits in other banks	11,792	-	-	-	-	11,792
Non-interest-earning assets and allowance for loan losses	-	-	-	-	99,335	99,335
Total assets	$ 253,548	$ 328,970	$ 644,316	$ 339,843	$ 50,149	$ 1,616,826
Liabilities and Shareholders' Equity						
Interest checking	$ 7,585	$ 22,755	$ 91,021	$ 182,044	$ -	$ 303,405
Money market and savings deposits	13,076	39,229	156,918	228,396	-	437,619
Time deposits	131,153	144,401	32,665	224	-	308,443
Federal funds purchased	236	-	-	-	-	236
Borrowings	-	20,000	-	-	-	20,000
Junior subordinated debt	-	3,506	-	-	-	3,506
Non-interest bearing liabilities and shareholders' equity	-	-	-	-	543,617	543,617
Total liabilities and shareholders' equity	$ 152,050	$ 229,891	$ 280,604	$ 410,664	$ 543,617	$ 1,616,826
Period gap	$ 101,498	$ 99,079	$ 363,712	$ (70,821)	N/A	$ 493,468
Cumulative gap	$ 101,498	$ 200,577	$ 564,289	$ 493,468	N/A	$ 493,468
Ratio of cumulative gap to cumulative earning assets	40.03%	34.43%	46.00%	31.50%		

The Company utilizes the gap analysis to complement its income simulations modeling. However, the traditional gap analysis does not assess the relative sensitivity of assets and liabilities to changes in interest rates and other factors that could have an impact on interest rate sensitivity or net interest income.

ALCO routinely monitors simulated net interest income sensitivity over a rolling two-year horizon. It also utilizes additional tools to monitor potential longer-term interest rate risk. The income simulation models measure the Company’s net interest income volatility or sensitivity to interest rate changes utilizing statistical techniques that allow the Company to consider various factors which impact net interest income. These factors include actual maturities, estimated cash flows, repricing characteristics, deposit growth/retention and, most importantly, the relative sensitivity of the Company’s assets and liabilities to changes in market interest rates. This relative sensitivity is important to consider as the Company’s core deposit base has not been subject to the same degree of interest rate sensitivity as its assets. The core deposit costs are internally managed and tend to exhibit less sensitivity to changes in interest rates than the Company’s adjustable rate assets whose yields are based on external indices and generally change in concert with market interest rates. The Company’s interest rate sensitivity is determined by identifying the probable impact of changes in market interest rates on the yields on the Company’s assets and the rates that would be paid on its liabilities. This modeling technique involves a degree of estimation based on certain assumptions that management believes to be reasonable. Utilizing this process, management projects the impact of changes in interest rates on net interest margin. The Company has established certain policy limits for the potential volatility of its net interest margin assuming certain levels of changes in market interest rates with the objective of maintaining a stable net interest margin under various probable rate scenarios. Management generally has maintained a risk position well within the policy limits.

As market conditions vary from those assumed in the income simulation models, actual results will also differ due to: prepayment/refinancing levels likely deviating from those assumed, the varying impact of interest rate change caps or floors on adjustable rate assets, the potential effect of changing debt service levels on customers with adjustable rate loans, depositor early withdrawals and product preference changes, and other variables. Furthermore, this sensitivity analysis does not reflect actions that the ALCO might take in responding to or anticipating changes in interest rates.

In simulating the effects of upward and downward changes in market rates to net interest income over a rolling two-year horizon, the model utilizes a “static” balance sheet approach where balance sheet composition or mix as of the measurement date is maintained over the two-year horizon. Similarly, the base case simulation performed assumes interest rates on the measurement date are unchanged for the next 24 months. Then the simulation assumes all rate indices are instantaneously shocked upward and downward by 100 bps to 400 basis points, in 100 basis point increments.

(Dollars in thousands)	**Change in Net Interest Income**	
Change in Yield Curve	**Percentage**	**Amount**
+400 bps	-3.73%	$ (3,975)
+300 bps	-3.12%	(3,332)
+200 bps	-2.48%	(2,646)
+100 bps	-1.89%	(2,012)
Base case	0.00%	-
-100 bps	0.89%	944
-200 bps	0.71%	754
-300 bps	2.66%	2,842
-400 bps	1.88%	2,006

In addition to monitoring the effects to interest income, the model computes the effects to the economic value of equity using the same “static” balance sheet with immediate and parallel rate changes for the same rate change horizons. The Asset/Liability Committee monitors the results compared to policy limits that have been established.

As individual rate indices have not historically moved to the same degree, non-parallel rate shocks are also performed to add a degree of sophistication over the parallel rate shocks. In these analyses, the effects to net interest income and market value of equity are computed using eight different scenarios. Changing slopes and twists of the yield curve are achieved by incorporating both likely and unlikely change across different tenors. Since Federal funds rates may not change to the same degree or direction that longer term Treasury bonds may move, the different scenarios are analyzed so that management and the Asset/Liability Committee can monitor risks as they more severely stress the Company’s balance sheet.

The shape of the yield curve can cause downward pressure on net interest income. In general, if and to the extent that the yield curve is flatter (i.e., the differences between interest rates for different maturities are relatively smaller) than previously anticipated, then the yield on the Company’s interest earning assets and its cash flows will tend to be lower. Management believes that the current interest rate exposure is manageable and within the Company's current interest rate risk guidelines.

Liquidity

Liquidity represents the Company’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 Company maintains a Liquidity Management Policy that is approved by the Board of Directors. The policy sets limits in a number of areas, including limits on the amount of non-core liabilities, and funding long-term assets with non-core liabilities.

The Bank’s customer base has provided a stable source of funds and liquidity. Limits contained within the Bank’s Investment Policy also provides for appropriate levels of liquidity through maturities and cash flows within the securities portfolio. Other sources of balance sheet liquidity are obtained from the repayment of loan proceeds and overnight investments. The Bank has numerous secondary sources of liquidity including access to borrowing arrangements from a number of correspondent banks. Available borrowing arrangements maintained by the Bank include formal federal funds lines with six major regional correspondent banks, access to advances from the Federal Home Loan Bank and access to the discount window at the Federal Reserve Bank. Access to borrowings at the discount window are dependent on the fair value of any securities pledged for advances. As of December 31, 2024, the Bank has pledged investment securities with an amortized cost of $4.0 million and a fair value of $3.1 million.

Borrowing Lines
As of December 31, 2024

Correspondent Banks	$	119,000
Federal Home Loan Bank of Atlanta		100,055
Total Available	$	219,055

As of December 31, 2024, the Company had $20.0 million in outstanding advances with the FHLB.

Any excess funds are sold on a daily basis in the federal funds market or maintained on account at the Federal Reserve. The Company maintained an average of $14.7 million outstanding in federal funds sold, and an average of $8.2 million at the Federal Reserve during 2024. On the liability side of the balance sheet, the Company maintained an average of $36.1 million in FHLB advances and $489 thousand in federal funds purchased during 2024. On December 31, 2024 the Company had a $20 million balance in FHLB advances and a $236 thousand balance outstanding in federal funds purchased. The Company intends to maintain sufficient liquidity at all times to meet its funding commitments.

Capital

The Basel III Capital Rules require banks and bank holding companies to comply with the following minimum capital ratios: (i) a ratio of common equity Tier 1 capital to risk-weighted assets of at least 4.5%, plus a 2.5% “capital conservation buffer” (effectively resulting in a minimum ratio of common equity Tier 1 to risk-weighted assets of at least 7%); (ii) a ratio of Tier 1 capital to risk-weighted assets of at least 6.0%, plus the 2.5% capital conservation buffer (effectively resulting in a minimum Tier 1 capital ratio of 8.5%); (iii) a ratio of total capital to risk-weighted assets of at least 8.0%, plus the 2.5% capital conservation buffer (effectively resulting in a minimum total capital ratio of 10.5%); and (iv) a leverage ratio of 4%, calculated as the ratio of Tier 1 capital to balance sheet exposures plus certain off-balance sheet exposures (computed as the average for each quarter of the month-end ratios for the quarter).

The Tier 1, common equity Tier 1, total capital to risk-weighted assets, and leverage ratios of the Bank were 17.77%, 17.77%, 18.60% and 11.55%, respectively, as of December 31, 2024, exceeding the minimum requirements.

With respect to the Bank, to be “well capitalized” under the PCA regulations, a bank must have the following minimum capital ratios: (i) a common equity Tier 1 capital ratio of at least 6.5%; (ii) a Tier 1 capital to risk-weighted assets ratio of at least 8.0%; (iii) a total capital to risk-weighted assets ratio of at least 10.0%; and (iv) a leverage ratio of at least 5.0%. The Bank exceeds the thresholds to be considered well capitalized as of December 31, 2024.

On September 17, 2019 the FDIC finalized a rule that introduced an optional simplified measure of capital adequacy for qualifying community banking organizations, referred to as, the community bank leverage ratio framework, as required by the EGRRCPA. The CBLR framework is designed to reduce burden by removing the requirements for calculating and reporting risk-based capital ratios for qualifying community banking organizations that opt into the framework.

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

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

The Basel III capital regulations and CBLR framework are discussed in greater detail under the caption “Supervision and Regulation,” found earlier in this report under “Item 1. Business.” In addition, information regarding the Company’s risk-based capital at December 31, 2024 and December 31, 2023 is presented in Note 15 – Capital Requirements of the Notes to Consolidated Financial Statements, contained in Item 8. Financial Statements and Supplementary Data. Using the most recent capital requirements, the Bank’s capital ratios remain above the levels designated by bank regulators as "well capitalized" at December 31, 2024.

Impact of Inflation and Changing Prices

The Company's financial statements included herein have been prepared in accordance with GAAP, which requires the financial position and operating results to be measured principally in terms of historical dollars without considering the change in the relative purchasing power of money over time due to inflation. Inflation affects the Company's results of operations mainly through increased operating costs, but since nearly all of the Company's assets and liabilities are monetary in nature, changes in interest rates affect the financial condition of the Company to a greater degree than changes in the rate of inflation. Although interest rates are greatly influenced by changes in the inflation rate, they do not necessarily change at the same rate or in the same magnitude as the inflation rate. The Company's management reviews pricing of its products and services, in light of current and expected costs due to inflation, to mitigate the inflationary impact on financial performance.

Off-Balance Sheet Arrangements

The Company is party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments consist primarily of commitments to extend credit and standby letters of credit. Additional information concerning the Company's off-balance sheet arrangements is contained in Note 13 of the Notes to Consolidated Financial Statements, found in Item 8. Financial Statements and Supplementary Data.

Related Party Transactions

The Company and its subsidiaries have business dealings with companies owned by directors and beneficial shareholders of the Company. In 2024 and 2023, leasing/rental expenditures of $562 thousand and $543 thousand respectively, (including reimbursements for taxes, insurance, and other expenses) were paid to an entity indirectly owned by a director of the Company.

Contractual Commitments

In the normal course of business, the Company and its subsidiaries enter into contractual obligations, including obligations on lease arrangements, contractual commitments for capital expenditures, and service contracts. The significant contractual obligations include the leasing of certain of its banking and operations offices under operating lease agreements on terms ranging from 1 to 10 years, most with renewal options.

Following is a schedule of future minimum rental payments under non-cancelable operating leases that have initial or remaining terms in excess of one year as of December 31, 2024:

(Dollars in thousands)	1 year or less	1-3 years	3-5 years	After 5 years	Total
Operating lease obligations	$ 1,497	$ 2,222	$ 1,458	$ 654	$ 5,831

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Not required for smaller reporting company.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors
Virginia National Bankshares Corporation

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Virginia National Bankshares Corporation and Subsidiaries (the Company) as of December 31, 2024 and 2023, the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2024 and 2023, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing separate opinions on the critical audit matter or on the accounts or disclosures to which it relates.

Allowance for Credit Losses (ACL) – Loans Collectively Evaluated for Credit Losses

Description of the Matter
As discussed in Note 1 (Summary of Significant Accounting Policies), Note 2 (Adoption of New Accounting Standards) and Note 5 (Allowance for Credit Losses) to the financial statements, the allowance for credit losses on loans is a valuation allowance that represents management's best estimate of expected credit losses on loans measured at amortized cost considering available information, from internal and external sources, relevant to assessing collectability over the loans' contractual terms. Loans which share common risk characteristics are pooled and collectively evaluated by the Company using historical data, as well as assessments of current conditions and reasonable and supportable forecasts of future conditions. The Company's total ACL for loans was $8.5 million, of which all but $28 thousand was for loans collectively evaluated. The collectively evaluated ACL consists of quantitative and qualitative components.

Loans are segmented into pools based upon similar characteristics and risk profiles and based on the degree of correlation of how loans within each pool respond to various economic conditions. To determine the quantitative component of the ACL, the Company uses the discounted cash flow method to estimate expected credit losses for the identified loan pools other than student and Minute Lender loans, which use the remaining life method. The discounted cash flow method estimates the difference between the amortized cost of the loans and present value of expected cash flows. The remaining life method applied to the student and Minute Lender loans, determines a quantitative ACL by utilizing historical information to determine a quarterly expected loss rate and applying it to an expected remaining balance for each period to determine the expected loss for the segment.

In addition to the quantitative component, the collectively evaluated ACL also includes a qualitative component which aggregates management's assessment of available information relevant to assessing collectability that is not captured in the quantitative loss estimation process. The qualitative factors considered by management include changes in lending policies and procedures; nature and volume of the portfolio; experience, depth and ability of lending personnel; trends in credit quality; quality of the loan review system; value of underlying collateral; volume and concentrations of credit; and the effects of other external factors. A qualitative factor for reasonable and supportable forecasts of economic conditions is also determined for those segments utilizing the remaining life method as it is not already incorporated into the quantitative component. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

Management exercised significant judgment when assessing the qualitive factors in estimating the ACL for collectively evaluated loans. We identified the measurement of the ACL for collectively evaluated loans as a critical audit matter as auditing this estimate involved especially complex and subjective auditor judgment in evaluating and testing management's assertions over an inherently complex estimation process that requires significant management judgment.

The primary audit procedures we performed to address this critical audit matter included:

- Obtaining an understanding of the Company's ACL methodology, internal controls, and management review controls related to collectively evaluated loans, including the process of:
    - The continued usage of the discounted cashflow method as the primary expected loss model, including assessment and reasonableness of loan pools, model validation, monitoring, and the completeness and accuracy of key data inputs and assumptions.
    - Qualitative factors, including sources of reasonable and supportable economic forecasts and other key inputs.
    - Governance and management review processes.
- Substantively testing management's process for measuring the ACL related to collectively evaluated loans including:
    - Evaluating conceptual soundness, assumptions, and key data inputs of the Company's discounted cashflow methodology, including the identification of loan pools, the probability of default and loss given default rate inputs, and the prepayment/curtailment rate inputs for each pool.

- Evaluating the methodology and testing the accuracy of incorporating reasonable and supportable forecasts in the ACL for collectively evaluated loans.
- Evaluating the completeness and accuracy of data inputs used as a basis for the qualitative factors.
- Evaluating the qualitative factors for directional consistency in comparison to prior periods and for reasonableness in comparison to underlying supporting data.
- Testing the mathematical accuracy of the ACL for collectively evaluated loans including both the discounted cashflow and qualitative factor components of the calculations.

/s/ Yount, Hyde & Barbour, P.C.

We have served as the Company's auditor since 1998.

Richmond, Virginia
March 28, 2025

VIRGINIA NATIONAL BANKSHARES CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(dollars in thousands, except per share data)

	December 31, 2024	December 31, 2023
ASSETS		
Cash and due from banks	**$ 5,311**	$ 18,074
Interest bearing deposits in other banks	**11,792**	10,316
Securities:		
Available for sale, at fair value	**263,537**	420,595
Restricted securities, at cost	**6,193**	8,385
Total securities	**269,730**	428,980
Loans	**1,235,969**	1,092,665
Allowance for credit losses	**(8,455)**	(8,395)
Loans, net	**$ 1,227,514**	$ 1,084,270
Premises and equipment, net	**15,383**	16,195
Bank owned life insurance	**40,059**	38,904
Goodwill	**7,768**	7,768
Core deposit intangible, net	**3,792**	5,093
Right of use asset, net	**5,551**	6,748
Deferred tax asset, net	**15,407**	15,382
Accrued interest receivable and other assets	**14,519**	14,287
Total assets	**$ 1,616,826**	$ 1,646,017
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Demand deposits:		
Noninterest bearing	**$ 374,079**	$ 372,857
Interest bearing	**303,405**	305,541
Money market and savings deposit accounts	**437,619**	412,119
Certificates of deposit and other time deposits	**308,443**	318,581
Total deposits	**1,423,546**	1,409,098
Federal funds purchased	**236**	3,462
Borrowings	**20,000**	66,500
Junior subordinated debt	**3,506**	3,459
Lease liability	**5,389**	6,504
Accrued interest payable and other liabilities	**3,847**	3,954
Total liabilities	**1,456,524**	1,492,977
Commitments and contingent liabilities		
Shareholders' equity:		
Preferred stock, $2.50 par value	**-**	-
Common stock, $2.50 par value	**13,263**	13,258
Capital surplus	**106,394**	106,045
Retained earnings	**82,507**	73,781
Accumulated other comprehensive (loss)	**(41,862)**	(40,044)
Total shareholders' equity	**160,302**	153,040
Total liabilities and shareholders' equity	**$ 1,616,826**	$ 1,646,017
Common shares outstanding	**5,370,912**	5,365,982
Common shares authorized	**10,000,000**	10,000,000
Preferred shares outstanding	**-**	-
Preferred shares authorized	**2,000,000**	2,000,000

See Notes to Consolidated Financial Statements

VIRGINIA NATIONAL BANKSHARES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(dollars in thousands, except per share data)

	For the years ended December 31,	
	2024	2023
Interest and dividend income:		
Loans, including fees	**$ 66,534**	$ 56,053
Federal funds sold	**765**	207
Other interest bearing deposits	**206**	501
Investment securities:		
Taxable	**6,689**	11,554
Tax exempt	**1,302**	1,308
Dividends	**431**	367
Total interest and dividend income	**75,927**	69,990
Interest and dividend income:		
Demand deposits	**272**	346
Money market and savings deposits	**11,803**	9,673
Certificates and other time deposits	**15,410**	8,617
Borrowings	**1,691**	1,934
Federal funds purchased	**29**	138
Junior subordinated debt	**346**	313
Total interest expense	**29,551**	21,021
Net interest income	**46,376**	48,969
(Recovery of) provision for credit losses	**(600)**	734
Net interest income after (recovery of) provision for credit losses	**46,976**	48,235
Noninterest income:		
Wealth management fees	**1,152**	1,976
Deposit account fees	**1,363**	1,593
Debit/credit card and ATM fees	**1,914**	2,268
Bank owned life insurance income	**1,155**	1,764
Gains on sale of assets, net	**36**	112
Gains on early redemption of debt	**904**	-
Gain on termination of interest swap	**-**	460
Losses on sales of AFS, net	**(4)**	(206)
Other	**1,069**	1,134
Total noninterest income	**7,589**	9,101
Noninterest expense:		
Salaries and employee benefits	**15,933**	15,900
Net occupancy	**3,662**	4,017
Equipment	**720**	762
Bank franchise tax	**1,452**	1,220
Computer software	**917**	778
Data processing	**2,647**	2,799
FDIC deposit insurance assessment	**700**	710
Marketing, advertising and promotion	**730**	1,098
Professional fees	**894**	674
Core deposit intangible amortization	**1,301**	1,493
Other	**4,710**	4,612
Total noninterest expense	**33,666**	34,063
Income before income taxes	**20,899**	23,273
Provision for income taxes	**3,933**	4,010
Net income	**$ 16,966**	$ 19,263
Net income per common share, basic	**$ 3.16**	$ 3.60
Net income per common share, diluted	**$ 3.15**	$ 3.58

See Notes to the Consolidated Financial Statements

VIRGINIA NATIONAL BANKSHARES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(dollars in thousands)

	For the years ended December 31,	
	2024	2023
Net income	**$ 16,966**	$ 19,263
Other comprehensive income (loss):		
Unrealized gains (losses) on securities, net of tax (benefit) of $483 and ($2,344) for the years ended December 31, 2024 and 2023	**(1,821)**	**8,817**
Unrealized (losses) on interest rate swaps, net of tax benefit of $($9) for the year ended December 31, 2023	**-**	**(37)**
Reclassification adjustment for realized gain on termination of interest rate swap, net of tax benefit of ($97) for the year ended December 31, 2023	**-**	**(363)**
Reclassification adjustment for realized losses on securities, net of tax of $1 and $43 for the years ended December 31, 2024 and 2023	**3**	**163**
Total other comprehensive income (loss)	**(1,818)**	8,580
Total comprehensive income	**$ 15,148**	$ 27,843

See Notes to Consolidated Financial Statements

VIRGINIA NATIONAL BANKSHARES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(dollars in thousands, except per share data)

	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance, December 31, 2022	$ 13,214	$ 105,344	$ 63,482	$ (48,624)	$ 133,416
Exercise of stock options	3	15	-	-	18
Stock option expense	-	142	-	-	142
Restricted stock grant expense	-	585	-	-	585
Vested stock grants	41	(41)	-	-	-
Cash dividends declared ($1.32 per share)	-	-	(7,074)	-	(7,074)
Impact of adoption of CECL			(1,890)	-	(1,890)
Net income	-	-	19,263	-	19,263
Other comprehensive income	-	-	-	8,580	8,580
Balance, December 31, 2023	$ 13,258	$ 106,045	$ 73,781	$ (40,044)	$ 153,040
Stock option expense	-	131	-	-	131
Restricted stock grant expense	-	782	-	-	782
Vested stock grants	56	(56)	-	-	-
Shares repurchased	(51)	(508)	-	-	(559)
Cash dividends declared ($1.32 per share)	-	-	(7,087)	-	(7,087)
Impact of adoption of proportional amortization method	-	-	(1,070)	-	(1,070)
Adjustment for Masonry Capital distribution	-	-	(83)	-	(83)
Net income	-	-	16,966	-	16,966
Other comprehensive loss	-	-	-	(1,818)	(1,818)
Balance, December 31, 2024	$ 13,263	$ 106,394	$ 82,507	$ (41,862)	$ 160,302

See Notes to Consolidated Financial Statements

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

	For the years ended December 31,	
	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	**$ 16,966**	$ 19,263
Adjustments to reconcile net income to net cash provided by operating activities:		
(Recovery of) or provision for credit losses	**(600)**	734
Net accretion of certain acquisition-related adjustments	**(2,567)**	(6,191)
Amortization of intangible assets	**1,301**	1,493
Net amortization and (accretion) of securities	**526**	(2,444)
Net losses on sale of AFS	**4**	206
Net gain on early redemption of FHLB advances	**(904)**	-
Net gains on sales of other assets	**(36)**	(112)
Bank owned life insurance income	**(1,155)**	(1,764)
Depreciation and other amortization	**2,955**	3,276
Deferred tax (benefit)	**(10)**	(473)
Stock option expense	**130**	142
Stock grant expense	**838**	585
Net change in:		
Accrued interest receivable and other assets	**(1,359)**	52
Accrued interest payable and other liabilities	**(799)**	(863)
Net cash provided by operating activities	**15,290**	13,904
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of available for sale securities	**-**	(83,164)
Net decrease (increase) in restricted investments	**2,191**	(3,248)
Proceeds from maturities, calls and principal payments of available for sale securities	**154,221**	214,394
Net increase in loans	**(140,030)**	(150,348)
Proceeds from sale of premises and equipment	**104**	2,358
Proceeds from settlement of bank owned life insurance	**-**	1,412
Purchase of bank premises and equipment, net	**(733)**	(1,171)
Net cash provided by (used in) investing activities	**15,753**	(19,767)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase (decrease) in demand deposits, NOW accounts, and money market accounts	**24,586**	(272,715)
Net (decrease) increase in certificates of deposit and other time deposits	**(10,138)**	203,466
Net (decrease) increase in Federal funds purchased	**(3,226)**	3,462
Net (decrease) increase in other borrowings	**(45,906)**	66,500
Proceeds from termination of interest swap	**-**	460
Proceeds from stock options exercised	**-**	18
Repurchases of common stock	**(559)**	-
Cash dividends paid	**(7,087)**	(7,074)
Net cash used in financing activities	**(42,330)**	(5,883)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**$ (11,287)**	$ (11,746)
CASH AND CASH EQUIVALENTS:		
Beginning of period	**$ 28,390**	$ 40,136
End of period	**$ 17,103**	$ 28,390
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash payments for:		
Interest	**$ 29,767**	$ 22,147
Taxes	**$ 3,580**	$ 3,809
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Unrealized losses on available for sale securities	**$ (1,818)**	$ (2,302)

See Notes to Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Summary of Significant Accounting Policies

The Company - Headquartered in Charlottesville, Virginia, Virginia National Bankshares Corporation (the Company) (NASDAQ: VABK) is a bank holding company incorporated under the laws of the Commonwealth of Virginia. The Company is authorized to issue (a) 10,000,000 shares of common stock with a par value of $2.50 per share and (b) 2,000,000 shares of preferred stock at a par value $2.50 per share. There is currently no preferred stock outstanding. The Company is regulated under the Bank Holding Company Act of 1956, as amended and is subject to inspection, examination, and supervision by the Federal Reserve Board.

Virginia National Bank (the Bank) is a wholly-owned subsidiary of the Company and was organized in 1998 under federal law as a national banking association to engage in a general commercial and retail banking business. The Bank is also headquartered in Charlottesville, Virginia and primarily serves the Virginia communities in and around the cities of Charlottesville, Winchester, Manassas and Richmond, and the counties of Albemarle, Fauquier, Frederick and Prince William. As a national bank, the Bank is subject to the supervision, examination and regulation of the OCC.

The Bank offers a full range of banking and related financial services to meet the needs of individuals, businesses and charitable organizations, including the fiduciary services of VNB Trust and Estate Services. Investment management services were offered through Masonry Capital Management, LLC, a registered investment adviser and wholly-owned subsidiary of the Company, prior to the sale of the business to an officer of the Company effective April 1, 2024.

The Bank, through its financial subsidiary Fauquier Bank Services, Inc., has equity ownership interests in Bankers Insurance, LLC, a Virginia independent insurance company, and Bankers Title Shenandoah, LLC, a title insurance company, both of which are owned by a consortium of Virginia community banks.

The Bank has another subsidiary, Special Properties Acquisition - VA, LLC, which was originally formed by Fauquier to hold other real estate owned; however, there are no assets currently held by this subsidiary.

In addition, the Company owns Fauquier Statutory Trust II (“Trust II”), which is an unconsolidated subsidiary. The subordinated debt owed to Trust II is reported as a liability of the Company.

Basis of Financial Information - The accounting and reporting policies of the Company conform to accounting principles generally accepted in the United States of America and to the reporting guidelines prescribed by regulatory authorities. The following is a description of the more significant of those policies and practices.

Principles of consolidation – The Consolidated Financial Statements include the accounts of the Company, and its wholly-owned subsidiaries, the Bank and Masonry Capital. All significant intercompany balances and transactions have been eliminated in consolidation.

Use of estimates – 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 ACL (including individually evaluated loans), acquisition accounting, intangible assets, income taxes, and fair value measurements.

***Cash flow reporting* –** For purposes of the statements of cash flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Cash and cash equivalents consist of cash on hand, funds due from banks, interest bearing deposits in other banks and federal funds sold.

***Securities* –** Unrestricted investments are classified in two categories as described below.

- **Securities held to maturity –** Securities classified as held to maturity are those debt securities the Company has both the positive intent and ability to hold to maturity regardless of changes in market conditions, liquidity needs or changes in general economic conditions. Currently the Company has no securities classified as held to maturity because of Management's desire to have more flexibility in managing the investment portfolio.
- **Securities available for sale –** Securities classified as AFS are those debt securities that the Company intends to hold for an indefinite period of time but not necessarily to maturity. Any decision to sell a security classified as AFS would be based on various factors, including significant movements in interest rates, changes in the maturity mix of the Company's assets and liabilities, liquidity needs, regulatory capital considerations, and other similar factors. AFS securities are carried at fair value. Unrealized gains or losses are reported as a separate component of other comprehensive income. Realized gains or losses, determined on the basis of the cost of specific securities sold, are included in earnings.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities or to "call" dates, whichever occurs first. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

For AFS securities, management evaluates all investments in an unrealized loss position on a quarterly basis, and more frequently when economic or market conditions warrant such evaluation. If the Company has the intent to sell the security or it is more likely than not that the Company will be required to sell the security, the security is written down to fair value and the entire loss is recorded in earnings.

If either of the above criteria is not met, the Company evaluates whether the decline in fair value is the result of credit losses or other factors. In making the assessment, the Company may consider various factors including the extent to which fair value is less than amortized cost, performance on any underlying collateral, downgrades in the ratings of the security by a rating agency, the failure of the issuer to make scheduled interest or principal payments and adverse conditions specifically related to the security. If the assessment indicates that a credit loss exists, the present value of cash flows expected to be collected are compared to the amortized cost basis of the security and any excess is recorded as an ACL, limited by the amount that the fair value is less than the amortized cost basis. Any amount of unrealized loss that has not been recorded through an ACL is recognized in other comprehensive income.

Changes in the ACL are recorded as provision for (or reversal of) credit loss expense. Losses are charged against the ACL when management believes an AFS security is confirmed to be uncollectible or when either of the criteria regarding intent or requirement to sell is met. At December 31, 2024, there was no ACL related to the AFS securities portfolio.

***Restricted securities* –** As members of the FRB and the FHLB, the Company is required to maintain certain minimum investments in the common stock of the FRB and FHLB. Required levels of investments are based upon the Bank's capital and a percentage of qualifying assets. Additionally, the Company has purchased common stock in CBBFC, the holding company for Community Bankers' Bank and an investment in an SBA loan fund. These restricted securities are carried at cost.

***Loans* –** Loans are reported at the principal balance outstanding net of unearned discounts and of the ACL. Interest income on loans is reported on the level-yield method and includes amortization of deferred loan fees and costs over the loan term.

Loans acquired in a business combination are recorded at estimated fair value on the date of acquisition. In the case of loans that have experienced more than insignificant deterioration in credit quality since origination as of the acquisition date, the loan's amortized cost basis is increased above estimated fair value by the amount of expected credit losses as of the acquisition date, and a corresponding ACL is also recorded. Any remaining non-credit discount or premium for such purchased loans with credit deterioration (or PCD loans) and any fair value discount or premium for non-PCD loans is accreted or amortized as an adjustment to yield over the estimated lives of the loans using the level-yield method. There is no ACL established for non-PCD loans as part of a business combination.

Further information regarding the Company's accounting policies related to past due loans, non-accrual loans and individually evaluated loans is presented in Note 4 - Loans.

Allowance for credit losses – The ACL on loans is established through charges to earnings in the form of a provision for credit losses. Loan losses are charged against the ACL for the difference between the carrying value of the loan and the estimated net realizable value or fair value of the collateral, if collateral dependent, when management believes that the collectability of the principal is unlikely. Subsequent recoveries, if any, are credited to the ACL.

The ACL represents management's current estimate of expected credit losses over the contractual term of loans held for investment, and is recorded at an amount that, in management's judgment, reduces the recorded investment in loans to the net amount expected to be collected. No ACL is recorded on accrued interest receivable and amounts written-off are reversed by an adjustment to interest income. Management's judgment in determining the level of the ACL is based on evaluations of historical loan losses, current conditions and reasonable and supportable forecasts relevant to the collectability of loans. Loans that share common risk characteristics are evaluated collectively using a discounted cash flow approach for all loans except for student loans and Minute Lender loans, which are evaluated using a remaining life methodology. The discounted cash flow approach used by the Company utilizes loan-level cash flow projections and pool-level assumptions. Further information regarding the Company's policies and methodology used to estimate the ACL is presented in Note 5 – Allowance for Credit Losses.

Management's estimate of the ACL on loans that are collectively evaluated also includes a qualitative assessment of available information relevant to assessing collectability that is not captured in the loss estimation process. Factors considered by management are detailed in Note 2 - Adoption of New Accounting Standards. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available.

Transfers of financial assets – Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company or its subsidiaries – put presumptively beyond reach of the transferor and its creditors, even in bankruptcy or other receivership, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company or its subsidiaries does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

Premises and equipment – Land is carried at cost. 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, which range from 3 to 40 years. 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, the asset and related accumulated depreciation are removed from the books and any resulting gain or loss is charged to income. More information regarding premises and equipment is presented in Note 6 – Premises and Equipment.

Leases – The Company recognizes a lease liability and a right-of-use asset in connection with leases in which it is a lessee, except for leases with a term of twelve months or less. A lease liability represents the Company's obligation to make future payments under lease contracts, and a right-of-use asset represents the Company's right to control the use of the underlying property during the lease term. Lease liabilities and right-of-use assets are recognized upon commencement of a lease and measured as the present value of lease payments over the lease term, discounted at the incremental borrowing rate of the lessee. Further information regarding leases is presented in Note 7 – Leases.

Intangible assets – Goodwill is determined as the excess of the fair value of the consideration transferred over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill and other intangible assets acquired in a business combination and determined to have an indefinite useful life are not amortized, but tested for impairment at least annually, or more frequently if events and circumstances exist that indicate that a goodwill impairment test should be performed. The Company performs the test as of December 31 of each year whereby the estimated fair value is compared to the carrying value. Intangible assets with definite useful lives are amortized over their estimated useful lives, which range from 3 to 10 years, to their estimated residual values. Goodwill is the only intangible asset with an indefinite life included on the Company's Consolidated Balance Sheets. Management has concluded that no impairment of these assets existed as of the balance sheet date. More information regarding intangible assets is presented in Note 8 – Goodwill and Other Intangible Assets.

BOLI – The Company has purchased life insurance on certain key employees and acquired BOLI policies as part of the Merger. These policies are recorded at their cash surrender value on the Consolidated Balance Sheets. Income generated from polices is recorded as noninterest income.

Other Real Estate Owned – Assets acquired through or in lieu of loan foreclosures are held for sale and are initially recorded at fair value less selling costs at the date of foreclosure, establishing a new cost basis. When the carrying amount exceeds the acquisition date fair value less selling costs, the excess is charged off against the ACL. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell, and any valuation adjustments occurring from post-acquisition reviews are charged to expense as incurred. Revenue and expenses from operations and changes in the valuation allowance are included in other expenses on the Company's Consolidated Statements of Income.

Fair value measurements – ASC Topic 820, "Fair Value Measurements and Disclosures," defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and requires certain disclosures about fair value measurements. In general, fair values of financial instruments are based upon internally developed models that primarily use, as inputs, observable market-based parameters. Any such valuation adjustments are applied consistently over time. Additional information on fair value measurements is presented in Note 17 – Fair Value Measurements.

Stock-based compensation – The Company accounts for all plans under recognition and measurement accounting principles which require that the compensation cost relating to stock-based payment transactions be recognized in the financial statements. Stock-based compensation arrangements include stock options and unrestricted or restricted stock grants. For stock options, compensation is estimated at the date of grant, using the Black-Scholes option valuation model for determining fair value. The model employs the following assumptions:

- **Dividend yield** - calculated as the ratio of historical cash dividends paid per share of common stock to the stock price on the date of grant;
- **Expected life (term of the option)** - based on the average of the contractual life and vesting schedule for the respective option;
- **Expected volatility** - based on the monthly historical volatility of the Company's stock price over the expected life of the options;
- **Risk-free interest rate** - based upon the U.S. Treasury bill yield curve, for periods within the contractual life of the option, in effect at the time of grant.

The Company has elected to estimate forfeitures when recognizing compensation expense, and this estimate of forfeitures is adjusted over the requisite service period or vesting schedule based on the extent to which actual forfeitures differ from such estimates. Changes in estimated forfeitures are recognized through a cumulative catch-up adjustment, which is recognized in the period of change, and also will impact the amount of estimated unamortized compensation expense to be recognized in future periods. Further information on stock-based compensation is presented in Note 19 – Stock Incentive Plans.

Net income per common share – Basic net income per share, commonly referred to as earnings per share, represent income available to common shareholders divided by the weighted-average number of common shares outstanding during the period, including restricted shares that have not yet vested as these are considered participating securities during the vesting period. Diluted net income per share reflect additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Company relate solely to outstanding stock options and are determined using the treasury stock method. Additional information on net income per share is presented in Note 20 – Net Income per Share.

Comprehensive income – Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on AFS securities and interest rate swaps, are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income (loss). Further information on the Company's other comprehensive income (loss) is presented in the Consolidated Statements of Comprehensive Income.

Derivative Financial Instruments – The Company recognizes derivative financial instruments in the Consolidated Balance Sheets at fair value. The fair value of a derivative is determined by quoted market prices and mathematical models using current and historical data. If certain hedging criteria are met, including testing for hedge effectiveness, special hedge accounting may be applied. The Company assesses each hedge, both at inception and on an ongoing basis, to determine whether the derivative used in a hedging transaction is effective in offsetting changes in the fair value or cash flows of the hedged item and whether the derivative is expected to remain effective during subsequent periods. The Company discontinues hedge accounting when (i) it determines that a derivative is no longer effective in offsetting changes in fair value or cash flows of a hedged item; (ii) the derivative expires or is sold, terminated or exercised; (iii) probability exists that the forecasted transaction will no longer occur or; (iv) management determines that designating the derivative as a hedging instrument is no longer appropriate. When hedge accounting is discontinued and a derivative remains outstanding, the Company recognizes the derivative in the balance sheet at its fair value and changes in the fair value are recognized in net income.

At inception, the Company designates a derivative as (i) a fair value hedge of recognized assets or liabilities or of unrecognized firm commitments (fair value hedge) or (ii) a hedge of forecasted transactions or variable cash flows to be received or paid in conjunction with recognized assets or liabilities (cash flow hedge). For a derivative treated as a fair value hedge, a change in fair value is recorded as an adjustment to the hedged item and recognized in net income. For a derivative treated as a cash flow hedge, the effective portion of a change in fair value is recorded as an adjustment to the hedged item and recognized as a component of accumulated other comprehensive income (loss) within shareholders' equity. For a derivative treated as a cash flow hedge, the ineffective portion of a change in fair value is recorded as an adjustment to the hedged item and recognized in net income. Further information on the Company's derivative financial instruments is presented in Note 23 -Derivatives Instruments and Hedging Activities.

Advertising costs – The Company follows the policy of charging the costs of advertising to expense as they are incurred.

Income taxes – Deferred taxes are provided on the asset and liability method whereby deferred tax assets are recognized for deductible temporary differences, operating loss carry forwards, and tax credit carry forwards. Deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

When tax returns are filed, it is highly probable that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50% likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying Consolidated Balance Sheets along with any associated interest and penalties that would be payable to the taxing authorities upon examination.

The Company acquired as a result of the Merger certain limited partnership investments in affordable housing projects located in the Commonwealth of Virginia. During 2024, the Company adopted the proportional amortization method of accounting for all qualifying equity investments within these limited partnerships. These investments are included in other assets on the Consolidated Balance Sheets. These partnership investments generate a return through the realization of federal income tax credits, as well as other tax benefits, such as tax deductions from net operating losses of the investments over a period of time. The investments are accounted for under the proportional amortization method, with the expense included within income tax provision on the Consolidated Statements of Income. All of the Company's tax credit investments are evaluated for impairment at the end of each reporting period.

Interest and penalties associated with unrecognized tax benefits, if any, are classified as additional income taxes in the statements of income. For the years ended December 31, 2024 and 2023, there were no such interest or penalties recognized. Further information on the Company’s accounting policies for income taxes is presented in Note 11 – Income Taxes.

Securities and other property held in a fiduciary capacity – Securities and other property held by VNB Trust and Estate Services in a fiduciary or agency capacity are not assets of the Company and are not included in the accompanying Consolidated Financial Statements.

Revenue Recognition – ASU 2014-09, “Revenue from Contracts with Customers”, and all subsequent amendments to the ASU (collectively “Topic 606”), (i) creates a single framework for recognizing revenue from contracts with customers that fall within its scope and (ii) revises when it is appropriate to recognize a gain (loss) from the transfer of nonfinancial assets, such as OREO. The majority of the Company’s revenue is from interest income, including loans and securities, which are outside the scope of the standard. The services that fall within the scope of the standard are presented within noninterest income on the consolidated statement of income and are recognized as revenue as the Company satisfies its obligations to the customer. The revenue that falls within the scope of Topic 606 is primarily related to service charges on deposit accounts, debit/credit card and ATM fees, asset management fees and sales of other real estate owned, when applicable.

Reclassifications – Certain reclassifications have been made to the prior year financial statements to conform to current year presentation. The results of the reclassifications are not considered material.

Recent Significant Accounting Pronouncements

Improvements to Income Tax Disclosures – In December 2023, the FASB issued ASU 2023-09, “Income Taxes (Topic 740): Improvements to Income Tax Disclosures.” The amendments in this ASU require an entity to disclose specific categories in the rate reconciliation and provide additional information for reconciling items that meet a quantitative threshold, which is greater than 5% of the amount computed by multiplying pretax income by the entity’s applicable statutory rate, on an annual basis. Additionally, the amendments in this ASU require an entity to disclose the amount of income taxes paid (net of refunds received) disaggregated by federal, state, and foreign taxes and the amount of income taxes paid (net of refunds received) disaggregated by individual jurisdictions that are equal to or greater than 5% of total income taxes paid (net of refunds received). Lastly, the amendments in this ASU require an entity to disclose income (or loss) from continuing operations before income tax expense (or benefit) disaggregated between domestic and foreign and income tax expense (or benefit) from continuing operations disaggregated by federal, state, and foreign. This ASU is effective for annual periods beginning after December 15, 2024. Early adoption is permitted. The amendments should be applied on a prospective basis; however, retrospective application is permitted. The Company does not expect the adoption of ASU 2023-09 to have a material impact on its Consolidated Financial Statements.

Other accounting standards that have been issued by the FASB or other standards-setting bodies are not currently expected to have a material effect on the Company's financial position, results of operations or cash flows.

Note 2 - Adoption of New Accounting Standards

Financial Instruments – Credit Losses - On January 1, 2023, the Company adopted ASU 2016-13, “Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments," and ASU 2022-02, “Financial Instruments-Credit Losses, Troubled Debt Restructurings and Vintage Disclosures,” collectively referred to as ASC 326. This standard, in part, replaced the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss ("CECL") methodology. ASC 326 requires an estimate of credit losses for the remaining estimated life of the financial assets using historical experience, current conditions, and reasonable and supportable forecasts and generally applies to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities, and some off-balance sheet credit exposures such as unfunded commitments to extend credit. Financial assets measured at amortized cost will be presented at the net amount expected to be collected by using an ACL. Purchased credit deteriorated loans will receive an initial allowance at the acquisition date that represents an adjustment to the amortized cost basis of the loan, with no impact to earnings.

In addition, ASU 326 made changes to the accounting for available-for-sale debt securities. One change is to require credit losses to be presented as an allowance rather than as a write-down on available for sale debt securities if management does not intend to sell and does not believe that it is more likely than not, they will be required to sell.

The Company adopted ASC 326 and all related subsequent amendments thereto effective January 1, 2023 using the modified retrospective approach for all financial assets measured at amortized cost and off-balance sheet credit exposures. The transition adjustment of the adoption included an increase in the ACL on loans of $2.5 million, which is presented as a reduction to net loans outstanding, and an increase in the ACL for unfunded loan commitments of $253 thousand, which is recorded within Accrued interest payable and other liabilities on the Consolidated Balance Sheets. The Company recorded a net decrease to opening retained earnings as of January 1, 2023 of $1.9 million, for the cumulative effect of adopting ASC 326, which reflects the transition adjustments noted above, net of the applicable deferred tax assets recorded. Results for reporting periods beginning after January 1, 2023 are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable accounting standards ("Incurred Loss"). Subsequent to adoption, the Company will record adjustments to its ACL and reserve for unfunded commitments through the provision for credit losses in the Consolidated Statements of Income.

ASC 326 also replaced the Company's previous accounting policies for PCI loans and TDRs. With the adoption of ASC 326, loans previously designated as PCI loans were designated as purchased loans with credit deterioration (PCD loans). The Company adopted ASC 326 using the prospective transition approach for PCD loans that were previously identified as PCI and accounted for under ASC 310-30. On January 1, 2023, the Company's PCD loans were adjusted to reflect the addition of $355 thousand of expected credit losses to the amortized cost basis of the loans and a corresponding increase to the ACL. The remaining noncredit discount, the difference between the adjusted amortized cost basis and the outstanding principal balance on PCD loans, will be accreted into interest income over the estimated remaining lives of the loans using the effective interest rate method. The evaluation of the ACL will include PCD loans together with other loans that share similar risk characteristics, rather than using the separate pools that were used under PCI accounting. The adoption of ASC 326 also replaced previous TDR accounting guidance, and the evaluation of the ACL will include loans previously designated as TDRs together with other loans that share similar risk characteristics.

The adoption of ASC 326 did not affect the carrying value of debt securities or the amount of unrealized gains and losses recorded in accumulated other comprehensive loss. Upon adoption of ASC 326, the Company did not have any securities included in its portfolio where OTTI had previously been recognized or that required an ACL. Therefore, the Company determined that an ACL on AFS securities was not deemed material.

The following table illustrates the impact of adopting ASC 326:

(Dollars in thousands)	December 31, 2022 As Previously Reported (Incurred Loss)	January 1, 2023 Impact of ASC 326	January 1, 2023 As Reported Under ASC 326
Assets:			
Loans, gross	$ 936,415	$ 355	$ 936,770
Allowance for credit losses:			
Commercial	194	(11)	183
Real estate construction and land	221	440	661
1-4 family residential mortgages	1,618	14	1,632
Commercial mortgages	2,820	1,577	4,397
Consumer	699	471	1,170
Allowance for credit losses	$ 5,552	$ 2,491	$ 8,043
Loans, net	$ 930,863	$ (2,136)	$ 928,727
Net deferred tax asset	$ 17,315	$ 499	$ 17,814
Liabilities:			
Reserve for credit losses on unfunded commitments	60	253	313
Total equity	$ 133,416	$ (1,890)	$ 131,526

Available for Sale Securities - For AFS securities, management evaluates all investments in an unrealized loss position on a quarterly basis, and more frequently when economic or market conditions warrant such evaluation. If the Company has the intent to sell the security or it is more likely than not that the Company will be required to sell the security, the security is written down to fair value and the entire loss is recorded in earnings.

If either of the above criteria is not met, the Company evaluates whether the decline in fair value is the result of credit losses or other factors. In making the assessment, the Company may consider various factors including the extent to which fair value is less than amortized cost, performance on any underlying collateral, downgrades in the ratings of the security by a rating agency, the failure of the issuer to make scheduled interest or principal payments and adverse conditions specifically related to the security. If the assessment indicates that a credit loss exists, the present value of cash flows expected to be collected are compared to the amortized cost basis of the security and any excess is recorded as an ACL, limited by the amount that the fair value is less than the amortized cost basis. Any amount of unrealized loss that has not been recorded through an ACL is recognized in other comprehensive income.

Changes in the ACL are recorded as provision for (or reversal of) credit loss expense. Losses are charged against the ACL when management believes an AFS security is confirmed to be uncollectible or when either of the criteria regarding intent or requirement to sell is met. At December 31, 2024 and December 31, 2023, there was no ACL related to the AFS securities portfolio.

Loans - Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at amortized cost. Amortized cost is the principal balance outstanding, net of purchase premiums and discounts and deferred fees and costs. Accrued interest receivable related to loans totaled $4.9 million at December 31, 2024 and was reported in Accrued interest receivable and other assets on the Consolidated Balance Sheets. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using methods that approximate a level yield without anticipating prepayments.

The accrual of interest is generally discontinued when a loan becomes 90 days past due and is not well collateralized and in the process of collection, or when management believes, after considering economic and business conditions and collection efforts, that the principal or interest will not be collectible in the normal course of business. Past due status is based on contractual terms of the loan. A loan is considered to be past due when a scheduled payment has not been received 30 days after the contractual due date.

All accrued interest is reversed against interest income when a loan is placed on nonaccrual status. Interest received on such loans is accounted for using the cost-recovery method, until qualifying for return to accrual. Under the cost-recovery method, interest income is not recognized until the loan balance is reduced to zero. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current, there is a sustained period of repayment performance, and future payments are reasonably assured.

Allowance for Credit Losses - Purchased Credit Deteriorated Loans - Upon adoption of ASC 326, loans that were designated as PCI loans under the previous accounting guidance were classified as PCD loans without reassessment.

In future acquisitions, the Company may purchase loans, some of which may have experienced more than insignificant credit deterioration since origination. In those cases, the Company will consider internal loan grades, delinquency status and other relevant factors in assessing whether purchased loans are PCD. PCD loans are recorded at the amount paid. An initial ACL is determined using the same methodology as other loans held for investment, but with no impact to earnings. The initial ACL determined on a collective basis is allocated to individual loans. The sum of the loan's purchase price and ACL becomes its initial amortized cost basis. The difference between the initial amortized cost basis and the par value of the loan is a noncredit discount or premium, which is amortized into interest income over the life of the loan. Subsequent to initial recognition, PCD loans are subject to the same interest income recognition and impairment model as non-PCD loans, with changes to the ACL recorded through provision expense.

Allowance for Credit Losses - Loans - The ACL is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans. Loans are charged off against the ACL when management believes the uncollectibility of a loan balance is confirmed. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off. Accrued interest receivable is excluded from the estimate of credit losses.

The ACL represents management’s estimate of lifetime credit losses inherent in loans as of the balance sheet date. The ACL is estimated by management using relevant available information, from both internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company measures expected credit losses for loans on a pooled basis when similar risk characteristics exist. The Company has identified ten portfolio segments and calculates the ACL for each using the methodology specified below *(with the major classification noted in italics)*:

Discounted cash flow methodology:

1. Commercial and industrial *(Commercial)*
2. Construction *(Real estate construction and land)*
3. Consumer *(Consumer)*
4. Commercial real estate, non-owner occupied *(Commercial mortgage)*
5. Commercial real estate, owner occupied *(Commercial mortgage)*
6. Home equity and junior liens *(1-4 family residential mortgage)*
7. Multifamily *(Commercial mortgage)*
8. Residential first lien *(1-4 family residential mortgage)*

Remaining life methodology:

9. Minute lender *(Consumer/Commercial)*
10. Student loans *(Consumer)*

Additionally, the ACL calculation includes adjustments for qualitative risk factors that are likely to cause estimated credit losses to differ from historical experience. These qualitative adjustments may increase reserve levels and include: adjustments for changes in lending policies and procedures and underwriting practices; changes in national, regional and local economic conditions; changes in the nature and volume of the portfolio and terms of loans; changes in the experience, depth and ability of credit and loan operations staff; changes in the volume and severity of past due, special mention and substandard loans; changes in the quality of the loan review system; changes in the value of underlying collateral for loans that are not collateral dependent; the existence and effect of any concentrations of credit and changes in the levels of such concentrations, and the effect of other external factors such as competition, legal and regulatory requirements, on the level of estimated credit losses.

Loans that do not share risk characteristics are evaluated on an individual basis and are not included in the collective analysis. The ACL on loans that are individually evaluated may be estimated based on their expected cash flows, or in the case of loans for which repayment is expected substantially through the sale of collateral, the expected credit losses are based on the fair value of collateral at the reporting dated adjusted for selling costs as appropriate.

Allowance for Credit Losses – Reserve for Unfunded Commitments - The Company records an ACL for off-balance sheet credit exposures, unless the commitments to extend credit are unconditionally cancelable, through a charge to provision for credit losses in the Company's Consolidated Statements of Income. The ACL for off-balance sheet credit exposures is estimated by loan segment at each balance sheet date under the current expected credit loss model using the same methodologies as portfolio loans, taking into consideration the likelihood that funding will occur as well as any third-party guarantees. The allowance for unfunded commitments is included in Accrued interest payable and other liabilities on the Company's Consolidated Balance Sheets.

Accrued Interest Receivable - The Company elected not to measure an ACL for accrued interest receivable and instead elected to reverse interest income on loans that are placed on nonaccrual status, which is generally when the instrument is 90 days past due, or earlier if the Company believes the collection of interest is doubtful. The Company has concluded that this policy results in the timely reversal of uncollectible interest.

Segment Reporting - On December 31, 2024, the Company adopted ASU 2023-07, “Segment Reporting (Topic 280) - Improvements to Reportable Segment Disclosures.” These amendments required that a public entity disclose, on an annual and interim basis, significant segment expenses that are regularly provided to the chief operating decision maker and included within each reported measure of segment profit or loss, required other segment items by reportable segment to be disclosed and a description of their composition, and required disclosure of the title and position of the chief operating decision maker and an explanation of how they use the reported measure of segment profit or loss in assessing segment performance and deciding how to allocate resources. The amendments were applied retrospectively to all prior periods presented and did not have a material effect on the Company’s Consolidated Financial Statements. Refer to Note 24 - Segment Reporting for more information about the Company’s segment disclosure.

Accounting for Investments in Tax Credit Structures - Effective January 1, 2024, the Company adopted the provision of ASU 2023-02, "Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method," which permits reporting entities to make an accounting policy election to account for tax equity investments using the proportional amortization method if certain conditions are met. The election is to be made on a tax-credit-program-by-tax-credit-program basis and should be applied consistently to all investments within an elected tax credit program. Upon the adoption of ASU 2023-02, the Company elected to apply the proportional amortization method of accounting to its low-income housing tax credit (LIHTC) investments. The proportional amortization method recognizes the amortized cost of the investment as a component of income tax expense on the Consolidated Statements of Income and as a component of operating activities within other assets and other liabilities on the Consolidated Statements of Cash Flows. See Note 26 - Investments in Affordable Housing Projects for additional information.

Note 3 – Securities

The amortized cost and fair values of securities available for sale as of December 31, 2024 and December 31, 2023 are as follows:

December 31, 2024 *(Dollars in thousands)*	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized (Losses)**	**Fair Value**
U.S. Treasury securities	$ 1,500	$ -	$ (7)	$ 1,493
U.S. Government agencies	34,998	-	(5,363)	29,635
MBS/CMO	158,554	14	(25,757)	132,811
Corporate bonds	17,782	-	(191)	17,591
Municipal bonds	103,693	-	(21,686)	82,007
Total Securities Available for Sale	$ 316,527	$ 14	$ (53,004)	$ 263,537

December 31, 2023 *(Dollars in thousands)*	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized (Losses)**	**Fair Value**
U.S. Treasury securities	$ 122,288	$ 35	$ (615)	$ 121,708
U.S. Government agencies	45,131	-	(5,550)	39,581
MBS/CMO	179,920	171	(24,947)	155,144
Corporate bonds	19,680	1	(552)	19,129
Municipal bonds	104,265	31	(19,263)	85,033
Total Securities Available for Sale	$ 471,284	$ 238	$ (50,927)	$ 420,595

All mortgage-backed securities included in the above tables were issued by U.S. government agencies and corporations. At December 31, 2024, the securities issued by political subdivisions or agencies were highly rated with 93% of the municipal bonds having A+ or higher ratings. Approximately 63% of the municipal bonds are general obligation bonds with issuers that are geographically diverse.

Marketable equity securities consist of nominal investments made by the Company in equity positions of various community banks and bank holding companies and are reported in other assets at fair value on the Consolidated Balance Sheets. Unrealized gains and losses are recorded in the Consolidated Statements of Income.

There were no unrestricted securities classified as held to maturity as of December 31, 2024 or December 31, 2023.

Restricted securities are securities with limited marketability and consist of stock in the FRB, FHLB, CBBFC and an investment in an SBA loan fund. These restricted securities, totaling $6.2 million and $8.4 million as of December 31, 2024 and December 31, 2023, respectively, are carried at cost.

During the year ended December 31, 2024 and December 31, 2023, $39.6 million and $49.8 million of securities were sold incurring pre-tax losses of $4 thousand and $206 thousand, respectively. All of these sales were part of strategic decisioning to reinvest proceeds into higher yielding assets.

Securities pledged to secure deposits and for other purposes and to facilitate borrowing from the FRB, had carrying values of $21.9 million at December 31, 2024 and $21.8 million at December 31, 2023.

Year-end securities with unrealized losses, segregated by length of time in a continuous unrealized loss position, were as follows:

December 31, 2024 *(Dollars in thousands)*	**Less than 12 Months**		**12 Months or more**		**Total**	
	Fair Value	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
U.S. Treasury Securities	$ -	$ -	$ 1,493	$ (7)	$ 1,493	$ (7)
U.S. Government agencies	-	-	29,551	(5,363)	29,551	(5,363)
MBS/CMO	-	-	130,128	(25,757)	130,128	(25,757)
Corporate bonds	-	-	17,591	(191)	17,591	(191)
Municipal bonds	2,284	(19)	78,648	(21,667)	80,932	(21,686)
	$ 2,284	$ (19)	$ 257,411	$ (52,985)	$ 259,695	$ (53,004)

December 31, 2023 *(Dollars in thousands)*	**Less than 12 Months**		**12 Months or more**		**Total**	
	Fair Value	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
U.S. Treasury Securities	$ -	$ -	$ 52,298	$ (615)	$ 52,298	$ (615)
U.S. Government agencies	10,090	(20)	29,490	(5,530)	39,580	(5,550)
MBS/CMO	-	-	150,045	(24,947)	150,045	(24,947)
Corporate bonds	-	-	19,129	(552)	19,129	(552)
Municipal bonds	-	-	82,140	(19,263)	82,140	(19,263)
	$ 10,090	$ (20)	$ 333,102	$ (50,907)	$ 343,192	$ (50,927)

As of December 31, 2024, there were $259.7 million, or 271 issues, of individual securities in a loss position. These securities had an unrealized loss of $53.0 million and consisted of 1 Treasury security, 19 Agency securities, 115 mortgage-backed/CMOs, 127 municipal bonds, and 9 corporate securities.

The Company's securities portfolio is primarily made up of fixed rate bonds, whose prices move inversely with interest rates. Any unrealized losses are largely due to increases in market interest rates over the yields available at the time the underlying securities were purchased. The fair value is expected to recover as the bonds approach their maturity date or repricing date or if market yields for such investments decline. At the end of any accounting period, the portfolio may have both unrealized gains and losses. Management evaluates all investments in an unrealized loss position on a quarterly basis, and more frequently when economic or market conditions warrant such evaluation. If the Company has the intent to sell the security or it is more likely than not that the Company will be required to sell the security, the security is written down to fair value and the entire loss is recorded in earnings.

If either of the above criteria is not met, the Company evaluates whether the decline in fair value is the result of credit losses or other factors. In making the assessment, the Company may consider various factors including the extent to which fair value is less than amortized cost, performance on any underlying collateral, downgrades in the ratings of the security by a rating agency, the failure of the issuer to make scheduled interest or principal payments and adverse conditions specifically related to the security. If the assessment indicates that a credit loss exists, the present value of cash flows expected to be collected are compared to the amortized cost basis of the security and any excess is recorded as an ACL, limited by the amount that the fair value is less than the amortized cost basis. Any amount of unrealized loss that has not been recorded through an ACL is recognized in other comprehensive income.

Changes in the ACL are recorded as provision for (or reversal of) credit loss expense. Losses are charged against the ACL when management believes an AFS security is confirmed to be uncollectible or when either of the criteria regarding intent or requirement to sell is met. At December 31, 2024, there was no ACL related to the AFS securities portfolio.

The amortized cost and fair value of AFS debt securities at December 31, 2024 are presented below based upon contractual maturities, by major investment categories. Expected maturities may differ from contractual maturities because issuers have the right to call or prepay obligations.

(Dollars in thousands)	**Amortized Cost**	**Fair Value**
U.S. Treasury securities		
One year or less	$ 1,500	$ 1,493
After one year to five years	-	-
	$ 1,500	$ 1,493
U.S. Government agencies		
One year or less	$ -	$ -
After one to five years	12,218	10,826
After five years to ten years	18,780	15,863
Ten years or more	4,000	2,946
	$ 34,998	$ 29,635
MBS/CMO		
One year or less	$ -	$ -
After one year to five years	5,212	4,954
After five years to ten years	1,965	1,815
Ten years or more	151,377	126,042
	$ 158,554	$ 132,811
Corporate bonds		
One year or less	$ 9,992	$ 9,931
After one year to five years	7,790	7,660
	$ 17,782	$ 17,591
Municipal bonds		
One year or less	$ 610	$ 608
After one year to five years	4,801	4,661
After five years to ten years	23,280	21,031
Ten years or more	75,002	55,707
	$ 103,693	$ 82,007
Total Debt Securities Available for Sale	$ 316,527	$ 263,537

Note 4 – Loans

On January 1, 2023, the Company adopted ASC 326. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loans receivable. For further information and discussion regarding the Company's adoption of ASC and CECL, see Note 2 - Adoption of New Accounting Standards. All loan information presented as of December 31, 2024 and December 31, 2023 is in accordance with ASC 326.

The composition of the loan portfolio by major loan classification appears below. Note that all loan balances are presented net of credit and other fair value discounts, when applicable. The Company has elected to exclude accrued interest receivable, totaling $4.9 million and $4.3 million as of December 31, 2024 and December 31, 2023, respectively, from the amortized cost basis of loans.

(Dollars in thousands)	December 31, 2024	December 31, 2023
Commercial	$ 257,671	$ 152,517
Real estate construction and land	36,977	33,682
1-4 family residential mortgages	313,610	317,558
Commercial mortgages	593,496	550,867
Consumer	34,215	38,041
Total loans	$ 1,235,969	$ 1,092,665
Less: Allowance for credit losses	(8,455)	(8,395)
Net loans	$ 1,227,514	$ 1,084,270

The balances in the table above include unamortized premiums and net deferred loan costs and fees. Unamortized premiums on loans purchased (excluding loans acquired during the Merger) were $10.3 million and $4.6 million as of December 31, 2024 and December 31, 2023, respectively, increasing primarily due to the increased volume of purchases of government-guaranteed loans in 2024. Net deferred loan fees totaled $3.1 million and $2.5 million as of December 31, 2024 and December 31, 2023, respectively.

Commercial loans reported above include (i) organic loans originated by the Bank's commercial lenders, (ii) the government guaranteed portion of loans which the Company purchased that are 100% guaranteed by either the United States Department of Agriculture (USDA) or the SBA, and (iii) PPP loans through the SBA. The government guaranteed loans are typically purchased at a premium. In the event of early prepayment, the Bank may need to write off any unamortized premium. As of December 31, 2024 and December 31, 2023, the portfolio of government guaranteed loans, included in the commercial loan balance in the table above, was $218.3 million and $109.7 million, respectively.

Real estate construction and land loans consist primarily of loans for the purchase or refinance of unimproved lots or raw land. Additionally, the Company finances the construction of real estate projects typically where the permanent mortgage will remain with the Company.

1-4 family residential mortgages include consumer purpose 1-4 family residential properties and home equity loans, as well as investor-owned residential real estate. The Company typically originates residential mortgages with the intention of retaining in its portfolio adjustable-rate mortgages and shorter-term, fixed-rate loans. Currently, the Company only originates investor-owned residential mortgage loans.

In addition, residential mortgages include packages of 1-4 family residential mortgages that have been purchased, with each purchased loan individually underwritten by the Company prior to the closing of the sale. The balance in these purchased loan packages totaled approximately $5.7 million and $7.8 million as of December 31, 2024 and December 31, 2023, respectively.

Commercial mortgages are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Commercial real estate lending typically involves higher loan principal amounts, and the repayment of these loans is generally largely dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan.

Consumer loans are generally small loans spread across many borrowers and are underwritten after determining the ability of the consumer borrower to repay their obligations as agreed. Consumer loans may be secured or unsecured and are comprised of revolving lines, installment loans and other consumer loans. Included in consumer loans are private student loan packages that were purchased beginning in 2015. As of December 31, 2024, the balance in these purchased student loan packages totaled approximately $16.2 million compared to $20.1 million at December 31, 2023. Deposit account overdrafts are included in the consumer loan balances and totaled $36 thousand and $252 thousand at December 31, 2024 and December 31, 2023, respectively.

Acquired loans - Loans acquired in business combinations are recorded in the Consolidated Balance Sheets at fair value at the acquisition date under the acquisition method of accounting. The table above includes a net fair value mark of $4.4 million and $6.2 million on the purchased impaired loans and $2.4 million and $3.2 million on the purchased performing loans as of December 31, 2024 and December 31, 2023, respectively, on the Acquired Loans.

Loan origination/risk management - The Company has certain lending policies and procedures in place that are designed to maximize loan income within an acceptable level of risk. Management reviews and the Board of Directors approves lending policies on a regular basis. A reporting system supplements the review process by providing management with frequent reports related to loan production, loan quality, concentrations of credit, loan delinquencies, and nonperforming and potential problem loans. Diversification in the loan portfolio is a means of managing risk associated with fluctuations in economic conditions.

Independent loan review on a portion of the loan portfolio is performed by an independent loan review firm that reviews and validates the credit risk program on a periodic basis. Results of these reviews are presented to management and the Audit and Compliance Committee of the Board. The loan review process complements and reinforces the risk identification and assessment decisions made by lenders and credit personnel, as well as the Company's policies and procedures.

Concentrations of credit - Most of the Company's lending activity occurs within the Commonwealth of Virginia, predominantly in the Company's primary markets and surrounding areas. The majority of the Company's loan portfolio consists of commercial real estate loans. The Company manages this risk by using specific underwriting policies and procedures for these types of loans and by avoiding excessive concentrations to any one business or industry. Of the $593.5 million of commercial mortgages held on the balance sheet as of December 31, 2024, $309.8 million consists of non-owner occupied commercial real estate, $107.2 million of multifamily, and $176.5 million of owner occupied CRE. No CRE loans were over 90 days past due or on non-accrual as of December 31, 2024.

Related party loans - In the ordinary course of business, the Company has granted loans to certain directors, principal officers and their affiliates (collectively referred to as "related party loans"). Activity in related party loans during 2024 and 2023 is presented in the following table.

(Dollars in thousands)	**2024**	**2023**
Balance outstanding at beginning of year	$ 13,015	$ 15,533
Principal additions	2	132
Principal reductions	(4,140)	(2,650)
Balance outstanding at end of year	$ 8,877	$ 13,015

Past due, non-accrual and charged-off loans - Loans are considered past due if the required principal and interest payments have not been received as of the date such payments were due.

Loans are placed on non-accrual status when, in management's opinion, the borrower may be unable to meet payment obligations as they become due. In determining whether or not a borrower may be unable to meet payment obligations for each class of loans, the Company considers the borrower's debt service capacity through the analysis of current financial information, if available, and/or current information with regards to the Company's collateral position. Regulatory provisions generally require a loan to be placed on non-accrual status if (i) principal or interest has been in default for a period of 90 days or more unless the loan is both well secured and in the process of collection or (ii) full payment of principal and interest is not expected. Loans may be placed on non-accrual status regardless of whether or not such loans are considered past due. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income on non-accrual loans is recognized only to the extent that cash payments are received in excess of principal due. A loan may be returned to accrual status when all the principal and interest amounts contractually due are brought current and future principal and interest amounts contractually due are reasonably assured, which is typically evidenced by a sustained period (at least six months) of repayment performance by the borrower.

Loans are charged off when 120 days past due. Smaller, unsecured consumer loans, including the student loan portfolio, are typically charged-off when management judges such loans to be uncollectible or the borrowers file for bankruptcy; these loans are generally not placed in non-accrual status prior to charge-off. The Company has contracted with a third party to proactively manage the collections of past due student loans; this third party has extensive experience and specializes in this type of asset management.

The following table shows the aging of the Company's loan portfolio, by class, at December 31, 2024 and December 31, 2023:

(dollars in thousands)	30-59 Days	60-89 Days	90 Days or More Past Due and Still Accruing	Nonaccrual Loans	Current	Total Loans
December 31, 2024						
Commercial	$ 9,173	$ 354	$ 705	$ -	$ 247,439	$ 257,671
Real estate construction and land	-	-	-	-	36,977	36,977
1-4 family residential mortgages	1,131	317	-	2,267	309,895	313,610
Commercial mortgages	-	-	-	-	593,496	593,496
Consumer loans	66	90	49	-	34,010	34,215
Total Loans	$ 10,370	$ 761	$ 754	$ 2,267	$ 1,221,817	$ 1,235,969
December 31, 2023						
Commercial	$ 378	$ 369	$ 782	$ -	$ 150,988	$ 152,517
Real estate construction and land	70	37	-	-	33,575	33,682
1-4 family residential mortgages	1,834	860	-	1,438	313,426	317,558
Commercial mortgages	6,304	-	-	414	544,149	550,867
Consumer loans	225	141	97	-	37,578	38,041
Total Loans	$ 8,811	$ 1,407	$ 879	$ 1,852	$ 1,079,716	$ 1,092,665

The following tables shows the Company's amortized cost basis of loans on nonaccrual status as of December 31, 2024 and December 31, 2023. All nonaccrual loans are evaluated for an ACL on an individual basis. Only one nonaccrual loan required an ACL as of December 31, 2024 and December 31, 2023, in the amount of $28 thousand and $4 thousand, respectively, due to collateral value shortfall.

	December 31, 2024		
(Dollars in thousands)	Nonaccrual Loans with No Allowance	Nonaccrual Loans with an Allowance	Total Nonaccrual Loans
Commercial	$ -	$ -	$ -
Real estate construction and land	-	-	-
1-4 family residential mortgages	1,887	380	2,267
Commercial mortgages	-	-	-
Consumer	-	-	-
Total Loans	$ 1,887	$ 380	$ 2,267

	December 31, 2023		
(Dollars in thousands)	Nonaccrual Loans with No Allowance	Nonaccrual Loans with an Allowance	Total Nonaccrual Loans
Commercial	$ -	$ -	$ -
Real estate construction and land	-	-	-
1-4 family residential mortgages	1,383	55	1,438
Commercial mortgages	414	-	414
Consumer	-	-	-
Total Loans	$ 1,797	$ 55	$ 1,852

From time-to-time, the Company modifies loans to borrowers who are experiencing financial difficulties by providing term extensions, interest rate reductions or other-than-insignificant payment delays. As the effect of most modifications is already included in the ACL due to the measurement methodologies used in its estimate, the ACL is typically not adjusted upon modification. During the twelve months ended December 31, 2024 and 2023, no loans were modified for borrowers experiencing financial difficulties.

The Company closely monitors the performance of all modified loans to understand the effectiveness of its modification efforts. Upon determination, if applicable, that all or a portion of a modified loan is uncollectible, that amount is charged against the ACL. There were no payment defaults during the twelve months ended December 31, 2024 of modified loans that were modified during the previous twelve months and all are current as of December 31, 2024.

There were no loans secured by 1-4 family residential property that were in the process of foreclosure at either December 31, 2024 or December 31, 2023.

The outstanding principal balance of loans acquired in business combinations as of December 31, 2024 and December 31, 2023 are as follows:

(Dollars in thousands)	December 31, 2024		
	Acquired Loans - Purchased Credit Deteriorated	Acquired Loans - Purchased Performing	Acquired Loans - Total
Outstanding principal balance	$ 25,598	$ 228,376	$ 253,974
Carrying amount:			
Commercial	$ 14	$ 3,915	$ 3,929
Real estate construction and land	564	1,605	2,169
1-4 family residential mortgages	9,380	128,386	137,766
Commercial mortgages	11,199	91,826	103,025
Consumer	23	277	300
Total acquired loans	$ 21,180	$ 226,009	$ 247,189

(Dollars in thousands)	December 31, 2023		
	Acquired Loans - Purchased Credit Impaired	Acquired Loans - Purchased Performing	Acquired Loans - Total
Outstanding principal balance	$ 29,206	$ 267,717	$ 296,923
Carrying amount:			
Commercial	$ 62	$ 9,242	$ 9,304
Real estate construction and land	662	1,727	2,389
1-4 family residential mortgages	10,046	143,323	153,369
Commercial mortgages	12,251	109,500	121,751
Consumer	33	678	711
Total acquired loans	$ 23,054	$ 264,470	$ 287,524

Note 5 – Allowance for Credit Losses

On January 1, 2023, the Company adopted ASC 326. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost. For further information and discussion regarding the Company's adoption of CECL, see Note 2 - Adoption of New Accounting Standards. All ACL information presented as of December 31, 2024 and December 31, 2023 is in accordance with ASC 326.

The ACL on the loan portfolio is a material estimate for the Company. The Company estimates is ACL on its loan portfolio on a quarterly basis. The Company utilizes two methodologies in its development of the ACL, discounted cash flow and remaining life.

- Discounted Cash Flow
  - DCF models, being periodic in nature, allow for effective incorporation of a reasonable and supportable forecast in a directionally consistent and objective manner.
  - The analysis aligns well with other calculations/actions outside the ACL estimation, which will mitigate model risk in other areas and allow for symmetrical application. For example, fair value (exit price notion), profitability analysis, IRR calculations, ALM, stress testing, and other forms of cash flow analysis.
  - Peer data is available for certain inputs (Probability of Default and Loss Given Default) if first-party data is not available or meaningful. This is made possible by the periodic nature of the model.
  - The DCF methodology is utilized on the following pools: 1) Commercial & Industrial; 2) Construction; 3) Consumer; 4) CRE Non-Owner Occupied; 5) CRE Owner Occupied; 6) HELOC & Junior Lien; 7) Residential 1st Lien; and 8) Multifamily.
- Remaining Life
  - This methodology leverages a quarterly loss rate as well as future expectations of portfolio balances to calculate a reserve.
  - There are two main strengths of this methodology. First, it is fairly easy to execute and does not rely on large quantities of historical loan-level data. Second, it can satisfy the need to incorporate a reasonable and supportable forecast in a straightforward manner by either applying a forecast policy of “applicable history” or leveraging an actual econometric model for the analysis.
  - The remaining life methodology is utilized on the following pools: 1) Minute Lender; and 2) Student Loans.

Maximum Loss Rate - Management utilizes the same model to calculate maximum loss rates and expected loss rates for each segment. No additional models or methodologies were used to quantify the maximum loss rate, rather, a worst-case economic environment is utilized in the models. This process ensures symmetry between the maximum loss rate and the quantified loss rate. This process also leverages the well-documented regression models used in model development.

The process for deriving the maximum loss rate is outlined below:

- The economic forecast reflects the worst economic environment observed for each economic factor. This is done by quantifying a rolling 1-year average for each economic factor. Then, the most pessimistic 1-year average observations are captured and utilized as economic forecast inputs within the application.
- The economic forecast assumed is a ‘worst-case’ economic environment with inputs reflective of the great recession.

- The economic forecast is used to quantify credit risk in the form of Loss Rate. The resulting periodic default and loss rates are applied to the prepayment adjusted amortization schedules for each segment.
- The resulting ACL, which represents a lifetime reserve (symmetrical to the base model), is input into the qualitative framework's maximum loss rate field. The difference between the expected model and the maximum model results are then allocated based on weight and risk assignment.

Qualitative Factors - ASC 326 requires an entity to adjust historical loss information to reflect the extent to which management expects reasonable and supportable forecasts to differ from the conditions that existed for the period over which historical information was evaluated. The adjustments for reasonable and supportable forecasts may be qualitative in nature and should reflect changes related to relevant data.

The Company utilizes a scorecard approach to assign qualitative factors. The scorecard approach is in alignment with the AICPA audit considerations for CECL which states:

> These adjustments should be grounded in a methodology that is subject to appropriate governance, challenge, and periodic controlled reevaluation. Such methodology will generally require significant management judgment. The information used to support management's adjustments may be publicly available information, information specifically developed for the entity via management's specialist (internal or external), or other relevant and reliable information.

The purpose of the qualitative scorecard is to provide a qualitative estimate of the expected credit losses of the current loan portfolio in response to potential limitations of the quantitative model. It is used to aid in the assessment of the unquantifiable factors affecting expected credit losses in the loan portfolio. Benefits of the scorecard include directional consistency, objectivity, controls and quantification framework (auditable).

For each segment, the scorecard calculates the difference between the quantitative expected credit loss and the maximum loss rate. This difference represents all available qualitative adjustment that can be applied to that segment.

Individual Evaluation - In accordance with ASC 326, the Company will evaluate individual loans for expected credit losses when those loans do not share similar risk characteristics with loans evaluated using a collective (pooled) basis. Loans will not be included in both collective and individual analysis. Individual analysis will establish a specific reserve for each loan, using one of four methods: 1) Fair Value of Collateral Method (Collateral Relationship); 2) Cash Flow Method; 3) Advanced Cash Flow Method; or 4) Loan Pricing Method.

Management has elected to perform an individual evaluation on all loans in nonaccrual status. As of December 31, 2024, after reviewing each loan in nonaccrual status, a specific reserve of $28 thousand was established. As of December 31, 2023, after reviewing each loan on nonaccrual status, a specific reserve of $4 thousand was established.

The primary driver in the increase in reserves from adoption date of January 1, 2023 to December 31, 2024 is due to the increase in organic loan growth during the period, offset by net recoveries due to successful collection efforts.

The following tables shows the ACL activity by loan portfolio for the twelve months ended December 31, 2024 and December 31, 2023:

(Dollars in thousands)	Commercial Loans	Real Estate Construction and Land	1-4 Family Residential Mortgages	Commercial Mortgages	Consumer Loans	Total
Balance as of December 31, 2022	$ 194	$ 221	$ 1,618	$ 2,820	$ 699	$ 5,552
Impact of ASC 326 adoption	(11)	440	14	1,577	471	$ 2,491
Charge-offs	-	-	-	-	(721)	$ (721)
Recoveries	168	-	10	42	157	$ 377
Provision for (recovery of) credit losses	(158)	(199)	(150)	822	381	$ 696
Balance as of December 31, 2023	$ 193	$ 462	$ 1,492	$ 5,261	$ 987	$ 8,395
Balance as of December 31, 2023	$ 193	$ 462	$ 1,492	$ 5,261	$ 987	$ 8,395
Charge-offs	(288)	-	-	-	(471)	(759)
Recoveries	723	-	11	573	230	1,537
Provision for (recovery of) credit losses	132	275	1,048	(2,301)	128	(718)
Balance as of December 31, 2024	$ 760	$ 737	$ 2,551	$ 3,533	$ 874	$ 8,455

The following table presents a breakdown of the provision for credit losses for the periods indicated:

(Dollars in thousands)	December 31, 2024	December 31, 2023
Provision for (recovery of) credit losses	$ (718)	$ 696
Provision for unfunded commitments	118	38
Total	$ (600)	$ 734

The following table presents the Company's amortized cost basis of collateral dependent loans, which are individually evaluated to determine expected credit losses, and the related ACL allocated to those loans as of December 31, 2024 and December 31, 2023:

	December 31, 2024		December 31, 2023	
(Dollars in thousands)	Real Estate Secured Loans	ACL - Loans	Real Estate Secured Loans	ACL - Loans
Commercial real estate - non owner occupied	$ -	$ -	$ 414	$ -
1-4 family residential mortgages	2,267	28	1,438	4
Total	$ 2,267	$ 28	$ 1,852	$ 4

Credit Quality Indicators

The Company utilizes the following credit quality indicators:

Pass

Loans with the following risk ratings are pooled by class and considered together as “Pass”:

Excellent– minimal risk loans secured by cash or fully guaranteed by a U.S. government agency

Good– low risk loans secured by marketable collateral within margin

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

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

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

Watch

These loans have an acceptable risk but require more attention than normal servicing.

Special Mention

These potential problem loans are currently protected but are potentially weak.

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.

Doubtful

Loans with this rating have significant deterioration in the sound worth and paying capacity of the borrower and/or the value of any collateral pledged, making collection or liquidation of the loan in full highly questionable. These loans would be considered impaired and evaluated on an individual basis.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table presents the Company's recorded investment in loans by credit quality indicators by year of origination as of December 31, 2024. Current period gross write-off amounts represent write-offs for twelve months ended December 31, 2024:

	Term Loans Amortized Cost Basis by Origination Year								
(Dollars in thousands)	2024	2023	2022	2021	2020	Prior	Revolving Loans	Loans Converted to Term	Total
Commercial									
Pass	$ 102,378	$ 99,341	$ 11,116	$ 1,770	$ 2,818	$ 23,171	$ 15,821	$ 3	$ 256,418
Watch	41	74	154	57	104	28	-	-	458
Special Mention	-	-	-	-	-	-	-	6	6
Substandard	-	5	294	-	20	132	7	331	789
Total commercial	$ 102,419	$ 99,420	$ 11,564	$ 1,827	$ 2,942	$ 23,331	$ 15,828	$ 340	$ 257,671
Current period gross write-off	$ -	$ 14	$ 38	$ -	$ 103	$ 133	$ -	$ -	$ 288
Real estate construction and land									
Pass	$ 6,613	$ 14,844	$ 2,445	$ 2,364	$ 1,615	$ 1,476	$ -	$ -	$ 29,357
Watch	-	1,057	-	159	-	-	-	-	1,216
Special Mention	-	-	-	-	-	243	-	-	243
Substandard	-	-	6,121	-	-	40	-	-	6,161
Total real estate construction and land	$ 6,613	$ 15,901	$ 8,566	$ 2,523	$ 1,615	$ 1,759	$ -	$ -	$ 36,977
Current period gross write-off	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
1-4 family residential mortgages									
Pass	$ 21,285	$ 16,942	$ 11,889	$ 51,277	$ 71,422	$ 97,356	$ 17,555	$ 563	$ 288,289
Watch	-	4,787	501	2,417	247	1,706	767	654	11,079
Special Mention	199	1,000	1,057	918	-	5,291	92	-	8,557
Substandard	-	-	1,434	54	1,292	2,293	397	215	5,685
Total 1-4 family residential mortgage	$ 21,484	$ 22,729	$ 14,881	$ 54,666	$ 72,961	$ 106,646	$ 18,811	$ 1,432	$ 313,610
Current period gross write-off	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Commercial mortgages									
Pass	$ 98,264	$ 106,442	$ 37,153	$ 39,435	$ 80,542	$ 197,875	$ 1,215	$ 572	$ 561,498
Watch	-	1,776	-	-	11,385	4,594	-	-	17,755
Special Mention	82	-	1,511	1,406	1,506	7,701	-	-	12,206
Substandard	-	-	-	1,750	287	-	-	-	2,037
Total commercial mortgages	$ 98,346	$ 108,218	$ 38,664	$ 42,591	$ 93,720	$ 210,170	$ 1,215	$ 572	$ 593,496
Current period gross write-off	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Consumer									
Pass	$ 698	$ 1,104	$ 67	$ 243	$ 134	$ 16,603	$ 15,135	$ 3	$ 33,987
Watch	-	-	-	23	-	59	-	-	82
Special Mention	-	-	-	-	-	89	-	-	89
Substandard	7	1	-	-	-	49	-	-	57
Total consumer	$ 705	$ 1,105	$ 67	$ 266	$ 134	$ 16,800	$ 15,135	$ 3	$ 34,215
Current period gross write-off	$ -	$ -	$ -	$ -	$ 4	$ 466	$ 1	$ -	$ 471

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table presents the Company's recorded investment in loans by credit quality indicators by year of origination as of December 31, 2023. Current period gross write-off amounts represent write-offs for twelve months ended December 31, 2023:

	Term Loans Amortized Cost Basis by Origination Year								
(Dollars in thousands)	2023	2022	2021	2020	2019	Prior	Revolving Loans	Loans Converted to Term	Total
Commercial									
Pass	$ 85,529	$ 12,344	$ 2,712	$ 4,989	$ 7,121	$ 16,873	$ 21,806	$ 112	$ 151,486
Watch	-	41	-	-	-	-	-	-	41
Special Mention	-	-	-	-	-	79	8	-	87
Substandard	-	97	1	135	53	212	50	355	903
Total commercial	$ 85,529	$ 12,482	$ 2,713	$ 5,124	$ 7,174	$ 17,164	$ 21,864	$ 467	$ 152,517
Current period gross write-off	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Real estate construction and land									
Pass	$ 12,425	$ 11,748	$ 3,683	$ 1,717	$ 955	$ 1,293	$ 129	$ -	$ 31,950
Watch	-	-	-	-	-	299	-	-	299
Special Mention	-	-	-	-	-	37	-	-	37
Substandard	1,351	-	-	-	-	45	-	-	1,396
Total real estate construction and land	$ 13,776	$ 11,748	$ 3,683	$ 1,717	$ 955	$ 1,674	$ 129	$ -	$ 33,682
Current period gross write-off	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
1-4 family residential mortgages									
Pass	$ 19,482	$ 14,712	$ 54,066	$ 74,539	$ 24,999	$ 85,836	$ 20,571	$ 524	$ 294,729
Watch	-	1,621	1,874	602	-	7,149	1,166	-	12,412
Special Mention	-	1,089	1,458	1,958	270	1,591	78	138	6,582
Substandard	-	-	55	1,194	97	2,094	395	-	3,835
Total 1-4 family residential mortgage	$ 19,482	$ 17,422	$ 57,453	$ 78,293	$ 25,366	$ 96,670	$ 22,210	$ 662	$ 317,558
Current period gross write-off	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Commercial mortgages									
Pass	$ 112,093	$ 41,433	$ 46,315	$ 101,205	$ 45,809	$ 171,184	$ 1,502	$ 76	$ 519,617
Watch	-	-	1,196	166	165	14,188	-	-	15,715
Special Mention	-	-	391	278	-	4,130	-	-	4,799
Substandard	150	-	1,824	3,032	-	5,730	-	-	10,736
Total commercial mortgages	$ 112,243	$ 41,433	$ 49,726	$ 104,681	$ 45,974	$ 195,232	$ 1,502	$ 76	$ 550,867
Current period gross write-off	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Consumer									
Pass	$ 1,149	$ 193	$ 420	$ 273	$ 107	$ 20,836	$ 14,710		$ 37,688
Watch	-	-	7	-	9	190	-		206
Special Mention	-	-	-	-	-	132	1	5	138
Substandard	1	-	-	-	8	-	-		9
Total consumer	$ 1,150	$ 193	$ 427	$ 273	$ 124	$ 21,158	$ 14,711	$ 5	$ 38,041
Current period gross write-off	$ -	$ -	$ 19	$ 16	$ 28	$ 654	$ 4	$ -	$ 721

Note 6 – Premises and Equipment

Premises and equipment are summarized as follows:

(Dollars in thousands)	December 31, 2024	December 31, 2023
Leasehold improvements	$ 15,166	$ 15,148
Building and land	13,526	13,511
Construction and fixed assets in progress	154	193
Furniture and equipment	8,770	8,231
Computer software	3,047	3,042
	$ 40,663	$ 40,125
Less: accumulated depreciation and amortization	25,280	23,930
	$ 15,383	$ 16,195

Depreciation and amortization on these premises and equipment totaled $1.5 million for each of the years ended December 31, 2024 and December 31, 2023.

Note 7 – Leases

At December 31, 2024, the Company had leased certain of its banking and operations offices, or the land on which such offices were built, under operating lease agreements on terms ranging from 1 to 20 years, most with renewal options. Each of the Company's long-term lease agreements are classified as operating leases. Certain of these leases offer the option to extend the lease term and the Company has included such extensions in its calculation of the lease liabilities to the extent the options are reasonably assured of being exercised. The lease agreements do not provide for residual value guarantees and have no restrictions or covenants that would impact dividends or require incurring additional financial obligations. Refer to Note 14 – Related Party Transactions for information regarding leasing transactions with related parties.

The following tables present information about the Company's leases:

(Dollars in thousands)	December 31, 2024	December 31, 2023
Lease liability	$ 5,389	$ 6,504
Right-of-use asset	$ 5,551	$ 6,748
Weighted average remaining lease term	5.14 years	4.71 years
Weighted average discount rate	3.02%	2.28%

(Dollars in thousands)	2024	2023
Operating lease expense	$ 1,667	$ 1,740
Short-term lease expense	44	332
Total lease expense	$ 1,711	$ 2,072
Cash paid for amounts included in lease liabilities	$ 1,582	$ 1,542

A maturity analysis of operating lease liabilities and reconciliation of the undiscounted cash flows to the total of operating lease liabilities is as follows:

(Dollars in thousands)		**December 31, 2024**
Twelve months ending December 31, 2025	$	1,497
Twelve months ending December 31, 2026		1,159
Twelve months ending December 31, 2027		1,063
Twelve months ending December 31, 2028		917
Twelve months ending December 31, 2029		541
Thereafter		654
Total undiscounted cash flows	$	5,831
Less: Discount		(442)
Lease liability	$	5,389

Note 8 – Goodwill and Other Intangible Assets

The carrying amount of goodwill was $7.8 million at December 31, 2024 and December 31, 2023. There were no changes in the recorded balance of goodwill during the twelve months ended December 31, 2024.

The Company had $3.8 million and $5.1 million of other intangible assets as of December 31, 2024 and December 31, 2023, respectively, which were recognized in connection with the core deposits acquired from Fauquier in 2021.

The following table summarizes the gross carrying amounts and accumulated amortization of other intangible assets:

(Dollars in thousands)	**December 31, 2024**		**December 31, 2023**	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:				
Core deposit intangible	$ 9,660	$ (5,868)	$ 9,660	$ (4,567)

The Company recognized $1.3 million and $1.5 million during the years ending December 31, 2024 and 2023, respectively, in amortization expense from these identified intangible assets with a finite life. Estimated future amortization expense by year as of December 31, 2024 is as follows:

(Dollars in thousands)	Core Deposit Intangible
2025	1,110
2026	918
2027	726
2028	535
2029	503
Thereafter	-
Total	$ 3,792

Note 9 – Deposits

At December 31, 2024, the scheduled maturities of time deposits are as follows:

(Dollars in thousands)		
2025	$	275,554
2026		28,966
2027		2,942
2028		756
2029		225
	$	308,443

The aggregate amount of time deposits with a minimum balance of $250 thousand was $102.1 million at December 31, 2024 and $106.6 million at December 31, 2023.

Included in the time deposits reported above are Certificate of Deposit Account Registry Service CDs, whereby depositors can obtain FDIC deposit insurance on account balances of up to $50 million. CDARS™ deposits totaled $4.9 million as of December 31, 2024 and $7.2 million as of December 31, 2023, all of which were reciprocal balances for the Bank's customers. In May 2018, the EGRRCPA was enacted, which excluded reciprocal CDARS™ deposits for certain banks from brokered deposit treatment up to the lesser of $5 billion or 20% of a bank's total liabilities. Therefore, the Company's CDARS™ reciprocal deposits as of December 31, 2024 and December 31, 2023 were not treated as brokered deposits. The Company had no brokered deposits as of December 31, 2024 and $1.7 million of brokered deposits as of December 31, 2023.

The Company implemented an Insured Cash Sweep® product during 2018. At December 31, 2024, ICS® balances, included in demand deposit and money market account balances, were $44.5 million and $122.1 million, respectively. At December 31, 2023, ICS® balances, included in demand deposit and money market account balances, were $44.2 million and $107.3 million, respectively. Such balances were not treated as brokered deposits.

Deposit account overdrafts reported as loans totaled $36 thousand and $252 thousand at December 31, 2024 and December 31, 2023, respectively.

The Company has entered into deposit transactions with certain directors, principal officers and their affiliates (collectively referred to as "related party deposits"), all of which are under the same terms as other customers. The aggregate amount of these related party deposits was $4.9 million and $4.4 million as of December 31, 2024 and December 31, 2023, respectively.

Note 10 – Borrowings

The Company uses both short-term and long-term borrowings to supplement deposits when they are available at a lower overall cost to the Company or they can be invested at a positive rate of return.

Each FHLB credit program has its own interest rate, which may be fixed or variable, and carries a range of maturities. The FHLB may prescribe the acceptable uses to which the advances may be put, as well as on the size of the advances and repayment provisions. The Company has pledged commercial real estate loans as collateral for FHLB borrowings. The Company had $20.0 million and $66.5 million in outstanding FHLB advances as of December 31, 2024 and December 31, 2023, respectively.

In addition to access to short-term borrowings from FHLB, the Company uses federal funds purchased for short-term borrowing needs. Available borrowing arrangements maintained by the Bank include formal federal funds lines with five major correspondent banks. As of December 31, 2024 and December 31, 2023, the balance on these lines was $236 thousand and $3.5 million, respectively.

The Company's unused lines of credit for future borrowings total approximately $198.9 million at December 31, 2024, which consists of $80.1 million available from the FHLB and $118.7 million from third-party financial institutions. Additional loans and securities are available that can be pledged as collateral for future borrowings from the FRB or the FHLB above the current lendable collateral value.

Information related to borrowings as of December 31, 2024 and 2023 is as follows:

(Dollars in thousands)	2024	2023
Federal funds purchased	$ 236	$ 3,462
FHLB advances	$ 20,000	$ 66,500
Total borrowings	$ 20,236	$ 69,962
Maximum amount at any month-end during the year	$ 55,702	$ 80,808
Annual average balance outstanding	$ 36,600	$ 39,917
Annual average interest rate paid	4.70%	5.19%
Annual interest rate at end of period	4.82%	4.92%

Note 11 – Income Taxes

The Company files tax returns in the U.S. federal jurisdiction. With few exceptions, the Company is no longer subject to U.S. federal tax examinations by tax authorities for years prior to 2020.

The Commonwealth of Virginia assesses a Bank Franchise Tax on banks instead of a state income tax. The Bank Franchise Tax expense is reported in noninterest expense, and the calculation of that tax is unrelated to taxable income.

Net deferred tax assets consist of the following components as of year-end:

(Dollars in thousands)	2024	2023
Deferred tax assets:		
Allowance for credit or loan losses	$ 1,874	$ 1,836
Acquisition accounting	1,425	1,974
Fixed assets	971	853
Investments in pass-throughs	-	182
Nonaccrual loan interest	30	39
Stock option/grant expense	125	101
Home equity closing costs	93	84
Deferred compensation expense	-	3
Deferred loan fees	652	528
Securities available for sale unrealized loss	11,128	10,940
Total deferred tax assets	$ 16,298	$ 16,540
Deferred tax liabilities:		
Goodwill and other intangible assets	721	967
Trust preferred	130	140
Right of use asset	34	51
Equity in earnings of subsidiaries	6	-
Total deferred tax liabilities	891	1,158
Net deferred tax assets	$ 15,407	$ 15,382

The provision for income taxes charged to operations for years ended December 31, 2024 and December 31, 2023 consists of the following:

(Dollars in thousands)	2024	2023
Current tax expense	$ 3,923	$ 3,537
Deferred tax expense	10	473
Provision for income taxes	$ 3,933	$ 4,010

The Company's income tax provision differs from the amount of income tax determined by applying the U.S. federal income tax rate to pretax income for the years ended December 31, 2024 and December 31, 2023 due to the following:

(Dollars in thousands)	2024	2023
Federal statutory rate	21%	21%
Computed statutory tax expense	$ 4,389	$ 4,887
Increase (decrease) in tax resulting from:		
Tax-exempt interest income	(38)	(145)
Tax-exempt income from BOLI	(243)	(370)
Stock option/stock grant expense	35	13
Investment in qualified housing projects	(141)	(405)
Other (income) expenses	(69)	30
Provision for income taxes	$ 3,933	$ 4,010

Note 12 – Commitments and Contingent Liabilities

In the normal course of business, there are various outstanding commitments and contingent liabilities, which are not reflected in the accompanying Consolidated Financial Statements. The Company does not anticipate any material loss as a result of these transactions.

The Bank is typically required to maintain cash reserve balances on hand or with the Federal Reserve Bank (FRB). At December 31, 2024 and December 31, 2023, there was no minimum reserve requirement as a result of a rule adopted by the FRB in March 2020 eliminating the reserve requirement.

Note 13 – Financial Instruments with Off-Balance Sheet Risk and Credit Risk

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments consist primarily of commitments to extend credit, such as unfunded lines of credit and standby letters of credit. The Company also treats authorization limits for originating ACH transactions as commitments. In addition to the amounts shown below, the Company has extended commitment letters at December 31, 2024 in the amount of $13.6 million to various borrowers. At December 31, 2023, commitment letters totaled $13.0 million. Commitment letters are done in the normal course of business and typically expire after 120 days. All of these off-balance-sheet instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheet, although material losses are not anticipated. The contract or notional amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual notional amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

The totals for financial instruments whose contract amount represents credit risk are shown below:

	Notional Amount	
(Dollars in thousands)	December 31, 2024	December 31, 2023
Unfunded lines-of-credit	$ 111,556	$ 129,711
ACH	19,386	17,861
Letters of credit	12,204	10,221
Total	$ 143,146	$ 157,793

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral normally consists of real property.

Standby letters of credit are conditional commitments by the Company to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing, and similar transactions. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company holds real estate and bank deposits as collateral supporting those commitments for which collateral is deemed necessary.

The Company has approximately $2.0 million in deposits in other financial institutions in excess of amounts insured by the FDIC at December 31, 2024.

Note 14 – Related Party Transactions

From time-to-time, the Company and its subsidiaries have business dealings with companies owned by directors and beneficial shareholders of the Company. Payments made to these companies that exceeded the disclosure threshold of $120 thousand in 2024 are reported below.

In 2024 and 2023, leasing/rental expenditures of $562 thousand and $543 thousand respectively, (including reimbursements for taxes, insurance, and other expenses) were paid to an entity indirectly owned by a director of the Company.

Note 15 – Capital Requirements

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Bank's Consolidated Financial Statements. Under capital adequacy guidelines and the regulatory framework for PCA, the Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Federal banking regulations also impose regulatory capital requirements on bank holding companies. However, in August 2018, the Federal Reserve Board issued an interim final rule, which was effective August 30, 2018, that expanded its small bank holding company policy statement (the "SBHC Policy Statement") to bank holding companies with total consolidated assets of less than $3 billion (up from the prior $1 billion threshold). Under the SBHC Policy Statement, qualifying bank holding companies have additional flexibility in the amount of debt they can issue and are also exempt from the Basel III Capital Rules (subsidiary depository institutions of qualifying bank holding companies are still subject to capital requirements). The Company currently has less than $3 billion in total consolidated assets and would likely qualify under the revised SBHC Policy Statement. However, the Company does not currently intend to issue a material amount of debt or take any other action that would cause its capital ratios to fall below the minimum ratios required by the Basel III Capital Rules.

The Basel III Capital Rules require banks and bank holding companies to comply with the following minimum capital ratios: (i) a ratio of common equity Tier 1 capital to risk-weighted assets of at least 4.5%, plus a 2.5% "capital conservation buffer" (effectively resulting in a minimum ratio of common equity Tier 1 to risk-weighted assets of at least 7%); (ii) a ratio of Tier 1 capital to risk-weighted assets of at least 6.0%, plus the 2.5% capital conservation buffer (effectively resulting in a minimum Tier 1 capital ratio of 8.5%); (iii) a ratio of total capital to risk-weighted assets of at least 8.0%, plus the 2.5% capital conservation buffer (effectively resulting in a minimum total capital ratio of 10.5%); and (iv) a leverage ratio of 4%, calculated as the ratio of Tier 1 capital to balance sheet exposures plus certain off-balance sheet exposures (computed as the average for each quarter of the month-end ratios for the quarter).

With respect to the Bank, the PCA regulations, to be “well capitalized” under the revised regulations, a bank must have the following minimum capital ratios: (i) a common equity Tier 1 capital ratio of at least 6.5%; (ii) a Tier 1 capital to risk-weighted assets ratio of at least 8.0%; (iii) a total capital to risk-weighted assets ratio of at least 10.0%; and (iv) a leverage ratio of at least 5.0%.

The Bank’s capital ratios remained well above the levels designated by bank regulators as “well capitalized” at December 31, 2024 and 2023. There are no conditions or events since that management believes have changed the institution’s category.

On September 17, 2019 the FDIC finalized a rule that introduced an optional simplified measure of capital adequacy for qualifying community banking organizations, referred to as, the CBLR framework, as required by the EGRRCPA. The CBLR framework is designed to reduce burden by removing the requirements for calculating and reporting risk-based capital ratios for qualifying community banking organizations that opt into the framework.

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

The CBLR framework was available for banks to use in their March 31, 2020 Call Report and going forward. The Bank decided not to opt into the CBLR framework.

The Bank calculates its regulatory capital under the Basel III regulatory capital framework. The table below summarizes the Bank’s regulatory capital and related ratios for the periods presented:

December 31, 2024 *(Dollars in thousands)*	**Actual**		**Minimum Capital Requirement**		**Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions**	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
Total Capital						
(To Risk Weighted Assets)						
Bank	$ 200,817	18.60%	$ 86,385	8.00%	$ 107,981	10.00%
Common Equity Tier 1 Capital						
(To Risk Weighted Assets)						
Bank	$ 191,894	17.77%	$ 48,591	4.50%	$ 70,188	6.50%
Tier 1 Capital						
(To Risk Weighted Assets)						
Bank	$ 191,894	17.77%	$ 64,789	6.00%	$ 86,385	8.00%
Tier 1 Capital						
(To Average Assets)						
Bank	$ 191,894	11.55%	$ 66,461	4.00%	$ 83,076	5.00%

December 31, 2023 *(Dollars in thousands)*	**Actual**		**Minimum Capital Requirement**		**Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions**	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
Total Capital						
(To Risk Weighted Assets)						
Bank	$ 190,992	18.12%	$ 84,306	8.00%	$ 105,383	10.00%
Common Equity Tier 1 Capital						
(To Risk Weighted Assets)						
Bank	$ 182,247	17.29%	$ 47,422	4.50%	$ 68,499	6.50%
Tier 1 Capital						
(To Risk Weighted Assets)						
Bank	$ 182,247	17.29%	$ 63,230	6.00%	$ 84,306	8.00%
Tier 1 Capital						
(To Average Assets)						
Bank	$ 182,247	11.05%	$ 65,994	4.00%	$ 82,492	5.00%

Note 16 – Dividend Restrictions

The primary source of funds for the dividends paid by the Company to shareholders is dividends received from the Bank. Federal regulations limit the amount of dividends which the Bank can pay to the Company without obtaining prior approval. The amount of cash dividends that the Bank may pay is limited to current year earnings plus retained net profits for the two preceding years. In addition, dividends paid by the Bank would be prohibited if the effect thereof would cause the Bank’s capital to be reduced below applicable minimum capital requirements.

In addition to the regulatory limits, the Company’s Board of Directors, under current policies, will generally only consider a cash dividend payment to shareholders that does not exceed 50% of the Bank’s core net income annually. Core net income excludes nonrecurring income and expense items in calculating the payout ratio. Quarterly dividend payments may be in excess of this range if the annual payout is anticipated to be within the range.

At December 31, 2024, the maximum amount of retained earnings available to the Bank for cash dividends to the Company was $40.4 million.

Note 17 – Fair Value Measurements

Determination of Fair Value

The Company 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 825, the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company’s various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

The fair value guidance provides a consistent definition of fair value, which focuses on exit price in the principal or most advantageous market for the asset or liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

Fair Value Hierarchy

In accordance with this guidance, the Company groups its financial assets and financial liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

Level 1 - Valuation is based on quoted prices in active markets for identical assets and liabilities.

Level 2 - Valuation is based on observable inputs including quoted prices in active markets for similar assets and liabilities, quoted prices for identical or similar assets and liabilities in less active markets, and model-based valuation techniques for which significant assumptions can be derived primarily from or corroborated by observable data in the market.

Level 3 - Valuation is based on model-based techniques that use one or more significant inputs or assumptions that are unobservable in the market.

The following describes the valuation techniques used by the Company to measure certain financial assets and liabilities recorded at fair value on a recurring basis in the financial statements:

Securities available for sale

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

The following tables present the balances measured at fair value on a recurring basis:

(Dollars in thousands)		Fair Value Measurements at December 31, 2024 Using:		
Description	Balance	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
U.S. Treasury securities	$ 1,493	$ -	$ 1,493	$ -
U.S. Government agencies	29,635	-	29,635	-
MBS/CMOs	132,811	-	132,811	-
Corporate bonds	17,591	-	17,591	-
Municipal bonds	82,007	-	82,007	-
Total securities available for sale	$ 263,537	$ -	$ 263,537	$ -
Total assets at fair value	$ 263,537	$ -	$ 263,537	$ -

(Dollars in thousands)		Fair Value Measurements at December 31, 2023 Using:		
	Balance	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
U.S. Treasury securities	$ 121,708	$ -	$ 121,708	$ -
U.S. Government agencies	39,581	-	39,581	-
MBS/CMOs	155,144	-	155,144	-
Corporate bonds	19,129	-	19,129	-
Municipal bonds	85,033	-	85,033	-
Total securities available for sale	$ 420,595	$ -	$ 420,595	$ -
Total assets at fair value	$ 420,595	$ -	$ 420,595	$ -

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 writedowns of individual assets.

The following describes the valuation techniques used by the Company to measure certain financial assets recorded at fair value on a nonrecurring basis in the Consolidated Financial Statements:

Collateral Dependent Loans with an ACL

In accordance with ASC 326, the Company may determine that an individual loan exhibits unique risk characteristics which differentiate it from other loans within its loan pools. In such cases, the loans are evaluated for expected credit losses on an individual basis and excluded from the collective evaluation. Specific allocations of the ACL are determined by analyzing the borrower's ability to repay amounts owed, collateral deficiencies, the relative risk grade of the loan and economic conditions affecting the borrower's industry, among other things. A loan is considered to be collateral dependent when, based upon management's assessment, the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the operation or sale of the collateral. In such cases, expected credit losses are based on the fair value of the collateral at the measurement date, adjusted for estimated selling costs if satisfaction of the loan depends on the sale of the collateral. the Company reevaluates the fair value of collateral supporting collateral dependent loans on a quarterly basis. The fair value of real estate collateral supporting collateral dependent loans is evaluated by appraisal services using a methodology that is consistent with the Uniform Standards of Professional Appraisal Practice.

The following table presents the Company's assets that were measured at fair value on a nonrecurring basis as of December 31, 2024 and December 31, 2023:

(Dollars in thousands) Description	Balance	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Individually evaluated loans	$ 461	$ -	$ -	$ 461

Description	Fair Value	Valuation Technique	Unobservable Inputs	Discount Rate
Assets:				
Individually evaluated loans	$ 461	Market comparables	Discount applied to recent appraisal	20.0%

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The carrying values and estimated fair values of the Company's financial instruments are as follows:

(Dollars in thousands)		Fair Value Measurements at December 31, 2024 Using:			
	Carrying value	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Fair Value
Assets					
Cash and cash equivalent	$ 17,103	$ 17,103	$ -	$ -	$ 17,103
Available for sale securities	263,537	-	263,537	-	263,537
Restricted securities	6,193	-	6,193	-	6,193
Loans, net	1,227,514	-	-	1,183,182	1,183,182
Bank owned life insurance	40,059	-	40,059	-	40,059
Accrued interest receivable	6,426	-	1,509	4,917	6,426
Liabilities					
Demand deposits and interest bearing transaction and money market accounts	$ 1,115,103	$ -	$ 1,115,103	$ -	$ 1,115,103
Certificates of deposit	308,443	-	308,856	-	318,768
Federal funds purchased	236	236	-	-	236
Borrowings	20,000	-	20,000	-	20,000
Junior subordinated debt	3,506	-	3,506	-	3,506
Accrued interest payable	1,837	-	1,837	-	1,837

(Dollars in thousands)		Fair Value Measurements at December 31, 2023 Using:			
	Carrying value	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	Fair Value
Assets					
Cash and cash equivalent	$ 28,390	$ 28,390	$ -	$ -	$ 28,390
Available for sale securities	420,595	-	420,595	-	420,595
Restricted securities	8,385	-	8,385	-	8,385
Loans, net	1,084,270	-	-	1,029,359	1,029,359
Bank owned life insurance	38,904	-	38,904	-	38,904
Accrued interest receivable	6,179	-	1,916	4,263	6,179
Liabilities					
Demand deposits and interest bearing transaction and money market accounts	$ 1,090,517	$ -	$ 1,090,517	$ -	$ 1,090,517
Certificates of deposit	318,581	-	318,768	-	318,768
Federal funds purchased	3,462	3,462	-	-	3,462
Borrowings	66,500	-	66,360	-	66,360
Junior subordinated debt	3,459	-	3,459	-	3,459
Accrued interest payable	2,143	-	2,143	-	2,143

The Company 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 Company's financial instruments will change when interest rate levels change, and that change may be either favorable or unfavorable to the Company. Management attempts to match maturities of assets and liabilities to the extent believed necessary to minimize interest rate risk; however, borrowers with fixed rate obligations are less likely to prepay in a rising rate environment and more likely to prepay in a falling rate environment. Conversely, depositors who are receiving fixed rates are more likely to withdraw funds before maturity in a rising rate environment and less likely to do so in a falling rate environment. Management monitors rates and maturities of assets and liabilities and attempts to minimize interest rate risk by adjusting terms of new loans and deposits and by investing in securities with terms that mitigate the Company's overall interest rate risk.

Note 18 – Employee Benefit Plans

The Company has a 401(k) plan available to all employees who are at least 18 years of age. Employees are able to elect the amount to contribute, not to exceed a maximum amount as determined by Internal Revenue Service regulation. The Company matches 100% of the first 6% of employee contributions.

"Vesting" refers to the rights of ownership to the assets in the 401(k) accounts. Matching contributions as well as employee contributions are fully vested immediately.

The Company contributed $622 thousand and $657 thousand to the 401(k) plan in 2024 and 2023, respectively. These expenses represent the matching contribution by the Company.

The Company, as a result of the Merger, provides a post-retirement benefit for one retired employee. The liability associated with this benefit of $123 thousand as of December 31, 2024 is included in Accrued interest payable and other liabilities on the Consolidated Balance Sheet.

Note 19 – Stock Incentive Plans

At the Annual Shareholders Meeting on June 23, 2022, shareholders approved the Virginia National Bankshares Corporation 2022 Stock Incentive Plan. The 2022 Plan made available up to 150,000 shares of the Company's common stock to be issued to plan participants. The 2014 Plan made available up to 275,625 shares of the Company's common stock, as adjusted by prior issued stock dividends, to be issued to plan participants. The 2022 Plan and the 2014 Plan provide for granting of both incentive and nonqualified stock options, as well as restricted stock, unrestricted stock and other stock based awards. No new grants can be issued under the 2014 Plan as this plan has expired.

For the 2022 Plan, the option price for any stock options cannot be less that the fair value of the Company's stock on the grant date. In addition, 95% of the common stock authorized for issuance must have a vesting or exercise schedule of at least one year. For the 2014 Plan, the option price of incentive stock options cannot be less than the fair value of the stock at the time an option is granted and nonqualified stock options may be granted at prices established by the Board of Directors, including prices less than the fair value on the date of grant. Outstanding stock options generally expire ten years from the grant date. Stock options generally vest by the fourth or fifth anniversary of the date of the grant.

A summary of the shares issued and available under each of the Plans is shown below as of December 31, 2024. Share data and exercise price range per share have been adjusted to reflect prior stock dividends. Although the 2014 Plan has expired and no new grants will be issued under this plan, there were shares issued before the plan expired which are still outstanding as shown below.

	2022 Plan	2014 Plan
Aggregate shares issuable	150,000	275,625
Options issued, net of forfeited and expired options	(53,700)	(172,506)
Unrestricted stock issued	-	(11,635)
Restricted stock grants issued	(44,212)	(83,653)
Cancelled due to Plan expiration	-	(7,831)
Remaining available for grant	52,088	-
Stock grants issued and outstanding:		
Total vested and unvested shares	44,212	95,888
Fully vested shares	4,733	69,478
Option grants issued and outstanding:		
Total vested and unvested shares	53,700	169,301
Fully vested shares	680	144,980
Exercise price range	$25.10 to $39.01	$23.75 to $42.62

The Company accounts for all of its stock incentive plans under recognition and measurement accounting principles which require that the compensation cost relating to stock-based payment transactions be recognized in the financial statements. Stock-based compensation arrangements for 2024 and prior years include stock options, unrestricted stock and restricted stock. All stock-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.

Stock Options

Changes in the stock options outstanding related to all of the Plans are summarized below.

(Dollars in thousands except weighted average data)	December 31, 2024		
	Number of Options	Weighted Average Exercise Price	Aggregate Intrinsic Value
Outstanding at January 1, 2024	174,201	$ 33.94	$ 664
Issued	50,300	30.78	
Exercised	-	-	
Forfeited	(1,500)	(35.35)	
Expired	-	-	
Outstanding at December 31, 2024	223,001	$ 33.22	$ 844
Options exercisable at December 31, 2024	145,660	$ 34.83	

For the years ended December 31, 2024 and 2023, the Company recognized $131 thousand and $142 thousand, respectively, in compensation expense for stock options. As of December 31, 2024, there was $395 thousand in unrecognized compensation expense for stock options remaining to be recognized in future reporting periods through 2029. The fair value of any option grant is estimated at the grant date using the Black-Scholes pricing model.

There were stock option grants of 50,300 shares and 11,800 shares issued during the years ended December 31, 2024 and December 31, 2023, respectively. The fair value on each option granted during the current year was estimated based on the assumptions noted in the following table:

	For the year ended December 31, 2024
Expected volatility[1]	27.70%
Expected dividends[2]	4.00%
Expected term (in years)[3]	6.3% - 6.5%
Risk-free rate[4]	4.45%

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

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

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

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

Summary information pertaining to options outstanding at December 31, 2024, as adjusted for Stock Dividends, is as follows:

	Options Outstanding			Options Exercisable	
Exercise Price	Number of Options Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number of Options Exercisable	Weighted-Average Exercise Price
$23.75 to $30.00	101,300	6.8 Years	25.85	52,480	24.71
$30.01 to $40.00	64,220	6.9 Years	36.43	35,700	37.17
$40.01 to $42.62	57,481	3.4 years	42.62	57,480	42.62
Total	223,001	6.0 Years	$ 33.22	145,660	$ 34.83

Stock Grants

Restricted stock grants – During 2024, 25,280 shares of restricted stock were granted to employees and non-employee directors, vesting over a four-year or five-year period. During 2023, 27,332 shares of restricted stock were granted. In 2024 and 2023, restricted stock grants resulted in an associated expense of $782 thousand and $585 thousand, respectively. As of December 31, 2024, there was $1.7 million in unrecognized compensation expense for restricted stock grants remaining to be recognized in future reporting periods through 2028.

(Dollars in thousands except weighted average data)	December 31, 2024		
	Number of Shares	**Weighted Average Grant Date Fair Value Per Share**	**Aggregate Intrinsic Value**
Outstanding at January 1, 2024	62,721	$ 32.56	$ 2,396
Issued	25,280	30.05	966
Vested	(22,112)	(31.47)	(845)
Forfeited	-	-	-
Nonvested at December 31, 2024	65,889	$ 31.96	$ 2,517

The weighted average period over which nonvested restricted stock grants are expected to be recognized is 1.4 years.

Note 20 – Net Income per Share

The table below shows the weighted average number of shares used in computing net income per common share and the effect on the weighted average number of shares of potential dilutive common stock for the years ended December 31, 2024 and 2023. Potential dilutive common stock equivalents have no effect on net income available to the Company's shareholders. Diluted net income per share is computed based on the weighted average number of shares of common stock equivalents outstanding, to the extent dilutive. The Company's common stock equivalents relate to outstanding common stock options.

Nonvested restricted stock is included in the calculation of basic and diluted net income per share. The weighted average shares below as of December 31, 2024 and December 31, 2023 include 65,889 and 62,721 shares, respectively, of such restricted stock that have not yet vested. The recipients of nonvested restricted shares have full voting and dividend rights.

(Dollars in thousands)	Net Income	Weighted Average Shares	Per Share Amount
December 31, 2024			
Basic net income per share	$ 16,966	5,371,439	$ 3.16
Effect of dilutive stock options	-	20,675	(0.01)
Diluted net income per share	$ 16,966	5,392,114	$ 3.15
December 31, 2023			
Basic net income per share	$ 19,263	5,357,085	$ 3.60
Effect of dilutive stock options	-	16,167	(0.02)
Diluted net income per share	$ 19,263	5,373,252	$ 3.58

In 2024 and 2023, stock options representing 121,701 and 109,201 average shares, respectively, were not included in the calculation of net income per share, as their effect would have been antidilutive.

Note 21 - Junior Subordinated Debt

On September 21, 2006, Fauquier's wholly owned Connecticut statutory business trust, Fauquier Statutory Trust II, privately issued $4.0 million face amount of the trust's Floating Rate Capital Securities in a pooled capital securities offering. Simultaneously, the trust used the proceeds of that sale to purchase $4.0 million principal amount of the Fauquier's Floating Rate Junior Subordinated Deferrable Interest Debentures due 2036. Historically, the interest rate on the capital security reset every three months at 1.70% above the then current three-month CME Term SOFR plus a spread adjustment of 0.26% and was paid quarterly.

Total capital securities at December 31, 2024 and 2023 were $3.5 million, as adjusted to fair value as of the date of the Merger. The Trust II issuance of capital securities and the respective subordinated debentures are callable at any time. The subordinated debentures are an unsecured obligation of the Company and are junior in right of payment to all present and future senior indebtedness of the Company. The capital securities are guaranteed by the Company on a subordinated basis.

Note 22 - Other Comprehensive Income (Loss)

The following table presents the changes in each component of accumulated other comprehensive income (loss) as of December 31, 2024 and December 31, 2023:

(Dollars in thousands)	AFS Securities	Total
Accumulated other comprehensive loss at December 31, 2023	$ (40,044)	$ (40,044)
Other comprehensive loss arising during the period	(2,304)	(2,304)
Related income tax effects	483	483
	(1,821)	(1,821)
Reclassification into net income	4	4
Related income tax effects	(1)	(1)
	3	3
Accumulated other comprehensive loss at December 31, 2024	$ (41,862)	$ (41,862)

	AFS Securities	Interest Rate Swap	Total
Accumulated other comprehensive income (loss) at December 31, 2022	$ (49,024)	$ 400	$ (48,624)
Other comprehensive gains (losses) arising during the period	11,160	(46)	11,114
Related income tax effects	(2,343)	9	(2,334)
	8,817	(37)	8,780
Reclassification into net income	206	(460)	(254)
Related income tax effects	(43)	97	54
	163	(363)	(200)
Accumulated other comprehensive loss at December 31, 2023	$ (40,044)	$ -	$ (40,044)

Note 23 - Derivative Instruments and Hedging Activities

From time to time, the Company uses derivative financial instruments primarily to manage risks to the Company associated with changing interest rates, and to assist customers with their risk management objectives. The Company designates certain interest rate swaps as hedging instruments in qualifying cash flow hedges. The changes in fair value of these designated hedging instruments is reported as a component of other comprehensive income. Customer accommodation loan swaps are derivative contracts that are not designated in a qualifying hedging relationship.

Cash flow hedges. The Company designates interest rate swaps as cash flow hedges when they are used to manage exposure to variability in cash flows on variable rate borrowings such as the Company's junior subordinated debt. These interest rate swaps are derivative financial instruments that manage the risk of variability in cash flows by exchanging variable-rate interest payments on a notional amount of the Company's borrowings for fixed-rate interest payments. Interest rate swaps designated as cash flow hedges are expected to be highly effective in offsetting the effect of changes in interest rates on the amount of variable-rate interest payments, and the Company assesses the effectiveness of each hedging relationship quarterly. If the Company determines that a cash flow hedge is no longer highly effective, future changes in the fair value of the hedging instrument would be reported in earnings. As of December 31, 2022, the Company had a designated cash flow hedge to manage its exposure to variability in cash flows on certain variable rate borrowings through 2036. In anticipation of terminating the borrowing position, such hedge position was liquidated in the first quarter of 2023 for a gain of $479 thousand. There were no hedges in place as of December 31, 2024.

Unrealized gains or losses recorded in other comprehensive income (loss) related to cash flow hedges are reclassified into earnings in the same period(s) during which the hedged interest payments affect earnings. When a designated hedging instrument is terminated and the hedged interest payments remain probable of occurring, any remaining unrecognized gain or loss in other comprehensive income is reclassified into earnings in the period(s) during which the forecasted interest payments affect earnings. Amounts reclassified into earnings and interest receivable or payable under designated interest rate swaps are reported in interest expense. The Company does not expect any unrealized losses related to cash flow hedges to be reclassified into earnings in the next twelve months since there are currently no open hedge positions.

Loan swap agreements. Note that the Company offers loan swap agreements to commercial loan customers who are eligible contract participants as expanded under the Dodd-Frank Act, whereby a contracted third party accepts the interest rate risk as part of a separate agreement with the customer. For these arrangements, the Company underwrites the credit risk, books a floating rate loan and does not carry the derivative on its Consolidated Balance Sheets. There were no loan swap agreements in place as of December 31, 2024 or 2023.

Note 24 – Segment Reporting

Virginia National Bankshares Corporation has three reportable segments. Each reportable segment is a strategic business unit that offers different products and services. They are managed separately, because each segment appeals to different markets and, accordingly, require different technology and marketing strategies. The accounting policies of the segments are the same as those described in the summary of significant accounting policies provided earlier in this report.

The reportable segments are:

- *Bank* - The commercial banking segment involves making loans and generating deposits from individuals, businesses and charitable organizations. Loan fee income, service charges from deposit accounts, and other non-interest-related fees, such as fees for debit cards and ATM usage and fees for treasury management services, generate additional income for the Bank segment.
- *VNB Trust and Estate Services* – VNB Trust and Estate Services offers corporate trustee services, trust and estate administration, IRA administration and custody services. Revenue for this segment is generated from administration, service and custody fees, as well as management fees which are derived from Assets Under Management. Investment management services currently are offered through in-house and third-party managers. In addition, royalty income, in the form of fixed and incentive fees, from the sale of Swift Run Capital Management, LLC in 2013 is reported as income of VNB Trust and Estate Services. More information on royalty income and the related sale can be found under Note 1 - Summary of Significant Accounting Policies.
- *Masonry Capital* - Masonry Capital offers investment management services for separately managed accounts and a private investment fund employing a value-based, catalyst-driven investment strategy. Revenue for this segment is generated from management fees which are derived from Assets Under Management and incentive income which is based on the investment returns generated on performance-based Assets Under Management. Note that the membership interests in this business line were sold to an officer of the Company effective April 1, 2024. Subsequent to the date of sale, the Company will receive an annual revenue-share amount for a period of six years. No expenses will be incurred by the Company related to Masonry Capital subsequent to April 1, 2024.

The Company's chief operating decision makers are the President/Chief Executive Officer and the Chief Financial Officer. The CODMs use income, operating expenses and net income to evaluate income generated from segment assets, including AUMs, in deciding whether to reinvest profits into the segments or into other parts of the Company, such as for acquisitions or to pay dividends. Net income is used to monitor budget versus actual results. The CODMs also use income, operating expenses and net income in competitive analysis by benchmarking to the Company's competitors. The competitive analysis along with monitoring of budgeted versus actual results are used in assessing performance of the segments and determining if a segment should be continued or sold.

Segment information for the years ended December 31, 2024 and 2023 is shown in the following tables. Note that asset information is not reported below, as the assets of VNB Trust & Estate Services are reported at the Bank level; also, assets specifically allocated to the lines of business other than the Bank are insignificant and are no longer provided to the CODM.

2024 *(Dollars in thousands)*	Bank	VNB Trust & Estate Services	Masonry Capital	Consolidated
Net interest income	$ 46,376	$ -	$ -	$ 46,376
Recovery of credit losses	(600)	-	-	(600)
Net interest income after recovery of credit losses	$ 46,976	$ -	$ -	$ 46,976
Noninterest income:				
Wealth management fees	-	961	191	1,152
Deposit account fees	1,363	-	-	1,363
Debit/credit card and ATM fees	1,914	-	-	1,914
Bank owned life insurance income	1,155	-	-	1,155
Gains (losses) on sale of assets, net	36	-	-	36
Gains on early redemption of debt	904	-	-	904
Losses on sales of AFS, net	(4)	-	-	(4)
Other	1,001	68	-	1,069
Total noninterest income	$ 6,369	$ 1,029	$ 191	$ 7,589
Noninterest expense:				
Salaries and employee benefits	14,847	949	137	15,933
Net occupancy	3,525	130	7	3,662
Equipment	702	17	1	720
Bank franchise tax	1,452	-	-	1,452
Computer software	917	-	-	917
Data processing	2,530	112	5	2,647
FDIC deposit insurance assessment	700	-	-	700
Marketing, advertising and promotion	727	2	1	730
Professional fees	728	139	27	894
Core deposit intangible amortization	1,301	-	-	1,301
Other	4,665	28	17	4,710
Total noninterest expense	$ 32,094	$ 1,377	$ 195	$ 33,666
Income before income taxes	21,251	(348)	(4)	20,899
Provision for (benefit of) income taxes	4,008	(73)	(2)	3,933
Net income (loss)	$ 17,243	$ (275)	$ (2)	$ 16,966

2023 *(Dollars in thousands)*	Bank	VNB Trust & Estate Services	Masonry Capital	Consolidated
Net interest income	$ 48,969	$ -	$ -	$ 48,969
Provision for credit losses	734	-	-	734
Net interest income after provision for credit losses	$ 48,235	$ -	$ -	$ 48,235
Noninterest income:				
Wealth management fees	-	969	1,007	1,976
Deposit account fees	1,593	-	-	1,593
Debit/credit card and ATM fees	2,268	-	-	2,268
Bank owned life insurance income	1,764	-	-	1,764
Gains on sale of assets, net	112	-	-	112
Gain termination of interest rate swap	460	-	-	460
Losses on sales of AFS, net	(206)	-	-	(206)
Other	1,073	61	-	1,134
Total noninterest income	$ 7,064	$ 1,030	$ 1,007	$ 9,101
Noninterest expense:				
Salaries and employee benefits	14,369	940	591	15,900
Net occupancy	3,856	131	30	4,017
Equipment	745	14	3	762
Bank franchise tax	1,220	-	-	1,220
Computer software	778	-	-	778
Data processing	2,554	206	39	2,799
FDIC deposit insurance assessment	710	-	-	710
Marketing, advertising and promotion	1,095	-	3	1,098
Professional fees	488	94	92	674
Core deposit intangible amortization	1,493	-	-	1,493
Other	4,514	33	65	4,612
Total noninterest expense	$ 31,822	$ 1,418	$ 823	$ 34,063
Income before income taxes	23,477	(388)	184	23,273
Provision for (benefit of) income taxes	4,052	(81)	39	4,010
Net income (loss)	$ 19,425	$ (307)	$ 145	$ 19,263

Note 25 – Condensed Parent Company Financial Statements

Condensed financial statements pertaining only to the Parent Company are presented below. The investment in subsidiary is accounted for using the equity method of accounting.

Cash dividend payments authorized by the Bank's Board of Directors were paid to the Parent Company in 2024 and 2023, totaling $9.5 million and $6.0 million, respectively.

The payment of dividends by the Bank is restricted by various regulatory limitations. Banking regulations also prohibit extensions of credit to the parent company unless appropriately secured by assets. For more detail on dividends, see Note 16 – Dividend Restrictions.

Condensed Parent Company Only

BALANCE SHEETS *(Dollars in thousands)*	**December 31, 2024**	**December 31, 2023**
ASSETS		
Cash and due from banks	$ 989	$ 251
Investment securities	63	63
Investments in subsidiaries	161,592	155,409
Other assets	1,235	803
Total assets	$ 163,879	$ 156,526
LIABILITIES & SHAREHOLDERS' EQUITY		
Junior subordinated debt	$ 3,506	$ 3,459
Other liabilities	71	27
Stockholders' equity	160,302	153,040
Total liabilities and stockholders' equity	$ 163,879	$ 156,526

STATEMENTS OF INCOME *(Dollars in thousands)*	**For the years ended**	
	December 31, 2024	**December 31, 2023**
Dividends from subsidiary	$ 9,500	$ 6,000
Net interest expense	(346)	(309)
Noninterest income	8	463
Noninterest expense	1,762	1,375
Income before income taxes	$ 7,400	$ 4,779
Income tax (benefit)	(414)	(233)
Income before equity in undistributed earnings of subsidiaries	$ 7,814	$ 5,012
Equity in undistributed earnings of subsidiaries	9,152	14,251
Net income	$ 16,966	$ 19,263

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Condensed Parent Company Only (Continued)

STATEMENTS OF CASH FLOWS
(Dollars in thousands)

	For the years ended	
	December 31, 2024	December 31, 2023
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 16,966	$ 19,263
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in undistributed earnings of subsidiaries	(9,152)	(14,251)
Net accretion of certain acquisition-related adjustments	47	46
Deferred tax expense (benefit)		(275)
Stock option & restricted stock grant expense	912	727
Shares repurchased	(559)	-
(Increase) decrease in other assets	(432)	138
Increase (decrease) in other liabilities	44	(23)
Net cash provided by operating activities	$ 7,826	$ 5,625
CASH FLOWS FROM FINANCING ACTIVITIES		
Gain on termination of swap	-	460
Liquidation of swap collateral	-	(585)
Proceeds from stock options exercised	-	18
Dividends paid	(7,087)	(7,074)
Net cash used in financing activities	$ (7,087)	$ (7,181)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	739	(1,556)
CASH AND CASH EQUIVALENTS		
Beginning of period	251	1,807
End of period	$ 990	$ 251

Note 26 – Investment in Affordable Housing Projects

The Company acquired as a result of the Merger certain limited partnership investments in affordable housing projects located in the Commonwealth of Virginia. These partnerships exist to develop and preserve affordable housing for low income families through residential rental property projects. The Company exerts no control over the operating or financial policies of the partnerships. Return on these investments is through receipt of tax credits and other tax benefits which are subject to recapture by taxing authorities based on compliance features at the project level. The investments are due to expire by 2036. There are currently no unfunded capital commitments.

The Company has historically accounted for the affordable housing investments using the equity method and had recorded $2.4 million in other assets on the Consolidated Balance Sheet as of December 31, 2023. The related federal tax credits for the year ended December 31, 2023 were $405 thousand and were included in income tax expense in the Consolidated Statement of Income. There were $151 thousand in flow-through losses recognized by the Company during the year ended December 31, 2023 that were included as a reduction of noninterest income.

Effective January 1, 2024, the Company adopted the proportional amortization method of accounting for all qualifying equity investments within the LIHTC program. Under a modified retrospective transition, a reporting entity evaluates all investments for which it still expects to receive income tax credits or other income tax benefits as of the beginning of the period of adoption. The assessment of whether the investment qualifies for the proportional amortization method is performed as of the date the investment was entered into. A cumulative-effect adjustment reflecting the difference between the previous method used to account for the tax equity investment and the application of the proportional amortization method since the investment was entered into is recognized in the opening balance of retained earnings as of the beginning of the period of adoption, which amounted to a $1.1 million reduction in retained earnings, as reflected on the Consolidated Statement of Changes in Shareholders' Equity. As of December 31, 2024, the Company had recorded $2.2 million in LIHTC equity investments recorded as a component of accrued interest and other assets on the Consolidated Balance Sheets. The Company records income tax credits and other income tax benefits received from its LIHTC investments as a component of the provision for income taxes on the Consolidated Statements of Income and as a component of operating activities on the Consolidated Statements of Cash Flows. Investments accounted for using the proportional amortization method are amortized and recorded as a component of the income tax provision on the Consolidated Statements of Income.

Note 27 - Sale of Masonry Capital Management, LLC

Effective April 1, 2024, the Company sold the membership interests in Masonry Capital Management, LLC to an officer of the Company. Subsequent to the date of sale, the Company will receive an annual revenue-share amount for a period of six years. No expenses will be incurred by the Company related to Masonry Capital subsequent to the effective date of sale. The sale of this business line did not meet the requirements for classification of discontinued operations, as the sale did not represent a strategic shift in the Company's operations or plans and will not have a major effect on the Company's future operations or financial results.

Note 28 - Share Repurchase Plan

During the second quarter of 2023, the Board of Directors approved a share repurchase plan of up to 5% of outstanding common stock. Repurchases may be made through open market purchases or in privately negotiated transactions. The actual timing, number, and value of shares repurchased under the plan will be determined by a committee of the Board.

During 2024, a total of 20,350 shares have been repurchased at an average price of $27.42.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None

Item 9A. CONTROLS AND PROCEDURES.

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

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

Based on their evaluation as of the end of the period covered by this Annual Report on Form 10-K, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the disclosure controls and procedures were effective at the reasonable assurance level.

Management's Report on Internal Control over Financial Reporting. Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) of the Exchange Act. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2024. This assessment was based on criteria established in "Internal Control-Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") on May 14, 2013. Based on their evaluation as of the end of the period covered by this Annual Report on Form 10-K, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the internal control over financial reporting was effective based on those criteria.

Changes in Internal Control over Financial Reporting. There were no changes in the internal control over financial reporting that occurred during the fourth quarter of 2024 that has materially affected, or is reasonably likely to materially affect, the internal control over financial reporting. This annual report does not include an attestation report of the Company's independent registered public accounting firm, Yount, Hyde & Barbour, P.C., (U.S. PCAOB Auditor Firm I.D.: 613), regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's independent registered public accounting firm pursuant to the rules of the SEC that permit the Company to provide only management's report in this annual report.

Item 9B. OTHER INFORMATION.

Trading Arrangements - During the three months ended December 31, 2024, none of the Company's directors or officers (as defined in Rule 16a-1(f) of the Exchange Act) adopted, modified or terminated a Rule 10b5-1 trading arrangement or non-Rule 10b5-1 trading arrangement (as such terms are defined in Item 408 of Regulation S-K of the Securities Act of 1933).

Resignation of Executive Officer – Because we are filing this Annual Report on Form 10-K within four business days after the triggering event, we are making the following disclosure under this Item 9B instead of filing a Current Report on Form 8-K under Item 5.02, Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers.

On March 26, 2025, the Company and Donna G. Shewmake entered into a Transition Agreement and Release (the “Transition Agreement”) whereby, at Ms. Shewmake’s request, she will no longer be a Named Executive Officer and General Counsel of the Company effective immediately. Under that Transition Agreement, Ms. Shewmake will remain with the Company as Senior Legal Counsel of the Company until December 31, 2025, which is her planned retirement date. Pursuant to the Transition Agreement, Ms. Shewmake will continue to receive her base salary and benefit opportunities as in effect as of March 26, 2025 through December 31, 2025. The Company and Ms. Shewmake have agreed that the Transition Agreement supersedes any prior agreements between the Company and Ms. Shewmake, including her prior management continuity agreement.

Item 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS.

Not applicable

Part III

Item 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE.

Information is incorporated by reference to the information that appears under the headings "Proposal 1 – Election of Directors," "Related Person Transactions and Other Information," "Executive Compensation – Executive Officers," "Section 16(a) Beneficial Ownership Reporting Compliance," "Code of Ethics," and "Information about the Board of Directors and Board Committees" contained in the Company's Definitive Proxy Statement to be used in connection with the Company's 2025 Annual Meeting of Shareholders ("Definitive Proxy Statement").

Item 11. EXECUTIVE COMPENSATION.

Information is incorporated by reference to the information that appears under the headings "Executive Compensation – Executive Officers" and "Information about the Board of Directors and Board Committees – Compensation of Directors" contained in of the Company's Definitive Proxy Statement.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

Other than as set forth below, this information is incorporated by reference from Note 19, "Stock Incentive Plans," in the Notes to Consolidated Financial Statements contained in Item 8. Financial Statements and Supplementary Data of this Form 10-K and from the "Beneficial Ownership of Company Common Stock" section of the Company's Definitive Proxy Statement.

The following table summarizes information, as of December 31, 2024, relating to the Company's Stock Incentive Plans:

	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	223,001	$33.22	52,088
Total	223,001	$33.22	52,088

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.

This information is incorporated by reference from the "Information about the Board of Directors and Board Committees" and "Related Person Transactions and Other Information" sections of the Company's Definitive Proxy Statement. For further information, see Note 14 of the Notes to Consolidated Financial Statements contained in Item 8. Financial Statements and Supplementary Data in this Form 10-K.

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

This information is incorporated by reference from the "Independent Auditors" section of the Company's Definitive Proxy Statement.

Part IV

Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.

The following documents are files as part of this report:

(a)(1) Financial Statements

The following Consolidated Financial Statements and reports of independent registered public accountants of the Company are in Part II, Item 8. Financial Statements and Supplementary Data:

(i) Consolidated Balance Sheets – December 31, 2024 and December 31, 2023

(ii) Consolidated Statements of Income – Years ended December 31, 2024 and December 31, 2023

(iii) Consolidated Statements of Comprehensive Income – Years ended December 31, 2024 and December 31, 2023

(iv) Consolidated Statements of Changes in Shareholders' Equity – Years ended December 31, 2024 and December 31, 2023

(v) Consolidated Statements of Cash Flows – Years ended December 31, 2024 and December 31, 2023

(vi) Notes to Consolidated Financial Statements

(a)(2) Financial Statement Schedules

All schedules are omitted since they are not required, are not applicable, or the required information is shown in the consolidated statements or notes thereto.

(a)(3) Exhibit Index:

Item 16. Form 10-K Summary.

Not applicable

Exhibit Number	Description of Exhibit
3.1	Articles of Incorporation of Virginia National Bankshares Corporation, as amended and restated (incorporated by reference to Exhibit 3.1 to Virginia National Bankshares Corporation's Pre-effective Amendment No. 1 to Form S-4 Registration Statement filed with the Securities and Exchange Commission on April 12, 2013).
3.2	Bylaws of Virginia National Bankshares Corporation, as amended (incorporated by reference to Exhibit 3.2 of Virginia National Bankshares Corporation's Current Report on Form- 8-K filed with the Securities and Exchange Commission on April 1, 2021).
4.1	Description of Securities Registered under Section 12(b) of the Securities Exchange Act of 1934 (incorporated by reference to Exhibit 4.1 to Virginia National Bankshares Corporation's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 29, 2023).
10.1†	Virginia National Bankshares Corporation 2014 Stock Incentive Plan (incorporated by reference to Exhibit 99.2 to Virginia National Bankshares Corporation's Registration Statement on Form S-8 filed with the Securities and Exchange Commission on July 25, 2017).
10.2†	Virginia National Bankshares Corporation 2022 Stock Incentive Plan (incorporated by reference to Exhibit 10.3 to Virginia National Bankshares Corporation's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 29, 2023).
10.3†*	Form of Amended and Restated Management Continuity Agreement executed October 23, 2024 between Virginia National Bankshares Corporation and each of Glenn W. Rust, Virginia R. Bayes and Tara Y. Harrison.
10.4†*	Transition Agreement and Release between Donna Shewmake and the Company dated March 26, 2025.
19.1*	Insider Trading Policy
21.1	Subsidiaries of the Registrant (refer to Item 1. Business of this Form 10-K Report for a discussion of Virginia National Bankshares Corporation's direct and indirect subsidiaries).
23.1	Consent of Yount, Hyde and Barbour, P.C.
31.1	302 Certification of Principal Executive Officer
31.2	302 Certification of Principal Financial Officer
32.1	906 Certification
97	Virginia National Bankshares Corporation Clawback Policy (incorporated by reference to Exhibit 97 to Virginia National Bankshares Corporation's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 28, 2024).
101.0	Interactive data files pursuant to Rule 405 of Regulation S-T, formatted in Inline eXtensible Business Reporting Language (Inline XBRL), (i) the Consolidated Balance Sheets as of December 31, 2024 and December 31, 2023, (ii) the Consolidated Statements of Income for the years ended December 31, 2024 and December 31, 2023, (iii) the Consolidated Statements of Comprehensive Income for the years ended December 31, 2024 and December 31, 2023, (iv) the Consolidated Statements of Changes in Shareholders' Equity for years ended December 31, 2024 and December 31, 2023, (v) the Consolidated

		Statements of Cash Flows for the years ended December 31, 2024 and December 31, 2023, and (vi) the Notes to Consolidated Financial Statements (furnished herewith), tagged as blocks of text and including detailed tags.
104		Cover Page Interactive Data File: the cover page XBRL tags are embedded within the Inline XBRL document and are contained within Exhibit 101.0

* Filed herewith.
† Management contract or compensatory plan or agreement

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto, duly authorized.

VIRGINIA NATIONAL BANKSHARES CORPORATION

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

Date: March 28, 2025

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities on March 28, 2025.

Signatures	Title
/s/ John B. Adams, Jr. John B. Adams, Jr.	Director
/s/ Kevin T. Carter Kevin T. Carter	Director
/s/ Hunter E. Craig Hunter E. Craig	Director
/s/ William D. Dittmar, Jr. William D. Dittmar, Jr.	Chairman of the Board
/s/ Randolph D. Frostick Randolph D. Frostick	Director
/s/ Tara Y. Harrison Tara Y. Harrison	Executive Vice President & Chief Financial Officer (principal financial and accounting officer)
/s/ Linda M. Houston Linda M. Houston	Director
/s/ Jay B. Keyser Jay B. Keyser	Director
/s/ Glenn W. Rust Glenn W. Rust	President & Chief Executive Officer and Director (principal executive officer)
/s/ Sterling T. Strange, III Sterling T. Strange, III	Director
/s/ Gregory L. Wells Gregory L. Wells	Director

Exhibit 10.3

FORM OF SECOND AMENDED AND RESTATED MANAGEMENT CONTINUITY AGREEMENT

This Second Amended and Restated Management Continuity Agreement, dated as of October 23, 2024 (“Agreement”), by and between Virginia National Bankshares Corporation, a Virginia corporation (the “Company”), and ____________ (the “Executive”), supersedes and amends and restates in its entirety that certain Amended and Restated Management Continuity Agreement, dated as of September 28, 2020, by and between the Company and the Executive.

1. Purpose

The Company recognizes that the possibility of a Change in Control exists and the uncertainty and questions that it may raise among management may result in the departure or distraction of management personnel to the detriment of the Company and its shareholders. Accordingly, the purpose of this Agreement is to encourage the Executive to continue employment with the Company and/or its affiliates or successors in interest by merger or acquisition after a Change in Control by providing reasonable employment security to the Executive and to recognize the prior service of the Executive in the event of a termination of employment under certain circumstances after a Change in Control.

2. Term of the Agreement

The term of this Agreement is effective on October 23, 2024 (the “Effective Date”) and will continue until terminated by mutual agreement of the parties.

3. Employment after a Change in Control

If a Change in Control of the Company, as defined in Section 12(a), occurs and the Executive is employed by the Company on the date the Change in Control occurs (the “Change in Control Date”), the Company will continue to employ the Executive in accordance with the terms and conditions of this Agreement for the period beginning on the Change in Control Date and ending on the second anniversary of such date (the “Employment Period”). If a Change in Control occurs on account of a series of transactions, the Change in Control Date is the date of the last of such transactions.

4. Terms of Employment

(a) Position and Duties. During the Employment Period, (i) the Executive’s position, position title, authority, reporting structure, duties and responsibilities will be the same in all material respects with the most significant of those held, exercised and assigned to the Executive by the Company at any time during the twelve (12) month period immediately preceding the Change in Control Date and (ii) the Executive’s services will be performed at either the location where the Executive was performing his services immediately preceding the Change in Control Date or any office that is the headquarters of the Company prior to the Change in Control and is less than thirty-miles (30) miles from such location.

(b) Compensation.

(i) Base Salary. During the Employment Period, the Executive will receive an annual base salary (the "Annual Base Salary") at least equal to the highest base annualized salary paid or payable to the Executive by the Company and its affiliated companies during the twelve (12) month period immediately preceding the Change in Control Date. During the Employment Period, the Annual Base Salary will be reviewed at least annually and will be increased at any time and from time to time as will be substantially consistent with increases in base salary generally awarded in the ordinary course of business to other peer executives of the Company and its affiliated companies, but may not be decreased. Any increase in the Annual Base Salary will not serve to limit or reduce any other obligation to the Executive under this Agreement. The Annual Base Salary will not be reduced after any such increase, and the term Annual Base Salary as used in this Agreement will refer to the Annual Base Salary as so increased. The term "affiliated companies" includes any company controlled by, controlling or under common control with the Company during the twelve (12) months immediately preceding the Change in Control Date.

(ii) Annual Bonus. In addition to the Annual Base Salary, the Executive will be awarded for each year ending during the Employment Period and for which the Executive is employed on the last day of the year an annual bonus (the "Annual Bonus") in one lump sum cash payment at least equal to the average annual bonus paid or payable, including by reason of any deferral, for the two (2) years immediately preceding the year in which the Change in Control Date occurs. Each such Annual Bonus will be paid no later than two and one-half (2 ½) months after the end of the year for which the Annual Bonus is awarded.

(iii) Incentive, Savings and Retirement Plans. During the Employment Period, the Executive will be entitled to participate in all incentive (including stock incentive), savings and retirement, insurance plans, policies and programs applicable generally to other peer executives of the Company and its affiliated companies, but in no event will such plans, policies and programs provide the Executive with incentive opportunities, savings opportunities and retirement benefit opportunities, in each case, less favorable, in the aggregate, than those provided by the Company and its affiliated companies for the Executive under such plans, policies and programs as in effect at any time during the twelve (12) months immediately preceding the Change in Control Date.

(iv) Welfare Benefit Plans. During the Employment Period, the Executive and/or the Executive's family, as the case may be, will be eligible for participation in and will receive all benefits under welfare benefit plans, policies and programs provided by the Company and its affiliated companies to the extent applicable generally to other peer executives of the Company and its affiliated companies, but in no event will such plans, policies and programs provide the Executive with benefits (including cost to the Executive) that are less favorable than the most favorable of such plans, policies and programs in effect at any time during the twelve (12) months immediately preceding the Change in Control Date without the Executive's written consent.

(v) Fringe Benefits. During the Employment Period, the Executive will be entitled to fringe benefits in accordance with the most favorable plans, policies and programs of the Company and its affiliated companies in effect for the Executive at any time during the twelve (12) months immediately preceding the Change in Control Date or, if more favorable to the Executive, as in effect generally from time to time after the Change in Control Date with respect to other peer executives of the Company and its affiliated companies.

(vi) Paid Time Off. During the Employment Period, the Executive will be entitled to paid time off in accordance with the most favorable plans, policies and programs of the Company and its affiliated companies in effect for the Executive at any time during the twelve (12) months immediately preceding the Change in Control Date or, if more favorable to the Executive, as in effect generally from time to time after the Change in Control Date with respect to other peer executives of the Company and its affiliated companies.

5. Termination of Employment Following a Change in Control

(a) Death or Disability. The Executive's employment will terminate automatically upon the Executive's death during the Employment Period. If the Company determines in good faith that a Disability of the Executive has occurred during the Employment Period, it may terminate the Executive's employment. For purposes of this Agreement, "Disability" means the Executive's inability to perform the essential functions of his/her position with the Company on a full time basis for one hundred eighty (180) consecutive calendar days or a total of at least two hundred forty (240) calendar days in any twelve (12) month period as a result of the Executive's incapacity due to physical or mental illness (as determined by an independent physician selected by the Board of Directors of the Company (sometimes referred to herein as the "Board")).

(b) Cause. The Company may terminate the Executive's employment during the Employment Period for Cause. For purposes of this Agreement, "Cause" means (i) gross incompetence, gross negligence, or willful misconduct in connection with the performance of the Executive's duties; (ii) conviction of or entering of a guilty plea or a plea of no contest with respect to a felony or a crime of moral turpitude or commission of an act of embezzlement or fraud against the Company or any affiliated company; (iii) any material breach by the Executive of a material term of this Agreement, including, without limitation, material failure to perform a substantial portion of his/her duties and responsibilities hereunder; or (iv) deliberate dishonesty of the Executive with respect to the Company or any affiliated company. For any act or omission triggering "Cause" in Sections 5(b)(i) or (iii), the Company shall inform the Executive in writing of the specific applicable act or omission within sixty (60) calendar days after the Board's actual knowledge thereof and the Executive shall have thirty (30) calendar days after receipt of such notice to remedy such act, omission, breach or violation (if such act, omission, breach or violation is capable of being remedied).

(c) Good Reason. The Executive's employment may be terminated during the Employment Period by the Executive for Good Reason. The Executive must provide written notice to the Company of the existence of the event or condition constituting such Good Reason within sixty (60) calendar days of the Executive becoming aware of the event or condition alleged to constitute Good Reason. Executive shall inform the Company of the specific act or omission constituting Good Reason. Upon delivery of such notice by the Executive, the Company shall have a period of thirty (30) calendar days during which it may remedy in good faith the event or condition constituting Good Reason, to the Executive's satisfaction and the Executive's employment shall continue in effect during the thirty (30) calendar day period. In the event the Company shall remedy in good faith the event or condition constituting Good Reason, then such notice of termination shall be null and void, and the Company shall not be required to pay the amount due to the Executive under Section 6(a). If the Company has not remedied the event or condition constituting Good Reason during the thirty (30) calendar day cure period, the Executive shall terminate his/her employment for Good Reason within thirty (30) calendar days after the end of the Company's thirty (30) day cure period by providing the Company with a Notice of Termination (as such term is defined herein). If the Company has not remedied the event or condition constituting Good Reason during the thirty (30) calendar day cure period and the Executive does not terminate his/her employment for Good Reason within thirty (30) calendar days thereafter by providing the Company with a Notice of Termination (as such term is defined herein), then the Executive will deemed to have waived his/her right to terminate for Good Reason with respect to such grounds.

For purposes of this Agreement, "Good Reason" means:

(i) a material reduction in the Executive's duties or authority or any of the employment characteristics as described in Section 4(a);

(ii) a failure by the Company to comply with any of the provisions of Section 4(b);

(iii) the Company's requiring the Executive to be based at any office or location other than that described in Section 4(a)(ii);

(iv) the failure by the Company to comply with and satisfy Section 7(b); or

(v) the Company fails to honor any material term or provision of this Agreement.

Notwithstanding the foregoing, Good Reason shall not include any resignation by the Executive where Cause for the Executive's termination by the Company exists.

(d) Notice of Termination. Any termination during the Employment Period by the Company or by the Executive for Good Reason shall be communicated by written Notice of Termination to the other party hereto. For purposes of this Agreement, a "Notice of Termination" shall mean a notice which shall indicate the specific termination provision in this Agreement relied upon and a description of the facts that support such termination.

(e) Date of Termination. "Date of Termination" means (i) if the Executive's employment is terminated by the Company for Cause, or by the Executive for Good Reason, subject to any applicable notice and cure provisions, the date of receipt of the Notice of Termination or any later date specified therein, as the case may be, (ii) if the Executive's employment is terminated by the Company other than for Cause or Disability, the date specified in the Notice of Termination (which shall not be less than thirty (30) nor more than sixty (60) calendar days from the date such Notice of Termination is given unless the Executive otherwise agrees), and (iii) if the Executive's employment is terminated for Disability, thirty (30) calendar days after Notice of Termination is given, provided that the Executive shall not have returned to the full-time performance of his/her duties during such thirty (30) calendar day period.

(f) Resignation of All Other Positions. Effective upon the termination of the Executive's employment for any reason, the Executive shall be deemed to have resigned from all positions the Executive holds as an officer or member of the Board of Directors (or a committee thereof) of the Company or any of its affiliates.

6. Compensation Upon Termination

(a) Termination Without Cause or for Good Reason. In the event the Executive's employment with the Company terminates or is terminated during the Employment Period, unless such termination is or was (A) by the Company for Cause or (B) by the Executive other than for Good Reason, the Executive shall be entitled to the following benefits; provided with respect to the payments set forth in Section 6(a)(ii), (iii) and (iv) below, the Executive (or the legal representative of the Executive or the Executive's estate) signs a release and waiver of claims in favor of the Company, its affiliates and their respective officers and directors in the form attached hereto as Attachment A, and such release (the "Release") has become effective prior to the payment date and in all events within sixty (60) days following the Executive's termination of employment (for avoidance of doubt, no release is required in connection with the payments set forth in Section 6(a)(i) below).

(i) Accrued Obligations. The Accrued Obligations are the sum of: (1) the Executive's Annual Base Salary through the Date of Termination at the rate in effect just prior to the time a Notice of Termination is given; (2) the amount, if any, of any incentive or bonus compensation theretofore earned which has not yet been paid; (3) the product of the Annual Bonus paid or payable, including by reason of deferral, for the most recently completed year and a fraction, the numerator of which is the number of days in the current year through the Date of Termination and the denominator of which is 365; and (4) any benefits or awards (including both the cash and stock components) which pursuant to the terms of any plans, policies or programs have been earned or become payable, but which have not yet been paid to the Executive (but not including amounts that previously had been deferred at the Executive's request, which amounts will be paid in accordance with the Executive's existing directions). The Accrued Obligations will be paid to the Executive in a lump sum cash payment within ten (10) days after the Date of Termination; and

(ii) Salary Continuance Benefit. The Salary Continuance Benefit is an amount equal to two (2) times the Executive's Final Compensation. For purposes of this Agreement, "Final Compensation" means the Annual Base Salary in effect at the Date of Termination, plus an amount equal to the average Annual Bonus paid or payable for the two (2) most recently completed years and any amounts contributed by the Executive during the most recently completed year pursuant to a salary reduction agreement or any other program that provides for pre-tax salary reductions or compensation deferrals. The Salary Continuance Benefit will be paid to the Executive in a lump sum cash payment on the date the Release becomes effective within the 60-day period following the Executive's termination of employment, provided that if such 60-day period following the Executive's termination of employment ends in the calendar year after the calendar year in which the Executive's termination occurs, the Salary Continuance Benefit shall be paid no earlier than the first day of such later calendar year; and

(iii) Welfare Continuance Benefit. For eighteen (18) months following the Date of Termination, the Executive and his/her eligible dependents will continue to be covered under all health and dental plans, disability plans, life insurance plans (including split dollar endorsement agreements related to Bank Owned Life Insurance policies), benefit and other compensatory programs or arrangements listed on Appendix A to this Agreement, and all other welfare benefit plans (as defined in Section 3(1) of the Employee Retirement Income Security Act) ("Welfare Plans") in which the Executive and his/her dependents were participating immediately prior to the Date of Termination (the "Welfare Continuance Benefit") to the extent permissible under the terms of the respective Welfare Plans and applicable law. Health and medical coverage will be provided under the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("COBRA"). The Executive will pay only that portion of the applicable monthly premiums that he was paying as an active employee prior to the Date of Termination. The Company will pay any additional monthly premium costs and any increases in the premium costs. If the Executive elects to change coverage in accordance with the terms of the Welfare Plans, the Executive will pay only that portion of the applicable monthly premium that would have applied to an active employee electing such coverage prior to the Date of Termination. Notwithstanding the foregoing, (1) the Welfare Continuance Benefit as to any Welfare Plan will cease if and when the Executive has obtained coverage under one or more welfare benefit plans of a subsequent employer that provides for substantially equal or greater benefits to the Executive and his/her dependents with respect to the specific type of benefit; and (2) if the Company determines that it cannot provide a welfare benefit required under this Section 6(a)(iii) without potentially violating applicable law or incurring an excise tax or if the applicable insurer will not provide the welfare benefit required under this Section 6(a)(iii), the Company shall in lieu thereof pay to the Executive on a monthly basis for the remainder of the required period under this Section 6(a)(iii) a taxable amount (the "Cash Payment") equal to the Company's portion of the applicable monthly premium for Executive and/or the Executive's family in effect on the date such welfare benefit can no longer be provided under the applicable Welfare Benefit Plan and, for any welfare benefit that otherwise would have been nontaxable to the Executive, an additional taxable amount equal to the taxes due on such Cash Payment; and

(iv) 401(k) Contributions. A lump sum cash payment equal to the total contributions made by the Company to the Executive's account in the Company sponsored 401(k) retirement savings plan during the two-year period prior to termination of employment. This payment will be paid to the Executive on the date the Release becomes effective within the 60-day period following the Executive's termination of employment, provided that if such 60-day period following the Executive's termination of employment ends in the calendar year after the calendar year in which the Executive's termination occurs, the lump sum cash payment shall be paid no earlier than the first day of such later calendar year; and

(v) In the event the Company terminates the Executive's employment other than when there is Cause for termination or the Executive terminates employment when Good Reason for termination exists, in each event during the six (6) months prior to a Change in Control (a "Qualifying Termination"), subject to the Executive providing the Release contemplated in Section 6(a) prior to the Change in Control Date, the Executive shall be entitled to receive the benefits provided in Section 6(a)(ii), (iii) and (iv) on or beginning on the Change in Control Date; provided that in no event shall Executive have any right to receive payments or benefits in duplication of any other benefits under this Agreement. At least fifteen (15) days prior to the Change in Control Date (or such shorter period agreed upon by the Executive), the Company shall provide a copy of the Release for signature and written notice of the anticipated Change in Control Date to the Executive whose termination is a Qualifying Termination. If the Company fails to timely provide such Release or prior notice of the anticipated Change in Control Date and the Executive's employment is a Qualifying Termination, the payments and benefits under this Section 6(a)(v) shall be due and owing and shall no longer be subject to the Release. For purposes of this Section 6(a)(v), (1) "Cause" shall be determined under Section 5(b) as if the Executive's termination had occurred during the Employment Period and without applying the notice and cure provisions in Section 5(b) and (2) "Good Reason" shall be determined under Section 5(c) as if the Executive's termination had occurred during the Employment Period and without applying the notice and cure provisions in Section 5(c), provided, however, that there shall only be "Good Reason" under this Section 6(a)(v) if, prior to the Executive terminating employment, the Executive provides written notice to the Company of the specific event or condition constituting Good Reason, the Company has ten (10) calendar days after such notice is received to remedy in good faith the event or condition, and, if not remedied, the Executive terminates employment within ten (10) calendar days thereafter.

(b) Death. If the Executive dies during the Employment Period while employed, this Agreement will terminate without any further obligation on the part of the Company under this Agreement, other than for (i) payment of the Accrued Obligations (which shall be paid to the Executive's beneficiary designated in writing or his/her estate, as applicable, in a lump sum cash payment within thirty (30) days of the date of death); (ii) the timely payment of the Welfare Continuance Benefit to the Executive's spouse and other dependents; and (iii) the timely payment of all death and retirement benefits pursuant to the terms of any plan, policy or arrangement of the Company and its affiliated companies. If the Executive dies after the Date of Termination, but prior to the expiration of the Welfare Continuance Benefit period, the Executive's spouse and other dependents will be entitled to the remaining payment of the Welfare Continuance Benefit due to the Executive under Section 6(a)(iii).

(c) Disability. If the Executive's employment is terminated because of the Executive's Disability during the Employment Period, this Agreement will terminate without any further obligation on the part of the Company under this Agreement, other than for (i) payment of the Accrued Obligations (which shall be paid to the Executive in a lump sum cash payment within thirty (30) days of the Date of Termination; (ii) the timely payment of the Welfare Continuance Benefit; and (iii) the timely payment of all disability and retirement benefits pursuant to the terms of any plan, policy or arrangement of the Company and its affiliated companies.

(d) Cause; Other than for Good Reason. If the Executive's employment is terminated for Cause during the Employment Period, this Agreement will terminate without further obligation to the Executive other than the payment to the Executive of the Annual Base Salary through the Date of Termination, plus the amount of any compensation previously deferred by the Executive. If the Executive terminates employment during the Employment Period, excluding a termination for Good Reason, this Agreement will terminate without further obligation to the Executive other than for the Accrued Obligations (which will be paid in a lump sum in cash within thirty (30) days of the Date of Termination) and any other benefits to which the Executive may be entitled pursuant to the terms of any plan, program or arrangement of the Company and its affiliated companies.

(e) Potential Limitation of Payments and Benefits.

(i) Subject to subsection (ii) below, in the event that the aggregate value of the payments and benefits to which the Executive may be entitled under this Agreement or any other agreement, plan, program or arrangement in connection with a Change in Control (the “Change in Control Termination Benefits”) would subject the Executive to the excise tax (the “Excise Tax”) imposed under Section 4999 of the Internal Revenue Code of 1986, as amended (the “Code”), then, in accordance with the Executive’s direction as to the order of reduction, the Change in Control Termination Benefits shall be reduced (by the minimum possible amount) until no amount or benefit payable to the Executive will be subject to the Excise Tax.

(ii) Notwithstanding the foregoing, no reduction in the Change in Control Termination Benefits shall be made if the Executive’s Net After-Tax Benefit (as defined below) assuming such reduction was not made exceeds by $25,000 or more of the Executive’s Net After-Tax Benefit assuming such reduction was made.

(iii) “Net After-Tax Benefit” shall mean the amount of the Change in Control Termination Benefits which the Executive receives or is then entitled to receive, less the amount of all applicable taxes payable by the Executive with respect to the Change in Control Termination Benefits, including any Excise Tax.

(iv) All calculations and determinations under this Section 6(e) shall be made by an independent accounting firm or independent tax counsel appointed by the Company (the “Tax Advisor”) whose determinations shall be conclusive and binding on the Company and the Executive for all purposes. The Tax Advisor may rely on reasonable, good faith assumptions and approximations concerning the application of Section 280G and Section 4999 of the Code. The Company shall bear all costs of the Tax Advisor.

7. Binding Agreement; Successors

(a) This Agreement will be binding upon and inure to the benefit of the Executive (and his/her personal representative), the Company and any successor organization or organizations which shall succeed to substantially all of the business and property of the Company, whether by means of merger, consolidation, acquisition of all or substantially of all of the assets of the Company or otherwise, including by operation of law.

(b) The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to assume expressly and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place.

(c) For purposes of this Agreement, the term “Company” includes any subsidiaries of the Company and any corporation or other entity which is the surviving or continuing entity in respect of any merger, consolidation or form of business combination in which the Company ceases to exist; provided, however, that for purposes of determining whether a Change in Control has occurred herein, the term "Company" refers to Virginia National Bankshares Corporation or its successors.

8. Fees and Expenses; Mitigation

(a) The Company will pay or reimburse the Executive for all costs and expenses, including, without limitation, court costs and reasonable attorneys' fees, incurred by the Executive at any time after the Effective Date (i) in the Company's contesting or disputing any termination of the Executive's employment hereunder or (ii) in the Company's seeking to obtain or enforce any right or benefit provided by this Agreement, in each case provided the Executive is the prevailing party in a proceeding brought in a court of competent jurisdiction. The Company shall reimburse the foregoing costs and expenses (but no more than 30 days) after the Executive submits a claim for reimbursement with proper documentation of the costs and expenses.

(b) The Executive shall not be required to mitigate the amount of any payment the Company becomes obligated to make to the Executive in connection with this Agreement, by seeking other employment or otherwise. The amount of any payment provided for in Section 6 shall not be reduced, offset or subject to recovery by the Company by reason of any compensation earned by the Executive as the result of employment by another employer after the Date of Termination, or otherwise.

9. No Employment Contract

Nothing in this Agreement will be construed as creating an employment contract between the Executive and the Company prior to a Change in Control.

10. Survival of Certain Restrictive Covenants

Section 7 of the Revised Non-Disclosure, Non-Solicitation and Non-Competition Agreement dated as of May 18, 2020, between the Company and the Executive, or any successor agreement agreed upon by the Company and the Executive (the "Loyalty Agreement") with respect to the Executive's covenants concerning non-competition will not apply to the Executive after the Executive ceases to be employed by the Company following a Change in Control, unless the Executive is entitled to receive any severance benefits provided for in Section 6(a) of this Agreement in connection with the termination of his/her employment without Cause or for Good Reason in which case the restrictions imposed by Section 7 in the Loyalty Agreement will continue to apply. The non-disclosure, customer non-solicitation, customer non-service, customer non-interference and employee non-solicitation restrictions in Sections 2 through 6 of the Loyalty Agreement together with the other provisions of the Loyalty Agreement, except to the extent Section 7 of the Loyalty Agreement may not apply as provided above, will survive the termination of the Executive's employment and are incorporated into and made a part of this Agreement as though the Loyalty Agreement was set forth in full in this Agreement.

11. Notice

Any notices and other communications provided for by this Agreement will be sufficient if in writing and delivered in person, or sent by registered or certified mail, postage prepaid (in which case notice will be deemed to have been given on the third day after mailing), or by overnight delivery by a reliable overnight courier service (in which case notice will be deemed to have been given on the day after delivery to such courier service). Notices to the Company shall be directed to the Secretary of the Company, with a copy directed to the Chairman of the Board of the Company. Notices to the Executive shall be directed to his/her last known address.

12. Definition of a Change in Control

(a) No benefits shall be payable hereunder unless there shall have been a Change in Control of the Company as set forth below. For purposes of this Agreement, a "Change in Control" means:

(i) The acquisition by any Person of beneficial ownership of thirty percent (30%) or more of the then outstanding shares of common stock of the Company, provided that an acquisition directly from the Company (excluding an acquisition by virtue of the exercise of a conversion privilege) shall not constitute a Change in Control;

(ii) Individuals who constitute the Board on the date of this Agreement (the "Incumbent Board") cease to constitute a majority of the Board, provided that any director whose nomination was approved by a vote of at least two-thirds of the directors then comprising the Incumbent Board will be considered a member of the Incumbent Board; provided however, that any director whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of the directors of the Company shall not be considered a member of the Incumbent Board;

(iii) Consummation by the Company of a reorganization, merger, share exchange or consolidation (a "Reorganization") other than a Reorganization involving only the Company and one or more affiliated companies; or

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

(b) For purposes of this Agreement, "Person" means any individual, entity or group (within the meaning of Section 13(d)(3) of the Securities Exchange Act of 1934 (the "Exchange Act"), other than any employee benefit plan (or related trust) sponsored or maintained by the Company or any affiliated company, and "beneficial ownership" has the meaning given the term in Rule 13d-3 under the Exchange Act.

(c) The Company and the Executive acknowledge and agree that this Agreement shall apply to each and any Change in Control of the Company or its successor(s) that may occur, and that each and any Change in Control of the Company shall have different, separate and distinct Change in Control Dates and Employment Periods, respectively, other than a Change in Control as described in Sections 12(a)(i) and (iii) effected as a share exchange, in which case the Change in Control Date and the Employment Period, respectively, shall be the same with respect to both sections.

13. <u>Miscellaneous</u>

This Agreement may not be terminated, and no provision of this Agreement may be amended, modified, waived or discharged, unless such termination, amendment, modification, waiver or discharge is agreed to in a writing signed (a) by the Executive and (b) for the Company by either the Chairman of the Board, Chairman of the Compensation Committee, Chief Executive Officer, or President of the Company; provided, however, the Executive may not sign on behalf of the Company even if he/she holds one of the identified positions with the Company. This Agreement replaces and supersedes any prior agreements, written or oral, relating to the subject matter hereof, and all such agreements are hereby terminated and are without any further legal force or effect. No waiver by either party hereto at any time of any breach by the other party hereto of, or of compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. No agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party that are not expressly set forth in this Agreement.

14. <u>Governing Law</u>

The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the Commonwealth of Virginia. The Company and the Executive submit to the exclusive jurisdiction and venue of any state or federal court located within the Commonwealth of Virginia for resolution of any such claims, causes of action or disputes arising out of or relating to or concerning this Agreement.

15. <u>Validity</u>

The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

16. <u>Deferred Compensation Omnibus Provision</u>

(a) It is intended that payments and benefits under this Agreement that are considered to be deferred compensation subject to Section 409A of the Code shall be provided and paid in a manner, and at such time and in such form, as complies with the applicable requirements of Section 409A of the Code to avoid the unfavorable tax consequences provided for therein for non-compliance. Notwithstanding any other provision of this Agreement, the Company's Compensation Committee or Board of Directors is authorized to amend this Agreement, to amend or void any election made by the Executive under this Agreement and/or to delay the payment of any monies and/or provision of any benefits in such manner as may be determined by it to be necessary or appropriate to comply with Section 409A of the Code or to comply with an exception from Section 409A if that is the intent of the provision. For purposes of this Agreement, all rights to payments and benefits hereunder shall be treated as rights to receive a series of separate payments and benefits to the fullest extent allowed by Section 409A of the Code.

(b) If the Executive is deemed on the date of separation of service with the Company to be a "specified employee," as defined in Section 409A(a)(2)(B) of the Code, then payment of any amount or provision of any benefit under this Agreement that is considered deferred compensation subject to Section 409A of the Code shall not be made or provided prior to the earlier of (A) the expiration of the six (6) month period measured from the date of separation of service or (B) the date of death (the “409A Deferral Period”).

(c) In the case of benefits that are subject to Section 409A of the Code, the Executive may pay the cost of benefit coverage, and thereby obtain benefits, during the 409A Deferral Period and then be reimbursed by the Company when the 409A Deferral Period ends. On the first day after the end of the 409A Deferral Period, all payments delayed pursuant to this Section 16 (whether they would have otherwise been payable in a single lump sum or in installments in the absence of such deferral) shall be paid or reimbursed to the Executive in a lump sum, and any remaining payments and benefits due under this Agreement shall be paid or provided as originally scheduled.

(d) “Termination of employment” shall have the same meaning as “separation of service,” as that phrase is defined in Section 409A of the Code (taking into account all rules and presumptions provided for in the Section 409A regulations).

17. Clawback

The Executive agrees that any incentive-based compensation or award that he/she receives, or has received, from the Company or its Affiliates under this Agreement or otherwise, will be subject to clawback by the Company as may be required by applicable law or stock exchange listing requirement and on such basis as the Board of Directors of the Company determines, but in no event with a look-back period of more than two (2) years, unless required by applicable law or stock exchange listing requirement.

[Signatures follow on next page.]

IN WITNESS WHEREOF, this Agreement has been executed as a sealed instrument by Virginia National Bankshares Corporation by its duly authorized officer, and by the Executive, as of the date first above written.

VIRGINIA NATIONAL BANKSHARES CORPORATION

By: ______________________________

Chairman, Compensation Committee

EXECUTIVE:

____

Appendix A

Section 6(a)(iii) - Welfare Continuance Benefits in which the Executive and/or eligible dependents were participating or receiving immediately prior to the Date of Termination, including the following:

Medical Coverage

Dental Coverage

Vision Coverage

Life Insurance (employee and dependents)

Supplemental Life Coverage (employee and eligible dependents)

Bank Owned Life Insurance (Split-dollar Agreements)

Long Term Disability Coverage equal to 60% of “Final Compensation”

Accidental Death and Dismemberment Coverage

Ancillary Coverages – Accident Insurance, Critical Illness, Hospital Indemnity

Gym Membership (rates based upon current ACAC employee-only membership)

Country Club Memberships

Technology Budget for Personal Use

Work Vehicle (Following termination, the Company or the Bank will transfer the vehicle to the Executive for no payment, with the value of the vehicle to be included in the Executive’s income, subject to tax law requirements)

<u>Attachment A</u>

RELEASE

For good and valuable consideration, the receipt of which is hereby acknowledged, ______________ ("Employee"), hereby irrevocably and unconditionally releases, acquits, and forever discharges Virginia National Bankshares Corporation or successor entity (the "Company") and each of its agents, directors, members, affiliated entities, officers, employees, former employees, attorneys, and all persons acting by, through, under or in concert with any of them (collectively "Releasees") from any and all charges, complaints, claims, liabilities, grievances, obligations, promises, agreements, controversies, damages, policies, actions, causes of action, suits, rights, demands, costs, losses, debts and expenses of any nature whatsoever, known or unknown, suspected or unsuspected, including, but not limited to, any rights, claims or causes of action arising out of, or related to, (a) Employee's employment or termination of employment, (b) any alleged violations or breaches of any contracts, express or implied, or any tort, or any legal restrictions on the Company's right to terminate employees, or (c) any federal, state or other governmental statute, regulation, law or ordinance, including without limitation (1) Title VII of the Civil Rights Act of 1964, as amended by the Civil Rights Act of 1991; (2) the Americans with Disabilities Act; (3) 42 U.S.C. § 1981; (4) the federal Age Discrimination in Employment Act (age discrimination); (5) the Older Workers Benefit Protection Act; (6) the Equal Pay Act; (7) the Family and Medical Leave Act; (8) the Employee Retirement Income Security Act; (9) the False Claims Act; (10) the Fair Labor Standards Act; (11) Consolidated Omnibus Budget Reconciliation Act of 1985; (12) the National Labor Relations Act; (13) the Virginia Workers' Compensation Act; and (14) the Virginia Commission on Human Rights Act ("Claim" or "Claims"), which Employee now has, owns or holds, or claims to have, own or hold, or which Employee at any time heretofore had owned or held, or claimed to have owned or held, against each or any of the Releasees at any time up to and including the date of the execution of this Release.

Employee hereby acknowledges and agrees that the execution of this Release and the cessation of Employee's employment and all actions taken in connection therewith are in compliance with the federal Age Discrimination in Employment Act and the Older Workers Benefit Protection Act and that the releases set forth above shall be applicable, without limitation, to any claims brought under these Acts. Employee further acknowledges and agrees that:

(a) The Release given by Employee is given solely in exchange for the consideration set forth in Section 6(a)(ii), Section 6(a)(iii) and Section 6(a)(iv) of the Second Amended and Restated Management Continuity Agreement between the Company and Employee to which this Release was initially attached, and such consideration is in addition to anything of value which Employee was entitled to receive prior to entering into this Release;

(b) By entering into this Release, Employee does not waive rights or claims that may arise after the date this Agreement is executed;

(c) Employee has been advised to consult an attorney prior to entering into this Release, and this provision of the Release satisfies the requirements of the Older Workers Benefit Protection Act that Employee be so advised in writing;

(d) Employee has been offered forty-five (45) days from receipt of this Release within which to consider whether to sign this Release; and

(e) For a period of seven (7) days following Employee's execution of this Release, Employee may revoke this Release and it shall not become effective or enforceable until such seven (7) day period has expired.

No waiver or default of any term of this Release shall be deemed a waiver of any subsequent breach or default of the same or similar nature.

This Release is made and shall be enforced pursuant to the laws of the Commonwealth of Virginia, except where such laws of the Commonwealth of Virginia are preempted by federal law.

Should any part of this Release be found to be void, that determination will not affect the remainder of this Release.

This release shall be binding upon the heirs and personal representatives of Employee and shall inure to the benefit of the successors and assigns of the Company.

Date: ____

Exhibit 10.4

Transition Agreement and Release

This Transition Agreement and Release ("**Agreement**") is between (i) Donna Shewmake, on her behalf and on behalf of her heirs, executors, administrators, successors, assigns, affiliates, representatives, agents, partners, and attorneys (collectively referred to as "Employee"), and (ii) Virginia National Bank ("**VNB**") and Virginia National Bankshares Corporation ("**Bankshares**), their owners, successors, assigns, affiliates, subsidiaries, divisions, agents, officers, directors, employees, and attorneys (collectively VNB and Bankshares are referred to as "VABK"). Neither this Agreement nor the offer to enter into this Agreement shall in any way be construed as an admission by VABK that it acted wrongfully or that Employee has any rights against VABK.

In consideration of the promises and mutual covenants set forth in this Agreement, and for other good and valuable consideration, Employee and VABK agree as follows:

1. Effective at the close of business on March 26, 2025, Employee, at her request, shall cease to be a Named Executive Officer and General Counsel of VABK and she shall be relieved of all responsibilities as General Counsel from that time forward. Effective March 27, 2025, Employee shall perform duties for VABK in an internal audit managerial function, reporting to Glenn W. Rust, President & CEO of VABK, and shall perform such other duties as are assigned by VABK from time to time. Employee and VABK further agree as follows:

   (A) Employee shall remain employed by VABK during the period between March 27, 2025 and December 31, 2025, at which time her employment shall cease. The period between March 27, 2025 and December 31, 2025, shall be referred to herein as "the Transition Period," and December 31, 2025, shall be referred to herein as the "Separation Date."

   (B) During the Transition Period, VABK may only terminate Employee's employment for death, disability or "cause." "Disability" shall mean the inability of Employee to perform the material duties of her position for a period of 120 consecutive calendar days. "Cause" shall mean (i) gross incompetence, gross negligence, or willful misconduct in connection with the performance of Employee's duties or the breach of any fiduciary duty or duty of loyalty owed to VABK or any affiliated company; (ii) conviction of or entering of a guilty plea or a plea of no contest with respect to a felony or a crime of moral turpitude or commission of an act of embezzlement or fraud against VABK or any affiliated company; (iii) any material breach by Employee of a material term of this Agreement, including, without limitation, material failure to perform a substantial portion of her duties and responsibilities hereunder; or (iv) deliberate dishonesty of the Employee with respect to VABK or any affiliated company.

   (C) During the Transition Period, Employee shall have the title of Executive Vice-President and Senior Legal Counsel.

   (D) During the Transition Period, Employee shall continue to be paid her base salary at an annual salary rate of $296,341.68, which is $12,347.57 semi-monthly, payable in accordance with the regular pay periods of VABK, but no less frequently than monthly. Employee shall also be entitled to and shall participate in the same fringe benefits and health and welfare benefit plans that were applicable to her on March 27, 2025, in accordance with their terms, including but not limited to Paid Time Off, health, dental, vision, FSA, Norton life lock, hospital indemnity, accident insurance, long-term disability, and basic life insurance.

   (E) After the Separation Date, Employee will no longer be eligible to participate in the VABK benefit programs, including health, dental, life, 401(k) plan, long-term disability, PTO, etc. Employee's eligibility for COBRA coverage will commence when her employment ends in accordance with law.

   (F) Within thirty (30) calendar days after the last date of Employee's employment, she shall sign, return, and not revoke the Supplemental Release attached hereto as **Exhibit A; provided, however, Employee may revoke the Supplemental Release as provided in Section 2(e) of that document.**

2. In consideration of the above, effective immediately, Employee discharges and releases VABK, its owners, successors, assigns, affiliates, subsidiaries, divisions, representatives, agents, officers, directors, employees, auditors, accountants, advisors, and attorneys from any and all claims, liabilities, obligations, agreements, including Employee's Amended and Restated Management Continuity Agreement, dated on or about September 28, 2020 ("**MCA**"), promises, demands, and/or causes of action whatsoever, presently known or unknown, that is or are based upon facts occurring prior to signing this Agreement, including, but not limited to, any claims arising under federal, state, or local laws, statutes, regulations, orders, or ordinances relating to her employment, her removal as General Counsel, or her separation from VABK, including but not limited to the Virginia Human Rights Act, the Virginians with Disabilities Act, Title VII of the Civil Rights Act of 1964, § 1981 of the Civil Rights Act of 1866, Executive Order 11246, the Age Discrimination in Employment Act, the Rehabilitation Act, the Older Workers Benefit Protection Act, the Employee Retirement Income Security Act, the Equal Pay Act, the Americans with Disabilities Act, the Civil Rights Act of 1991, the False Claims Act, 31 U.S.C. § 3729 et seq., the Family and Medical Leave Act, 29 U.S.C. § 2601, et seq., the Fair Labor Standards Act, the Consolidated Omnibus Budget Reconciliation Act of 1985, the National Labor Relations Act, and any claims and causes of action of whatever kind or character, in tort or contract, statutory or otherwise, for legal or equitable relief, and any claim or causes of action related to Employee's employment with, relationship with, termination from, and/or affiliation with VABK; provided, however, that nothing herein affects Employee's right to file or participate in a charge of discrimination with or pending before the Equal Employment Opportunity Commission ("**EEOC**") or any similar state or local agency, but Employee shall not be entitled to any monetary, injunctive, declaratory, or other relief as a result thereof; and, provided further, that nothing herein shall preclude Employee from recovering an award as a whistleblower for information provided to any government agency.

3. Employee acknowledges and agrees that Employee was granted (i) stock options (collectively, the "**Option Awards**") to purchase shares of Bankshare's common stock and (ii) shares of restricted stock (the "**Restricted Stock Award**" and together with the option Awards, the "**Equity Awards**"), in accordance with the terms and conditions of those certain Incentive Stock Option Agreements (collectively, the "**Option Award Agreements**") and a Restricted Stock Agreement (the "**Restricted Stock Agreement**" and together with the Option Award Agreements, the "**Award Agreements**"), as well as the Virginia National Bankshares Corporation 2014 Stock Incentive Plan ("**2014 Stock Incentive Plan**") and the Virginia National Bankshares Corporation 2022 Stock Incentive Plan, as applicable (the "**2022 Stock Incentive Plan**" and together with the 2014 Stock Incentive Plan, the "**Stock Incentive Plans**"). Nothing in this Agreement affects Employee's rights and obligations under the Equity Awards. Subject to the terms and conditions of the Option Award Agreements, the vested portion of the Option Awards shall remain exercisable until the <u>earlier of</u>: (a) three (3) months following Employee's termination date, and (b) the expiration date set forth in the applicable Option Award Agreement.

4. Neither party concedes or admits that it has engaged in any unlawful conduct under any federal, state, or local law, policy rule or regulation, or otherwise engaged in any wrongful conduct under any circumstances. Instead, VABK and Employee specifically deny that they have engaged in any such conduct.

5. Except as otherwise expressly provided herein, this Agreement supersedes and extinguishes any prior agreement entered into between Employee and VABK relating to employment or employment-related benefits, including the MCA, which is hereby rendered null and void, effective immediately.

6. Employee agrees and covenants not to sue or participate in any suit against VABK, based upon any claim, liability, obligation, agreement (including the MCA), promise, demand, and/or cause of action whatsoever, presently known or unknown, that is based upon facts occurring prior to signing this Agreement, including but not limited to, claims arising under federal, state, or local laws, statutes, regulations, orders, or ordinances relating to employment, including, but not limited to, the Virginia Human Rights Act, the Virginians with Disabilities Act, Title VII of the Civil Rights Act of 1964, § 1981 of the Civil Rights Act of 1866, Executive Order 11246, the Age Discrimination in Employment Act, the Rehabilitation Act, the Older Workers Benefit Protection Act, the Employee Retirement Income Security Act, the Equal Pay Act, the Americans with Disabilities Act, the Civil Rights Act of 1991, the False Claims Act, 31 U.S.C. § 3729 et seq., the Family and Medical Leave Act, 29 U.S.C. § 2601, et seq., the Fair Labor Standards Act, the Consolidated Omnibus Budget Reconciliation Act of 1985, the National Labor Relations Act, and any claims and causes of action of whatever kind or character, in tort or contract, statutory or otherwise, for legal or equitable relief, and any claim or causes of action related to Employee's employment with, relationship with, termination from, and/or affiliation with VABK. With respect to any charges or complaints that have been or may be filed concerning events or actions relating to her

employment or separation from employment, Employee waives and releases any right she may have to recover in any lawsuit or proceeding brought by an administrative agency or other person on her behalf or which includes her in a class. In the event that Employee is commanded by subpoena to attend any proceedings or provide testimony within the meaning of this Paragraph, Employee agrees to provide notice of such attendance or testimony to VABK, in writing, ten (10) days prior to such attendance or testimony, or the amount of prior notice of such attendance or testimony that she received, whichever is less. Again, however, nothing herein precludes Employee from recovering an award as a whistleblower for information provided to any government agency.

7. Employee agrees that she will not discuss or disclose, or cause to be disclosed the terms of this Agreement, or the fact that this Agreement exists, to any person except for her children, her attorneys and/or tax advisors or to the extent otherwise required by law.

8. Except as otherwise provided herein, this Agreement contains the entire agreement between Employee and VABK as to the subject matters hereof, and cannot be changed, modified, or amended without a written agreement signed by Employee and VABK.

9. No waiver or default of any term of this Agreement shall be deemed a waiver of any subsequent breach or default of the same or similar nature.

10. Should any part of this Agreement be found to be void, that provision (or portion thereof) will be severed from the Agreement and shall not affect the enforceability of the remainder of the Agreement.

11. Employee shall have twenty-one calendar days (21) from the date Employee receives this Agreement to review this Agreement, obtain the advice of counsel, and return an executed original to VABK, which will evidence her acceptance of the benefits, and the terms and conditions contained in this Agreement. In addition, Employee may revoke this Agreement within seven (7) calendar days after Employee signs it by delivering written notice by any means to VABK of the revocation. The last day on which this Agreement can be revoked is called the "Last Revocation Day." Revocation shall be made by delivering a written notice of revocation to Larry K. Pitchford, Virginia National Bank, P.O. Box 2853, Charlottesville, VA 22902 (if by regular mail) or 404 People Place, Charlottesville, VA 22911 (if by overnight delivery or hand delivery), no later than the close of business on the Last Revocation Day. If Employee revokes this Agreement, it shall not become effective, and Employee will not receive the benefits and payments described in Paragraph 1. If Employee does not revoke this Agreement, it shall become effective on the next day after the Last Revocation Day. This Agreement has been entered into voluntarily and not as a result of coercion, duress, or undue influence. Employee agrees that she has read and fully understands the terms of this Agreement and has been advised to consult with an attorney before executing this Agreement. Additionally, Employee agrees that she has been given at least twenty-one (21) days to consider this Agreement. No change in this Agreement shall re-start the 21-day period.

11. Employee agrees that she will not make any derogatory comments in the public domain in relation to VABK, its current and/or former management, its officers, directors, or employees, or take any action at any time that would have the effect of disparaging VABK, its current and/or former management or its officers, directors, or employees, or discuss or engage in any other public communication regarding the separation of her employment, except as otherwise mandated by applicable law or as expressly referenced in this Agreement as conduct that is not prohibited.

12. VABK will not object to or otherwise oppose Employee's application for unemployment insurance benefits after the Separation Date.

13. Employee represents and acknowledges that this Agreement and the consideration set forth herein, including the agreement to employ Employee through the Separation Date and terminate her only for death, disability or Cause, and the other benefits provided in this Agreement, are not otherwise due or owing to Employee under any agreement (oral or written) or any policy or practice – whether set forth in the VABK Employee Handbook or otherwise, but constitute additional benefits to which Employee is not otherwise entitled in exchange for the releases provided and covenants not to sue set forth herein. Employee acknowledges that because each party has been afforded the opportunity to be represented by competent counsel and has been afforded the opportunity to request revisions to this Agreement, any ambiguities which may exist shall not be construed

against any party as the drafter, and all the terms of this Agreement shall be given their customary, ordinary, and usual meaning. In the event that Employee breaches Paragraphs 2 or 6 of this Agreement, Employee agrees to pay all costs and expenses, including reasonable attorney fees, of VABK in defending against such claims as permitted under applicable law. Finally, as part of the consideration for this Agreement, well as the acceptance of the obligations set forth in the Agreement, Employee expressly guarantees, warrants and represents to VABK that (i) she is legally competent and duly authorized to execute this Agreement, and it has been read or explained to her in a language and manner fully understandable to her; and (ii) she has not assigned, pledged, or otherwise in any manner whatsoever sold, hypothecated, or otherwise transferred or pledged, either by instrument in writing or otherwise, any right, title, interest, or claim which she has or may have by reason of any claims, damages or otherwise as of the date she executes this Agreement.

14. Employee understands and agrees that Employee may not remove any VABK property or information from VABK premises, and that within ten (10) calendar days after the Separation Date, unless otherwise agreed in writing by VABK, Employee immediately will return to VABK all files, memoranda, records, credit cards, manuals, computer equipment, computer software, pagers, cellular phones, facsimile machines, vehicles, passwords, and any other equipment and other documents, and all other physical or personal property that Employee received from VABK or that Employee used in the course of Employee's employment with VABK and that are the property of VABK or its customers or employees. Employee further agrees that Employee will provide immediately upon request any and all information used by VABK to access any database or other electronically stored information, including any and all passwords, except such passwords related to Employee's personal accounts that are unrelated to VABK.

15. Employee hereby acknowledges that Employee is bound and remains bound by the "Non-Disclosure, Non-Solicitation and Non-Competition Agreement," signed by her on or about May 18, 2020 ("**NDNSNCA**"), and that nothing in this Agreement supersedes or diminishes Employee's obligations or VABK's rights under the NDNSNCA, except as expressly set forth in this Agreement. A copy of the NDNSNCA is attached hereto for the avoidance of doubt as **Exhibit B**. Nothing in this Agreement or the NDNSNCA shall prohibit Employee from discussing or disclosing the details relating to any claims of sexual assault, including claims under §§ 18.2-61, 18.2-67.1, 18.2-67.3 or 18.2-67.4 of the Code of Virginia, or claims of sexual harassment, including as defined in § 30-129.4 of the Code of Virginia. Employee shall continue to be under a duty to truthfully respond to any legal and valid subpoena or other legal process. Further, this Agreement and the NDNSNCA are not intended to and do not in any way proscribe Employee's right and ability to voluntarily provide information or report waste, fraud, abuse or unethical conduct related to the performance of a government contract to a designated investigative or law enforcement representative of a federal department or other governmental agency. Finally, notwithstanding anything herein or in the NDNSNCA to the contrary, nothing in this Paragraph or any other provision of this Agreement or the NDNSNCA shall (x) prohibit Employee from making reports of possible violations of federal law or regulation to any governmental agency or entity in accordance with the provisions of and rules promulgated under Section 21F of the Securities Exchange Act of 1934, as amended, or Section 806 of the Sarbanes-Oxley Act of 2002, or of any other whistleblower protection provisions of federal law or regulation, or (y) require notification or prior approval by anyone of any such report.

16. This Agreement shall be binding upon and inure to the benefit of VABK, and to any person or firm who may succeed to the majority of the assets of VABK, or any of them. This Agreement shall be assignable by VABK but shall not be assignable by Employee.

17. VABK may withhold from any and all amounts payable under this Agreement such federal, state, and local taxes or other withholdings as may be required to be withheld pursuant to any applicable law or regulation.

18. The intent of the parties is that payments and benefits under this Agreement comply with, or are exempt from, the requirements of Section 409A of the Internal Revenue Code of 1986, as amended, and the guidance issued thereunder and, accordingly, to the maximum extent permitted, this Agreement shall be limited, construed and interpreted in accordance with such intent.

19. The construction, interpretation and enforcement of this Agreement shall at all times and in all respects be governed by the laws of the Commonwealth of Virginia and the exclusive venue of any dispute shall be the state or federal court applicable to the City of Charlottesville, Virginia, chosen at the option of VABK, as

applicable and Employee waives all objections to venue and consents to personal jurisdiction in Virginia. Employee waives her rights to trial by jury in connection with any dispute between Employee and VABK.

20. This Agreement may be executed by electronic or .pdf signatures and in two (2) or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one (1) and the same instrument. Counterparts may be delivered by facsimile, electronic mail (including pdf) or other transmission method and any counterpart so delivered shall be deemed to have been duly and validly delivered and be valid and effective for all purposes.

21. Employee represents and acknowledges that in executing this Agreement, Employee does not rely, and has not relied, upon any representation or statement not set forth herein made by VABK or by any of the VABK's agents, representatives, or attorneys with regard to the subject matter, basis or effect of the Agreement or otherwise.

22. Employee agrees that she will assist and cooperate with VABK in connection with the defense or prosecution of any claim that may be made against or by VABK, or in connection with any ongoing or future investigation or dispute of claim of any kind involving VABK, including any proceeding before any arbitral, administrative, judicial, legislative, or other body or agency, including testifying in any proceeding to the extent such claims, investigations or proceedings related to (a) services performed or required to be performed by Employee, (b) pertinent knowledge possessed by Employee, or (c) any act or omission by Employee. VABK will reimburse Employee for expenses incurred in connection under this paragraph provided except as it relates to (c).

[*Signature Page Follows*.]

WITNESS THE FOLLOWING SIGNATURES.

By /s/ Donna G. Shewmake______________
Name: Donna Shewmake

Date March 26, 2025______________________

Virginia National Bankshares Corporation

By /s/ Glenn W. Rust____________________
Name: Glenn W. Rust
Title: President & CEO

Date March 26, 2025______________________

Exhibit 19.1

VIRGINIA NATIONAL BANKSHARES CORPORATION

INSIDER TRADING POLICY

Need for a Policy Statement

The purchase or sale of securities while possessing material nonpublic information or the selective disclosure of such information to others who may trade is prohibited by federal and state laws.

Virginia National Bankshares Corporation (the "Company") has adopted the following policy with respect to purchases and sales of the Company's securities by directors, officers or other employees of the Company, or its subsidiary and affiliates with access to, or knowledge of, material nonpublic information ("Insiders"). Each Insider is responsible for ensuring that he or she does not violate federal or state securities laws or the Company's policy concerning securities trading. **This policy is designed to promote compliance with federal securities laws and to protect the Company, as well as Insiders, from the very serious liabilities and penalties that can result from violation of these laws.**

Potential penalties for insider trading violations include civil fines for up to three times the profit gained or loss avoided by the trading, criminal fines of up to $5,000,000, or jail sentences of up to 20 years.

The Company's Policy Regarding Trading and Use of Material Nonpublic Information

Insiders may not trade in the stock or other securities of the Company when they have "material nonpublic information" about the Company. In addition, Insiders who, in the course of their association or employment with the Company, learn of material nonpublic information about a publicly-traded company with which the Company does business or may be negotiating a major transaction, including customers, suppliers or vendors, may not trade in the stock or other securities of such companies until the information becomes public or is no longer material.
Information that is not material to the Company may nevertheless be material to one of those other companies.

"Trading" includes purchases and sales of stock, bonds, debentures, options, puts, calls and other similar securities. This policy includes trades made pursuant to any investment direction under employee benefit plans as well as trades in the open market. This policy also applies to the exercise of options with an immediate sale of some or all of the shares through a broker (a "cashless exercise").

Insiders must not pass material nonpublic information on to others or recommend to anyone the purchase or sale of any securities on the basis of such information. This practice, known as "tipping," also violates the securities laws and can result in the same civil and criminal penalties that apply to insider trading, whether or not the Insider derives any benefit from another's actions. Insiders should also take care that material nonpublic information is kept secure and that conversations about such information with other Insiders does not occur in public places where it can be overheard.

The same restrictions apply to family members and other persons living in an Insider's household. Insiders are expected to be responsible for the compliance of the members of their immediate family and personal household.

Because of the unique potential for abuse of material nonpublic information, it is also the Company's policy that directors, officers and employees may not engage in short-term speculative transactions involving "trading" in the Company's securities. This would include short sales and buying or selling puts or calls. In addition, the purchase of the Company's securities on margin (except in connection with the cashless exercise of a stock option) is prohibited.

Definition of Material Nonpublic Information

Material Information. Information is material if there is substantial likelihood that a reasonable investor would consider it important in deciding whether to buy, hold or sell a security. Therefore, any information that could reasonably be expected to affect the price of the security is material. Common examples of material information are:

- Projections of future earnings or losses, other earnings guidance or changes in such projections or guidance
- Earnings or projections that are inconsistent with the consensus expectations of the investment community
- Actual earnings
- A pending or prospective joint venture, merger, acquisition, tender offer or financing
- A pending or prospective acquisition of disposition of a significant asset
- Changes in senior management or other major personnel changes
- A change in dividend policy, the declaration of a stock split or the offering of additional securities
- A change or prospective change in a previously issued financial statement
- Changes in auditors or auditor notification that the Company may no longer rely on an audit report
- Significant litigation, regulatory actions or developments, including government investigations, affecting the Company or its subsidiaries and affiliates
- Potential financial liquidity problems

Both positive and negative information can be material. Because any trading that receives scrutiny will be evaluated after the fact (with the benefit of hindsight), questions concerning the materiality of particular formation should be resolved in favor of materiality, and trading should be avoided.

Nonpublic Information. Nonpublic information is information that is not generally known or available to the public. Information is considered to be available to the public only when it has been released to the public through appropriate channels, e.g., by means of a press release or a statement from one of the Company's senior officers, *and* enough time has elapsed to permit the investment market to absorb and evaluate the information. As a general rule, information is considered nonpublic until two full business days after public disclosure.

Trading Blackout

In order to avoid even the appearance of improper trading, blackout periods may be established from time to time when nonpublic information is shared with directors, officers and other employees.

Quarterly Blackout Periods. The Company's announcement of its quarterly financial results almost always has the potential to have a material effect on the market for the Company's securities. To avoid even the appearance of trading while aware of material nonpublic information, Insiders may not trade in Company securities during the period beginning when the Insider has two full business months of financial data and ending two full business days after the Company's publication of its quarter or annual results, whether through posting its Form 10-Q or 10-K on its website or issuance of an earlier press release on earnings.

Event-specific Blackout Periods. From time to time, an event may occur that is material to the Company and is known by only a few directors, officers and/or employees. So long as the event remains material and nonpublic, the directors, officers, employees and other individuals in possession of this information may not trade in the Company's securities. The existence of an event-specific blackout will not be announced, other than to those who are aware of the event giving rise to the blackout. Any person made aware of the existence of an event-specific blackout may not disclose the existence of the blackout to any other person. The failure of the Company to designate a person as being subject to an event-specific blackout will not relieve that person of the obligation not to trade while aware of material nonpublic information.

Hardship Exception during Quarterly Blackout Period. A person who is subject to a quarterly earnings blackout period and who has an unexpected and urgent need to sell Company stock in order to generate cash may, in appropriate circumstances, be permitted to sell Company stock even during the blackout period. Hardship exceptions may be granted only by the Company's General Counsel or Chief Financial Officer, based on advice of counsel, and must be requested at least two days in advance of the proposed trade. A hardship exception may be granted only if one of those individuals concludes that the Company's earnings information for the applicable quarter does not constitute material nonpublic information. Under no circumstance will a hardship exception be granted during an event-specific blackout period.

Post-Termination Transactions.

If you are aware of material nonpublic information when you terminate service as a director, officer or other employee of the Company, or of its subsidiaries and affiliates, you may not trade in the Company securities until that information has become public or is no longer material.

Unauthorized Disclosure

Maintaining the confidentiality of Company information is essential for competitive, security and other business reasons, as well as to comply with securities laws. Information an Insider learns about the Company or its business plans in connection with his or her employment or association with the Company is potentially "inside" information until publicly disclosed or made available by the Company. The Insider may not disclose it to others, such as family members, other relatives, or business or social acquaintances, who do not need to know it for legitimate business reasons.

Also, the timing and nature of the Company's disclosure of material information to outsiders is subject to legal rules, the breach of which could result in substantial liability to the Insider, the Company and its management. Accordingly, it is important that only specifically designated representatives of the Company discuss business of the Company and its affiliates and subsidiaries with the news media, securities analysts and investors. If you receive any inquiry of this type, you should refer the inquiry to the President/CEO, who will make certain the inquiry is directed to the appropriate individual within the Company.

Personal Responsibility; Assistance

Each Insider should remember that the ultimate responsibility for adhering to this policy and avoiding improper trading rests with the Insider. In this regard, it is important that each Insider use his or her best judgment. **If an Insider violates this policy, the Company may take disciplinary action, including termination for cause.**

Compliance with this policy by all Insiders is of the utmost importance both for the Insider and for the Company. Any person who has any questions about the application of this policy to any particular case may obtain additional guidance from General Counsel or Chief Financial Officer.

Approved December 2013

Exhibit 23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statements on Form S-8 (No. 333-270131 and No. 333-219445) of Virginia National Bankshares Corporation of our report dated March 28, 2025, relating to our audit of the consolidated financial statements included in the Annual Report on Form 10-K of Virginia National Bankshares Corporation and Subsidiaries for the year ended December 31, 2024.

/s/ Yount, Hyde & Barbour, P.C.

Richmond, Virginia
March 28, 2025

Exhibit 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

I, Glenn W. Rust, certify that:

1. I have reviewed this annual report on Form 10-K of Virginia National Bankshares Corporation;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this 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 report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 28, 2025

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

Exhibit 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

I, Tara Y. Harrison, certify that:

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

2. Based on my knowledge, this 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 report;

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

4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this 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 report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: March 28, 2025

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

Exhibit 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report on Form 10-K of Virginia National Bankshares Corporation (the "Company") for the period ending December 31, 2024, as filed with the Securities and Exchange Commission, on the date hereof (the "Report"), the undersigned Chief Executive Officer and Chief Financial Officer of the Company hereby certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002 that, based on their knowledge and belief: (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the periods covered in the Report.

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

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

March 28, 2025