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# DELTA REPORT

## 10-K

VABK - VIRGINIA NATIONAL BANKSHA

10-K - DECEMBER 31, 2023 COMPARED TO 10-K - DECEMBER 31, 2022

The following comparison report has been automatically generated

TOTAL DELTAS	3570
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 CHANGES	448
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 DELETIONS	1917
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 ADDITIONS	1205
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**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, **2022** **2023**

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	46-2331578
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
404 People Place	
Charlottesville, VA	22911
(Address of principal executive offices)	(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	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

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, 2022** **June 30, 2023** (the last business day of the Registrant’s most recently completed second fiscal quarter) was approximately \$**148.6** **152.2** million.

The number of shares of Registrant’s Common Stock outstanding as of **March 27, 2023** **March 27, 2024** was **5,338,650** **5,390,388**.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant’s definitive Proxy Statement to be used in conjunction with the registrant’s **2023** **2024** Annual Meeting of Shareholders are incorporated into Part III of this Form 10-K.

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### Glossary of Acronyms and Defined Terms

2005 Plan	-	2005 Stock Incentive Plan
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
ALLL	-	Allowance for loan and lease losses (utilized prior to the adoption of ASC 326)
ASC	-	Accounting Standards Codification
ASC 326	-	ASU 2016-13, <i>Financial Instruments and Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments</i>
ASC 350	-	ASC 350, <i>Goodwill and Other Intangible Assets</i>
ASC 718	-	ASC 718, <i>Compensation - Stock Compensation</i>
ASC 820	-	ASC 820, <i>Fair Value Measurements and Disclosures</i>
ASU	-	Accounting Standards Update
ATM	-	Automated teller machine
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
CARES Act	-	Coronavirus Aid, Relief, and Economic Security Act
CAMELS	-	International rating system bank supervisory authorities use to rate financial institutions

<b>CBBFC</b>	- <b>Community Bankers' Bank Financial Corporation</b>
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
<b>CMO</b>	- <b>Collateralized Mortgage Obligation</b>
Code	- Internal Revenue Code of 1986, as amended
the Company	- Virginia National Bankshares Corporation and its subsidiaries
<b>COVID-19</b>	- <b>Novel coronavirus disease</b>
CRA	- Community Reinvestment Act of 1977
<b>CTA</b>	- <b>Corporate Transparency Act</b>
DEI	- Diversity, Equity, and Inclusion
DIF	- Deposit Insurance Fund
Dodd-Frank Act	- Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010
Effective Date	- April 1, <b>2021C 2021</b>
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
<b>FinCEN</b>	- <b>Financial Crimes Enforcement Network</b>
FOMC	- Federal Reserve Board's Federal Open Market Committee
Form 10-K	- Annual Report on Form 10-K for the year ended <b>December 31, 2021</b> <b>December 31, 2023</b>
FTE	- Fully taxable equivalent
GAAP or U.S. GAAP	- Accounting principles generally accepted in the United States

ICS®	- Insured Cash Sweep®
LIBOR	- London Interbank Offering Rate
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
Merger Agreement	- Agreement and Plan of Reorganization between the Company and Fauquier dated September 30, 2020, including a related Plan of Merger
Nasdaq	- The Nasdaq Stock Market, LLC
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
Sturman Wealth	- Sturman Wealth Advisors
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 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. 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. The Company makes no commitment to update or revise forward-looking statements in order to reflect new information or subsequent events or changes in expectations.

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

- inflation, interest rates, market and monetary fluctuations;
- 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 (including the

ongoing military conflict between Russia and Ukraine) 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, 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 ALLL/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;

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- the risks and uncertainties described from time to time 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. The foregoing list of important factors is not exclusive, and the Company is not obligated to update any forward-looking statement, whether written or oral, that may be made from time to time. time-to-time.

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## **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 offered wealth and investment advisory services under the name Sturman Wealth Advisors, formerly known as VNB Investment Services, until the sale of the business line effective December 19, 2022.

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 Note that the membership interests in this business line are planned to be sold to an officer of the Company believes effective April 1, 2024. Subsequent to the formation 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 allows the Company subsequent to offer its investment strategy to a wider range of clients. 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, Masonry Capital and VNB Trust Estate Services, as well as corporate and Bank operations, are located in Charlottesville, Virginia.

### **Merger with Fauquier Bankshares, Inc. and The Fauquier Bank**

On April 1, 2021, the Company merged with Fauquier, pursuant to the Agreement and Plan of Reorganization dated September 30, 2020, including a related Plan of Merger. Pursuant to the Merger Agreement, Fauquier shareholders received 0.675 shares of Company stock for each share of Fauquier common stock, with cash paid in lieu of fractional shares, resulting in the Company issuing 2,571,213 shares of common stock. In connection with the transaction, TFB, Fauquier's wholly-owned bank subsidiary, was merged with and into the Bank. Refer to Note 2 - Business Combinations, in the Notes to Consolidated Financial Statements in Item 8. Financial Statements and Supplementary Data, for further detail on the accounting policy for business combinations, fair values of assets and liabilities assumed, assumptions used in determining the fair values of assets and liabilities and the resulting goodwill.

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### **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® and MasterCard®, which are 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.

Investment management services are offered through Masonry Capital, whose flagship product for separately managed accounts and a private investment fund employs a value-based, catalyst-driven investment strategy. The financial instruments used include common and preferred stock, corporate bonds, bank loans and other debt securities, convertible securities, Exchange Traded Funds, options, warrants and cash equivalents.

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, and because yet they continue to enjoy a favorable tax status, they have been able to offer more attractive loan and deposit pricing.status.

The market areas served by the Company are highly competitive with respect to banking. Competition for loans to businesses and professionals is intense, and pricing is important. 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

In an effort 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 our communities. The FCLA runs as an in-person series of classroom meetings, currently held in Charlottesville and Warrenton, Virginia. 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.

## 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 believe in it as well, including its shareholders, customers, board, executive management and high performing employees. 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 dedicated and committed to its shareholders, customers, employees and communities. A critical part of this dedication and commitment is attracting and retaining high performing employees who desire to enrich the lives of customers and communities the Company serves. employees. To attract and retain high performing employees, the Company provides a competitive compensation and benefits program, including wellness benefits.

At December 31, 2022 December 31, 2023, the Company had 157 full time 155 full-time equivalent employees, of which 98 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 our workforce to reflect the diversity of the customers and communities we serve. Our selection and promotion process are without bias and include the active recruitment of minorities and women. At December 31, 2022 December 31, 2023, women represented 72% 73% of our employees and racial and ethnic minorities represented 19% 20% of our employees. We also aim for our employees to develop their careers in our businesses. At December 31, 2022 December 31, 2023, 35% of our 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.

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.

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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 of 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; and the acquiring institution's performance under the CRA and its compliance with fair housing and other consumer protection laws.

On July 9, 2021, President Biden issued an Executive Order on Promoting Competition in the American Economy, which, among other initiatives, encouraged the review of current practices and adoption of a plan for the revitalization of merger oversight under the BHCA and the Bank Merger Act. Making any formal changes to the framework for evaluating bank mergers would require an extended process, and any such changes are uncertain and cannot be predicted at this time. However, the adoption of more expansive or stringent standards may have an impact on the Company's acquisition activity. Additionally, this Executive Order could influence the federal bank regulatory agencies' expectations and supervisory oversight for banking acquisitions.

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.

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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 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 allowance for loan credit losses. 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."

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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 (whic

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 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 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 17.07%, 17.41%, 17.07%, 17.41%, 17.63%, 18.24% and 9.77%, 11.13%, respectively, as of December 31, 2022 December 31, 2023, thus exceeding the minimum requirements. The Tier 1, CET1, total capital to risk-weighted assets, and leverage ratios of the Bank were 16.82%, 17.29%, 16.82%, 17.29%, 17.38%, 18.12% and 9.62%, 11.05%, respectively, as of December 31, 2022 December 31, 2023, 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, 2022 December 31, 2023. See "Prompt Corrective Action" below.

On September 17, 2019 In July 2023, the Federal Reserve and the FDIC finalized 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 rule that introduced an optional simplified measure of capital adequacy for qualifying community banking organizations, 9% leverage ratio applied using less complex leverage calculations commonly 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 CBLR. Banks that opt into the framework.

In order to qualify for the CBLR framework and maintain a community banking organization must have a tier 1 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, 2023, 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 Bank has not elected to apply the CBLR framework, and meets all requirements under but the framework will be considered Bank continues to have met assess the well-capitalized ratio requirements under the prompt corrective action regulations and will not be required potential impact of opting in to report or calculate risk-based capital under the Basel III Final Rules.

The Company has not opted into the CBLR framework. framework as part of its ongoing capital management and planning processes.

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 it them undercapitalized, (ii) cannot pay a management fee fees to a controlling person if, after paying the fee, it they would be undercapitalized, and (iii) cannot accept, renew, or roll over any brokered deposit unless the bank has 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: (a) (i) requiring the institution to raise additional capital; (b) (ii) restricting transactions with affiliates; (c) (iii) requiring divestiture of the institution or the sale of the institution to a willing purchaser; and (d) (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, 2022 December 31, 2023.

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 percent for the DIF and, in lieu of dividends, provides for a lower assessment rate schedule when the reserve ratio reaches 2 percent and 2.5 percent. An institution's 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 institution's weighted average CAMELS component rating. The CAMELS component composite rating, and is a supervisory rating system designed subject to reflect financial further adjustments including those related to levels of unsecured debt and operational risks that a bank may face, including capital adequacy, asset quality, management capability, earnings, liquidity and sensitivity to market risk. In 2022 and 2021, the Company expensed \$511 thousand and \$858 thousand, respectively, in deposit insurance assessments. brokered deposits.

In October 2022, 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 that increased the to increase initial base deposit insurance assessment rate schedules uniformly by 2 basis points, beginning with in the first quarterly assessment period of 2023. Further rate increases may occur in the future, including as As a result of two prominent regional bank failures in this final rule, the total base assessment rates beginning with the first quarter of 2023. 2023 for institutions with less than \$10 billion in assets that have been insured for at least five years range from 2.5 to 32 basis points. This increase in assessment rate schedules is intended to increase the likelihood that the reserve ratio reaches 1.35 percent 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 percent. Progressively lower assessment rate schedules will take effect when the reserve ratio reaches 2 percent, and again when it reaches 2.5 percent.

In 2023 and 2022, the Company expensed \$710 thousand and \$511 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

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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.



In May 2022, On October 24, 2023, the federal bank banking regulatory agencies jointly issued a proposed final rule intended to strengthen and modernize CRA regulations consistent with the CRA regulatory framework. If implemented, the rule would, among other things, following key goals: (i) to encourage banks to expand access to credit, investment, and basic banking services in low-low-income and moderate-income communities, 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 and transparency 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 performance standards CRA evaluations and data collection to account for bank size and type, recognizing that differences in bank size and business model, models may impact CRA evaluations and local conditions. 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.

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.

13 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 we obtain 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. For banks with over \$850 million and less than \$50 billion in total assets, such as the Bank, compliance would be required approximately two and one-half years after adoption of the final rule.

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 us to use significant resources.

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*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.

In July 2023, the SEC issued a final rule to enhance and standardize disclosures regarding cybersecurity risk management, strategy, governance, and incident reporting by public companies that are subject to the reporting requirements of the Exchange Act. Specifically, the final rule requires current reporting about material cybersecurity incidents, periodic disclosures about a registrant's policies and procedures to identify and manage cybersecurity risk, management's role in implementing cybersecurity policies and procedures, and the board of directors' cybersecurity expertise, if any, and its oversight of cybersecurity risk. See Item 1C. Cybersecurity of this Form 10-K for a discussion of the Company's cybersecurity risk management, strategy and governance.

**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.

**Volcker Rule.** The Dodd-Frank Act and regulations under that act prohibit insured depository institutions and their affiliates, except as permitted under certain limited circumstances, from (i) engaging in short-term proprietary trading for their own accounts and (ii) having certain ownership interests in, and relationships with, hedge funds or private equity funds. The Volcker Rule did not have a material impact on the Company's operations or financial position in 2022 or 2021.

Consumer Financial Protection. The Bank CFPB is subject to a number of other federal and state consumer protection laws that extensively govern its relationship with its customers. These laws include the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Truth in Lending Act, the Truth in Savings Act, the Electronic Fund Transfer Act, the Expedited Funds Availability Act, the Home Mortgage Disclosure Act, the Fair Housing Act, the Real Estate Settlement Procedures Act, the Fair Debt Collection Practices Act, the Servicemembers' Civil Relief Act, Secure and Fair Enforcement for Mortgage Licensing Act, laws governing flood insurance, federal and state laws prohibiting unfair and deceptive business practices, foreclosure laws, and various regulations that implement some or all of the foregoing. These laws and regulations mandate certain disclosure requirements and regulate the manner in which financial institutions must deal with customers when taking deposits, making loans, collecting loans, and providing other services. If the Bank fails to comply with these laws and regulations, it may be subject to various penalties. Failure to comply with consumer protection requirements may also result in failure to obtain any required bank regulatory approval for merger or acquisition transactions the Bank may wish to pursue or being prohibited from engaging in such transactions even if approval is not required.

The Dodd-Frank Act centralized responsibility for consumer financial protection by creating a new agency, the CFPB, and giving it responsibility for implementing, examining, and enforcing compliance with federal consumer protection laws. The CFPB focuses on (i) risks to consumers and compliance with the federal consumer financial laws; (ii) the markets in which firms operate and risks to consumers posed by activities in those markets; (iii) depository institutions regulatory agency that offer a wide variety of consumer financial products and services; and (iv) non-depository companies that offer one or more consumer financial products or services. The CFPB is responsible for implementing, examining and enforcing compliance with federal consumer financial laws for institutions with more than \$10 billion of assets. While the Bank, like all banks, is subject 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 rules enacted by laws (for example, but not limited to, the CFPB, because 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 have total consolidated are smaller institutions (i.e., with assets of \$10 billion or less, the OCC oversees the application to the Bank of less), most consumer protection aspects of the Dodd-Frank Act will continue to be applied to the Company by the Federal Reserve Board and other laws and regulations.

The CFPB has broad rulemaking authority for a wide range of consumer financial laws that apply to all banks, including, among other things, the authority to prohibit “unfair, deceptive, or abusive” acts and practices. Abusive acts or practices are defined as those that materially interfere with a consumer’s ability to understand a term or condition of a consumer financial product or service or take unreasonable advantage of a consumer’s (i) lack of financial savvy, (ii) inability to protect himself in Bank by the selection or use of consumer financial products or services, or (iii) reasonable reliance on a covered entity to

act in OCC. However, the consumer’s interests. The CFPB can issue cease-and-desist orders against banks and other entities that violate consumer financial laws. The CFPB may also institute include its own examiners in regulatory examinations by a civil action against an entity in violation of federal consumer financial law in order smaller institution’s principal regulators and may require smaller institutions to impose a civil penalty or injunction. Further, 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 respect 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 more 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.

On January 17, 2024, the CFPB proposed 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 proposed rule, if implemented, would 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 influence how other regulatory agencies apply include a downward pressure on the subject 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 protection laws condition and regulations. results of operations cannot be determined at this time, but the Bank will continue to monitor developments related to this proposed rule and the CFPB’s broader policy agenda.

*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 **Truth in Lending Act**, **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

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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 **Truth in Lending**, **TILA** requirements.

**Incentive Compensation.** Federal banking agencies have issued regulatory guidance (the Incentive Compensation Guidance) intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of such organizations by encouraging excessive risk-taking. The FDIC will review, as part of the regular, risk-focused examination process, the incentive compensation arrangements of banking organizations, such as the Bank, that are not "large, complex banking organizations." The findings will be included in reports of examination, and deficiencies will be incorporated into the organization's supervisory ratings. Enforcement actions may be taken against a banking organization if its incentive compensation arrangements, or related risk-management control or governance processes, pose a risk to the

organization's safety and soundness and the organization is not taking prompt and effective measures to correct the deficiencies.

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 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 has closed and a final rule has not yet been published. If the rules are adopted as proposed, they will restrict the manner in which executive compensation is structured.

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In October 2022, the SEC adopted a final rule directing national securities exchanges and associations, including Nasdaq, the exchange on which the Company's our common stock is listed, to implement enacted a listing standards rule that require became effective in 2023 requiring listed companies to adopt policies mandating the recovery or "clawback" of excess incentive compensation earned by a current or former executive officer during the three fiscal years preceding the date the listed company is required to prepare an accounting restatement, including to correct an error that would result in a material misstatement if the error were corrected in the current period or left uncorrected in the current period. In February 2023, Nasdaq posted The Company updated its initial rule filing with the SEC previous compensation recovery policy to implement this directive. The final rule will require the Company to adopt a clawback policy that is compliant comply with the new Nasdaq listing standard within 60 days after such standard becomes effective.

Cybersecurity. The federal bank regulatory 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 rule and the use of third parties in the provision of financial products and services. The federal bank regulatory agencies expect financial institutions policy is included as Exhibit 97 to establish lines of defense and to ensure that their risk management processes 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 cyberattack. 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, including financial penalties. Risks and exposures related to cybersecurity attacks are expected to remain high for the foreseeable future due to the rapidly evolving nature and sophistication of these threats and the expanding use of technology-based products and services. The Company is, however, taking measures to combat these types of threats and manage risk to the Company and its customers.

On November 18, 2021, the federal bank regulatory agencies issued a final rule to improve the sharing of information about cyber 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 cyber 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. Compliance with the final rule was required by May 1, 2022. The Company does not anticipate any material impact to its respective operations at this time. With increased focus [Annual Report](#) on cybersecurity, the Company and the Bank continue to monitor legislative, regulatory and supervisory developments related thereto. [Form 10-K](#).

### Future Regulation

From [time to time](#), [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.

[After an extended period of low interest rates, market interest rates began to rise during 2022. During the first quarter of 2022, the FOMC began to increase its federal funds target rates to a range of 25 bps to 50 bps, which was the first increase since December 2018. The FOMC further increased the target rates throughout 2022 and early 2023 to its current range of 4.75% to 5.00%.](#)



## 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](http://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](http://www.sec.gov).

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## **Item 1A. RISK FACTORS.**

*The Company's business is subject to risk. The following discussion, along with management's discussion and analysis 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. 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 faces.*

### **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 Bank's ALLL/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.***

The Bank has historically maintained an allowance for loan losses, which is a reserve established through a provision for loan losses charged to expense, that represents the Bank's best estimate of probable losses that will be incurred within the existing portfolio of loans. The allowance, in the judgment of management, is necessary to reserve for estimated loan losses and risks inherent in the loan portfolio.

The level of the allowance reflects 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 ALLL inherently involves a high degree of subjectivity and requires the Bank to make significant estimates of current credit risks and future trends, all of which may undergo material changes. Although the Bank believes the ALLL is a reasonable estimate of known and inherent losses in the loan portfolio, it cannot precisely predict such losses or be certain that the loan loss allowance will 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 Bank's control, may require an increase in the allowance for loan losses. In addition, bank regulatory agencies and the Bank's auditors periodically review its ALLL and may require an increase in the provision for loan losses or the recognition of further loan charge-offs, based on judgments different than those of management. Further, if charge-offs in future periods exceed the allowance for loan losses, the Bank will need additional provisions to increase the allowance for loan losses.

On January 1, 2023, the Company adopted ASC 326, more commonly referred to as "CECL," which replaces existing 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 will be is based on reasonable and supportable forecasts of future economic conditions and loan performance. While the adoption of ASC 326 will 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 allowance based on expected credit losses may create more volatility in the level of our ACL and our results of operations, including based on volatility in economic forecasts and our expectations of loan performance in future periods, as actual results may differ materially from our estimates. If we are required to materially increase our level of ACL for any reason, such increase could adversely affect our business, financial condition, and results of operations.

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The level of the allowance 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 loan loss allowance 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 non-profits, 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

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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, 2022 December 31, 2023, approximately 83.5% 82.6% 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, including changes caused by the COVID-19

pandemic, 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, 2022 December 31, 2023, the Company had approximately \$329.0 million \$396.1 million in loans secured by commercial real estate, which represented approximately 35.1% 36.3% of total loans outstanding at that date; such loans consist of non-owner occupied commercial real estate, construction, land development, multi-family 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 depends 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 loan 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 allowances for losses 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, including the impacts of the COVID-19 pandemic, 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 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 loan 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.

***The fair value of the Company's investment securities can fluctuate due to factors outside of its control.***

As of December 31, 2022, the fair value of the Company's portfolio of investment in debt securities was approximately \$538.2 million. Factors beyond the Company's control can significantly influence the fair value of securities in its portfolio and can cause potential adverse changes to the fair value of these securities. These factors include, but are not limited to, rating agency actions in respect of the securities, defaults by the issuer or with respect to the underlying securities, and changes in market interest rates and instability in the capital markets. Any of these factors, among others, could cause other-than-temporary impairments and realized and/or unrealized losses in future periods and declines in other comprehensive income, which could materially and adversely affect the Company's business, financial condition or results of operations. The process for determining whether impairment of a security is OTTI usually requires complex, subjective judgments about the future financial performance and liquidity of the issuer, any collateral underlying the security and the Company's intent and ability to hold the security for a sufficient period of time to allow for any anticipated recovery in fair value, in order to assess the probability of receiving all contractual principal and interest payments on the security. The Company's failure to correctly and timely assess any impairments or losses with respect to the Company's securities could have an adverse effect on its business, financial condition or results of operations.

## 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. Additionally, 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 customers' perceptions regarding the relative safety of their deposits, 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, 2023, approximately 25.5% of our deposits were uninsured and we rely 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

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financial institutions are also seeking to raise capital and would then have to compete with those institutions for investors.

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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.

## 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, 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.

***Changes in economic conditions, especially in the areas in which the Company conducts operations, could materially and negatively affect its business.***

The Company's business is directly impacted by economic conditions, legislative and regulatory changes, changes in government monetary and fiscal policies, and inflation, all of which are beyond its control. A deterioration in economic conditions, whether caused by global, national or local concerns, (including the COVID-19 pandemic), especially within the Company's market area, could result in the following potentially material consequences: loan delinquencies increasing; problem assets and foreclosures increasing; demand for products and services decreasing; low cost or noninterest bearing deposits decreasing; and collateral for loans, especially real estate, declining in value, in turn reducing customers' borrowing power, and reducing the value of assets and collateral associated with existing loans. A continued economic downturn could result in losses that materially and adversely affect the Company's business.

***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 seven times in 2022 to 4.25% to 4.50% at December 31, 2022 compared to 0% to 0.25% at the beginning of the year. As a result, market interest rates increased fastest pace in over 40 years, increasing 425 bps during the year. 2022 and an additional 100 bps in 2023. 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 interest bearing liabilities. Net interest spreads are affected by the difference between the maturities and repricing characteristics of interest-earning assets and interest-bearing 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.

***Transition away from LIBOR to another benchmark rate could adversely affect the Company's operations.***

The administrator of LIBOR announced that the most commonly used U.S. dollar LIBOR settings would cease to be published or cease to be representative after June 30, 2023. Management cannot predict whether or when LIBOR will actually cease to be available or what impact such a transition may have on the Company's business, financial condition and results of operations.

The Adjustable Interest Rate (LIBOR) Act, enacted in March 2022, provides a statutory framework to replace LIBOR with a benchmark rate based on SOFR for contracts governed by U.S. law that have no or ineffective fallbacks. Although governmental authorities have endeavored to facilitate an orderly discontinuation of LIBOR, no assurance can be provided that this aim will be achieved or that the use, level, and volatility of LIBOR or other interest rates, or the value of LIBOR-based securities will not be adversely affected. There continues to be substantial uncertainty as to the ultimate effects of the LIBOR transition, including with respect to the acceptance and use of SOFR and other benchmark rates.

The market transition away from LIBOR to alternative reference rates is a complex process and could have a range of effects on the Company's business, financial condition and results of operations, including but not limited to by (i) adversely affecting the interest rates received or paid on the revenues and expenses associated with, or the value of the Company's LIBOR-based assets and liabilities; (ii) adversely affecting the interest rates paid on or received from other securities or financial arrangements, given LIBOR's historically prominent role in determining market interest rates globally, or (iii) resulting in disputes, litigation or other actions with borrowers or other counterparties about the interpretation or enforceability of certain fallback language contained in LIBOR-based loans, securities or other contracts. In addition, uncertainty regarding the nature of such potential changes, alternative reference rates or other reforms may adversely affect the trading market for securities on which the interest or dividend is determined by reference to LIBOR, including the Company's trust preferred securities. The discontinuation of LIBOR could also result in operational, legal and compliance risks, and if the Company is unable to



adequately manage such risks, they could have a material adverse impact on the Company's reputation and on its business, financial condition, results of operations or future prospects.

***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, 2023 or December 31, 2022.

## 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.

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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.***

A key aspect of the Company's long-term business strategy is its continued growth and expansion. 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

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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.

***The success of the Company's strategy depends on its ability to identify and retain individuals with experience and relationships in its markets.***

In order to be successful, the Company must identify and retain experienced key management members and sales staff with local expertise and relationships. Competition for qualified personnel is intense and there is a limited number of qualified persons with knowledge of and experience in the community banking and mortgage industry in the Company's chosen

geographic market. Even if the Company identifies individuals that it believes could assist it in building its franchise, it may be unable to recruit these individuals away from their current employers. In addition, the process of identifying and recruiting individuals with the combination of skills and attributes required to carry out the Company's strategy is often lengthy. The Company's inability to identify, recruit and retain talented personnel could limit its growth and could materially adversely affect its business, financial condition and results of operations.

## 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 Bank 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

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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.

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***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

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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, or general-purpose reloadable prepaid cards, 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 lower cost loss of deposits as a lower cost source of funds could have a material adverse effect on the Company's our 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 has broad rulemaking authority to administer and carry out the provisions of the Dodd-Frank Act with respect to financial institutions that offer covered financial products and services to consumers. The CFPB has also been directed to write rules identifying practices or acts that are unfair, deceptive or abusive in connection with any transaction with a consumer for a consumer financial product or service, or the offering of a consumer financial product or service. For example, the CFPB issued a final rule, effective January 10, 2014, requiring mortgage lenders 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, or to originate "qualified mortgages" that meet specific requirements with respect to terms, pricing and fees. The rule also contains additional disclosure requirements at mortgage

loan origination and in monthly statements. The requirements under the CFPB's regulations and policies could limit the Company's ability to make certain types of loans or loans to certain borrowers, or could make it more expensive and/or time consuming to make these loans, which could adversely impact the Company's profitability.

***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 us, 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.

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***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.

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## 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** **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.

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***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.

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## **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 our business.***

Severe weather, earthquakes, other natural disasters, pandemics, (such as the COVID-19 pandemic), acts of war or terrorism and other adverse external events could have a significant impact on our ability to conduct business. Such events could affect the stability of our 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 our business, financial condition and results of operations.

#### **Item 1B. UNRESOLVED STAFF COMMENTS.**

None

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#### **Item 1C. CYBERSECURITY.**

##### ***Cybersecurity Risk Management and Strategy***

As a corporation committed to maintaining the integrity, confidentiality, and availability of our 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 our 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 our 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 our industry and maintains transparency by disclosing material cybersecurity incidents or risks in accordance with regulatory obligations.

The Company had no material cybersecurity incidents in 2023.

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## **Item 2. PROPERTIES.**

The Company and its subsidiaries currently occupy fourteen full-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, operations, and offices of Masonry Capital are located at 404 People Place, Charlottesville, Virginia. VNB Trust and Estate Services is located at 103 Third Street, SE, Charlottesville, Virginia. Of the ~~fifteen~~ fourteen locations used as bank branches, and commercial lending offices, ~~eight~~ seven of the buildings are owned by the Company and ~~seven~~ six are leased from nonaffiliates. 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. 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

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**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, 2022 December 31, 2023, the Company had issued and outstanding 5,337,271 5,365,982 shares of common stock, which included 51,664 62,721 shares of restricted stock that have not yet vested. These shares were held by approximately 690 registered shareholders of record, not including beneficial holders of securities held in street name at a brokerage or other firm.

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.

The data in the table below represents the high sales and low sales prices that occurred between April 1, 2021 January 1, 2022 and December 31, 2022 December 31, 2023 as reported by Nasdaq and the high bid and low bid quotations that occurred between January 1 and March 31, 2021 as reported by the OTCQX. The OTCQX over-the-counter market quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions. Nasdaq. Additionally, the table shows the dividends declared per quarter in 2022 2023 and 2021. 2022.

					Dividends Declared						Dividends Declared	
	2022		2021		2022	2021	2023		2022		2023	2022
	High	Low	High	Low			High	Low	High	Low		
First Quarter	40.00	34.00	31.00	27.00	0.00	0.00	41.74	34.69	40.00	34.00	0.33	0.30
Second Quarter	35.00	27.00	39.00	30.00	0.00	0.00	36.77	27.30	35.53	27.05	0.33	0.30
Third Quarter	34.00	29.00	39.00	33.00	0.00	0.00	38.49	30.01	34.50	29.85	0.33	0.30
Fourth Quarter	36.00	29.00	38.00	33.00	0.00	0.00	43.08	24.96	36.93	29.30	0.33	0.30
Total					1.00	1.00					1.32	1.20

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

Recent Issuances of Unregistered Securities

No unregistered shares were issued in 2022 2023 or 2021. 2022.

Item 6. [RESERVED].

Not applicable.

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## **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.

### **Merger with Fauquier**

On April 1, 2021, the Company merged with Fauquier, pursuant to the Agreement and Plan of Reorganization dated September 30, 2020, including a related Plan of Merger. Pursuant to the Merger Agreement, Fauquier shareholders received 0.675 shares of Company stock for each share of Fauquier common stock, with cash paid in lieu of fractional shares, resulting in the Company issuing 2,571,213 shares of common stock. In connection with the transaction, TFB, Fauquier's wholly-owned bank subsidiary, was merged with and into the Bank.

### **Application of Critical Accounting Policies and Critical Accounting **Critical** 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:

- **Loans acquired in a business combination:** Acquired Loans are classified as either (i) purchased credit-impaired

loans or (ii) purchased performing loans and are recorded at fair value on the date of acquisition. PCI loans are those for which there is evidence of credit deterioration since origination and for which it is probable at the date of acquisition that the Company will not collect all contractually required principal and interest payments. When determining fair value, PCI loans are aggregated into pools of loans based on common risk characteristics as of the date of acquisition such as loan type, date of origination, and evidence of credit quality deterioration such as internal risk grades and past due and nonaccrual status. The difference between contractually required payments at acquisition and the cash flows expected to be collected at acquisition is referred to as the “nonaccretable difference.” Any excess of cash flows expected at acquisition over the estimated fair value is referred to as the “accretable yield” and is recognized as interest income over the remaining life of the loan when there is a reasonable expectation about the amount and timing of such cash flows.

On a semi-annual basis, the Company evaluates the estimate of cash flows expected to be collected on PCI loans. Estimates of cash flows for PCI loans require significant judgment. Subsequent decreases to the expected cash flows will generally result in a provision for loan losses resulting in an increase to the allowance for loan losses. Subsequent significant increases in cash flows may result in a reversal of post-acquisition provision for loan losses or a transfer from nonaccretable difference to accretable yield that increases interest income over the remaining life of the loan or pool(s) of loans. Disposals of loans, which may include sale of loans to third parties, receipt of payments in full or in part from the borrower or foreclosure of the collateral, result in removal of the loan from the PCI loan portfolio at its carrying amount.

PCI loans are not classified as nonperforming loans by the Company at the time they are acquired, regardless of whether they had been classified as nonperforming by the previous holder of such loans, and they will not be classified as nonperforming so long as, at semi-annual re-estimation periods, we believe we will fully collect the new carrying value of the pools of loans.

The Company accounts for purchased performing loans using the contractual cash flows method of recognizing discount accretion based on the Acquired Loans’ contractual cash flows. Purchased performing loans are recorded at fair value, including a credit discount. The fair value discount is accreted as an adjustment to yield over the estimated lives of the loans. There is no allowance for loan losses established at the acquisition date for purchased performing loans. A provision for loan losses may be required for any deterioration in these loans in future periods.

- **Allowance for loan credit losses** - is a reserve established The Company establishes the ACL through charges to earnings in the form of a provision for credit losses. Loan losses are charged against the allowance for credit losses 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, charged current conditions and reasonable and supportable forecasts relevant to expense, which



represents 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 best estimate of probable 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 inherent in susceptible to significant revision as more information becomes available. In evaluating the loan portfolio, Accounting policies level of the ACL, we consider a range of possible assumptions and outcomes related to the allowance for loan losses are considered to be critical, as these policies involve considerable subjective judgment and estimation by management. The Company's allowance for loan loss methodology includes allowance allocations calculated in accordance with ASC Topic 310, "Receivables" and allowance allocations calculated in accordance with ASC Topic 450, "Contingencies." various factors identified above. The level of the allowance reflects management's continuing evaluation of: industry concentrations; specific credit risks; loan loss experience; current loan portfolio quality; present economic, political and regulatory conditions; and unidentified losses inherent is particularly sensitive to changes in the current loan portfolio, as well as trends in the foregoing. Portions of the allowance may be allocated for specific credits; however, the entire allowance is available for any credit that, in management's judgment, should be charged off. While management utilizes its best judgment actual and information available, the ultimate adequacy of the allowance is dependent upon a variety of factors beyond the Company's control, including the performance of the Company's loan portfolio, the economy, forecasted national unemployment rate and changes in interest rates and current conditions or reasonably expected future conditions affecting the view collectability of the regulatory authorities toward loan classifications. See the section captioned "Allowance for Loan Losses" elsewhere in this discussion and Note 4 – Loans and Note 5 – Allowance for Loan Losses in the Notes to Consolidated Financial Statements, included in Item 8. Financial Statements and Supplementary Data, elsewhere in this report for further details of the risk factors considered by management in estimating the necessary level of the allowance for loan losses. loans.

### **Impaired loans**

are loans so designated when, based on current information and events, it is probable the Company will be unable to collect all amounts when due in accordance with the original contractual terms of the loan agreement, including scheduled principal and interest payments. If a loan is impaired, a specific valuation allowance is allocated, if necessary, so that the loan is reported net of the impairment, using either the present value of estimated future cash flows at the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Any fair value adjustments are recorded in the period incurred as provision for loan losses on the Consolidated Statements of Income. Additional information on impaired

loans, which includes both TDRs and non-accrual loans, is included in Note 4 – Loans and Note 5 – Allowance for Loan Losses, in the Notes to Consolidated Financial Statements.

- **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.
- **Other-than-temporary impairment of securities** accounting policies require a periodic review by management to determine if the decline in the fair value of any security appears to be other-than-temporary. Factors considered in determining whether the decline is other-than-temporary include, but are not limited to: the length of time and the extent to which fair value has been below cost; the financial condition and near-term prospects of the issuer; and the Company's intent to sell. See Note 1 – Summary of Significant Accounting Policies and Note 3 – Securities, in the Notes to Consolidated Financial Statements, for further details on the accounting policies for other-than-temporary impairment of securities and the methodology used by management to make this evaluation.
- **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 **Note 2 - Business Combinations** and Note 8 – Goodwill and Other Intangible Assets, in the Notes to Consolidated Financial Statements.

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- **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 ROAA, adjusted ROAE, adjusted net income, adjusted earnings per share, adjusted ALLL to total loans, 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 percent 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) items that do not reflect ongoing operating performance, such as merger and merger-related expenses, (2) items that do not reflect the implicit percentage of the ALLL to total loans, such as the impact of fair value adjustment and PPP loans, (3) balances of intangible assets, including goodwill, that vary significantly between institutions and (4) (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 reconciliation 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)

Reconciliation of Non-GAAP Measures:	Year Ended December 31	
	2022	2021
Performance measures		
Return on average assets	1.30 %	0.61 %
Impact of merger expenses <sup>1</sup>	0.00 %	0.33 %
Operating return on average assets <sup>1</sup> (non-GAAP)	1.30 %	0.94 %

Return on average equity	16.61 %	7.17 %
Impact of merger expenses <sup>1</sup>	0.00 %	3.91 %
Operating return on average equity <sup>1</sup> (non-GAAP)	16.61 %	11.08 %
Net income	\$ 23,438	\$ 10,071
Impact of merger expenses <sup>1</sup>	-	5,495
Net income, excluding merger expenses <sup>1</sup> (non-GAAP)	\$ 23,438	\$ 15,566
Net income per share, diluted	\$ 4.38	\$ 2.14
Impact of merger expenses <sup>1</sup>	-	1.17
Net income per share, excluding merger expenses <sup>1</sup> (non-GAAP)	\$ 4.38	\$ 3.32
<b>Fully taxable-equivalent measures</b>		
Net interest income	\$ 53,547	\$ 44,988
Fully taxable-equivalent adjustment	316	271
Net interest income (FTE) <sup>2</sup>	\$ 53,863	\$ 45,259
Efficiency ratio <sup>3</sup>	57.4 %	76.7 %
Impact of FTE adjustment	-0.3 %	-0.4 %
Efficiency ratio (FTE) <sup>4</sup>	57.1 %	76.3 %
Net interest margin	3.19 %	2.92 %
Fully tax-equivalent adjustment	0.02 %	0.02 %
Net interest margin (FTE) <sup>2</sup>	3.21 %	2.94 %
<b>Other financial measures</b>		
ALLL to total loans	0.59 %	0.56 %
Impact of acquired loans and fair value mark	0.31 %	0.39 %
ALLL to total loans, excluding acquired loans and fair value mark (non-GAAP)	0.90 %	0.95 %
ALLL to total loans	0.59 %	0.56 %
Fair value mark to total loans	1.70 %	1.74 %
ALLL + fair value mark to total loans (non-GAAP)	2.29 %	2.30 %

Book value per share	\$	25.00	\$	30.50
Impact of intangible assets		(1.23)		(3.14)
Tangible book value per share (non-GAAP)	\$	23.76	\$	27.36

(Dollars in thousands, except per share data)

#### Reconcilement of Non-GAAP Measures:

	Year Ended December 31	
	2023	2022
<b>Fully taxable-equivalent measures</b>		
Net interest income	\$ 48,969	\$ 53,547
Fully taxable-equivalent adjustment	349	333
Net interest income (FTE) <sup>1</sup>	\$ 49,318	\$ 53,880
Efficiency ratio <sup>2</sup>	58.7 %	57.4 %
Impact of FTE adjustment	-0.4 %	-0.3 %
Efficiency ratio (FTE) <sup>3</sup>	58.3 %	57.1 %
Net interest margin	3.34 %	3.19 %
Fully tax-equivalent adjustment	0.02 %	0.02 %
Net interest margin (FTE) <sup>1</sup>	3.36 %	3.21 %
<b>Other financial measures</b>		
Book value per share	\$ 28.52	\$ 25.00
Impact of intangible assets	(2.40)	(2.69)
Tangible book value per share (non-GAAP)	\$ 26.12	\$ 22.31

<sup>1</sup> References to merger expenses include merger and merger-related expenses and are net of tax.

<sup>2</sup> FTE calculations use a Federal income tax rate of 21%.

<sup>3</sup> The efficiency ratio, GAAP basis, is computed by dividing noninterest expense by the sum of net interest income and noninterest income.

<sup>4</sup> 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:

	2022	2021	2023	2022
Return on average assets	1.30 %	0.61 %	1.22 %	1.30 %
Operating return on average assets (non-GAAP)	1.30 %	0.94 %		
Return on average equity	16.61 %	7.17 %	13.81 %	16.61 %
Operating return on average equity (non-GAAP)	16.61 %	11.08 %		
Average equity to average assets	7.85 %	8.52 %	8.85 %	7.85 %
Cash dividend payout ratio	27.40 %	55.95 %	33.47 %	27.40 %
Efficiency ratio (FTE)	57.10 %	76.30 %	58.30 %	57.10 %

Net income for the year ended **December 31, 2022** December 31, 2023 was \$19.3 million, or \$3.58 per diluted share, an 17.81% decrease compared to \$23.4 million, or \$4.38 per diluted share a 132.7% increase compared to \$10.1 million, or \$2.14 per diluted share for the year ended **December 31, 2021** December 31, 2022. This increase decrease was primarily the result of a \$8.6 million increase \$4.6 million decrease in net interest income, a \$3.2 million increase \$4.6 million decrease in noninterest income, offset by a \$908 thousand reduction in provision for loan losses and a \$4.0 million \$4.5 million decrease in noninterest expense. Each component of such year-over-year changes are described in more detail below.

The efficiency ratio (FTE) was 57.1% 58.3% for the year ended **December 31, 2022** December 31, 2023, compared to 76.3% 57.1% for the same period of 2021, decreasing 2022, increasing due primarily to the increase fluctuations in net interest income, year-over-year noninterest income and the one-time impact of merger and merger-related expenses incurred in 2021. noninterest expense noted above.

The Company had four reportable segments during the period period(s) presented: the Bank, VNB Trust and Estate Services, Sturman Wealth 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.
- *Sturman Wealth Advisors* – This segment offered wealth and investment advisory services. Revenue for this segment was generated primarily from investment advisory and financial planning fees, with a small and decreasing portion attributable to brokerage commissions. During December 2022, the Company sold this segment, including interest in the client relationships, to the individual running this line of business. More

information on this sale can be found under **Goodwill and Other Intangible Assets in Note 8 and Sale of Sturman Wealth Segment in Note 21** of the Notes to Consolidated Financial Statements, which is found in Item 8. Financial Statements and Supplementary Data.

- *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 are planned to be 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 Bank segment earned net income of **\$21.6 million** **\$19.4 million** in **2022**, **2023**, a **\$12.7 million increase over \$2.2 million** decrease compared to the **\$9.0 million** **\$21.6 million** netted in **2021**. **2022**. VNB Trust and Estate Services realized a net loss of \$307.0 thousand in 2023, compared to net income of \$1.6 million in 2022. Masonry Capital realized net income of \$145 thousand in 2023, compared to \$103 thousand in 2022. Sturman Wealth earned \$122 thousand in **2022** compared to **\$384 thousand** the prior year and was sold in the prior year. VNB Trust and Estate Services realized net income fourth quarter of **\$1.6 million** in 2022, compared to **\$162 thousand** in 2021. Masonry Capital realized net income of **\$103 thousand** in 2022, compared to **\$561 thousand** in 2021. **2022**.

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

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## 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 **79.7%** **84.3%** of the total revenue in **2022**, **2023**. Net interest margin (FTE) is the ratio of taxable-equivalent

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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, 2022, December 31, 2023, 2021, 2022, and 2020, 2021.

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

	2022			2021			2020		
	Average	Interest Income	Average Yield/	Average	Interest Income	Average Yield/	Average	Interest Income	Average Yield/
	Balance	Expense	Cost	Balance	Expense	Cost	Balance	Expense	Cost
(Dollars in thousands)									
<b>ASSETS</b>									
Interest earning assets:									
Securities									
Taxable securities	\$ 373,680	\$ 8,696	2.33 %	\$ 198,450	\$ 2,980	1.50 %	\$ 101,199	\$ 1,706	1.69 %
Tax exempt securities <sup>1</sup>	65,861	1,582	2.40 %	53,716	1,292	2.41 %	20,195	601	2.98 %
Total securities <sup>1</sup>	439,541	10,278	2.34 %	252,166	4,272	1.69 %	121,394	2,307	1.90 %
Loans:									
Real estate	847,238	38,011	4.49 %	808,707	35,303	4.37 %	404,391	16,680	4.12 %
Commercial	81,410	3,583	4.40 %	145,462	5,731	3.94 %	132,282	5,115	3.87 %
Consumer	49,619	2,637	5.31 %	63,039	2,865	4.54 %	64,181	3,150	4.91 %
Total Loans	978,267	44,231	4.52 %	1,017,208	43,899	4.32 %	600,854	24,945	4.15 %
Fed funds sold	100,033	1,088	1.09 %	109,104	139	0.13 %	34,130	104	0.30 %
Other interest-bearing deposits	161,260	1,467	0.91 %	160,960	233	0.14 %	-	-	-
Total earning assets	1,679,101	57,064	3.40 %	1,539,438	48,543	3.15 %	756,378	27,356	3.62 %
Less: Allowance for loan losses	(5,702)			(5,297)			(4,886)		
Total non-earning assets	124,525			115,193			46,186		
Total assets	\$ 1,797,924			\$ 1,649,334			\$ 797,678		
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>									
Interest bearing liabilities:									
Interest bearing deposits:									
Interest checking	\$ 409,504	\$ 230	0.06 %	\$ 355,419	\$ 261	0.07 %	\$ 132,465	\$ 120	0.09 %
Money market and savings deposits	563,374	2,097	0.37 %	529,027	2,047	0.39 %	261,370	1,704	0.65 %
Time deposits	144,564	657	0.45 %	152,211	1,108	0.73 %	100,846	1,454	1.44 %
Total interest-bearing deposits	1,117,442	2,984	0.27 %	1,036,657	3,416	0.33 %	494,681	3,278	0.66 %



Borrowings	-	-	-	23,700	(280)	-1.18 %	15,419	73	0.47 %
Junior subordinated debt	3,389	200	5.90 %	2,565	148	5.77 %	-	-	-
Total interest-bearing liabilities	1,120,831	3,184	0.28 %	1,062,922	3,284	0.31 %	510,100	3,351	0.66 %
Non-interest-bearing liabilities:									
Demand deposits	526,389			434,989			203,143		
Other liabilities	9,581			10,875			4,697		
Total liabilities	1,656,801			1,508,786			717,940		
Shareholders' equity	141,123			140,548			79,738		
Total liabilities & shareholders'									
equity	\$ 1,797,924			\$ 1,649,334			\$ 797,678		
Net interest income (FTE)	\$ 53,880			\$ 45,259			\$ 24,005		
Interest rate spread <sup>2</sup>	3.12 %			2.84 %			2.96 %		
Cost of funds	0.19 %			0.22 %			0.47 %		
Interest expense as a percentage of average									
earning assets	0.19 %			0.21 %			0.44 %		
Net interest margin (FTE) <sup>3</sup>	3.21 %			2.94 %			3.17 %		
(Dollars in thousands)	2023			2022			2021		
		Interest	Average		Interest	Average		Interest	Average
	Average	Income	Yield/	Average	Income	Yield/	Average	Income	Yield/
	Balance	Expense	Cost	Balance	Expense	Cost	Balance	Expense	Cost
	ASSETS								
Interest earning assets:									
Securities									
Taxable securities	\$ 400,189	\$ 11,921	2.98 %	\$ 373,680	\$ 8,696	2.33 %	\$ 198,450	\$ 2,980	1.50 %
Tax exempt securities <sup>1</sup>	66,895	1,655	2.47 %	65,861	1,582	2.40 %	53,716	1,292	2.41 %
Total securities <sup>1</sup>	467,084	13,576	2.91 %	439,541	10,278	2.34 %	252,166	4,272	1.69 %
Loans:									
Real estate	839,326	47,996	5.72 %	847,238	38,011	4.49 %	808,707	35,303	4.37 %
Commercial	100,122	5,121	5.11 %	81,410	3,583	4.40 %	145,462	5,731	3.94 %
Consumer	41,140	2,936	7.14 %	49,619	2,637	5.31 %	63,039	2,865	4.54 %
							1,017,20		
Total Loans	980,588	56,053	5.72 %	978,267	44,231	4.52 %	8	43,899	4.32 %
Fed funds sold	3,825	207	5.41 %	100,033	1,088	1.09 %	109,104	139	0.13 %
Other interest bearing deposits	15,489	501	3.23 %	161,260	1,467	0.91 %	160,960	233	0.14 %
				1,679,10			1,539,43		
Total earning assets	1,466,986	70,337	4.79 %	1	57,064	3.40 %	8	48,543	3.15 %

Less: Allowance for credit losses	(7,907 )			(5,702 )			(5,297 )			
Total non-earning assets	115,908			124,525			115,193			
				1,797,92			1,649,33			
Total assets	\$ 1,574,987			\$ 4			\$ 4			
<b>LIABILITIES AND SHAREHOLDERS'</b>										
<b>EQUITY</b>										
Interest bearing liabilities:										
Interest bearing deposits:										
Interest checking	\$ 321,154	\$ 346	0.11 %	\$ 409,504	\$ 230	0.06 %	\$ 355,419	\$ 261	0.07 %	
Money market and savings deposits	421,083	9,673	2.30 %	563,374	2,097	0.37 %	529,027	2,047	0.39 %	
Time deposits	220,348	8,617	3.91 %	144,564	657	0.45 %	152,211	1,108	0.73 %	
				1,117,44			1,036,65			
Total interest bearing deposits	962,585	18,636	1.94 %	2	2,984	0.27 %	7	3,416	0.33 %	
Borrowings	37,286	1,934	5.19 %	-	-	-	23,700	(280 )	-1.18 %	
Federal Funds Purchased	2,632	138	5.24 %	-	-	-	-	-	-	
Junior subordinated debt	3,436	313	9.11 %	3,389	200	5.90 %	2,565	148	5.77 %	
				1,120,83			1,062,92			
Total interest bearing liabilities	1,005,939	21,021	2.09 %	1	3,184	0.28 %	2	3,284	0.31 %	
Non-interest bearing liabilities:										
Demand deposits	418,091			526,389			434,989			
Other liabilities	9,989			9,581			10,875			
				1,656,80			1,508,78			
Total liabilities	1,434,019			1			6			
Shareholders' equity	139,443			141,123			140,548			
Total liabilities & shareholders' equity	\$ 1,573,462			\$ 4			\$ 4			
Net interest income (FTE)		\$ 49,316			\$ 53,880			\$ 45,259		
Interest rate spread <sup>2</sup>			2.70 %			3.12 %			2.84 %	
Cost of funds			1.48 %			0.19 %			0.22 %	
Interest expense as a percentage of average earning assets				1.43 %		0.19 %			0.21 %	
Net interest margin (FTE) <sup>3</sup>			3.36 %			3.21 %			2.94 %	

- (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 Reconciliation 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 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

#### 2023 compared to 2022

(Dollars in thousands)	Change due to:		Increase/ (Decrease)
	Volume	Rate	
<b>Assets:</b>			
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
<b>Liabilities and Shareholders' equity:</b>			
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)

### 2022 compared to 2021

(Dollars in thousands)	Change due to:		Increase/ (Decrease)
	Volume	Rate	
Assets:			
Securities	\$ 3,815	\$ 2,191	\$ 6,006
Loans:			
Real estate	1,833	875	2,708
Commercial	(2,780)	632	(2,148)
Consumer	(669)	441	(228)
Total loans	(1,616)	1,948	332
Federal funds sold	(13)	962	949
Other interest-bearing deposits	(21)	1,255	1,234
Total earning assets	\$ 2,165	\$ 6,356	\$ 8,521
Liabilities and Shareholders' equity:			
Interest-bearing deposits:			
Interest checking	\$ 36	(67)	\$ (31)
Money market and savings	130	(80)	50
Time deposits	(53)	(398)	(451)
Total interest-bearing deposits	113	(545)	(432)
Short term borrowings	280	-	280
Junior subordinated debt	14	38	52
Total interest-bearing liabilities	407	(507)	(100)
Change in net interest income	\$ 1,758	\$ 6,863	\$ 8,621

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### 2021 compared to 2020

(Dollars in thousands)	Change due to:		Increase/ (Decrease)
	Volume	Rate	
Assets:			

	2,24					
Securities	\$ 0	\$ (275)	\$ 1,965	\$ 3,815	\$ 2,191	\$ 6,006
Loans:						
	17,5	1,02				
Real estate	96	7	18,623	1,833	875	2,708
Commercial	518	98	616	(2,780)	632	(2,148)
Consumer	(55)	(230)	(285)	(669)	441	(228)
	18,0					
Total loans	59	895	18,954	(1,616)	1,948	332
Federal funds sold	123	(88)	35	(13)	962	949
Other interest-bearing deposits:	233	-	233			
Other interest bearing deposits:				(21)	1,255	1,234
	20,6					
Total earning assets	\$ 55	\$ 532	\$ 21,187	\$ 2,165	\$ 6,356	\$ 8,521
Liabilities and Shareholders' equity:						
Interest-bearing deposits:						
Interest bearing deposits:						
Interest checking	\$ 168	(27)	\$ 141	\$ 36	(67)	\$ (31)
Money market and savings	1,23					
	7	(894)	343	130	(80)	50
Time deposits	555	(901)	(346)	(53)	(398)	(451)
Total interest-bearing deposits	1,960	(1,822)	138			
Total interest bearing deposits				113	(545)	(432)
Short term borrowings	21	(374)	(353)	280	-	280
Junior subordinated debt	148	-	148	14	38	52
Total interest-bearing liabilities	2,129	(2,196)	(67)			
Total interest bearing liabilities				407	(507)	(100)
Change in net interest income	18,5	2,72				
	\$ 26	\$ 8	\$ 21,254	\$ 1,758	\$ 6,863	\$ 8,621

For 2022, 2023, net interest income (FTE) of \$53.9 million \$49.3 million was recognized, an increase a decrease of \$8.6 million \$4.6 million over 2021, 2022. Net interest income (FTE) for 2021 2022 totaled \$45.3 million \$53.9 million, a \$21.3 million \$8.6 million increase over the 2020 2021 total of \$24.0 million \$45.3 million. Average earning assets decreased \$212.1 million or 12.6% in 2023 compared to 2022 and increased \$139.7 million or 9.1% in 2022 compared to 2021 and increased \$783.1 million or 103.5% 2021. The increase in 2021 compared rates in all categories of loans were the primary drivers of the increase in interest income from 2022 to 2020, 2023. The increase in the average balance of commercial loans as well as the increases in volume and rate of the securities portfolio from 2021 2022 to 2022 were the primary contributing factors of 2023 also contributed to the increase in net interest income. The declines in rates paid on deposits over the same period also positively impacted net interest income. The average balance for loans as a percentage of earnings assets for 2022 2023 was 58.3% 66.8%, compared to 58.3% and 66.1% in 2022 and 79.4% 2021, respectively.

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The 2023 net interest margin (FTE) improved 15 bps to 3.36% from 3.21% in 2021 and 2020, respectively.

2022. The 2022 net interest margin (FTE) improved 27 bps to 3.21% from 2.94% in 2021. The 2021 net interest margin (FTE) declined 23 bps from 3.17% in 2020. The tax-equivalent yield on average earning assets for 2022 2023 of 3.40% 4.79% was 25 140 bps higher than the 2021 2022 yield of 3.15% 3.40%. The 2021 2022 tax-equivalent yield on average earning assets was 47 25 bps lower higher than the comparable 2020 2021 yield of 3.62% 3.15%. Loan yields for 2022 2023 were 4.52% 5.72%, improving 20 120 bps from the loan yield of 4.32% 4.52% for 2021, 2022. Average loans for 2022 2023 of \$978.3 million \$980.6 million were \$38.9 million lower than the 2021 average of \$1.0 billion, due to the execution of the Company's planned strategy to further improve asset quality through negotiation of loan paydowns, as well as PPP forgiveness. 2021's average loan balances were \$416.4 million \$2.3 million higher than the 2020 2022 average of \$600.9 million due to loans acquired through the Merger. \$978.3 million.

The increase in rates paid on deposits in 2023 compared to 2022 negatively impacted net interest income. Interest expense as a percentage of average earning assets declined increased to 143 bps for 2023, compared to 19 and 21 bps for 2022 compared to 21 and 44 bps for 2021, and 2020, 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.

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(Dollars in thousands)

	2022		2021		2020		2023		2022		2021	
	% of Average Balance	Total Deposits	% of Average Balance	Total Deposits	Average Balance	% of Total Deposits	Average Balance	% of Total Deposits	Average Balance	% of Total Deposits	Average Balance	% of Total Deposits
Non-interest demand deposits	52,638	30.3%	49,989	29.6%	31,154	23.2%	409,504	24.9%	355,419	24.2%	421,083	30.5%
Interest-bearing accounts	4,307	2.6%	4,500	2.7%	5,637	4.2%	563,374	34.3%	529,027	35.9%	563,374	34.3%
Money market and savings deposits	5,307	3.2%	5,500	3.3%	6,637	5.0%	663,374	41.5%	629,027	43.9%	621,083	46.2%
Other accounts	1,307	0.8%	1,500	0.9%	1,637	1.2%	163,374	10.1%	129,027	8.9%	121,083	9.1%





\$1.0 million in 2021 and \$1.6 million in 2020. The decreases \$106 thousand in 2022 and 2021 are \$1.0 million in 2021. The increase in 2023 is primarily the result of the Company releasing a portion adoption of ASC 326, which increased the reserves that were added during 2020 since the credit deterioration was not experienced ACL by \$2.5 million effective January 1, 2023, as well as increase in provision related to the extent previously anticipated. organic loan growth. The decrease in 2022 also was impacted by the decline in overall loan balances as part of the Company's strategy to further improve asset quality through negotiation of loan paydowns as well as PPP forgiveness. paydowns.

The allowance for loan credit losses as a percentage of total loans was 0.77% at December 31, 2023 compared to 0.59% at December 31, 2022 compared to 0.56% at December 31, 2021.

The following is a summary of the changes in the allowance for loan credit losses for the years ended December 31, 2022 December 31, 2023, 2021, 2022, and 2020: 2021:

<i>(Dollars in thousands)</i>	2022	2021	2020
Allowance for loan losses, January 1	\$ 5,984	\$ 5,455	\$ 4,209
Charge-offs	(1,255)	(835)	(805)
Recoveries	717	350	429
Provision for loan losses	106	1,014	1,622
Allowance for loan losses, December 31	<u>\$ 5,552</u>	<u>\$ 5,984</u>	<u>\$ 5,455</u>
Allowance for loan losses as a percentage of period-end total loans	0.59 %	0.56 %	0.90 %

<i>(Dollars in thousands)</i>	2023	2022	2021
Allowance for credit losses, January 1	\$ 5,552	\$ 5,984	\$ 5,455
Impact of ASC 326 adoption	\$ 2,491	\$ -	\$ -
Charge-offs	(721)	(1,255)	(835)
Recoveries	377	717	350
Provision for credit losses	696	106	1,014
Allowance for credit losses, December 31	<u>\$ 8,395</u>	<u>\$ 5,552</u>	<u>\$ 5,984</u>
Allowance for credit losses as a percentage of period-end total loans	0.77 %	0.59 %	0.56 %

## 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		For the year ended December 31		Variance	
	2022	2021	\$	%	2023	2022	\$	%
Noninterest income:								
Trust and estate services fees	\$ 1,423	\$ 1,929	\$ (6)	.2 %	\$ 968	\$ 1,538	\$ (570)	-37.1 %
Performance fees	265	822	(7)	.8 %	376	265	111	41.9 %
Investment management income	752	757	(5)	7 %	632	752	(120)	-16.0 %
Advisory and brokerage income	770	1,154	(4)	.3 %	-	770	(770)	-
Royalty income	115	40	75	7.5 %				
Deposit account fees	1,799	1,459	0	3 %	1,593	1,799	(206)	-11.5 %
Debit/credit card and ATM fees	2,794	2,070	4	0 %	2,277	2,794	(517)	-18.5 %
Bank owned life insurance income	963	708	5	0 %	1,764	963	801	83.2 %
Resolution of commercial dispute	2,400	-	00	-	-	2,400	(2,400)	-
Gains on sale of assets, net					112	1,043	(931)	-89.3 %
Gain on termination of interest rate swap					460	-	460	-
Gain on sale of business line	404	-	4	-	-	404	(404)	-
Gains (losses) on sale of assets, net	1,043	-	43	-				

Losses on sales of AFS, net					(206)	-	(206)	-
			(59)	-38				
Other	933	1,526	3)	.9 %	1,125	933	192	20.6 %
Total noninterest income	13,66	10,46	3,1	30.				
	\$ 1	\$ 5	\$ 96	5 %	\$ 9,101	\$ 13,661	\$ (4,560)	-33.4 %

Noninterest income of \$13.7 million \$9.1 million for the year ended December 31, 2022 experienced a net increase December 31, 2023 decreased \$4.6 million over the prior year, of \$3.2 million, as a result of the following: following nonrecurring items in the year ended December 31, 2022:

- The Company received and recognized a \$2.4 million one-time payment to resolve a commercial dispute in the first quarter 2022;
- A \$1.0 million gain was recognized in connection with the sale of two buildings during the second quarter of 2022, and
- A \$770 thousand of advisory and brokerage income was earned in the prior year by Sturman Wealth Advisors, and a \$4 thousand gain was recognized in the fourth quarter of 2022 in connection with the sale of Sturman Wealth Advisors, t business line.

These decreases were partially offset by an increase in non-interest income from proceeds of bank owned life insurance collected related to the death of a former employee.

## 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)	Decemb	Decemb	Variance		December 31,	December 31,	Variance	
	er 31,	er 31,						
	2022	2021	\$	%	2023	2022	\$	%
Noninterest expense:								
Salaries and employee benefits	17,26	16,12	1,1					
	\$ 0	\$ 9	\$ 31	7.0 %	\$ 15,900	\$ 17,260	\$ (1,360)	-7.9 %
				26.				
Net occupancy	4,526	3,575	951	6 %	4,017	4,526	(509)	-11.2 %
Equipment	897	966	(69)	-7.1 %	762	897	(135)	-15.1 %
Bank franchise tax	1,216	1,136	80	7.0 %	1,220	1,216	4	0.3 %
				11.				
Computer software	1,136	1,020	116	4 %	778	1,136	(358)	-31.5 %
Data processing	2,727	2,793	(66)	-2.4 %	2,799	2,727	72	2.6 %

FDIC deposit insurance assessment	511	858	(34 7)	-40.4 %	710	511	199	38.9 %
Marketing, advertising and promotion	1,224	922	302	32.8 %	1,098	1,224	(126)	-10.3 %
Merger and merger-related expenses	-	7,423	(7,423)	-100.0 %				
Plastics expense	394	978	(584)	-59.7 %	177	394	(217)	-55.1 %
Professional fees	1,357	1,117	240	21.5 %	674	1,357	(683)	-50.3 %
Core deposit intangible amortization	1,684	1,389	295	--	1,493	1,684	(191)	-11.3 %
Impairment on assets held for sale	242	-	242	0.0 %	-	242	(242)	-
Other	5,382	4,216	1,166	27.7 %	4,435	5,382	(947)	-17.6 %
Total noninterest expense	\$ 38,556	\$ 42,522	\$ (3,966)	-9.3 %	\$ 34,063	\$ 38,556	\$ (4,493)	-11.7 %

Noninterest expense of **\$38.6 million** **\$34.1 million** for the year ended **December 31, 2022** **December 31, 2023** decreased **\$4.0 million** **\$4.5 million** from the prior year, predominantly due to **no merger or merger-related expense recognition** **continued efficiencies gained from the Merger** in the **current year**, compared to **\$7.4 million** **areas of merger salaries and merger-related employee benefits, occupancy and professional fees**. In addition, expenses incurred during the year ended **December 31, 2021**. An increase in salaries and employee benefits offset this positive variance, increasing 7.0% from \$16.1 million in 2021 to \$17.3 million in 2022. This increase was due to the Merger and the addition of Fauquier's employees effective April 1, 2021, offset by a reduction in professional fees declined

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salaries for redundant positions, occurring throughout year-over-year from the **21 months** since sale of Sturman Wealth Advisors in the **Effective Date**, fourth quarter of 2022. At **December 31, 2022** **December 31, 2023**, the Company had **157** **155** full-time equivalent employees compared to **173** **157** at **December 31, 2021** **December 31, 2022**.

Core deposit intangible amortization expense is a result of the Merger and amounted to \$1.5 million in 2023 and \$1.7 million in 2022 and \$1.4 million in 2021. 2022.

## 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 2023, the Company provided \$4.0 million for Federal income taxes, resulting in an effective income tax rate of 17.2%. In 2022, the Company provided \$5.1 million for Federal income taxes, resulting in an effective income tax rate of 17.9%. In 2021, the Company provided \$1.8 million for Federal income taxes, resulting in an effective income tax rate of 15.5%. The effective tax rate was lower in 2021 2023 due to the impact on nontaxability of proceeds from bank owned life insurance as a result of the combined income statement death of low-income housing tax credits acquired during the Merger. a former employee. The effective income tax rates for 2022 2023 and 2021 2022 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.

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## 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, 2022 December 31, 2023, the Company's investment portfolio totaled \$543.3 million \$429.0 million, with obligations of U.S. government corporations and government-sponsored enterprises amounting to \$438.3 million \$316.5

million, or approximately 81% 74% of the total. The Company's investment portfolio totaled \$308.8 million \$543.3 million as of December 31, 2021 December 31, 2022.

In 2022, \$248 million During the year ended December 31, 2023, \$49.8 million of U.S. Treasury securities were purchased at an average yield sold incurring a pre-tax loss of 2.66%, with maturities ranging from one \$206 thousand, as part of a strategic decision to two years. reinvest proceeds into higher yielding assets. During the years year ended December 31, 2022 and December 31, 2021, there were no sales of securities. 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, 2022 December 31, 2023. Given Management has evaluated whether the generally high credit quality of the Company's AFS investment portfolio, management expects to realize all of its investment upon market recovery or the maturity of such instruments and thus believes that any impairment decline in fair value is interest-rate-related the result of credit losses and therefore temporary. has determined that no credit loss provision is required as of December 31, 2023 related to the AFS portfolio. AFS securities included gross unrealized losses of \$62.1 million \$50.9 million as of December 31, 2022 December 31, 2023.

(Dollars in thousands)	December 31, 2022		December 31, 2021		December 31, 2023		December 31, 2022	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
U.S. treasury securities	\$ 242,470	45 %	\$ -	0 %	\$ 121,708	29 %	\$ 242,470	45 %
U.S. government agencies	28,755	6 %	31,581	11 %	39,581	9 %	28,755	6 %
Mortgage-backed securities/CMOs	167,076	31 %	170,964	56 %				
MBS/CMOs					155,144	37 %	167,076	31 %
Corporate bonds	18,729	3 %	-	0 %	19,129	5 %	18,729	3 %
Municipal bonds	81,156	15 %	101,272	33 %	85,033	20 %	81,156	15 %

Total available for sale securities at fair value	538,10	303,10							
	\$ 186	0%	\$ 817	0%	\$ 420,595	100%	\$ 538,186	100%	

All mortgage-backed securities included in the above tables were issued by U.S. government agencies and corporations. At **December 31, 2022** **December 31, 2023**, the securities issued by political subdivisions or agencies were highly rated with 100% 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, 2022** **December 31, 2023**.

The Company’s holdings of restricted securities totaled **\$8.4 million** and **\$5.1 million** at **December 31, 2023** and **\$5.0 million** at **December 31, 2022** and **December 31, 2021**, 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, 2022** **December 31, 2023** 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 Reconciliation of Non-GAAP Measures table within the Non-GAAP Presentations section earlier in Item 7.

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Maturity Distribution and Average Yields

Contractual

Maturities of Debt

Securities

at December 31,

2022

**Contractual  
Maturities of Debt  
Securities  
at December 31,  
2023**

	Amortized Cost	Fair Value	Weighted Average Yield (FTE)	% of Debt Securities	Amortized Cost	Fair Value	Weighted Average Yield (FTE)	% of Debt Securities
<i>(Dollars in thousands)</i>								
<b>U.S. treasury securities</b>								
		191						
	192,8	,18						
One year or less	\$ 43	\$ 0	2.63 %		\$ 120,789	\$ 120,245	4.31 %	
After one year to five years	52,740	51,290	2.72 %		1,499	1,463	2.65 %	
		242						
	245,5	,47		40.				
	\$ 83	\$ 0	2.65 %	9 %	\$ 122,288	\$ 121,708	4.29 %	25.9 %
<b>U.S. government-sponsored agencies:</b>								
One year or less					\$ 10,000	\$ 9,981	5.32 %	
After one to five years	\$ 900	\$ 808	2.00 %		5,752	5,135	1.32 %	
After five years to ten years	30,382	25,060	1.53 %		25,379	21,416	1.58 %	
		2,8						
Ten years or more	4,000	87	1.79 %		4,000	3,049	1.79 %	
	35,28	28,						
	\$ 2	\$ 755	1.57 %	5.9 %	\$ 45,131	\$ 39,581	2.51 %	9.6 %
<b>Mortgage-backed securities/CMOs</b>								
<b>MBS/CMOs</b>								
		1,4						
One year or less	\$ 1,515	\$ 85	0.35 %		\$ 3,612	\$ 3,532	0.68 %	
After one year to five years	9,553	87	1.28 %		3,199	3,027	2.59 %	



After five years to ten years	2,7	3,096	79	1.64 %	3,061	2,796	1.64 %
	153						
	180,8		,82				
Ten years or more	00	5		1.97 %	170,048	145,789	2.06 %
	167						
	194,9		,07	32.			
	\$ 64	\$ 6		1.91 % 5 %	\$ 179,920	\$ 155,144	2.03 % 38.2 %
<b>Corporate bonds</b>							
After one year to five years	17,68	16,					
	\$ 2	\$ 933		3.37 %			
		1,7					
After five to ten years	1,899	96		3.31 %			
One year or less					\$ 1,996	\$ 1,964	2.82 %
After one to five years					17,684	17,165	3.42 %
	19,58	18,					
	\$ 1	\$ 729		3.36 % 3.3 %	\$ 19,680	\$ 19,129	3.36 % 4.2 %
<b>Municipal bonds</b>							
After one to five years		2,3					
	\$ 2,472	\$ 67		3.48 %	\$ 3,375	\$ 3,277	2.90 %
After five to ten years	17,66	16,					
	5	151		1.63 %	21,345	19,859	1.89 %
Ten years or more	84,69	62,					
	4	638		2.47 %	79,545	61,897	2.32 %
	104,8	81,		17.			
	\$ 31	\$ 156		2.33 % 4 %	\$ 104,265	\$ 85,033	2.24 % 22.1 %
	538						
<b>Total Debt Securities</b>	600,2	,18		100			
<b>Available for Sale</b>	\$ 41	\$ 6		2.37 % .0 %	\$ 471,284	\$ 420,595	2.89 % 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 percent.

As stated, the preceding table reflects the distribution of the contractual maturities of the investment portfolio at **December 31, 2022** **December 31, 2023**. 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,**

2022 December 31, 2023, the weighted average maturity of the fixed rate MBS sector was 17.5 16.5 years, and the projected average life for this group of securities is 7.7 7.3 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 \$220.9 million for 2023, \$77.2 million \$161.0 million for 2024, and \$31.0 million \$32.4 million for 2025, and \$25.0 million for 2026, based upon rates remaining at current levels. This represents approximately 61% 46% of the investment portfolio's AFS balance at December 31, 2022 December 31, 2023 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.

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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, Richmond and areas in the Commonwealth of Virginia, State of Maryland, District of Columbia and portions of West Virginia that are within a 100 mile radius of any Virginia National Bank location.

The Company's loan portfolio totaled \$936.4 million \$1.1 billion as of December 31, 2022 December 31, 2023 or 57.7% 66.4% of total assets. Loan balances decreased \$124.8 million increased \$156.3 million, or 11.8% 16.7%, from the balance of \$1.1 billion \$936.4 million as of December 31, 2021 December 31, 2022. 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,		As of December 31,	
	2022	2021	2023	2022
	71,13			
Commercial loans	\$ 9	\$ 96,696	\$ 152,517	\$ 71,139
Real estate mortgage:				

	37,54			
Construction and land	1	79,331	33,682	37,541
1-4 family residential mortgages	323,1	358,14		
	85	8	317,558	323,185
Commercial	459,1	473,63		
	25	2	550,867	459,125
Total real estate mortgage	819,8	911,11		
	\$ 51	\$ 1	\$ 902,107	\$ 819,851
Consumer	45,42			
	5	53,404	38,041	45,425
Total loans	936,4	1,061,2		
	\$ 15	\$ 11	\$ 1,092,665	\$ 936,415
Less: Allowance for loan losses	(5,552)	(5,984)		
Less: Allowance for credit losses			(8,395)	(5,552)
Net loans	930,8	1,055,2		
	\$ 63	\$ 27	\$ 1,084,270	\$ 930,863

The Company's planned strategy to further improve asset quality through negotiation of loan paydowns as well as PPP forgiveness resulted in a decrease in loan balances from December 31, 2021 to December 31, 2022. The decrease from December 31, 2021 is due predominantly to: (1) workouts and paydowns of Acquired Loans of \$61.8 million, (2) paydowns of legacy organic loans due mainly to business sales, property sales, refinances and participation fluctuations of \$55.3 million, and (3) the forgiveness of SBA PPP loans in the amount of \$20.5 million. As of December 31, 2022, only \$231 thousand of PPP loans remain outstanding on the Bank's balance sheet.

At December 31, 2022 December 31, 2023, the loan-to-deposit ratio stood at 63.3% 77.5%, compared to 59.1% 63.3% at December 31, 2021 December 31, 2022.

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 decreased increased by \$91.3 million \$82.3 million to a balance of \$902.1 million at December 31, 2023 from \$819.9 million at December 31, 2022 from \$911.1 million at December 31, 2021. This category comprises 87.6% 82.6% of all loans, and these loans are secured by mortgages on real property located principally in our market area. Of this amount, approximately \$323.2 million \$317.6 million represented loans on 1-4 family residential properties. Commercial real estate loans totaled \$459.1 million \$550.9 million as of December 31, 2022 December 31, 2023. 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 \$37.5 million \$33.7 million as of December 31, 2022 December 31, 2023.

The following table details the Company's levels of non-owner occupied commercial real estate as of December 31, 2023, along with the average loan size and % of risk ratings for each category:

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Loan Type (dollars in thousands)	Balance	% of Total CRE	Average Loan Size	Special Mention	Sub-standard	Nonaccrual
Hotels	\$ 22,723	8.29 %	\$ 3,787	0.00 %	0.00 %	0.00 %
Office Building	66,409	24.22 %	\$ 800	0.00 %	0.00 %	0.00 %
Warehouses/Industrial	53,338	19.46 %	\$ 2,051	0.00 %	1.20 %	0.78 %
Retail	107,580	39.24 %	\$ 1,735	0.04 %	0.00 %	0.00 %
Day Cares / Schools	13,961	5.09 %	\$ 1,396	2.65 %	0.00 %	0.00 %
All Other Commercial Buildings	10,142	3.70 %	\$ 845	0.00 %	0.00 %	0.00 %
Total Non-Owner Occupied CRE	\$ 274,153					

As of December 31, 2022 December 31, 2023, the Company's commercial and industrial loan portfolio totaled \$71.1 million \$152.5 million, a \$25.6 million decline \$81.4 million increase from the \$96.7 million \$71.1 million balance at year-end 2021. 2022. This category, representing approximately 7.6% 14.0% of all loans, includes loans made to individuals and small to medium-sized businesses, as well as loans purchased on in the syndicated and government guaranteed markets. The Company participated in the PPP loan initiative during 2020 and 2021 with balances of \$20.7 million and \$231 thousand as of December 31, 2021 and December 31, 2022, respectively. Forgiveness of a significant amount of PPP loans during 2022 contributed to the overall balance reductions. market.

Consumer loans, comprised of student loans purchased, revolving credit, and other fixed payment loans, totaled \$45.4 million \$38.0 million as of December 31, 2022 December 31, 2023 or 4.9% 3.5% of all loans. Consumer loans ended 2022 2023 with balances \$8.0 million \$7.4 million lower than the prior year-end, primarily due to normal amortization within the student loan portfolio.

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The following table presents the maturity/repricing distribution of the Company's loans at December 31, 2022 December 31, 2023. 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, 2022					As of December 31, 2023				
		One Year or Less	After One to Five Years	After Five to 15 Years	After 15 Years	Total	One Year or Less	After One to Five Years	After Five to 15 Years	After 15 Years	Total
<b>Fixed Rate:</b>											
Commercial loans						25,65					
		\$ 54	\$ 10	\$ 9	\$ 26	\$ 9	\$ 4,763	\$ 17,830	\$ 12,367	\$ 1,257	\$ 36,217
Real estate construction and land						18,93					
		4,106	9,173	5,657	-	6	8,369	11,101	2,395	-	21,865
1-4 family residential mortgages						63,18					
		5,150	16,277	96,243	,477	1,147	2,473	27,062	76,782	59,959	166,276
Commercial mortgages						20,19					
		785	126,007	44,826	-	1,618	11,415	143,442	40,437	-	195,294
Consumer						15,90					
		3,570	11,288	798	248	904	1,768	13,129	706	121	15,724
Total fixed rate loans		38,865	178,355	152,293	,751	3,264	28,788	212,564	132,687	61,337	435,376
<b>Variable Rate:</b>											
Commercial loans						22,45					
		193	19,650	3,637	-	0	69,262	36,282	10,756	-	116,300
Real estate construction and land						18,60					
		3,613	8,807	6,185	-	5	3,568	7,411	838	-	11,817

1-4 family residential mortgages	43,517	93,403	5,118	14,200	40,322	109,292	1,668	-	151,282
Commercial mortgages	10,173	148,806	16,971	7,507	105,148	218,908	31,517	-	355,573
Consumer	29,521	-	-	29,521	22,317	-	-	-	22,317
Total variable rate loans	20,057	270,210	31,959	3,164	\$ 240,617	\$ 371,893	\$ 44,779	\$ -	\$ 657,289
Total loans	23,949	63,449	63,184	93,764	\$ 269,405	\$ 584,457	\$ 177,466	\$ 61,337	\$ 1,092,665

Total loans at **December 31, 2022** **December 31, 2023** and **2021** **2022** 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 ALLL. The following table presents the outstanding principal balance and the carrying amount of purchased **loans** **loans** as of **December 31, 2023**:

(Dollars in thousands)	December 31, 2023		
	Acquired Loans -		Acquired
	Purchased	Acquired Loans -	Loans -
	Credit Deteriorated	Purchased Performing	Total
Outstanding principal balance	\$ 29,206	\$ 267,717	\$ 296,923
<b>Carrying amount:</b>			
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

(Dollars in thousands)	December 31, 2022		
	Acquired Loans -		Acquired
	Purchased	Acquired Loans -	Loans -
	Credit Impaired	Purchased Performing	Total

Outstanding principal balance	\$	43,250	\$	290,604	\$	333,854
<b>Carrying amount:</b>						
Commercial	\$	630	\$	12,606	\$	13,236
Real estate construction and land		1,461		8,530		9,991
1-4 family residential mortgages		9,076		164,280		173,356
Commercial mortgages		20,828		99,206		120,034
Consumer		72		1,277		1,349
Total acquired loans	\$	32,067	\$	285,899	\$	317,966

For a description of the Company's accounting for purchased performing and PCI loans, see "Critical Accounting Estimates" earlier in Item 7. 44

## 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, 2022 December 31, 2023 and 2021, 2022, the Company had loans classified as non-accrual with balances of \$673 thousand \$1.9 million and \$495 \$673 thousand, respectively. The non-accrual balance as of December 31, 2022 December 31, 2023 consists of four eight loans to three seven borrowers.

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Acquired Loans that otherwise would be in non-accrual status are not included in this figure, as they earn interest through the yield accretion.

Loans 90 days or more past due and still accruing interest amounted to \$879 thousand as of December 31, 2023, compared to \$705 thousand as of December 31, 2022, compared to \$801 thousand as of December 31, 2021. The 2022 2023 balance includes a \$646 two loans totaling \$782 thousand loan which was brought current shortly after year-end. The current portfolio only includes three non-insured are 100% government-guaranteed, and five student loans that are 90 days or more past due

and still accruing interest, amounting to \$59 totaling \$97 thousand. Loans acquired during the Merger that are greater than 90 days past due and still accruing interest are included in this figure, net of their fair value mark.

**TDRs occur when the Company agrees to modify the original terms of a loan by granting a concession that it would not otherwise consider due to the deterioration in the financial condition of the borrower. These concessions are done in an attempt to improve the paying capacity of the borrower, and in some cases to avoid foreclosure, and are made with the intent to restore the loan to a performing status once sufficient payment history can be demonstrated. These concessions could include reductions in the interest rate, payment extensions, forgiveness of principal, forbearance or other actions. TDRs that are considered to be performing continue to accrue interest under the terms of the restructuring agreement. TDRs that have been placed in non-accrual status are considered to be nonperforming.**

Total performing TDR balances declined to \$788 thousand as of December 31, 2022 compared to \$1.0 million as of December 31, 2021. Based on regulatory guidance issued in 2016 on Student Lending, the Company classified 46 of its student loans purchased as TDRs Allowance for a total of \$700 thousand as of December 31, 2022 and 58 of its student loans purchased as TDRs for a total of \$935 thousand as of December 31, 2021. Nonperforming TDR balances remained at \$495 thousand as of December 31, 2022 and December 31, 2021. Credit Losses

The table below summarizes relationship of the Company's credit ratios as of December 31, 2022 ACL to total loans and 2022: nonaccrual loans appears below:

<i>(Dollars in thousands)</i>	2022	2021	2023	2022
Total loans	\$ 936,415	\$ 1,061,211	\$ 1,092,665	\$ 936,415
Nonaccrual loans	\$ 673	\$ 495	\$ 1,852	\$ 673
Allowance for loan losses	\$ 5,552	\$ 5,984		
Allowance for credit losses			\$ 8,395	\$ 5,552
Nonaccrual loans to total loans	0.07 %	0.05 %	0.17 %	0.07 %
ALLL to total loans	0.59 %	0.56 %		
ALLL to nonaccrual loans	824.96 %	1208.89 %		
ACL to total loans			0.77 %	0.59 %
ACL to nonaccrual loans			453.29 %	824.96 %

See Note 4 – Loans and Note 5 – Allowance for Loan 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.

## Allowance for Loan Losses



In general, the Company determines the adequacy of its allowance for loan losses by considering the risk classification and delinquency status of loans and other factors. Management may also establish specific allowances for loans which management believes require allowances greater than those allocated according to their risk classification. The purpose of the allowance is to provide for losses inherent in the loan portfolio. Since risks to the loan portfolio include general economic trends as well as conditions affecting individual borrowers, the allowance is an estimate. The Company is committed to determining, on an ongoing basis, the adequacy of its allowance for loan losses.

The Company applies historical loss rates to various pools of loans based on risk rating classifications. In addition, the adequacy of the allowance is further evaluated by applying estimates of loss that could be attributable to any one of the following eight qualitative factors:

- 1) Changes in national and local economic conditions, including the condition of various market segments;
- 2) Changes in the value of underlying collateral;
- 3) Changes in volume of classified assets, measured as a percentage of capital;
- 4) Changes in volume of delinquent loans;
- 5) The existence and effect of any concentrations of credit and changes in the level of such concentrations;
- 6) Changes in lending policies and procedures, including underwriting standards;
- 7) Changes in the experience, ability and depth of lending management and staff; and
- 8) Changes in the level of policy exceptions.

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

See Note 4 – Loans and Note 5 – Allowance for Loan Losses in the Notes to Consolidated Financial Statements, included in Item 8. Financial Statements and Supplementary Data, for further details of the risk factors considered by management in estimating the necessary level of the allowance for loan losses.

Activity for the allowance for loan credit losses is provided in the following table:

As of and for the year ended December 31, 2023							
	Commercial	Real Estate	1-4 Family				
	Loans	Construction and Land	Residential Mortgages	Real Estate Mortgages	Consumer Loans		Total
<i>(Dollars in thousands)</i>							
<b>Allowance for Credit Losses:</b>							
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) credit 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 and for the year ended December 31, 2022						
	Commercial	Real Estate	Real	Consumer		
(Dollars in thousands)	Loans	Construction and Land	Estate Mortgages	Loans	Total	
<b>Allowance for Loan Losses:</b>						
Balance as of beginning of year	\$ 252	\$ 399	\$ 4,478	\$ 855	\$ 5,984	
Charge-offs	(600)	-	-	(654)	(1,254)	
Recoveries	519	9	11	178	717	
Provision for (recovery of) loan losses	23	(187)	(51)	320	105	
Balance at end of year	\$ 194	\$ 221	\$ 4,438	\$ 699	\$ 5,552	
Average loans	\$ 81,410	\$ 59,564	\$ 787,674	\$ 49,619	\$ 978,267	
Net charge-offs (recoveries) to average loans	0.10 %	-0.02 %	0.00 %	0.96 %	0.05 %	

As of and for  
the year ended  
December 31,  
2021

As of and for  
the year ended  
December 31,  
2022

	Commercial Loans	Real Estate Construction and Land	Real Estate Mortgages	Consumer Loans	Total	Commercial Loans	Real Estate Construction and Land	1-4 Family Residential Mortgages	Real Estate Mortgages	Consumer Loans	Total
(Dollars in thousands)											
<b>Allowance for Loan Losses:</b>											
Balance as of beginning of year	\$ 920	\$ 160	\$ 389	\$ 118	\$ 545	\$ 252	\$ 399	\$ 1,207	\$ 3,271	\$ 855	\$ 5,984
Charge-offs	(147)	-	-	(88)	(35)	(600)	-	-	-	(654)	(1,254)
Recoveries	19	12	6	14	35	519	9	7	4	178	717
Provision for (recovery of) loan losses	(1)	7	5	3	4	23	(187)	404	(455)	320	105
Balance at end of year	\$ 25	\$ 39	\$ 47	\$ 85	\$ 98	\$ 194	\$ 221	\$ 1,618	\$ 2,820	\$ 699	\$ 5,552
Average loans	\$ 62	\$ 2	\$ 5	\$ 39	\$ 8	\$ 81,410	\$ 59,564	\$ 335,169	\$ 452,505	\$ 49,619	\$ 978,267
Net charge-offs (recoveries) to average loans	-0.03 %	-0.01 %	0.00 %	0.87 %	0.05 %	0.10 %	-0.02 %	0.00 %	0.00 %	0.96 %	0.05 %

As of December 31, 2022 December 31, 2023, the ALLL ACL was \$8.4 million, an increase of \$2.8 million from \$5.6 million at December 31, 2022, a net decrease due to the adoption of \$432 thousand from \$5,984 at December 31, 2021. CECL and increased balances in the loan portfolio. Management's estimates for the ALLL ACL resulted in the Company's allowance to total loans outstanding ratio of 0.59% 0.77% at December 31, 2022 December 31, 2023, compared to 0.56% 0.59% at December 31, 2021 December 31, 2022. Note that without the impact of acquired loans and the fair value mark, the ALLL to total loans outstanding would have been 0.90% as of December 31, 2022 and 0.95% as of December 31, 2021; furthermore, the ALLL to total loans plus the fair value mark amount to 2.29% as of December 31, 2022 and 2.30% as of December 31, 2021 (for reconciliation of non-GAAP measures, see the "Non-GAAP Presentation" section earlier in Item 7).

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. During 2022, there were \$1.3 million in loan balances charged off, with a total of \$717 thousand in recoveries of previously charged-off balances, resulting in net charge-offs of \$538 thousand. During 2021, there were \$835 thousand in loan balances charged off, with a total of \$350 thousand in recoveries of previously charged-off balances, resulting in net charge-offs of \$485 thousand. The ratio of net charge-offs to average loans was 0.05% 0.04% and 0.05% for 2023 and 2022, and 2021, respectively.

The table below provides an allocation of year-end allowance for loan credit losses 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 Loan Credit Losses

(Dollars in thousands)	December 31, 2022		December 31, 2023	
	Allowance	Percentage of loans in each category to total loans	Allowance	Percentage of loans in each category to total loans
Commercial loans	\$ 194	7.60 %	\$ 193	13.95 %
Real estate construction and land	221	4.01 %	462	3.08 %
1-4 family residential mortgages			1,492	29.07 %
Real estate mortgages	4,438	83.54 %	5,261	50.42 %
Consumer	699	4.85 %	987	3.48 %
	5,55			
Total	\$ 2	100.00 %	\$ 8,395	100.00 %

(Dollars in thousands)	December 31, 2021		December 31, 2022	
	Allowance	Percentage of loans in each category to total loans	Allowance	Percentage of loans in each category to total loans
Commercial loans	\$ 252	9.11 %	\$ 194	7.60 %
Real estate construction	399	7.48 %		
Real estate construction and land			221	4.01 %
1-4 family residential mortgages			1,618	34.51 %
Real estate mortgages	4,478	78.38 %	2,820	49.03 %
Consumer	855	5.03 %	699	4.85 %
	5,98			
Total	\$ 4	100.00 %	\$ 5,552	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.

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Depository accounts held by the Company as of December 31, 2022 December 31, 2023, totaled \$1.5 billion \$1.4 billion, a decrease of \$317.8 million \$69.2 million or 17.69% 4.68% compared to the December 31, 2021 December 31, 2022 total of \$1.8 billion \$1.5 billion.

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At December 31, 2022 December 31, 2023, the balances of non-interest bearing demand deposits were \$495.6 million \$372.9 million or 33.5% 26.5% of total deposits, a 5.10% 24.8% decrease from \$522.3 million \$495.6 million at December 31, 2021 December 31, 2022. Interest-bearing interest bearing transaction and money market accounts totaled \$867.6 million \$717.7 million at December 31, 2022 December 31, 2023, a decrease of \$244.3 million \$149.9 million compared to \$1.1 billion \$0.9 billion at December 31, 2021 December 31, 2022. The Company offers ICS<sup>®</sup>, 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, 2022 December 31, 2023, the reciprocal ICS<sup>®</sup> balances included in demand deposit and money market accounts were \$42.0 million \$44.2 million and \$92.6 million \$107.3 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 77.4% of total deposit account balances at December 31, 2023 compared to 92.2% of total deposit account balances at December 31, 2022 and compared favorably, declining due to the 91.0% rising rate environment and customers' desires to earn higher rates of total interest. Management intentionally delayed deposit account balances at December 31, 2021. rate increases in the first half of 2023 in order to lessen the impact of the Company's cost of funds.

Certificates of deposit and other time deposit balances decreased \$46.9 million increased \$203.5 million to \$115.1 million \$318.6 million at December 31, 2022 December 31, 2023 from the balance of \$162.0 million \$115.1 million at December 31, 2021 December 31, 2022. Included in this deposit total were reciprocal relationships under CDARS<sup>™</sup>, whereby depositors can obtain FDIC insurance on deposits up to \$50 million. These reciprocal CDARS<sup>™</sup> deposits totaled \$5.5 million and \$4.0 million at December 31, 2023 and \$6.1 million at December 31, 2022 and 2021, 2022, respectively.

**Average Balances  
and Rates Paid**

(Dollars in thousands)

	Years Ended December 31				Years Ended December 31			
	2022		2021		2023		2022	
	Average	Average	Average	Average	Average	Average	Average	Average
	Balance	Rate	Balance	Rate	Balance	Rate	Balance	Rate
Non-interest-bearing demand deposits	526,389		434,989					
Interest-bearing deposits:								
Non-interest bearing demand deposits					\$ 418,091		\$ 526,389	
Interest bearing deposits:								

	409,	0.0	355,	0.0				
Interest checking	504	6 %	419	7 %	321,154	0.11 %	409,504	0.06 %
Money market and savings deposits	563,	0.3	529,	0.3				
	374	7 %	027	9 %	421,083	2.30 %	563,374	0.37 %
Time deposits	144,	0.4	152,	0.7				
	564	5 %	211	3 %	220,348	3.91 %	144,564	0.45 %
	1,11		1,03					
Total interest-bearing deposits	7,44	0.2	6,65	0.3				
	\$ 2	7 %	\$ 7	3 %				
Total interest bearing deposits					\$ 962,585	1.94 %	\$ 1,117,442	0.27 %
	1,64		1,47					
	3,83		1,64					
Total deposits	\$ 1		\$ 6		\$ 1,380,676		\$ 1,643,831	

As of **December 31, 2022** **December 31, 2023** and **2021, 2022**, the estimated amounts of total uninsured deposits were **\$459.4 million** **\$360.0 million** and **\$585.6 million** **\$459.4 million**, respectively.

Maturities of time deposits in excess of FDIC insurance limits as of **December 31, 2022** **December 31, 2023** were as follows:

*(Dollars in thousands)*

	Amount	Percentage	Amount	Percentage
Three months or less	\$ 18,657	64.49 %	\$ 44,338	41.6 %
Over three months to six months	3,373	11.66 %	20,033	18.8 %
Over six months to one year	1,395	4.82 %	33,497	31.4 %
Over one year	5,505	19.03 %	8,755	8.2 %
Totals	\$ 28,930	100.00 %	\$ 106,623	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. **During the third quarter** **As of 2021, December 31, 2023**, the Company **prepaid 100% of its** **had \$66.5 million in** outstanding advances from the FHLB, **advances, which positively impacted interest expense by \$416 thousand as a result of accelerating the accretion of the fair value purchase mark on such acquired Fauquier debt. A prepayment penalty in the amount of \$243 thousand was incurred and is reported in noninterest**

expense, netting compared to an overall gain on the transaction of \$173 thousand. The Company had no outstanding borrowings from the FHLB at as of December 31, 2022 or December 31, 2021.

As of December 31, 2022, the Company had an off-balance sheet letter of credit in the amount of \$30.0 million, issued in favor of the Commonwealth of Virginia Department of the Treasury to secure public fund depository accounts. This letter of credit is was cancelled by the Company in 2023 and was previously secured by commercial mortgages.

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Additional borrowing arrangements maintained by the Bank include formal federal funds lines with six five correspondent banks. The Company had \$3.5 million in federal funds purchased as of December 31, 2023 compared to no outstanding balances in federal funds purchased as of December 31, 2022, 2021, or 2020.2021.

Total borrowings 47

Borrowings, excluding federal funds purchased, consist of the following as of December 31, 2022 December 31, 2023, 2021, 2022, and 2020:2021:

(Dollars in thousands)	20			2023	2022	2021
	22	2021	2020			
FHLB advances	\$ -	\$ -	\$ 00	\$ 66,500	\$ -	\$ -
Total borrowings	\$ -	\$ -	\$ 00	\$ 66,500	\$ -	\$ -
Maximum amount at any month-end during the year		42,5	40,0	\$ 66,500	\$ -	\$ 42,575
Annual average balance outstanding	\$ -	\$ 00	\$ 19	\$ 37,286	\$ -	\$ 23,700
Annual average interest rate paid	-	0.82 %	0.47 %	5.19 %	0.00 %	0.82 %
Annual average interest rate, including impact of fair value mark	-	-1.1	0.47 %	4.87 %	0.00 %	-1.18 %
Annual interest rate at end of period	-	-	0.48 %	-	-	0.00 %

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, 2022** **December 31, 2023**, total capital securities were **\$3.4 million** **\$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 LIBOR and is paid quarterly. Management is in communication with the issuer regarding the alternative reference rate that will apply after the discontinuance of LIBOR.

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** **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

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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.

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Gap Interest Sensitivity Analysis												
As of <div>December 31, 2022</div> <div>December 31, 2023</div>												
	Within 90 Days	90 to 365 Days	One to Four Years	Over Four Years	Non Rate Sensitive	Total	Within 90 Days	90 to 365 Days	One to Four Years	Over Four Years	Non Rate Sensitive	Total
Assets	21,098	10,443			(1,173)	93,645						
Loans	\$ 8	\$ 8	\$ 6	\$ 73	\$ 0)	\$ 15	\$ 233,187	\$ 160,905	\$ 513,639	\$ 189,842	\$ (4,908 )	\$ 1,092,665

	18			(6									
	57	7,	146	21	1,	54							
Investment securities	,1	91	,34	3,9	99	3,3							
	22	4	8	30	1)	23	110,852	76,682	105,505	186,567	(50,626)	428,980	
Federal funds sold	45	-	-	-	-	45	-	-	-	-	-	-	-
Interest-bearing deposits in other banks	19					19,							
	,0					09							
	98	-	-	-	-	8							
Interest bearing deposits in other banks							10,316	-	-	-	-	10,316	
Non-interest-earning assets and allowance for loan losses					12								
					3,	12							
					97	3,9							
	-	-	-	-	2	72	-	-	-	-	114,056	114,056	
	29	29				1,6							
	4,	2,	600	38	48	22,							
	36	35	,10	7,6	,4	85							
Total assets	\$ 3	\$ 2	\$ 4	\$ 03	\$ 31	\$ 3	\$ 354,355	\$ 237,587	\$ 619,144	\$ 376,409	\$ 58,522	\$ 1,646,017	
<b>Liabilities and Shareholders' Equity</b>													
Interest checking	10	29	119	23		39							
	,0	,9	,99	9,9		9,9							
	\$ 00	\$ 98	\$ 5	\$ 90	\$ -	\$ 83	\$ 7,639	\$ 22,916	\$ 91,661	\$ 183,325	\$ -	\$ 305,541	
Money market and savings deposits	14	99	113	24		46							
	,2	,4	,65	0,2		7,6							
	08	49	6	87	-	00	13,274	39,821	159,286	199,738	-	412,119	
	5,	86				11							
	33	,4	21,	1,4		5,1							
Time deposits	1	58	898	09	10	06	124,802	158,625	34,514	640	-	318,581	
Federal funds purchased							3,462	-	-	-	-	3,462	
Borrowings							-	26,500	20,000	20,000	-	66,500	

Junior	3,												
subordinated	41					3,4							
debt	-	3	-	-	-	13	3,459					3,459	
Non-interest													
bearing						63							
liabilities and						6,	63						
shareholders'						75	6,7						
equity	-	-	-	-	1	51	-	-	-	-	536,355	536,355	
Total	21					63	1,6						
liabilities and	29	9,	255	48	6,	22,							
shareholders'	,5	31	,54	1,6	76	85							
equity	\$ 39	\$ 8	\$ 9	\$ 86	\$ 1	\$ 3	\$ 149,177	\$ 251,321	\$ 305,461	\$ 403,703	\$ 536,355	\$ 1,646,017	
	26												
	4,	73	344	(94		58							
	82	,0	,55	,08		8,3							
Period gap	\$ 4	\$ 34	\$ 5	\$ 3)	N/A	\$ 30	\$ 205,178	\$ (13,734)	\$ 313,683	\$ (27,294)	N/A	\$ 477,833	
	26	33											
	4,	7,	682	58		58							
	82	85	,41	8,3		8,3							
Cumulative gap	\$ 4	\$ 8	\$ 3	\$ 30	N/A	\$ 30	\$ 205,178	\$ 191,444	\$ 505,127	\$ 477,833	N/A	\$ 477,833	
Ratio of													
cumulative gap													
to cumulative	89	57											
earning	.9	.5	57.	37.									
assets	7 %	8 %	50 %	37 %			57.90 %	32.34 %	41.71 %	30.10 %			

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.

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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

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shocked upward and downward by 100 bps to 400 basis points, in 100 basis point increments. Due to the low level of interest rates, the shock down analysis where the rates fall 300 basis points or more are not considered meaningful and are therefore not shown in the results below as ofDecember 31, 2022.

<i>(Dollars in thousands)</i> Change in Yield Curve	Change in Net Interest Income		Change in Net Interest Income	
	Percentage	Amount	Percentage	Amount
+400 bps	15.42 %	\$ 15,451	27.34 %	\$ 25,452
+300 bps	14.97 %	15,002	19.93 %	18,558
+200 bps	10.34 %	10,363	12.91 %	12,016
+100 bps	5.35 %	5,365	5.95 %	5,542
Base case	0.00 %	-	0.00 %	-
-100 bps	-2.85 %	(2,853)	-2.25 %	(2,096)

-200 bps	-5.86 %	(5,870)	-5.04 %	(4,694)
-300 bps			-8.16 %	(7,597)
-400 bps			-8.90 %	(8,284)

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 an inverted or relatively flat yield curve could adversely the Company's net interest income in 2023,2024.

## 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.

## Borrowing Lines

As of December 31, 2022 December 31, 2023

Correspondent Banks	\$	117,000	\$	119,000
Federal Home Loan Bank of Atlanta		39,120		70,446

Total Available	\$ 156,120	\$ 189,446
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As of December 31, 2022December 31, 2023, the Company had no\$66.5 million in outstanding advances with the FHLB.

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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 \$100.0 million\$3.8 million outstanding in federal funds sold, an average of \$161.3 million\$15.5 million at the Federal Reserve and during 2023. On the liability side of the balance sheet, the Company maintained an average of less than \$1 thousand\$37.3 million in FHLB advances and \$2.6 million in federal funds purchased during 2022 due to annual testing

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of the federal funds lines.2023. On December 31, 2022December 31, 2023 the Company had noa \$3.5 million 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 16.82%17.29%, 16.82%17.29%, 17.38%18.12% and 9.62%11.05%, respectively, as of December 31, 2022December 31, 2023, 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, 2022December 31, 2023.

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 percent, less than \$10 billion in total consolidated assets, and limited amounts of off-balance-sheet exposures and trading assets and liabilities. A qualifying community banking organization that opts into the CBLR framework and meets all requirements under the framework will be considered to have met the well-capitalized ratio requirements under the 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, 2022** **December 31, 2023** and **December 31, 2021** **December 31, 2022** 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, 2022** **December 31, 2023**.

### **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 2022 2023 and 2021, 2022, leasing/rental expenditures of \$543 thousand and \$528 thousand and \$520 thousand respectively,

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(including (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, 2022 December 31, 2023:

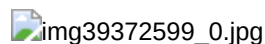
(Dollars in thousands)	1 year or less	1-3 years	3-5 years	After 5 years	Total					
						1 year or less	1-3 years	3-5 years	After 5 years	Total
Operating lease obligation	1,538	2,389	1,399	1,141	6,447					
	\$ 67	\$ 7	\$ 8	\$ 41	\$ 3	\$ 1,520	\$ 2,532	\$ 1,877	\$ 913	\$ 6,842

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

Not required for smaller reporting company.

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## **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

Charlottesville, Virginia

#### **Opinion on the Consolidated Financial Statements**

We have audited the accompanying consolidated balance sheets of Virginia National Bankshares Corporation and Subsidiaries (the Corporation) as of **December 31, 2022** **December 31, 2023** and **2021, 2022**, the related consolidated statements of income, comprehensive income **(loss)**, 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 Corporation as of **December 31, 2022** **December 31, 2023** and **2021, 2022**, 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.

#### **Adoption of New Accounting Standard**

As discussed in Notes 2, 4 and 5 to the financial statements, the Corporation changed its method of accounting for credit losses in 2023 due to the adoption of Accounting Standards Update 2016-13, *Financial Instruments – Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments*, including all related amendments.

#### **Basis for Opinion**

These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on the Corporation'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 Corporation 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 Corporation 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 Corporation'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

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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.

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### Allowance for **Loan Credit Losses (ACL)** – **Qualitative Factors** **Loans Collectively Evaluated for Credit Losses**

#### Description of the Matter

As **described** **discussed** in Note 1 – **Summary** (Summary of Significant Accounting **Policies** Policies), Note 2 (Adoption of New Accounting Standards) and Note 5 – **Allowance** (Allowance for **Loan Losses** Credit Losses) to the **consolidated** financial statements, the Corporation **maintains an** changed its method of accounting for credit losses on January 1, 2023, due to the adoption of Accounting Standards Update 2016-13, *Financial Instruments – Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments*, as amended. The allowance for **loan credit** losses on loans is a valuation allowance that represents management's best estimate of **probable** expected credit losses **inherent** 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 Corporation using historical data, as well as assessments of current conditions and reasonable and supportable forecasts of future conditions. The Corporation's total ACL for loans was \$8.4 million, of which all but \$4 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 Corporation 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 loan portfolio. For loans that are not specifically identified for impairment, management determines the allowance for loan losses based on historical quantitative loss experience adjusted for estimation process. The qualitative factors. Qualitative adjustments to the historical loss experience are established by applying a loss percentage to the loan segments established factors considered by management based on their assessment include changes in lending policies and procedures; nature and volume of shared risk characteristics within groups the portfolio; experience, depth and ability of similar loans.

Qualitative factors are determined based on management's continuing evaluation of inputs and assumptions underlying the lending personnel; trends in credit quality; quality of the loan portfolio. Management evaluates review system; value of underlying collateral; volume and concentrations of credit; and the effects of other external factors. A qualitative factors by loan segment, primarily considering changes in current factor for reasonable and supportable forecasts of economic conditions collateral values, classified asset and delinquency trends, is also determined for those segments utilizing the existence and effect of concentrations, lending policies and procedures, remaining life method as it is not already incorporated into the experience and depth of the lending team, and policy exception levels. Qualitative factors contribute significantly quantitative component. This evaluation is inherently subjective as it requires estimates that are susceptible to the allowance for loan losses. significant revision as more information becomes available.

Management exercised significant judgment when assessing the qualitative factors in estimating the allowance ACL for loan losses. collectively evaluated loans. We identified the assessment measurement of the qualitative factors ACL for collectively evaluated loans as a critical audit matter as auditing the qualitative factors this estimate involved especially complex and subjective auditor judgment in evaluating and testing management's assessment of the assertions over an inherently subjective estimates. 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 Corporation'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.

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- 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 Corporation's discounted cashflow methodology, including evaluating their judgments the identification of loan pools, the probability of default and assumptions loss given default rate inputs, and the prepayment/curtailment rate inputs for developing each pool.
    - Evaluating the qualitative factors, which included: 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 reasonableness of management's judgments related to the determination of qualitative factors.
  - Evaluating the qualitative factors for directional consistency in comparison to prior periods and reasonableness. reasonableness in comparison to underlying supporting data.
    - Testing the mathematical accuracy of the allowance calculation, ACL for collectively evaluated loans including both the application discounted cashflow and qualitative factor components of the qualitative factors. calculations.

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

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

Richmond, Virginia

March 29, 2023 28, 2024

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

	December 31, 2022	December 31, 2021	December 31, 2023	December 31, 2022
<b>ASSETS</b>				
Cash and due from banks	\$ 20,993	\$ 20,345	\$ 18,074	\$ 20,993
Interest-bearing deposits in other banks	19,098	336,032		
Interest bearing deposits in other banks			10,316	19,098
Federal funds sold	45	152,463	-	45
Securities:				
Available for sale, at fair value	538,186	303,817	420,595	538,186
Restricted securities, at cost	5,137	4,950	8,385	5,137
Total securities	543,323	308,767	428,980	543,323
Loans	936,415	1,061,211	1,092,665	936,415
Allowance for loan losses	(5,552)	(5,984)		
Allowance for credit losses			(8,395)	(5,552)
Loans, net	\$ 930,863	\$ 1,055,227	\$ 1,084,270	\$ 930,863
Premises and equipment, net	17,808	25,093	16,195	17,808
Assets held for sale	965	-	-	965
Bank owned life insurance	38,552	31,234	38,904	38,552
Goodwill	7,768	8,140	7,768	7,768
Core deposit intangible, net	6,586	8,271	5,093	6,586
Other intangible assets, net	-	274		
Other real estate owned, net	-	611		
Right of use asset, net	6,536	7,583	6,748	6,536
Deferred tax asset, net	17,315	4,840	15,382	17,315
Accrued interest receivable and other assets	13,507	13,304	14,287	13,507
Total assets	\$ 1,623,359	\$ 1,972,184	\$ 1,646,017	\$ 1,623,359
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
Liabilities:				
Demand deposits:				
Noninterest-bearing	\$ 495,649	\$ 522,281		

Interest-bearing	399,983	446,314		
Noninterest bearing			\$ 372,857	\$ 495,649
Interest bearing			305,541	399,983
Money market and savings deposit accounts	467,600	665,530	412,119	467,600
Certificates of deposit and other time deposits	115,106	162,045	318,581	115,106
Total deposits	1,478,338	1,796,170	1,409,098	1,478,338
Federal funds purchased			3,462	-
Borrowings			66,500	-
Junior subordinated debt	3,413	3,367	3,459	3,413
Lease liability	6,173	7,108	6,504	6,173
Accrued interest payable and other liabilities	2,019	3,552	3,954	2,019
Total liabilities	1,489,943	1,810,197	1,492,977	1,489,943
Commitments and contingent liabilities				
Shareholders' equity:				
Preferred stock, \$2.50 par value	-	-	-	-
Common stock, \$2.50 par value	13,214	13,178	13,258	13,214
Capital surplus	105,344	104,584	106,045	105,344
Retained earnings	63,482	46,436	73,781	63,482
Accumulated other comprehensive income (loss)	(48,624)	(2,211)		
Accumulated other comprehensive (loss)			(40,044)	(48,624)
Total shareholders' equity	133,416	161,987	153,040	133,416
Total liabilities and shareholders' equity	\$ 1,623,359	\$ 1,972,184	\$ 1,646,017	\$ 1,623,359
Common shares outstanding	5,337,271	5,308,335	5,365,982	5,337,271
Common shares authorized	10,000,000	10,000,000	10,000,000	10,000,000
Preferred shares outstanding	-	-	-	-
Preferred shares authorized	2,000,000	2,000,000	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,	
	2022	2021
Interest and dividend income:		
Loans, including fees	\$ 44,231	\$ 43,899
Federal funds sold	1,088	139
Other interest-bearing deposits	1,467	233
Investment securities:		
Taxable	8,416	2,810
Tax exempt	1,249	1,021
Dividends	280	170
Total interest and dividend income	56,731	48,272
Interest and dividend income:		
Demand and savings deposits	2,327	2,308
Certificates and other time deposits	657	1,108
Borrowings	200	(132 )
Total interest expense	3,184	3,284
Net interest income	53,547	44,988
Provision for loan losses	106	1,014
Net interest income after provision for loan losses	53,441	43,974
Noninterest income:		
Wealth management fees	2,440	3,508
Advisory and brokerage income	770	1,154
Deposit account fees	1,799	1,459
Debit/credit card and ATM fees	2,794	2,070
Bank owned life insurance income	963	708
Resolution of commercial dispute	2,400	-
Gain on sale of business line	404	-



Gains on sale of assets, net	1,043	81
Other	1,048	1,485
Total noninterest income	13,661	10,465
Noninterest expense:		
Salaries and employee benefits	17,260	16,129
Net occupancy	4,526	3,575
Equipment	897	966
Bank franchise tax	1,216	1,136
Computer software	1,136	1,020
Data processing	2,727	2,793
FDIC deposit insurance assessment	511	858
Marketing, advertising and promotion	1,224	922
Merger and merger-related expenses	-	7,423
Plastics expense	394	978
Professional fees	1,357	1,117
Core deposit intangible amortization	1,684	1,389
Impairment on assets held for sale	242	-
Other	5,382	4,216
Total noninterest expense	38,556	42,522
Income before income taxes	28,546	11,917
Provision for income taxes	5,108	1,846
Net income	\$ 23,438	\$ 10,071
Net income per common share, basic	\$ 4.40	\$ 2.16
Net income per common share, diluted	\$ 4.38	\$ 2.14

	For the years ended December 31,	
	2023	2022
Interest and dividend income:		
Loans, including fees	\$ 56,053	\$ 44,231
Federal funds sold	207	1,088
Other interest bearing deposits	501	1,467
Investment securities:		
Taxable	11,554	8,416

Tax exempt	1,308	1,249
Dividends	367	280
Total interest and dividend income	69,990	56,731
Interest and dividend income:		
Demand deposits	346	230
Money market and savings deposits	9,673	2,097
Certificates and other time deposits	8,617	657
Borrowings	1,934	200
Federal funds purchased	138	-
Junior subordinated debt	313	-
Total interest expense	21,021	3,184
Net interest income	48,969	53,547
Provision for credit losses	734	106
Net interest income after provision for credit losses	48,235	53,441
Noninterest income:		
Wealth management fees	1,976	2,440
Advisory and brokerage income	-	770
Deposit account fees	1,593	1,799
Debit/credit card and ATM fees	2,268	2,794
Bank owned life insurance income	1,764	963
Resolution of commercial dispute	-	2,400
Gains on sale of assets, net	112	1,043
Gain on termination of interest swap	460	-
Gain on sale of business line	-	404
Losses on sales of AFS, net	(206)	-
Other	1,134	1,048
Total noninterest income	9,101	13,661
Noninterest expense:		
Salaries and employee benefits	15,900	17,260
Net occupancy	4,017	4,526
Equipment	762	897
Bank franchise tax	1,220	1,216

Computer software	778	1,136
Data processing	2,799	2,727
FDIC deposit insurance assessment	710	511
Marketing, advertising and promotion	1,098	1,224
Plastics expense	177	394
Professional fees	674	1,357
Core deposit intangible amortization	1,493	1,684
Impairment on assets held for sale	-	242
Other	4,435	5,382
Total noninterest expense	34,063	38,556
Income before income taxes	23,273	28,546
Provision for income taxes	4,010	5,108
Net income	\$ 19,263	\$ 23,438
Net income per common share, basic	\$ 3.60	\$ 4.40
Net income per common share, diluted	\$ 3.58	\$ 4.38

See Notes to the Consolidated Financial Statements

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

	For the years ended December 31,	
	2022	2021
Net income	\$ 23,438	\$ 10,071
Other comprehensive income (loss)		
Unrealized losses on securities, net of tax benefit of (\$12,465) and (\$959) for the years ended December 31, 2022 and 2021	(46,876)	(3,607)

Unrealized gains (losses) on interest rate swaps, net of tax (benefit) of \$146 and (\$17) for the years ended December 31, 2022 and 2021	549	(64)
Reclassification of unrealized loss on swap	(86)	-
Total other comprehensive loss	(46,413)	(3,671)
Total comprehensive income (loss)	\$ (22,975)	\$ 6,400

	For the years ended December 31,	
	2023	2022
Net income	\$ 19,263	\$ 23,438
Other comprehensive income (loss):		
Unrealized gains (losses) on securities, net of tax (benefit) of \$2,344 and (\$12,465) for the years ended December 31, 2023 and 2022	8,817	(46,876)
Unrealized gains (losses) on interest rate swaps, net of tax (benefit) of (\$9) and \$146 for the years ended December 31, 2023 and 2022	(37)	549
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 \$43 and \$0 for the years ended December 31, 2023 and 2022	163	-
Reclassification of unrealized loss on swap	-	(86)
Total other comprehensive income (loss)	8,580	(46,413)
Total comprehensive income (loss)	\$ 27,843	\$ (22,975)

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)

	Accumulated Other Comprehensive Income					Accumulated Other Comprehensive Income				
	Common Stock	Capital Surplus	Retained Earnings	Comprehensive Income (Loss)	Total	Common Stock	Capital Surplus	Retained Earnings	Comprehensive Income (Loss)	Total
<b>Balance, December 31, 2020</b>	6,722	32,457	41,959	1,460	82,598					
Common stock issued in acquisition of Fauquier Bankshares, Inc.	6,428	71,608	-	-	78,036					
Cash in lieu of fractional shares	-	(4)	-	-	(4)					
Exercise of stock options	3	27	-	-	30					
Stock option expense	-	14	-	-	14					
Restricted stock grant expense	-	5	-	-	5					
Vested stock grants	-	37	-	-	37					
Cash dividends declared (\$1.20 per share)	-	6	-	-	6					
	-	(25)	-	-	-					
	-	-	(5,594)	-	(5,594)					
	-	-	10,071	-	10,071					
Net income	-	-	71	-	1					
Other comprehensive loss	-	-	-	(3,671)	(3,671)					

<b>Balance,</b>	13	10	46		16					
<b>December 31,</b>	,1	4,5	,4	(2,21	1,9					
<b>2021</b>	\$ 78	\$ 84	\$ 36	\$ 1)	\$ 87	\$ 13,178	\$ 104,584	\$ 46,436	\$ (2,211)	\$ 161,987
Exercise of stock options	2	21	-	-	23	2	21	-	-	23
Stock option expense	-	16	-	-	16	-	167	-	-	167
Restricted stock grant expense	-	52	-	-	52	-	520	-	-	520
Vested stock grants	34	(3	-	-	-	34	(34)	-	-	-
Cash dividends declared (\$1.20 per share)	-	-	(6,39	-	(6,39	-	-	(6,392)	-	(6,392)
			23		23,					
			,4		43					
Net income	-	-	38	-	8	-	-	23,438	-	23,438
Other comprehensive loss	-	86	-	(46,4	(4	-	86	-	(46,413)	(46,327)
			13)		27)					
<b>Balance,</b>	13	10	63		13					
<b>December 31,</b>	,2	5,3	,4	(48,6	3,4					
<b>2022</b>	\$ 14	\$ 44	\$ 82	\$ 24)	\$ 16	\$ 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
<b>Balance, December 31, 2023</b>	<b>\$ 13,258</b>	<b>\$ 106,045</b>	<b>\$ 73,781</b>	<b>\$ (40,044)</b>	<b>\$ 153,040</b>

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,		For the years ended December 31,	
	2022	2021	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income	\$ 23,438	\$ 10,071	\$ 19,263	\$ 23,438
Adjustments to reconcile net income to net cash provided by operating activities:				
Provision for loan losses	106	1,014		
Provision for credit losses			734	106
Net accretion of certain acquisition-related adjustments	(2,340)	(3,381)	(6,191)	(2,340)
Amortization of intangible assets	1,746	1,456	1,493	1,746
Net amortization and (accretion) of securities	(364)	1,542	(2,444)	(364)
Net losses on sale of AFS			206	-
Net gains on sales of other assets	(1,084)	(65)	(112)	(1,084)
Bank owned life insurance income	(963)	(708)	(1,764)	(963)
Depreciation and other amortization	3,339	2,944	3,276	3,339
Gain on sale of business line	(404)	-	-	(404)

Decrease in goodwill and other intangibles resulting from sale of business line	584	-	-	584
Impairment charge on assets held for sale	242	-	-	242
Deferred tax (benefit) expense	(138)	702		
Deferred tax (benefit)			(473)	(138)
Stock option expense	167	145	142	167
Stock grant expense	520	376	585	520
Net change in:				
Accrued interest receivable and other assets	(828)	(2,605)	52	(828)
Accrued interest payable and other liabilities	(1,336)	1,574	(863)	(1,336)
Net cash provided by operating activities	22,685	13,065	13,904	22,685
CASH FLOWS FROM INVESTING ACTIVITIES:				
Acquisition of Fauquier Bankshares	-	153,278		
Purchases of available for sale securities	(316,350)	(74,427)	(83,164)	(316,350)
Net increase in restricted investments	(188)	(320)	(3,248)	(188)
Proceeds from maturities, calls and principal payments of available for sale securities	22,723	31,720	214,394	22,723
Net decrease in loans	126,598	146,945		
Proceeds from sale of loans	-	6,251		
Net (increase) decrease in loans			(150,348)	126,598
Proceeds from sale of premises and equipment	6,311	34	2,358	6,311
Proceeds from sale of other real estate owned	610	-	-	610
Proceeds from settlement of bank owned life insurance			1,412	-
Purchase of bank owned life insurance	(6,355)	-	-	(6,355)
Purchase of bank premises and equipment, net	(546)	(1,293)	(1,171)	(546)
Net cash (used in) provided by investing activities	(167,197)	262,188	(19,767)	(167,197)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Net (decrease) increase in demand deposits, NOW accounts, and money market accounts	(270,892)	254,564		
Net decrease in certificates of deposit and other time deposits	(46,931)	(6,712)		
Net decrease in other borrowings	-	(42,582)		
Net (decrease) in demand deposits, NOW accounts, and money market accounts			(272,715)	(270,892)



Net increase (decrease) in certificates of deposit and other time deposits			203,466	(46,931)
Net increase in Federal funds purchased			3,462	-
Net increase in other borrowings			66,500	-
Proceeds from termination of interest swap			460	-
Proceeds from stock options exercised	23	30	18	23
Cash dividends paid	(6,392)	(6,408)	(7,074)	(6,392)
Net cash (used in) provided by financing activities	(324,192)	198,892	(5,883)	(324,192)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	\$ (468,704)	\$ 474,145		
NET (DECREASE) IN CASH AND CASH EQUIVALENTS			\$ (11,746)	\$ (468,704)
CASH AND CASH EQUIVALENTS:				
Beginning of period	\$ 508,840	\$ 34,695	\$ 40,136	\$ 508,840
End of period	\$ 40,136	\$ 508,840	\$ 28,390	\$ 40,136
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION				
Cash payments for:				
Interest	\$ 3,202	\$ 3,269	\$ 19,214	\$ 3,202
Taxes	\$ 4,450	\$ 1,217	\$ 3,809	\$ 4,450
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES				
Unrealized losses on available for sale securities	\$ (59,347)	\$ (4,566)		
Unrealized (losses) gains on interest rate swaps	695	(81)		
Assets acquired in business combination	-	910,494		
Liabilities assumed in business combination	-	840,226		
Unrealized gains (losses) on available for sale securities			\$ 11,367	\$ (59,347)
Unrealized gains on interest rate swaps			-	695
Change in goodwill	(372)	7,768	-	(372)

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. Until the sale of the business line on December 19, 2022, the Bank also offered, through networking agreements with third parties, investment advisory and other investment services under Sturman Wealth Advisors. Refer to Note 2127 - Sale of Sturman Wealth Advisors for more information regarding the sale of such business line. Investment management services are offered through Masonry Capital Management, LLC, a registered investment adviser and wholly-owned subsidiary of the Company.

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.

On April 1, 2021, the Company completed the Merger with Fauquier with and into the Company for total consideration paid of \$78.0 million. In connection with the transaction, TFB, Fauquier's wholly-owned bank subsidiary, was merged with and into the Bank. Additional information about this transaction is presented in Note 2 – Business Combinations.

**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 allowance for loan credit losses (including impaired individually evaluated loans), acquisition accounting, other-than-temporary impairment of securities, intangible assets, income taxes, and fair value measurements.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**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.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**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.

**Impairment of** For AFS securities, **occurs** management evaluates all investments in an unrealized loss position on a quarterly basis, and more frequently when the fair value of a security is less than its amortized cost. For debt securities, impairment is considered other-than-temporary and recognized in its entirety in net income if either (1) economic or market conditions warrant such evaluation. If the Company **intends** has the intent to sell the security or (2) it is more likely than not that the Company will be required to sell the security, **before recovery** the security is written down to fair value and the entire loss is recorded in earnings.

If either of **its** 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, basis. If, however, performance on any underlying collateral, downgrades in the Company does not intend to sell ratings of the security and it is not more-than-likely that by a rating agency, the Company will be required to sell the security before recovery, the Company must determine what portion failure of the impairment is attributable issuer to make scheduled interest or principal payments and adverse conditions specifically related to the security. If the assessment indicates that a credit loss which occurs when the amortized cost of the security exceeds exists, the present value of the cash flows expected to be collected from are compared to the security. If there amortized cost basis of the security and any excess is no credit recorded as an ACL, limited by the amount that the fair value is less than the amortized cost basis. Any amount of unrealized loss there that has not been recorded through an ACL is no other-than-temporary impairment. If there is a credit loss, other-than-temporary impairment exists, and the credit loss must be recognized in net income and the remaining portion of impairment must be 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, 2023, 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 CBB Financial Corp. ("CBBFC"), 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 allowance for loan credit losses. Interest income on loans is reported on the level-yield method and includes amortization of deferred loan fees and costs over the loan term. **Acquired**

Loans were acquired in a business combination are recorded at estimated fair value at on the Merger date without carryover of Fauquier's 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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 allowance for loan credit losses or net deferred fee/costs. The fair value established for non-PCD loans as part of the Acquired Loans was determined using market participant assumptions in estimating the amount and timing of both principal and interest cash flows expected to be collected on the loans and then discounting those cash flows based on a discount rate that would be required by a market participant. Acquired Loans are classified as either (i) purchased credit-impaired loans or (ii) purchased performing loans. PCI loans are not classified as nonperforming loans by the Company at the time they are acquired, regardless of whether they had been classified as nonperforming by the previous holder of such loans, and they will not be classified as nonperforming so long as, at semi-annual re-estimation periods, we believe we will fully collect the new carrying value of the pools of loans. Purchased performing loans are accounted for using the contractual cash flows method of recognizing discount accretion based on the Acquired Loans' contractual cash flows. business combination.

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

**Allowance for loan credit losses** – The allowance for loan credit losses on loans is a reserve 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, charged current conditions and reasonable and supportable forecasts relevant to expense, 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 represents management's best estimate of probable losses inherent in are evaluated using a remaining life methodology. The discounted cash flow approach used by the loan portfolio. The allowance for loan losses includes allowance allocations calculated in accordance with FASB ASC Topic 310, "Receivables" Company utilizes loan-level cash flow projections and allowance allocations calculated in accordance

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

with ASC Topic 450, "Contingencies." pool-level assumptions. Further information regarding the Company's policies and methodology used to estimate the allowance for loan losses ACL is presented in Note 5 – Allowance for Loan Credit Losses.

Information concerning Management's estimate of the Company's adoption ACL on loans that are collectively evaluated also includes a qualitative assessment of ASC 326, effective January 1, 2023, available information relevant to assessing collectability that is presented later not captured in this the loss estimation process. Factors considered by management are detailed in Note 12 - Summary Adoption of Significant New Accounting Policies, under Recent Accounting Pronouncements. 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

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 policies 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 **ALLL**. **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

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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. Further information on the Company's other comprehensive income 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

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 percent 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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

benefits in the accompanying consolidated balance sheets along with any associated interest and penalties that would be payable to the taxing authorities upon examination.

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, 2022**, **December 31, 2023** and **2021, 2022**, 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 or Masonry Capital 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 Accounting Pronouncements

**66 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 five percent 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 five percent 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.

**Segment Reporting**– In November 2023, the FASB issued ASU 2023-07, “Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures.” The amendments in this ASU are intended to improve reportable segment disclosure requirements primarily through enhanced disclosures about significant segment expenses. This ASU requires disclosure of significant segment expenses that are regularly provided to the chief operating decision maker (CODM), an amount for other segment items by reportable segment and a description of its composition, all annual disclosures required by FASB ASU Topic 280 in interim periods as well, and the title and position of the CODM and how the CODM uses the reported measures. Additionally, this ASU requires that at least one of the reported segment profit and loss measures should be the measure that is most consistent with the measurement principles used in an entity’s consolidated financial statements. Lastly, this ASU requires public business entities with a single reportable segment to provide all disclosures required by these amendments in this ASU and all existing segment disclosures in Topic 280. This ASU is effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. Early adoption is permitted. The amendments should be applied retrospectively. The Company does not expect the adoption of ASU 2023-07 to have a material impact on its consolidated financial statements.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Recent Accounting Pronouncements

**Financial Instruments – Credit Losses** - In June 2016, the FASB issued ASU 2016-13, “Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.” The ASU, as amended, requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Among other things, the ASU also amended the impairment model for available-for-sale securities and addressed purchased financial assets with deterioration.

The Company adopted ASU 2016-13 effective January 1, 2023 in accordance with the required implementation date and recorded the impact of adoption to retained earnings, net of deferred income taxes, as required by the standard. The adjustment to retained earnings as a result of adoption is expected to be within a reasonable range of \$2 million to \$2.6 million from December 31, 2022 to January 1, 2023 and consists of adjustments to the ACL as well an adjustment to the Company’s reserve for unfunded loan commitments. 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.

The Company established a working group to prepare for and implement changes related to ASC 326. This working group gathered historical loan loss data for purposes of evaluating appropriate portfolio segmentation and modeling methods under the standard related to the allowance for credit losses on loans, performed procedures to validate the historical loan loss data to ensure its suitability and reliability for purposes of developing an estimate of expected credit losses and engaged a vendor

to assist in modeling expected lifetime losses under ASC 326. The Company expects to primarily utilize discounted cash flow methods for estimating the ACL on loans and has implemented policies and procedures for developing that estimate. The Company will also use the remaining life method for certain consumer related pools of loans. The Company is implementing changes to its policies and procedures related to measuring impairment of available for sale securities and does not expect a significant effect on the carrying value of the Company's available for sale securities as a result of the adoption of ASC 326. The adoption of ASC 326 and related changes in the Company's accounting policies will result in significant changes to the Company's consolidated financial statements, including differences in the timing of recognizing changes to the ACL, and will include expanded disclosures about the ACL, charge-offs and recoveries of loans, and certain loan modifications. The adoption of the standard also results in significant changes in the Company's internal control over financial reporting related to the allowance for credit losses. During 2022, the Company calculated its CECL model in parallel to its incurred loss model in order to further refine the methodology and model. The Company performed an extensive comprehensive model validation internally by qualified personnel and has engaged an independent third party to perform a model review.

**LIBOR and Other Reference Rates** - In March 2020, December 2022, the FASB issued ASU No. 2020-04 2022-06, "Reference Rate Reform (Topic 848): Facilitation Deferral of the Effects Sunset Date of Reference Rate Reform on Financial Reporting." This guidance provides temporary, optional guidance to ease Topic 848". ASU 2022-06 extends the potential burden in accounting for period of time preparers can utilize the reference rate reform associated with relief guidance in Topic 848. The objective of the LIBOR transition. LIBOR and other interbank offered rates are widely used benchmark or reference rates that have been used guidance in the valuation of loans, derivatives, and other financial contracts. Global capital markets are going to be required to move away from LIBOR and other interbank offered rates and toward rates that are more observable or transaction based and less susceptible to manipulation. Topic 848 provides optional expedients and exceptions, subject to meeting certain criteria, for applying current GAAP to contract modifications and hedging relationships, for contracts that reference LIBOR or another reference rate expected to be discontinued. Topic 848 is intended to help stakeholders provide relief during the global market-wide reference rate temporary transition period. The amendments are effective as period, so the FASB included a sunset provision within Topic 848 based on expectations of March 12, 2020 through December 31, 2024 and can be adopted at an instrument level when the LIBOR would cease being published. In 2021, the UK Financial Conduct Authority (FCA) delayed the intended cessation date of certain tenors of USD LIBOR to June 30, 2023.

To facilitate an orderly transition from LIBOR and other benchmark rates to alternative reference rates, ensure the Company has established a focus committee, which includes members of senior management, including the Chief Credit Officer and Chief Financial Officer, among others. The task of this committee is to identify, assess and monitor risks associated with the expected discontinuation or unavailability of benchmarks, including LIBOR, achieve operational readiness and engage impacted customers relief in connection with the transition to alternative reference rates. A complete inventory of instruments tied to LIBOR has been developed, and the focus committee is working through each of the instruments to determine ultimate resolution.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**TDRs and Vintage Disclosures** In March 2022, the FASB issued ASU No. 2022-02, "Financial Instruments-Credit Losses (Topic 326), Troubled Debt Restructurings and Vintage Disclosures." ASU 2022-02 addresses areas identified by the FASB as part of its post-implementation review of the credit losses standard (ASU 2016-13) that introduced the CECL model. The amendments eliminate the accounting guidance for TDRs by creditors that have adopted the CECL model and enhance the disclosure requirements for loan refinancings and restructurings made with borrowers experiencing financial difficulty. In addition, the amendments require a public business entity to disclose current-period gross write-offs for financing receivables and net investment in leases by year of origination in the vintage disclosures. The amendments in this ASU should be applied prospectively, except for the transition method related to the recognition and measurement of TDRs, an entity has the option to apply a modified retrospective transition method, resulting in a cumulative-effect adjustment to retained earnings in Topic 848 covers the period of adoption. For time during which a significant number of modifications may take place, the ASU defers the sunset date of Topic 848 from December 31, 2022, to December 31, 2024, after which entities that have adopted will no longer be permitted to apply the relief in Topic 848. The ASU 2016-13, ASU 2022-02 is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. For all entities that have not yet adopted ASU 2016-13, the effective dates for ASU 2022-02 are the same as the effective dates in ASU 2016-13. Early adoption is permitted if an entity has adopted ASU 2016-13. An entity may elect to early adopt the amendments about TDRs and related disclosure enhancements separately from the amendments related to vintage disclosures. upon issuance.

The Company is currently assessing the impact has identified all loans that ASU 2022-02 will have on its consolidated financial statements, are directly or indirectly impacted by LIBOR.

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 - Business Combinations Adoption of New Accounting Standards**

**Financial Instruments – Credit Losses** -On April 1, 2021 January 1, 2023, the Company completed 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 Merger incurred loss methodology with Fauquier 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 into 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 Company, with net amount expected to be collected by using an allowance for credit losses. Purchased credit deteriorated loans will receive an initial allowance at the Company surviving, pursuant acquisition date that represents an adjustment to the terms amortized cost basis of the Agreement and Plan of Reorganization, dated September 30, 2020, between the Company and Fauquier. loan, with no impact to earnings.

Pursuant In addition, ASU 326 made changes to the Merger Agreement, holders of shares of Fauquier common stock received 0.675 shares of the Company's common stock accounting for each share of Fauquier common stock held immediately prior available-for-sale debt securities. One change is to the Effective Date of the Merger, plus cash in lieu of

fractional shares. In connection with the transaction, the Company issued 2,571,213 shares of its common stock require credit losses to the shareholders of Fauquier 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 paid \$4 thousand in cash in lieu of fractional shares. Each share of the Company's common stock outstanding immediately prior does not believe that it is more likely than not, they will be required to the Merger remained outstanding and was unaffected by the Merger.

Shortly after the Effective Date of the Merger, TFB, Fauquier's wholly-owned bank subsidiary, was merged with and into Virginia National Bank, the Company's wholly-owned bank subsidiary, with Virginia National Bank surviving.sell.

The Company accounted 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 Merger using cumulative effect of adopting ASC 326, which reflects the acquisition method transition adjustments noted above, net of accounting 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 ASC 805, Business Combinations. Under previously applicable accounting standards ("Incurred Loss"). Subsequent to adoption, the acquisition method of accounting, Company will record adjustments to its ACL and reserve for unfunded commitments through the assets acquired and liabilities assumed provision for credit losses in the Merger 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 common stock of the Company issued as consideration were recorded at their respective acquisition date fair values. Determining the fair value of assets and liabilities, particularly related to the loan portfolio, is inherently subjective and involves significant judgment regarding the methods and assumptions used to estimate fair value. Under ASC 805, during the measurement period of up to one year, the acquirer shall adjust the amounts recognized at the acquisition date and may recognize additional assets or liabilities to reflect new information obtained from facts and circumstances that existed as of the acquisition date that, if known, would have affected the measurement of the amounts recognized as of that date. Measurement period adjustments are recognized in the reporting period in which they are determined. The measurement period may not exceed one year from the acquisition date.outstanding principal



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 presents as illustrates the impact of April 1, 2021 the total consideration paid by the Company in connection with the Merger, the fair values of the assets acquired and liabilities assumed, and the resulting goodwill: adopting ASC 326:

<i>(Dollars in thousands)</i>	As Recorded by Fauquier	Fair Value Adjustment	As Recorded by the Company
<b>Assets:</b>			
Cash and cash equivalents	\$ 153,282	\$ -	\$ 153,282
Securities available for sale	93,133	-	93,133
Restricted securities	1,619	-	1,619
Loans, net	615,766	(13,123)	602,643
Premises and equipment	16,276	3,872	20,148
Other real estate owned	1,356	(745)	611
Bank-owned life insurance	13,677	-	13,677
Right-of-use assets	4,355	1,077	5,432
Core deposit intangible	-	9,660	9,660
Other assets	11,298	(1,009)	10,289
Total assets acquired	<u>\$ 910,762</u>	<u>\$ (268)</u>	<u>\$ 910,494</u>
<b>Liabilities:</b>			
Deposits	\$ 817,499	\$ 191	\$ 817,690
Short-term borrowings	12,582	473	13,055
Junior subordinated debt	4,124	(790)	3,334
Lease liability	4,440	352	4,792

Other liabilities	1,355	-	1,355
Total liabilities assumed	\$ 840,000	\$ 226	\$ 840,226
Net assets acquired			\$ 70,268
Total consideration paid			78,036
Goodwill resulting from merger			\$ 7,768

	December 31, 2022	January 1, 2023	January 1, 2023
(Dollars in thousands)	As Previously Reported (Incurred Loss)	Impact of ASC 326	As Reported Under ASC 326
<b>Assets:</b>			
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
<b>Liabilities:</b>			
Reserve for credit losses on unfunded commitments	60	253	313
Total equity	\$ 133,416	\$ (1,890)	\$ 131,526

In connection with the Merger, 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 recorded approximately \$7.8 million of goodwill and \$9.7 million of other intangible assets related has the intent to sell the core deposits of Fauquier. The goodwill arising from security or it is more likely than not that



the Merger with Fauquier is not deductible for income taxes. The core deposit intangible asset Company will be amortized over a period of seven years using required to sell the sum of years digits method.

Loans acquired from Fauquier had aggregate outstanding principal of \$622.9 million and an estimated security, the security is written down to fair value of \$602.6 million. The discount between and the outstanding principal balance and fair value of \$20.3 million represents expected credit losses and adjustments for market interest rates of \$21.3 million, offset by elimination of net deferred fees/costs of \$979 thousand. Under the acquisition method (ASC 805), the allowance for loan losses entire loss is recorded in the books of Fauquier in the amount of \$7.2 million was not carried over into the books of the Company.

As of the Effective Date, the fair value of the performing loans was \$513.8 million, which was 1.7% less than the book value of the loans. The total fair value discount on performing loans of \$9.0 million consisted of a credit discount of \$8.4 million and an other fair value discount of \$647 thousand. Loans that have evidence of deterioration in credit quality since origination are categorized as purchased credit impaired. As of the Effective Date, the fair value of PCI loans was \$87.3 million, which was 12.3% below the book value of the loans. The total fair value mark on PCI loans of \$12.3 million consisted of a credit discount of \$11.2 million and an other fair value discount of \$1.1 million.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

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Information about of the criteria regarding intent or requirement to sell is met. At 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 \$4.3 million at December 31, 2023 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 acquired from Fauquier under the previous accounting guidance were classified as of April 1, 2021 is as follows: PCD loans without reassessment.

(Dollars in thousands)		April 1, 2021
Contractual principal and interest at acquisition	\$	136,476
Nonaccretable difference		(33,712)
Expected cash flows at acquisition		102,764
Accretable yield		(15,499)
Basis in PCI loans at acquisition, estimated fair value	\$	87,265

**Fair values** 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 major categories of assets acquired loan's purchase price and liabilities assumed as part of ACL becomes its initial amortized cost basis. The difference between the Merger were determined as follows:

**Cash initial amortized cost basis and due from banks:** The carrying amount of cash and due from banks was used as a reasonable estimate of fair value.

**Securities available for sale:** The estimated fair value of AFS investment securities was based on quoted pricing from a third party portfolio accounting service vendor for the valuation of those securities.

**Loans:** The Acquired Loans were recorded at fair value at the Merger date without carryover of Fauquier's allowance for loan losses or net deferred fee/costs. The fair par value of the Acquired 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** was determined using market participant assumptions in estimating - The ACL is a valuation account that is deducted from the loans' amortized cost basis to present the net amount and timing of both principal and interest cash flows expected to be collected on the loans. Loans are charged off against the allowance 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 then discounting those cash flows based external sources, relating to past events, current conditions, and reasonable and supportable forecasts.

The Company measures expected credit losses for loans on a discount rate that would be required by a market participant. In this regard, the Acquired Loans were segregated into pools based on loan type and credit risk. Loan type was determined based on collateral type, loan purpose and loan structure. Credit pooled basis when similar risk characteristics included risk rating groups (pass rated loans exist. The Company has identified ten portfolio segments and adversely classified loans), updated loan-to-value ratios and lien position, and past loan performance. For valuation purposes, these pools were further disaggregated by maturity and pricing characteristics (e.g., fixed-rate, adjustable-rate, balloon maturities). calculates the ACL for each using the methodology specified below (with the major classification noted in italics):

**Premises** Discounted cash flow methodology:

1. Commercial and equipment: industrial *The land (Commercial)*
2. Construction (Real estate construction and buildings acquired were recorded at fair value as determined by current appraisals by independent third parties and tax assessments at the Effective Date. land)

Other 3 Consumer (Consumer)

4. Commercial real estate, owned: non-owner occupied OREO was recorded at fair value based on an existing purchase contract, less estimated selling costs. (Commercial mortgage)

**Bank owned life insurance:** The carrying amount of bank owned life insurance was used as a reasonable estimate of fair value.

**Right of use assets and lease liabilities:** Lease liabilities were measured at the present value of the remaining lease payments, as if the acquired lease were a new lease of the Company at the Effective Date. Right-of-use assets were measured at the same amount as the lease liability as adjusted to reflect favorable or unfavorable terms of the lease when compared with market terms.

**Core deposit intangible:** The fair value of the CDI was determined based on a discounted cash flow analysis using a discount rate based on the estimated cost of equity capital for a market participant. To calculate cash flows, deposit account servicing costs (net of deposit fee income) and interest expense on deposits were compared to the cost of alternative funding sources available through the FHLB. The life of the deposit base and

projected deposit attrition rates were determined using Fauquier's historical deposit data. The CDI was estimated at \$9.7 million or 1.3% of non-maturity deposits.

**Deposits:** The fair value adjustment of deposits represents a premium over the value of the contractual repayments of fixed-maturity deposits using prevailing market interest rates for similar term certificates of deposit, using a discounted cash flow method. The resulting estimated fair value adjustment of certificates of deposit ranging in maturity from one month to three years is a \$191 thousand premium and is being amortized into income over a period of thirty-six months.

**Short-term borrowings:** The fair value of borrowings was determined by comparison to current interest rates for similar borrowings. The resulting fair value adjustment to short-term borrowings is a \$473 thousand premium which will be amortized into interest expense over the remaining life of the debt on a

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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*)

straight-line basis. (Note Remaining life methodology:

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

Additionally, the ACL calculation includes adjustments for qualitative risk factors that such borrowings were repaid 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 third quarter nature and volume of 2021, the portfolio and therefore, terms of loans; changes in the premium was fully amortized during 2021.) 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.

**Junior subordinated debt:** 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 the junior subordinated debt was determined by forecasting the cash flows collateral at the stated coupon rate and discount at a prevailing market rate. The prevailing market rate was based on implied market yields reporting dated adjusted for recently issued debt with similar duration, credit quality, seniority and structure, issued by institutions of similar asset size. The resulting estimated fair value adjustment of junior subordinated debt is a \$790 thousand discount and is being accreted to interest expense over the remaining life of the debt on a straight-line basis. selling costs as appropriate.

***Allowance for Credit Losses – Reserve for Unfunded Commitments*** - The revenue 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 earnings amounts specific other liabilities on the Company's consolidated balance sheets.

***Accrued Interest Receivable*** - The Company elected not to Fauquier since the Effective Date measure an ACL for accrued interest receivable and instead elected to reverse interest income on loans that are included 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 consolidated results for 2021 are not readily determinable. The disclosures timely reversal of these amounts are impracticable due to the merging of certain processes and systems at the Effective Date. uncollectible interest.

No merger or merger-related expenses were incurred in 2022. Merger and merger-related expenses were \$7.4 million (\$5.5 million after taxes) for 2021. These costs included investment banker fees, expenses related to the integration of systems and operations, change of control payments, severance and stay-put bonuses and legal and consulting expenses, which have been expensed as incurred.

The following amounts were accreted to income during 2022: \$

2.3 71

million increase to interest income (accretable yield from purchased performing loans), and \$46 thousand reduction to interest expense related to the time deposit fair value discount. During 2022, the Company incurred \$1.7 million in amortization expense related to the core deposit intangible and \$46 thousand in amortization expense related to the junior subordinated debt.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 3 – Securities

The amortized cost and fair values of securities available for sale as of **December 31, 2022**, **December 31, 2023** and **December 31, 2021**, **December 31, 2022** are as follows:

December 31, 2022		Gross	Gross		
	Amorti	Unrea	Unreal		
	zed	lized	ized	Fair	
December 31, 2023					
	Amortized		Gross Unrealized	Gross Unrealized	Fair
(Dollars in thousands)	Cost	Gains	(Losses)	(Losses)	Value
U.S. Treasury securities	245,583	(3,113)	242,470		
U.S. Government agencies	35,282	(6,528)	28,755		
Mortgage-backed securities/CMOs	194,964	(27,888)	167,076		
MBS/CMO	179,920	171	(24,947)	155,144	
Corporate bonds	19,581	(852)	18,729		
Municipal bonds	104,831	(23,675)	81,156		
Total Securities Available for Sale	600,241	(62,056)	538,186		

December 31, 2021		Gross	Gross	Fair				
	Amorti	Unreal	Unreal					
	zed	ized	ized					
December 31, 2022								
	Amortized		Gross Unrealized	Gross Unrealized	Fair			
			Unrealized	Unrealized				
			Gains	(Losses)	Value			
(Dollars in thousands)	Cost	Gains	(Losses)	Value				
U.S. Treasury securities								
	\$	245,583	\$	-	\$	(3,113)	\$	242,470
U.S. Government agencies								
	\$	4	\$	24	\$	(867)	\$	81

Mortgage-backed securities/CMOs	172,975	(2,259)	170,964						
MBS/CMO				194,964	-	(27,888)	167,076		
Corporate bonds				19,581	-	(852)	18,729		
Municipal bonds	101,136	1,162	(1,026)	101,272	104,831	-	(23,675)	81,156	
<b>Total Securities Available for Sale</b>	<b>306,535</b>	<b>1,434</b>	<b>(4,152)</b>	<b>303,817</b>	<b>\$ 600,242</b>	<b>\$ —</b>	<b>\$ (62,056)</b>	<b>\$ 538,186</b>	

All mortgage-backed securities included in the above tables were issued by U.S. government agencies and corporations. At **December 31, 2022** **December 31, 2023**, the securities issued by political subdivisions or agencies were highly rated with 100% 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, 2022** **December 31, 2023** or **December 31, 2021** **December 31, 2022**.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 \$5.18.4 million and \$5.05.1 million as of **December 31, 2022** **December 31, 2023** and **December 31, 2021** **December 31, 2022**, respectively, are carried at cost.

During the **years** year ended **December 31, 2023**, the Company sold AFS securities with a total book value of \$49.8 million, incurring a pre-tax loss of \$206 thousand, as part of a strategic decision to reinvest proceeds into higher yielding assets. During the year ended **December 31, 2022** and **December 31, 2021**, there were no sales of securities.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Securities pledged to secure deposits and for other purposes and to facilitate borrowing from the FRB, had carrying values of \$21.8 million at December 31, 2023 and \$5.1 million at December 31, 2022 and \$12.7 million at December 31, 2021.

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

December 31, 2022													
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	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	
	ue	ses	ue	ses	ue	ses	ue	ses	ue	ses	ue	ses	
U.S. Treasury Securities	2				2								
	4				4								
	2,				2,								
	4	(3,			4	(3,							
	7	11			7	11							
	\$ 0	\$ 3)	\$ -	\$ -	\$ 0	\$ 3)	\$ -	\$ -	\$ 52,298	\$ (615)	\$ 52,298	\$ (615)	
U.S. Government agencies			2		2								
	4,		4,		8,								
	2		2	(5,	5	(6,							
	8	(6	1	90	0	52							
	5	20)	8	8)	3	8)	10,090	(20)	29,490	(5,530)	39,580	(5,550)	
Mortgage-backed/CMOs			1		1								
	5		1		6								
	5,		1,	(2	7,	(2							
	3	(6,	6	1,	0	7,							
	9	01	8	87	8	88							
	6	0)	9	8)	5	8)							
MBS/CMO							-	-	150,045	(24,947)	150,045	(24,947)	



Corporate bonds	1				1									
	8,				8,									
	7				7									
	2	(8			2	(8								
	9	52)	-	-	9	52)	-	-	19,129	(552)	19,129	(552)		
Municipal bonds	4		3		8									
	4,		5,	(1	0,	(2								
	1	(8,	9	5,	0	3,								
	1	00	6	67	8	67								
	7	1)	4	4)	1	5)	-	-	82,140	(19,263)	82,140	(19,263)		
	3		1		5									
	6		7		3									
	4,	(1	1,	(4	6,	(6								
	9	8,	8	3,	8	2,								
	9	59	7	46	6	05								
	\$ 7	\$ 6)	\$ 1	\$ 0)	\$ 8	\$ 6)	\$ 10,090	\$ (20)	\$ 333,102	\$ (50,907)	\$ 343,192	\$ (50,927)		

December 31, 2021

December 31, 2022														
(Dollars in thousands)	Less than 12 Months													
	12 Months		or more		Total		Less than 12 Months		12 Months or more		Total			
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses		
U.S. Treasury Securities							\$ 242,470	\$ (3,113)	\$ -	\$ -	\$ 242,470	\$ (3,113)		



conditions warrant such evaluation. If the Company has the intent to sell the security or believe it is more likely than not that the Company will be required to sell any the security, the security is written down to fair value and the entire loss is recorded in earnings.

If either of the securities before recovery 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. Accordingly, 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 of December 31, 2022, 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 impairments detailed in criteria regarding intent or requirement to sell is met. At December 31, 2023, there was no ACL related to the table above are temporary, and no impairment loss has been realized in the Company's consolidated income statements.AFS securities portfolio.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The amortized cost and fair value of AFS debt securities at December 31, 2022 December 31, 2023 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		Fair	
	Cost	Value	Amortized Cost	Fair Value
U.S. Treasury securities				
One year or less	\$ 192,843	\$ 191,180	\$ 120,789	\$ 120,245
After one year to five years	52,740	51,290	1,499	1,463
	\$ 245,583	\$ 242,470	\$ 122,288	\$ 121,708
U.S. Government agencies				
One year or less			\$ 10,000	\$ 9,981

After one to five years	\$ 900	\$ 808	5,752	5,135
After five years to ten years	30,382	25,060	25,379	21,416
Ten years or more	4,000	2,887	4,000	3,049
	<u>\$ 35,282</u>	<u>\$ 28,755</u>	<u>\$ 45,131</u>	<u>\$ 39,581</u>
Mortgage-backed securities/CMOs				
MBS/CMO				
One year or less	\$ 1,515	\$ 1,485	\$ 3,612	\$ 3,532
After one year to five years	\$ 9,553	\$ 8,987	3,199	3,027
After five years to ten years	3,096	2,779	3,061	2,796
Ten years or more	180,800	153,825	170,048	145,789
	<u>\$ 194,964</u>	<u>\$ 167,076</u>	<u>\$ 179,920</u>	<u>\$ 155,144</u>
Corporate bonds				
One year or less			\$ 1,996	\$ 1,964
After one year to five years	\$ 17,682	\$ 16,933	17,684	17,165
After five years to ten years	1,899	1,796		
	<u>\$ 19,581</u>	<u>\$ 18,729</u>	<u>\$ 19,680</u>	<u>\$ 19,129</u>
Municipal bonds				
After one year to five years	\$ 2,472	\$ 2,367	\$ 3,375	\$ 3,277
After five years to ten years	17,665	16,151	21,345	19,859
Ten years or more	84,694	62,638	79,545	61,897
	<u>\$ 104,831</u>	<u>\$ 81,156</u>	<u>\$ 104,265</u>	<u>\$ 85,033</u>
Total Debt Securities Available for Sale				
	<u>\$ 600,241</u>	<u>\$ 538,186</u>	<u>\$ 471,284</u>	<u>\$ 420,595</u>

#### 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, 2023 is in accordance with ASC 326. All loan information presented as of December 31, 2022 or a prior date is presented in accordance with previously applicable GAAP.

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 \$4.3 million and \$2.6 million as of December 31, 2023 and December 31, 2022, respectively, from the amortized cost basis of loans.

(Dollars in thousands)	December 31,	December 31,
	2022	2021
Commercial	\$ 71,139	\$ 96,696
Real estate construction and land	37,541	79,331
1-4 family residential mortgages	323,185	358,148
Commercial mortgages	459,125	473,632
Consumer	45,425	53,404
Total loans	\$ 936,415	\$ 1,061,211
Less: Allowance for loan losses	(5,552)	(5,984)
Net loans	\$ 930,863	\$ 1,055,227

(Dollars in thousands)	December 31,	December 31,
	2023	2022
Commercial	\$ 152,517	\$ 71,139
Real estate construction and land	33,682	37,541
1-4 family residential mortgages	317,558	323,185
Commercial mortgages	550,867	459,125
Consumer	38,041	45,425
Total loans	\$ 1,092,665	\$ 936,415
Less: Allowance for credit losses	(8,395)	(5,552)
Net loans	\$ 1,084,270	\$ 930,863

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 \$4.6 million and \$1.4 million and \$1.1 million as of December 31, 2022, December 31, 2023 and December 31, 2021, respectively, respectively, increasing

primarily due to the purchase of government-guaranteed loans in 2023. Net deferred loan fees totaled \$755.25 thousand million and \$865.755 thousand as of December 31, 2022, December 31, 2023 and December 31, 2021, respectively.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Commercial loans** reported above include (i) organic loans originated by the Bank's commercial lenders, (ii) PPP loans through the SBA as discussed above, (iii) 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 (iv) syndicated PPP loans also referred to as shared national credits, purchased from national lending correspondents through the SBA. The government guaranteed loans and the shared national credits are typically purchased at a premium. In the event of early prepayment, the Bank may need to write off any unamortized premium.

**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 includes 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 \$8.37.8 million and \$10.68.3 million as of December 31, 2022, December 31, 2023 and December 31, 2021, 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, 2022, December 31, 2023, the balance in these purchased student loan packages totaled approximately \$25.220.1 million compared to \$30.725.2 million at December 31, 2021, December 31, 2022. Deposit account overdrafts are included in the consumer loan balances and totaled \$180.252 thousand and \$205.180 thousand at December 31, 2022, December 31, 2023 and December 31, 2021, respectively.

**Acquired Loans. 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 \$11.26.2 million and \$12.211.2 million on the purchased impaired loans and \$4.73.2 million and \$6.24.7 million on the purchased performing loans as of December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022, respectively, on the Acquired Loans. See Note 2 – Business Combinations for more information on fair value of loan balances acquired in the Merger.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The outstanding principal balance and the carrying amount at December 31, 2022 and 2021 on these Acquired Loans were as follows:

(Dollars in thousands)		December 31, 2022		
		Acquired Loans - Purchased Credit Impaired	Acquired Loans - Purchased Performing	Acquired Loans - Total
Outstanding principal balance	\$	43,250	290,604	333,854
<b>Carrying amount:</b>				
Commercial	\$	630	12,606	13,236
Real estate construction and land		1,461	8,530	9,991
1-4 family residential mortgages		9,076	164,280	173,356
Commercial mortgages		20,828	99,206	120,034
Consumer		72	1,277	1,349
Total acquired loans	\$	32,067	285,899	317,966

(Dollars in thousands)		December 31, 2021		
		Acquired Loans - Purchased Credit Impaired	Acquired Loans - Purchased Performing	Acquired Loans - Total
Outstanding principal balance	\$	76,608	372,172	448,780
<b>Carrying amount:</b>				
Commercial	\$	994	28,065	29,059
Real estate construction and land		18,576	14,297	32,873
1-4 family residential mortgages		16,020	194,708	210,728

Commercial mortgages	28,675	126,638	155,313
Consumer	118	2,224	2,342
Total acquired loans	<u>\$ 64,383</u>	<u>\$ 365,932</u>	<u>\$ 430,315</u>

The following table presents a summary of the changes in the accretable yield of loans classified as purchased credit impaired:

(Dollars in thousands)	Twelve Months Ended	
	December 31, 2022	
Accretable yield, beginning of period	\$	13,742
Additions		—
Accretion		(3,393)
Reclassification from nonaccretable difference		9,022
Other changes, net		(3,503)
Accretable yield, end of period	\$	15,868

**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.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**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.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



**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.

**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 2022, 2023 and 2021 is presented in the following table.

(Dollars in thousands)	2022	2021	2023	2022
Balance outstanding at beginning of year	\$ 16,592	\$ 19,070	\$ 15,533	\$ 16,592
Principal additions	613	4,527	132	613
Principal reductions	(1,672)	(7,005)	(2,650)	(1,672)
Balance outstanding at end of year	\$ 15,533	\$ 16,592	\$ 13,015	\$ 15,533

**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.

Non-accrual loans are shown below. The following table shows the aging of the Company's loan portfolio, by class, at December 31, 2023:

			90 Days or More Past Due and						
			30-59	60-89	Still	Nonaccrual			Total
			Days	Days	Accruing	Loans	Current		Loans
(Dollars in thousands)	December 31, 2022	December 31, 2021							
Commercial			\$ 378	\$ 369	\$ 782	\$ -	\$ 150,988		\$ 152,517
Real estate construction and land			70	37	-	-	33,575		33,682
1-4 family residential mortgages	\$ 673	\$ 495	1,834	860	-	1,438	313,426		317,558
Total nonaccrual loans	\$ 673	\$ 495							
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

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following tables show the aging of past due loans as of December 31, 2022 and December 31, 2021.

Past Due Aging as of	30-59	60-89	90 Days					90 Days
December 31, 2022	Days	Days	or More	Total			Total	Past
	Past	Past	Past	Past			Loans	Due and
	Due	Due	Due	Due	PCI	Current		Accruing
(Dollars in thousands)								
Commercial	\$ -	\$ 24	\$ -	\$ 24	\$ 630	\$ 70,485	\$ 71,139	\$ -
Real estate construction and land	287	-	75	362	1,461	35,718	37,541	-
1-4 family residential mortgages	1,176	191	598	1,965	9,076	312,144	323,185	-
Commercial mortgages	330	-	646	976	20,828	437,321	459,125	646
Consumer loans	315	41	59	415	72	44,938	45,425	59
Total Loans	\$ 2,108	\$ 256	\$ 1,378	\$ 3,742	\$ 32,067	\$ 900,606	\$ 936,415	\$ 705
Past Due Aging as of	30-59	60-89	90 Days	Total	PCI	Current	Total	90 Days
December 31, 2021	Days	Days	or More	Past			Loans	Past
	Past	Past	Past	Due				Due and

	Due	Due	Due					Accruing
(Dollars in thousands)								
Commercial	\$ 385	\$ 355	\$ 718	\$ 1,458	\$ 994	\$ 94,244	\$ 96,696	\$ 718
Real estate construction and land	873	1,283	-	2,156	18,576	58,599	79,331	-
1-4 family residential mortgages	1,508	100	495	2,103	16,020	340,025	358,148	-
Commercial mortgages	-	-	-	-	28,675	444,957	473,632	-
Consumer loans	345	196	83	624	118	52,662	53,404	83
Total Loans	\$ 3,111	\$ 1,934	\$ 1,296	\$ 6,341	\$ 64,383	\$ 990,487	\$ 1,061,211	\$ 801

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**Impaired loans.** Loans are considered impaired when, based on current information and events, it is probable the Company will be unable to collect all amounts when due in accordance with the original contractual terms of the loan agreement, including scheduled principal and interest payments. Impairment is evaluated on an individual loan basis. If a loan is impaired, a specific valuation allowance is allocated, if necessary, so that the loan is reported net of the impairment, using either the present value of estimated future cash flows at the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Interest payments on impaired loans are typically applied to principal unless collectability of the principal amount is reasonably assured, in which case interest is recognized on a cash basis. Impaired loans, or portions thereof, are charged off when deemed uncollectible.

Regulatory guidelines require the Company to re-evaluate the fair value of collateral supporting impaired collateral dependent loans on at least an annual basis.

The following tables provide a breakdown by class of the loans classified as impaired loans as of December 31, 2022 and December 31, 2021. These loans are reported at their recorded investment, which is the carrying amount of the loan as reflected on the Company's balance sheet, net of charge-offs and other amounts applied to reduce the net book balance. Average recorded investment in impaired loans is computed using an average of month-end balances for these loans for the twelve months ended December 31, 2022 and December 31, 2021. Interest income recognized is for the years ended December 31, 2022 and December 31, 2021.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands)

December 31, 2022			Recorded	Unpaid	Asso	Average	Intere
			Investme	Principal	ciate	Recorded	st
			nt	Balance	d	Investme	Inco
					Allo	nt	me
					wanc		Reco
					e		gnize
							d
Impaired loans without a valuation allowance:							
1-4 family residential mortgages			\$ 583	\$ 615	\$ -	\$ 625	\$ 32
Total impaired loans without a valuation allowance			583	615	-	625	32
Impaired loans with a valuation allowance:							
Consumer			700	700	23	784	49
Total impaired loans with a valuation allowance			700	700	23	784	49
Total impaired loans			\$ 1,283	\$ 1,315	\$ 23	\$ 1,409	\$ 81
(Dollars in thousands)							
December 31, 2021							
Impaired loans without a valuation allowance:							
Real estate construction and land			\$ -	\$ 37	\$ -	\$ 2	\$ -
1-4 family residential mortgages			594	600	-	269	24
Total impaired loans without a valuation allowance			594	637	-	271	24
Impaired loans with a valuation allowance:							
Consumer			935	935	6	974	54
Total impaired loans with a valuation allowance			935	935	6	974	54
Total impaired loans			\$ 1,529	\$ 1,572	\$ 6	\$ 1,245	\$ 78

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Troubled debt restructurings** The following table shows the Company's amortized cost basis of loans on nonaccrual status as of December 31, 2023 and December 31, 2022. All nonaccrual loans are also considered impaired loans. TDRs occur when evaluated for an ACL on an individual basis. Only one nonaccrual loan required an ACL, in the Bank agrees amount of \$4 thousand, due to modify collateral value shortfall. The adoption of CECL altered the original terms manner in which purchased loans that were in nonaccrual status are presented, and as a result, two such loans totaling \$470 thousand are included in this figure in 2023 and not included in 2022.

CECL	Incurred Loss
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	December 31, 2023			December 31, 2022
	Nonaccrual Loans with No Allowance	Nonaccrual Loans with an Allowance	Total Nonaccrual Loans	Nonaccrual Loans
<i>(Dollars in thousands)</i>				
Commercial	\$ -	\$ -	\$ -	\$ -
Real estate construction and land	-	-	-	-
1-4 family residential mortgages	1,383	55	1,438	673
Commercial mortgages	414	-	414	-
Consumer	-	-	-	-
Total Loans	\$ 1,797	\$ 55	\$ 1,852	\$ 673

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 a loan by granting a concession that it would not otherwise consider most modifications is already included in the ACL due to the deterioration measurement methodologies used in its estimate, the ACL is typically not adjusted upon modification. During the twelve months ended December 31, 2023, no loans were modified for borrowers experiencing financial condition of the borrower. These concessions are done in an attempt to improve the paying capacity of the borrower, and in some cases to avoid foreclosure, and are made with the intent to restore the loan to a performing status once sufficient payment history can be demonstrated. These concessions could include reductions in the interest rate, payment extensions, forgiveness of principal, forbearance or other actions. **difficulties.**

Based on regulatory guidance on Student Lending, The Company closely monitors the Company classified 46 performance of all modified loans to understand the effectiveness of its student loans purchased as TDRs for modification efforts. Upon determination, if applicable, that all or a total portion of \$700 thousand as of December 31, 2022. The Company classified 58 of its student loans purchased as TDRs for a total of \$935 thousand as of December 31, 2021. These borrowers, who should have been in repayment, requested and modified loan is uncollectible, that amount is charged against the ACL. There were granted no payment extensions exceeding defaults during the maximum lifetime allowable payment forbearance of twelve months (36 months lifetime allowance for military service), as permitted under the regulatory guidance, and are therefore considered restructurings. Student loan borrowers are allowed in-school deferments, plus an automatic six month grace period post in-school status, before repayment is scheduled to begin, and these deferments do not count toward the maximum allowable forbearance. Initially, all student loans were fully insured by a surety bond, and the Company did not expect to experience a loss on these loans. Based on the termination of the surety bond on July 27, 2018 due to the insolvency of the insurer, management has evaluated these loans individually for impairment and included any potential loss in the allowance for loan losses; interest continues to accrue on these TDRs during any deferment and forbearance periods.

The following provides a summary, by class, ended December 31, 2023 of modified loans that continue to accrue interest under the terms of the restructuring agreement, which are considered to be performing, and modified loans that have been placed in non-accrual status, which are considered to be nonperforming.

Troubled debt restructurings	December 31, 2022	December 31, 2021

<i>(Dollars in thousands)</i>	<b>No. of Loans</b>	<b>Recorded Investment</b>	<b>No. of Loans</b>	<b>Recorded Investment</b>
<b>Performing TDRs</b>				
1-4 family residential mortgages	1	\$ 88	1	\$ 99
Consumer	46	700	58	935
<b>Total performing TDRs</b>	<b>47</b>	<b>\$ 788</b>	<b>59</b>	<b>\$ 1,034</b>
<b>Nonperforming TDRs</b>				
1-4 family residential mortgages	1	\$ 495	1	\$ 495
<b>Total nonperforming TDRs</b>	<b>1</b>	<b>\$ 495</b>	<b>1</b>	<b>\$ 495</b>
<b>Total TDRs</b>	<b>48</b>	<b>\$ 1,283</b>	<b>60</b>	<b>\$ 1,529</b>

A summary of loans shown above that were modified as TDRs during the years ended December 31, 2022 and December 31, 2021 is shown below by class. Loans modified as TDRs that were fully paid down, charged-off, or foreclosed upon by period end are not reported. The Post-Modification Recorded Balance reflects any interest or fees from the original loan which may have been added to the principal balance on the new note as a condition of the TDR. Additionally, the Post-Modification Recorded Balance is reported below at the period end balances, inclusive of all partial principal pay downs and principal charge-offs since the modification date.

<i>(Dollars in thousands)</i>	<b>During year ended December 31, 2022</b>			<b>During year ended December 31, 2021</b>		
	<b>Pre- Modification</b>	<b>Post- Modification</b>		<b>Pre- Modification</b>	<b>Post- Modification</b>	
	<b>Number of Loans</b>	<b>Recorded Balance</b>		<b>Number of Loans</b>	<b>Recorded Balance</b>	
Consumer loans	-	\$ —	\$ —	12	\$ 145	\$ 145
<b>Total loans modified during the period</b>	<b>-</b>	<b>\$ —</b>	<b>\$ —</b>	<b>12</b>	<b>\$ 145</b>	<b>\$ 145</b>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

During the year ended December 31, 2022, there no loans modified as TDRs that subsequently defaulted which had been modified as TDRs during the previous twelve months prior to default. There were five loans modified and all are current as a TDR that subsequently defaulted during the year ended December 31, 2021 and were modified as a TDR during the twelve months prior to default. These student loans had balances of \$56 thousand prior to being charged off. December 31, 2023.

There were no loans secured by 1-4 family residential property that were in the process of foreclosure at either December 31, 2022 December 31, 2023 or December 31, 2021 December 31, 2022.

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

**December 31, 2023**

<i>(Dollars in thousands)</i>			
	Acquired Loans -		Acquired
	Purchased	Acquired Loans -	Loans -
	Credit Deteriorated	Purchased Performing	Total
Outstanding principal balance	\$ 29,206	\$ 267,717	\$ 296,923
<b>Carrying amount:</b>			
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

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Prior to the adoption of ASC 326

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 outstanding principal balance and the carrying amount at December 31, 2022 of loans acquired in business combinations were as follows:

<i>(Dollars in thousands)</i>			
	December 31, 2022		
	Acquired Loans -		Acquired
	Purchased	Acquired Loans -	Loans -
	Credit Impaired	Purchased Performing	Total
Outstanding principal balance	\$ 43,250	\$ 290,604	\$ 333,854
<b>Carrying amount:</b>			
Commercial	\$ 630	\$ 12,606	\$ 13,236
Real estate construction and land	1,461	8,530	9,991
1-4 family residential mortgages	9,076	164,280	173,356
Commercial mortgages	20,828	99,206	120,034
Consumer	72	1,277	1,349

Total acquired loans	\$	32,067	\$	285,899	\$	317,966
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The following table presents a summary of the changes in the accretable yield of loans classified as purchased credit impaired:

	Twelve Months Ended	
	December 31,	
	2022	
Accretable yield, beginning of period	\$	13,742
Additions		—
Accretion		(3,393)
Reclassification from nonaccretable difference		9,022
Other changes, net		(3,503)
Accretable yield, end of period	\$	15,868

The following tables show the aging of past due loans as of December 31, 2022:

Past Due Aging as of	30-59	60-89	90 Days					90 Days
December 31, 2022	Days	Days	or More	Total			Total	Past
	Past	Past	Past	Past			Loans	Due and
	Due	Due	Due	Due	PCI	Current		Accruing
(Dollars in thousands)								
Commercial	\$ -	\$ 24	\$ -	\$ 24	\$ 630	\$ 70,485	\$ 71,139	\$ -
Real estate construction and land	287	-	75	362	1,461	35,718	37,541	-
1-4 family residential mortgages	1,176	191	598	1,965	9,076	312,144	323,185	-
Commercial mortgages	330	-	646	976	20,828	437,321	459,125	646
Consumer loans	315	41	59	415	72	44,938	45,425	59
Total Loans	\$ 2,108	\$ 256	\$ 1,378	\$ 3,742	\$ 32,067	\$ 900,606	\$ 936,415	\$ 705

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table provides a summary, by class, of TDRs as of December 31, 2022 that continued to accrue interest under the terms of the restructuring agreement, which were considered to be performing, and TDRs that were placed in nonaccrual status which were considered to be nonperforming:

December 31, 2022



Troubled debt restructurings		No. of	Recorded
(Dollars in thousands)		Loans	Investment
Performing TDRs			
1-4 family residential mortgages		1	\$ 88
Consumer		46	700
Total performing TDRs		47	\$ 788
Nonperforming TDRs			
1-4 family residential mortgages		1	\$ 495
Total nonperforming TDRs		1	\$ 495
Total TDRs		48	\$ 1,283

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 5 – Allowance for Loan 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, 2023 is in accordance with ASC 326. All ALLL information presented as of December 31, 2022 or a prior date is presented in accordance with previously applicable GAAP.

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
  - o DCF models, being periodic in nature, allow for effective incorporation of a reasonable and supportable forecast in a directionally consistent and objective manner.
  - o 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.
  - o 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.

- o 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

- o This methodology leverages a quarterly loss rate as well as future expectations of portfolio balances to calculate a reserve.
- o 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.
- o 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.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

- 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, 2023, after reviewing each loan in 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, 2023 is due to the increase in organic loan growth during the period.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A summary of the transactions in the allowance for loan credit losses for the years ended December 31, 2022 December 31, 2023 and 2021 2022 appears below:

(Dollars in thousands)	2022	2021	2023	2022
Balance, beginning of period	\$ 5,984	\$ 5,455	\$ 5,552	\$ 5,984

Impact of ASC 326 adoption			\$	2,491	\$	—
Loans charged off	(1,255)	(835)		(721)		(1,255)
Recoveries	717	350		377		717
Net charge-offs	(538)	(485)		(344)		(538)
Provision for loan losses	106	1,014				
Provision for credit losses				696		106
Balance, December 31	\$	5,552	\$	5,984	\$	8,395
					\$	5,552

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

	Commercial	Real Estate Construction and Land	1-4 Family Residential Mortgages	Real Estate Mortgages	Consumer Loans	Total
(Dollars in thousands)	Loans					
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

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

	December 31, 2023	December 31, 2022
(Dollars in thousands)		
Provision for loan losses	\$ 696	\$ 106
Provision for unfunded commitments	38	-
Total	\$ 734	\$ 106

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, 2023:

	Real Estate Secured Loans	Allowance for Credit Losses - Loans
(Dollars in thousands)		
Commercial real estate - non owner occupied	\$ 414	\$ -
Residential 1-4 family real estate	1,438	4
Total	\$ 1,852	\$ 4

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

the portfolio, including loans analyzed individually and loans analyzed on a pooled basis. Allowances for impaired loans are generally determined based on collateral values or the present value of estimated cash flows.

For purposes of determining the allowance for loan losses on the outstanding loans that were not Acquired Loans, the Company has segmented certain loans in the portfolio by product type. Within these segments, the Company has sub-segmented its portfolio by classes, based on the associated risks within these classes. Note that under the acquisition method of accounting (ASC 805), the allowance for loan losses recorded in the books of Fauquier was not carried over into the books of the Company. However, subsequent decreases to the expected cash flows of PCI loans or deterioration of purchased performing loans in a future period may result in a provision for loan losses resulting in an increase to the ALLL.

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

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

- Student loans purchased (excluding Acquired Student Loans) - On June 27, 2018, the Company was notified that ReliaMax Surety Company ("ReliaMax Surety"), the South Dakota insurance company which issued surety bonds for the student loan pools, was placed into liquidation due to insolvency. As such, the historical charge-off rate on this portfolio is determined by using the Company's own losses/charge-offs since July 1, 2018 together with prior insurance claim history. For reporting periods prior to June 30, 2018, the Company did not charge off student loans as the insurance covered the past due loans, but the Company did apply qualitative factors to calculate a reserve on these loans, net of the deposit reserve accounts held by the Company for this group of loans.
- Commercial government guaranteed loans and PPP loans - These loans require no reserve as these are 100% guaranteed by either the SBA or the USDA.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

The Company's internal creditworthiness grading system is based on experiences with similarly graded loans. The Company performs regular credit reviews of utilizes the loan portfolio to review the following credit quality and adherence to its

underwriting standards. Additionally, an independent loan review of a portion of the Company's loan portfolio is performed periodically.

Loans that trend upward toward more positive risk ratings generally have a lower risk factor associated. Conversely, loans that migrate toward more negative ratings generally will result in a higher risk factor being applied to those related loan balances.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Risk Ratings and Historical Loss Factor Assigned

#### **Excellent**

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

#### **Good**

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

#### **Pass**

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

**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. A historical loss factor for loans rated "Watch" is applied to current balances of like-rated loans pooled by class.

#### **Special Mention**

These potential problem loans are currently protected but are potentially weak. A historical loss factor for loans rated "Special Mention" is applied to current balances of like-rated loans pooled by class.

## Substandard

These problem loans are inadequately protected by the sound worth and paying capacity of the borrower and/or the value of any collateral pledged. These loans may be considered impaired and evaluated on an individual basis. Otherwise, a historical loss factor for loans rated "Substandard" is applied to current balances of all other "Substandard" loans pooled by class.

## Doubtful

Loans with this rating have significant deterioration in the sound worth and paying capacity of the borrower and/or the value of any collateral pledged, making collection or liquidation of the loan in full highly questionable. These loans would be considered impaired and are 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, 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						Loans		Total
	2023	2022	2021	2020	2019	Prior	Revolving Loans	Converted to Term	
<i>(Dollars in thousands)</i>									
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	<u>\$ 85,529</u>	<u>\$ 12,482</u>	<u>\$ 2,713</u>	<u>\$ 5,124</u>	<u>\$ 7,174</u>	<u>\$ 17,164</u>	<u>\$ 21,864</u>	<u>\$ 467</u>	<u>\$ 152,517</u>
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	<u>\$ 13,776</u>	<u>\$ 11,748</u>	<u>\$ 3,683</u>	<u>\$ 1,717</u>	<u>\$ 955</u>	<u>\$ 1,674</u>	<u>\$ 129</u>	<u>\$ -</u>	<u>\$ 33,682</u>
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	<u>\$ 19,482</u>	<u>\$ 17,422</u>	<u>\$ 57,453</u>	<u>\$ 78,293</u>	<u>\$ 25,366</u>	<u>\$ 96,670</u>	<u>\$ 22,210</u>	<u>\$ 662</u>	<u>\$ 317,558</u>
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	<u>\$ 112,243</u>	<u>\$ 41,433</u>	<u>\$ 49,726</u>	<u>\$ 104,681</u>	<u>\$ 45,974</u>	<u>\$ 195,232</u>	<u>\$ 1,502</u>	<u>\$ 76</u>	<u>\$ 550,867</u>
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

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Prior to the adoption of ASC 326

The following table presents the changes in the ALLL by major classification during the year ended December 31, 2022:

(Dollars in thousands)	Real Estate					
	Commercial Loans	Constructio n and Land	1-4 Family Residential Mortgages	Real Estate Mortgages	Consumer Loans	Total
Balance as of December 31, 2021	\$ 252	\$ 399	\$ 1,207	\$ 3,271	\$ 855	\$ 5,984
Impact of ASC 326 adoption	-	-	-	-	-	\$ —
Charge-offs	(600)	-	-	-	(655)	\$ (1,255)
Recoveries	519	9	7	4	178	\$ 717
Provision for (recovery of) credit losses	23	(187)	404	(455)	321	\$ 106
Balance as of December 31, 2022	\$ 194	\$ 221	\$ 1,618	\$ 2,820	\$ 699	\$ 5,552

The following represents the loan portfolio designated by the internal risk ratings assigned to each credit **at** as of December 31, 2022 **and 2021.** There were no loans rated “Doubtful” as **of either period.** **December 31, 2022.**

December 31, 2022	Excellent	Good	Pass	Watch	Special Mention	Sub- standard	TOTAL
(Dollars in thousands)							
Commercial	\$ 30,121	\$ 16,058	\$ 22,853	\$ 992	\$ 122	\$ 993	\$ 71,139
Real estate construction and land	-	-	35,258	342	532	1,409	37,541

1-4 family residential mortgages	-	-	308,041	7,935	5,431	1,778	323,185
Commercial mortgages	-	-	408,513	34,828	3,872	11,912	459,125
Consumer	461	17,544	26,326	977	22	95	45,425
Total Loans	\$ 30,582	\$ 33,602	\$ 800,991	\$ 45,074	\$ 9,979	\$ 16,187	\$ 936,415

December 31, 2021	Excellent	Good	Pass	Watch	Special Mention	Sub-standard	TOTAL
<i>(Dollars in thousands)</i>							
Commercial	\$ 45,862	\$ 13,920	\$ 32,460	\$ 732	\$ 1,645	\$ 2,077	\$ 96,696
Real estate construction and land	-	-	51,098	7360	2,849	18,024	79,331
1-4 family residential mortgages	-	2,030	334,300	5,013	1,520	15,285	358,148
Commercial mortgages	-	-	382,108	61,563	8,530	21,431	473,632
Consumer	524	18,535	32,821	1,225	179	120	53,404
Total Loans	\$ 46,386	\$ 34,485	\$ 832,787	\$ 75,893	\$ 14,723	\$ 56,937	\$ 1,061,211

In addition to the historical factors, the adequacy of the Company's allowance for loan losses is evaluated through reference to eight qualitative factors, listed below and ranked in order of importance:

- 1) Changes in national and local economic conditions, including the condition of various market segments;
- 2) Changes in the value of underlying collateral;
- 3) Changes in volume of classified assets, measured as a percentage of capital;
- 4) Changes in volume of delinquent loans;
- 5) The existence and effect of any concentrations of credit and changes in the level of such concentrations;
- 6) Changes in lending policies and procedures, including underwriting standards;
- 7) Changes in the experience, ability and depth of lending management and staff; and
- 8) Changes in the level of policy exceptions.

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

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

During these evaluations, particular characteristics associated with a segment of the loan portfolio are also considered. These characteristics are detailed below:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

- Commercial loans not secured by real estate carry risks associated with the successful operation of a business, and the repayments of these loans depend on the profitability and cash flows of the business. Additional risk relates to the value of collateral where depreciation occurs and the valuation is less precise.
- Commercial loans purchased from the syndicated loan market generally represent shared national credits, which are participations in loans or loan commitments that are shared by three or more banks. Included in the Company's shared national credit portfolio are purchased participations and assignments in leveraged lending transactions. Leveraged lending transactions are generally used to support a merger- or acquisition-related transaction, to back a recapitalization of a company's balance sheet or to refinance debt. When considering a participation in the leveraged lending market, the Company participates only in first lien senior secured term loans. To further minimize risk, the Company has developed policies to limit overall credit exposure to the syndicated market as a whole, as well as limits by industry and borrower.
- Loans secured by commercial real estate also carry risks associated with the success of the business and the ability to generate a positive cash flow sufficient to service debts. Real estate security diminishes risks only to the extent that a market exists for the subject collateral.
- Consumer loans carry risks associated with the continued creditworthiness of the borrower and the value of the collateral, such as automobiles which may depreciate more rapidly than other assets. In addition, these loans may be unsecured. Consumer loans are more likely than real estate loans to be immediately affected in an adverse manner by job loss, divorce, illness or personal bankruptcy. Consumer loans are further segmented into consumer revolving lines, all other consumer loans and student loans purchased.
- Real estate secured construction loans carry risks that a project will not be completed as scheduled and budgeted and that the value of the collateral may, at any point, be less than the principal amount of the loan. Additional risks may occur if the general contractor, who may not be a loan customer, is unable to finish the project as planned due to financial pressures unrelated to the project.
- Residential real estate loans carry risks associated with the continued creditworthiness of the borrower and changes in the value of the collateral. In addition, for investor-owned residential real estate, the repayment may be volatile as leases are generally shorter term in nature.

Impaired loans are individually evaluated and, if deemed appropriate, a specific allocation is made for these loans. In reviewing the loans classified as impaired totaling \$1.3 million at December 31, 2022, there was \$23 thousand in valuation allowance on these loans after consideration was given for each borrowing as to the fair value of the collateral on the loan or the present value of expected future cash flows from the customer.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Allowance for Loan Losses Rollforward by Portfolio Segment

As of and for the year ended December 31, 2022

(Dollars in thousands)	Commercial	Real Estate Construction	Real Estate	Consumer	Total
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	Loans	Construction and Land	Estate Mortgages	Loans	
<b>Allowance for Loan Losses:</b>					
Balance as of beginning of year	\$ 252	\$ 399	\$ 4,478	\$ 855	\$ 5,984
Charge-offs	(600)	-	-	(655)	(1,255)
Recoveries	519	9	11	178	717
Provision for (recovery of) loan losses	23	(187)	(51)	321	106
Ending Balance	<u>\$ 194</u>	<u>\$ 221</u>	<u>\$ 4,438</u>	<u>\$ 699</u>	<u>\$ 5,552</u>
Ending Balance:					
Individually evaluated for impairment	\$ -	\$ -	\$ -	\$ 23	\$ 23
Collectively evaluated for impairment	194	221	4,438	676	5,529
Acquired loans - purchased credit impaired	-	-	-	-	-
<b>Loans:</b>					
Individually evaluated for impairment	\$ -	\$ -	\$ 583	\$ 700	\$ 1,283
Collectively evaluated for impairment	70,509	36,080	751,823	44,653	903,065
Acquired loans - purchased credit impaired	630	1,461	29,904	72	32,067
Ending Balance	<u>\$ 71,139</u>	<u>\$ 37,541</u>	<u>\$ 782,310</u>	<u>\$ 45,425</u>	<u>\$ 936,415</u>

**As of and for the year ended December 31, 2021**

	Commercial	Real Estate Construction and Land	Real Estate Mortgages	Consumer Loans	Total
<i>(Dollars in thousands)</i>	Loans				
<b>Allowance for Loan Losses:</b>					
Balance as of beginning of year	\$ 209	\$ 160	\$ 3,897	\$ 1,189	\$ 5,455
Charge-offs	(147)	-	-	(688)	(835)
Recoveries	191	12	6	141	350
Provision for (recovery of) loan losses	(1)	227	575	213	1,014
Ending Balance	<u>\$ 252</u>	<u>\$ 399</u>	<u>\$ 4,478</u>	<u>\$ 855</u>	<u>\$ 5,984</u>
Ending Balance:					
Individually evaluated for impairment	\$ -	\$ -	\$ -	\$ 6	\$ 6
Collectively evaluated for impairment	252	399	4,478	849	5,978

Acquired loans - purchased credit	-	-	-	-	-
impaired					
<b>Loans:</b>					
Individually evaluated for impairment	\$ -	\$ -	\$ 594	\$ 935	\$ 1,529
Collectively evaluated for impairment	95,702	60,755	786,491	52,351	995,299
Acquired loans - purchased credit					
impaired	994	18,576	44,695	118	64,383
Ending Balance	\$ 96,696	\$ 79,331	\$ 831,780	\$ 53,404	\$ 1,061,211

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 6 – Premises and Equipment

Premises and equipment are summarized as follows:

(Dollars in thousands)	December 31, 2022	December 31, 2021	December 31, 2023	December 31, 2022
Leasehold improvements	\$ 15,558	\$ 15,455	\$ 15,148	\$ 15,558
Building and land	14,428	20,775	13,511	14,428
Construction and fixed assets in progress	131	49	193	131
Furniture and equipment	7,985	7,866	8,231	7,985
Computer software	2,967	2,936	3,042	2,967
	\$ 41,069	\$ 47,081	\$ 40,125	\$ 41,069
Less: accumulated depreciation and amortization	23,261	21,988	23,930	23,261
	\$ 17,808	\$ 25,093	\$ 16,195	\$ 17,808

Depreciation and amortization on these premises and equipment totaled \$1.6 million and \$1.5 million for the years ended December 31, 2022 and December 31, 2023, respectively, and \$1.6 million for the years ended December 31, 2021 and December 31, 2022, respectively.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 7 – Leases

At **December 31, 2022** **December 31, 2023**, 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:

<i>(Dollars in thousands)</i>	<b>December 31, 2022</b>	<b>December 31, 2021</b>	<b>December 31, 2023</b>	<b>December 31, 2022</b>
Lease liability	\$ 6,173	\$ 7,108	\$ 6,504	\$ 6,173
Right-of-use asset	\$ 6,536	\$ 7,583	\$ 6,748	\$ 6,536
Weighted average remaining lease term	5.77 years	6.02 years	4.71 years	5.77 years
Weighted average discount rate	1.96 %	1.97 %	2.28 %	1.96 %

<i>(Dollars in thousands)</i>	<b>2022</b>	<b>2021</b>
Operating lease expense	\$ 1,768	\$ 1,491
Short-term lease expense	592	234
Total lease expense	\$ 2,360	\$ 1,725
Cash paid for amounts included in lease liabilities	\$ 1,534	\$ 1,390

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

<i>(Dollars in thousands)</i>	<b>2023</b>	<b>2022</b>
Operating lease expense	\$ 1,740	\$ 1,768
Short-term lease expense	332	592
Total lease expense	\$ 2,072	\$ 2,360

Cash paid for amounts included in lease liabilities	\$	1,542	\$	1,534
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A maturity analysis of operating lease liabilities and reconciliation of the undiscounted cash flows to the total of operating lease liabilities is as follows:

<i>(Dollars in thousands)</i>	December 31, 2022	December 31, 2023
Twelve months ending December 31, 2023	\$ 1,567	
Twelve months ending December 31, 2024	1,296	\$ 1,520
Twelve months ending December 31, 2025	1,091	1,437
Twelve months ending December 31, 2026	748	1,095
Twelve months ending December 31, 2027	650	999
Twelve months ending December 31, 2028		878
Thereafter	1,141	913
Total undiscounted cash flows	\$ 6,493	\$ 6,842
Less: Discount	(320)	(338)
Lease liability	\$ 6,173	\$ 6,504

#### Note 8 – Goodwill and Other Intangible Assets

The carrying amount of goodwill was \$7.8 million and \$8.1 million at December 31, 2022 December 31, 2023 and December 31, 2021, respectively. The following table presents the changes in goodwill during the twelve months ended December 31, 2022. There were no changes in the recorded balance of goodwill during the twelve months ended December 31, 2021: December 31, 2023.

<i>(Dollars in thousands)</i>	Sturman Wealth		
	Advisors	Fauquier	Total
Balance as of January 1, 2022	\$ 372	\$ 7,768	\$ 8,140
Sale of Sturman Wealth Advisors	(372)	-	(372)
Balance at December 31, 2022	\$ -	\$ 7,768	\$ 7,768

The Company had \$6.6 5.1 million and \$8.5 6.6 million of other intangible assets as of December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022, respectively. Other intangible assets respectively, which were recognized in connection with (i) the book of business, including interest in the client relationships of an officer, acquired by VNB Wealth in 2016, referred to as Sturman Wealth Advisors, and (ii) the core deposits acquired from Fauquier in 2021. Refer to Note 21 - Sale of Sturman Wealth Advisors for more information regarding the sale of such segment and the elimination of goodwill and other intangible assets related to such business during December 2022.

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

December 31	December 31
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(Dollars in thousands)	December 31, 2022		December 31, 2021	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:				
Core deposit intangible	\$ 9,660	\$ (3,074)	\$ 9,660	\$ (1,389)
Customer relationships intangible	-	-	773	(499)
Total	\$ 9,660	\$ (3,074)	\$ 10,433	\$ (1,888)

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands)	December 31, 2023		December 31, 2022	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:				
Core deposit intangible	\$ 9,660	\$ (4,567)	\$ 9,660	\$ (3,074)

The Company recognized \$1.7 million and \$1.5 million during the years ending December 31, 2022 and December 31, 2023 and 2021, 2022, respectively, in amortization expense from these identified intangible assets with a finite life. Estimated future amortization expense by year as of December 31, 2022 December 31, 2023 is as follows:

(Dollars in thousands)	Core Deposit Intangible	Core Deposit Intangible
2023	1,493	
2024	1,301	1,301
2025	1,110	1,110
2026	918	918
2027	726	726
2028		535



Thereafter	1,038	503
Total	\$ 6,586	\$ 5,093

## Note 9 – Deposits

At **December 31, 2022** **December 31, 2023**, the scheduled maturities of time deposits are as follows:

<i>(Dollars in thousands)</i>		
2023	\$ 91,799	
2024	15,705	\$ 283,427
2025	3,857	28,079
2026	2,336	5,306
2027	1,409	1,129
2028		640
	\$ 115,106	\$ 318,581

The aggregate amount of time deposits with a minimum balance of \$250 thousand was \$106.6 million at December 31, 2023 and \$28.9 million at December 31, 2022 and \$45.3 million at December 31, 2021.

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 \$5.5 million as of December 31, 2023 and \$4.0 million as of December 31, 2022 and \$6.1 million as of December 31, 2021, 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, 2022** **December 31, 2023** and **December 31, 2021** **December 31, 2022** were not treated as brokered deposits. The Company had \$1.7 million of brokered deposits as of December 31, 2023 and no brokered deposits as of December 31, 2022.

The Company implemented an Insured Cash Sweep® product during 2018. At December 31, 2023, ICS® balances, included in demand deposit and money market account balances, were \$44.2 million and \$107.3 million, respectively. At December 31, 2022, ICS® balances, included in demand deposit and money market account balances, were \$42.0 million and \$92.6 million, respectively. At December 31, 2021, ICS® balances, included in demand deposit and money market account balances, were \$39.2 million and \$225.9 million, respectively. Such balances were not treated as brokered deposits.

The Company had no deposits to report as brokered deposits as of December 31, 2022 or December 31, 2021.

Deposit account overdrafts reported as loans totaled \$180,252 thousand and \$205,180 thousand at **December 31, 2022** **December 31, 2023** and **December 31, 2021** **December 31, 2022**, 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

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

customers. The aggregate amount of these related party deposits was \$6.5 4.4 million and \$9.1 6.5 million as of December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022, respectively.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 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 \$66.5 million in outstanding FHLB advances as of December 31, 2023, compared to no outstanding FHLB advances as of December 31, 2022 or December 31, 2021. As of December 31, 2022, the Company had a letter of credit for \$30.0 million issued in favor of the Commonwealth of Virginia Department of the Treasury to secure public fund depository accounts, which was cancelled by the Company in 2023. This letter of credit is was secured by commercial mortgages.

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 six five major correspondent banks. As of December 31, 2023, \$3.5 million was borrowed against such lines. There were no borrowings against the lines at December 31, 2022 or December 31, 2021.

The Company's unused lines of credit for future borrowings total approximately \$156.1 119.4 million at December 31, 2022 December 31, 2023, which consists of \$39.1 13.9 million available from the FHLB and \$117.0 115.5 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, 2022 December 31, 2023 and 2021 2022 is as follows:

<i>(Dollars in thousands)</i>	2022	2021	2023	2022
Federal funds purchased			\$ 3,462	\$ -
FHLB advances	\$ -	\$ -	\$ 66,500	\$ -
Total borrowings	\$ -	\$ -	\$ 69,962	\$ -
Maximum amount at any month-end during the year		42,57		
	\$ -	\$ 5	\$ 80,808	\$ -
Annual average balance outstanding		23,38		
	\$ -	\$ 5	\$ 39,917	\$ -
Annual average interest rate paid	0.0			
	0%	0.83%	5.19%	0.00%
Annual interest rate at end of period	0.0			
	0%	0.00%	4.92%	0.00%

#### 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 2019.2020.

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.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

<i>(Dollars in thousands)</i>	2022	2021	2023	2022
Deferred tax assets:				
Allowance for loan losses	\$ 1,166	\$ 1,257		
Allowance for credit or loan losses			\$ 1,836	\$ 1,166
Acquisition accounting	3,362	3,921	1,974	3,362

Fixed assets	547	-	853	547
Other real estate owned	-	156		
Investments in pass-throughs	221	44	182	221
Federal net operating loss carryforwards	224	468	-	224
Nonaccrual loan interest	22	55	39	22
Stock option/grant expense	86	51	101	86
Home equity closing costs	70	48	84	70
Deferred compensation expense	3	70	3	3
Deferred loan fees	159	182	528	159
Securities available for sale unrealized loss	12,925	588	10,940	12,925
Total deferred tax assets	\$ 18,785	\$ 6,840	\$ 16,540	\$ 18,785
Deferred tax liabilities:				
Goodwill and other intangible assets	1,245	1,683	967	1,245
Depreciation	-	217		
Trust preferred	149	-	140	149
Right of use asset	76	100	51	76
Total deferred tax liabilities	1,470	2,000	1,158	1,470
Net deferred tax assets	\$ 17,315	\$ 4,840	\$ 15,382	\$ 17,315

The provision for income taxes charged to operations for years ended **December 31, 2022** **December 31, 2023** and **December 31, 2021** **December 31, 2022** consists of the following:

<i>(Dollars in thousands)</i>	<b>2022</b>	<b>2021</b>	<b>2023</b>	<b>2022</b>
Current tax expense	\$ 5,246	\$ 1,144	\$ 3,537	\$ 5,246
Deferred tax expense (benefit)	(138)	702	473	(138)
Provision for income taxes	\$ 5,108	\$ 1,846	\$ 4,010	\$ 5,108

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, 2022** **December 31, 2023** and **December 31, 2021** **December 31, 2022** due to the following:

<i>(Dollars in thousands)</i>	<b>2022</b>	<b>2021</b>	<b>2023</b>	<b>2022</b>
Federal statutory rate	<b>21%</b>	<b>21%</b>	<b>21%</b>	<b>21%</b>
Computed statutory tax expense	\$ 5,995	\$ 2,502	\$ 4,887	\$ 5,995
Increase (decrease) in tax resulting from:				

Tax-exempt interest income	(255)	(199)	(145)	(255)
Tax-exempt income from BOLI	(202)	(149)	(370)	(202)
Stock option/stock grant expense	14	9	13	14
Merger expenses	-	118		
Investment in qualified housing projects	(458)	(450)	(405)	(458)
Other expenses	14	15	30	14
Provision for income taxes	<u>\$ 5,108</u>	<u>\$ 1,846</u>	<u>\$ 4,010</u>	<u>\$ 5,108</u>

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 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, 2022, December 31, 2023, and December 31, 2021, December 31, 2022, 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, 2022, December 31, 2023, in the amount of \$18.1, 13.0 million to various borrowers. At December 31, 2021, December 31, 2022, commitment letters totaled \$18.7, 18.1 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:

(Dollars in thousands)	Notional Amount		Notional Amount	
	December 31, 2022	December 31, 2021	December 31, 2023	December 31, 2022
Unfunded lines-of-credit	\$ 133,126	\$ 154,471	\$ 129,711	\$ 133,126
ACH	42,021	43,288	17,861	42,021
Letters of credit	9,053	11,200	10,221	9,053
Total	\$ 184,200	\$ 208,959	\$ 157,793	\$ 184,200

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 \$20.7 14.2 million in deposits in other financial institutions in excess of amounts insured by the FDIC at December 31, 2022 December 31, 2023.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 14 – Related Party Transactions

From time to time, 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 2022 2023 are reported below.

In 2022 2023 and 2021, 2022, leasing/rental expenditures of \$528 543 thousand and \$520 528 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, 2022 December 31, 2023 and 2021, 2022. 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 percent, less than \$10 billion in total consolidated assets, and limited amounts of off-balance-sheet exposures and trading assets and liabilities. A qualifying community banking organization that opts into the CBLR framework and meets all requirements under the framework will be considered to

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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, 2022	Minimum				
December 31, 2023				Minimum	
(Dollars in thousands)	To Be Well Capitalized			To Be Well Capitalized	
	Minimum Under Prompt Corrective			Minimum Capital	Under Prompt Corrective



	Actual		Requirement		Action Provisions		Actual		Requirement		Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total Capital												
(To Risk Weighted Assets)												
	174,151	8.00 %	174,151	8.00 %	100,000	10.00 %						
Bank	\$ 174,151	8.00 %	\$ 174,151	8.00 %	\$ 100,000	10.00 %	\$ 190,992	18.12 %	\$ 84,306	8.00 %	\$ 105,383	10.00 %
Common Equity Tier 1 Capital												
(To Risk Weighted Assets)												
	168,538	8.00 %	168,538	8.00 %	120,000	6.50 %						
Bank	\$ 168,538	8.00 %	\$ 168,538	8.00 %	\$ 120,000	6.50 %	\$ 182,247	17.29 %	\$ 47,422	4.50 %	\$ 68,499	6.50 %
Tier 1 Capital												
(To Risk Weighted Assets)												



(To Risk Weighted Assets)												
	1											
	15	4		8								
	5,	.	84	.	105	10						
	09	7	,3	0	,39	.0						
Bank	\$ 2	2 %	\$ 12	0 %	\$ 0	0 %	\$ 174,151	17.38 %	\$ 80,148	8.00 %	\$ 100,184	10.00 %
Common Equity Tier 1 Capital												
(To Risk Weighted Assets)												
	1											
	14	4		4								
	9,	.	47	.								
	07	1	,4	5	68,	6.						
Bank	\$ 8	5 %	\$ 25	0 %	\$ 503	50 %	\$ 168,539	16.82 %	\$ 45,083	4.50 %	\$ 65,120	6.50 %
Tier 1 Capital												
(To Risk Weighted Assets)												
	1											
	14	4		6								
	9,	.	63	.								
	07	1	,2	0	84,	8.						
Bank	\$ 8	5 %	\$ 34	0 %	\$ 312	00 %	\$ 168,539	16.82 %	\$ 60,111	6.00 %	\$ 80,148	8.00 %
Tier 1 Capital												



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).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Interest rate swaps

The Company recognizes interest rate swaps at fair value. The Company has contracted with a third-party to provide valuations for interest rate swaps using standard valuation techniques. The Company's

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

interest rate swaps are classified as Level 2. Additional information on interest rate swaps is presented in Note 23 – Derivative Instruments and Hedging Activities.

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

(Dollars in thousands)	Fair Value Measurements at December 31, 2022 Using:			Fair Value Measurements at December 31, 2023 Using:		
	Quoted Prices in Active Markets for Identical Assets	Observable Inputs	Significant Unobservable Inputs	Quoted Prices in Active Markets for Identical Assets	Observable Inputs	Significant Unobservable Inputs

Description	(Level 1)				(Level 2)				(Level 3)			
	Balance	(Level 1)	(Level 2)	(Level 3)	Balance	(Level 1)	(Level 2)	(Level 3)	Balance	(Level 1)	(Level 2)	(Level 3)
<b>Assets:</b>												
U.S. Treasury securities	2,470		2,470		\$ 121,708		\$ 121,708		\$ -		\$ -	
U.S. Government agencies	8,755		8,755		39,581		39,581		-		-	
Mortgage-backed securities/CMOs	7,076		7,076		155,144		155,144		-		-	
Corporate bonds	8,729		8,729		19,129		19,129		-		-	
Municipal bonds	1,156		1,156		85,033		85,033		-		-	
Total securities available for sale	53,880		53,880		\$ 420,595		\$ 420,595		\$ -		\$ -	

Interest	5		5						
rate	0		0						
swaps	6	-	6	-	-	-	-	-	-
Total	5		5						
assets at	3		3						
fair value	8,		8,						
	6		6						
	9		9						
	\$ 2	\$ -	\$ 2	\$ -	\$ 420,595	\$ -	\$ 420,595	\$ -	\$ -

(Dollars in thousands)	Fair Value Measurements at December 31, 2021 Using:				Fair Value Measurements at December 31, 2022 Using:			
	Quoted Prices in Active Markets for Identical Assets	Observed Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs	
Assets:	Balance (Level 1)	Balance (Level 2)	Balance (Level 3)		Balance (Level 1)	Balance (Level 2)	Balance (Level 3)	
U.S. Treasury securities					\$ 242,470	\$ -	\$ 242,470	\$ -
U.S. Government agencies	31,58	31,58			28,755	28,755		



Mortgage	1		1										
-backed	7		7										
securities/	0,		0,										
CMOs	9		9										
	6		6										
	4		-	4	-	167,076			-	167,076			-
Corporate													
bonds						18,729			-	18,729			-
Municipal	1		1										
bonds	0		0										
	1,		1,										
	2		2										
	7		7										
	2		-	2	-	81,156			-	81,156			-
Total	3		3										
securities	0		0										
available	3,		3,										
for sale	8		8										
	1		1										
	\$ 7	\$	-	\$ 7	\$ -	\$ 538,186	\$		-	\$ 538,186	\$		-
<b>Liabilitie</b>													
<b>s:</b>													
Interest	6		6										
rate	4		4										
swaps	\$ 1		-	\$ 1	-	506			-	506			-
Total													
liabilities	6		6										
at fair	4		4										
value	\$ 1	\$	-	\$ 1	\$ -								
Total													
assets at													
fair value						\$ 538,692	\$		-	\$ 538,692	\$		-

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.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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:

### Other real estate owned Collateral Dependent Loans with an ACL

Other real estate owned is measured at fair value less costs to sell, based on an existing contract (Level 3). OREO is measured at fair value on a nonrecurring basis. Any initial fair value adjustment is charged against individual basis and excluded from the Allowance for Loan Losses. Subsequent fair value adjustments are based on collective evaluation. Specific allocations of the ACL are determined by analyzing the period incurred and included in other noninterest expense on borrower's ability to repay amounts owed, collateral deficiencies, the Consolidated Statements of Income. The Company had no OREO as of December 31, 2022 and had one property valued at \$611 thousand as of December 31, 2021.

### Impaired loans

Loans are designated as impaired when, in the judgment of management based on current information and events, it is probable that all amounts due according to the contractual terms relative risk grade of the loan agreement will not be collected and economic conditions affecting the borrower's industry, among other things. A loan is considered to be collateral dependent when, due. The measurement of loss associated with impaired loans can be based upon management's assessment, the borrower is experiencing financial difficulty and repayment is expected to be based on either (a) provided substantially through the observable market price operation or sale of the loan or collateral. In such cases, expected credit losses are based on the fair value of the collateral or (b) using at the present measurement date, adjusted for estimated selling costs if satisfaction of the loan depends on the sale of the collateral. We reevaluate the fair value of expected future cash flows discounted at the loan's effective interest rate, which is not collateral supporting collateral dependent loans on a fair value measurement. Collateral may be in the form of real estate or business assets including equipment, inventory, and accounts receivable. quarterly basis. The vast majority of the collateral is real estate. The fair value of real estate collateral supporting collateral dependent loans is determined utilizing an income or market valuation approach based on an evaluated by appraisal conducted by an independent, licensed appraiser outside services using a methodology that is consistent with the Uniform Standards of the Company using observable market data (Level 2).

However, if the collateral value is significantly adjusted due to differences in the comparable properties, or is discounted by the Company because of marketability, then the fair value is considered Level 3.

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

The value of business equipment is based upon an outside appraisal if deemed significant (Level 2) or the net book value on the applicable business' financial statements if not considered significant (Level 3). Likewise, values for inventory and accounts receivables collateral are based on financial statement balances or aging reports (Level 3).

Impaired loans allocated to the Allowance for Loan Losses are measured at fair value on a nonrecurring basis. Any fair value adjustments are recorded in the period incurred as provision for loan losses in the Consolidated Statements of Income. The Company had \$1.3 million and \$1.5 million in impaired loans as of December 31, 2022 and December 31, 2021, respectively. All impaired loans were measured based on expected cash flows discounted at the loan's effective interest rate, or fair value of collateral, as noted above. **Professional Appraisal Practice.**

The following table presents the Company's assets to report that were measured at fair value on a nonrecurring basis as of December 31, 2022 and December 31, 2021. OREO of \$611 thousand was reported as of December 31, 2021 and measured on a nonrecurring basis. December 31, 2022.

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.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	Fair Value Measurements at December 31, 2022			Fair Value Measurements at December 31, 2023 Using:		
	Using:					
(Dollars in thousands)	Quoted			Quoted		
	Prices			Prices in		
	in Active			Active		
	Markets			Markets		
	for Identical	Significant		for Identical	Significant	Significant
	Assets	Observable		Assets	Observable	Unobservable
	Inputs	Inputs		Inputs	Inputs	Inputs

	Carrying value	Level 1	Level 2	Level 3	Fair Value	Carrying value	Level 1	Level 2	Level 3	Fair Value
<b>Assets</b>										
Cash and cash equivalents	40,133	40,133			40,133	\$ 28,390	\$ 28,390	\$ -	\$ -	\$ 28,390
Available for sale securities	538,618		538,618		538,618	420,595	-	420,595	-	420,595
Restricted securities	5,137		5,137		5,137	8,385	-	8,385	-	8,385
Loans, net	930,896			890,923	930,896	1,084,270	-	-	1,029,359	1,029,359
Assets held for sale	965		965		965	-	-	-	-	-

[illegible]

Certificates of deposit	1			1						
	1			0						
	5			9						
	,			,						
	1			2						
	0	109,		6						
	6	-	260	-	0	318,581	-	318,768	-	318,768
Federal funds purchased						3,462	3,462	-	-	3,462
Borrowings						66,500	-	66,360	-	66,360
Junior subordinate debt	3			3						
	,			,						
	4			4						
	1	3,41		1						
	3	-	3	-	3	3,459	-	3,459	-	3,459
Accrued interest payable	1			1						
	5			5						
	7	-	157	-	7	2,143	-	2,143	-	2,143

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Fair Value Measurements at December 31, 2021 Using:	Fair Value Measurements at December 31, 2022 Using:
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(Dollars in thousands)

	Quoted Prices in Active Markets for Identical Assets					Significant Unobservable Inputs					Quoted Prices in Active Markets for Identical Assets					Significant Other Observable Inputs					Significant Unobservable Inputs				
	Carrying value					Fair value					Carrying value					Fair value					Carrying value				
	Level 1					Level 2					Level 3					Level 3					Level 3				
	Fair Value					Fair Value					Fair Value					Fair Value					Fair Value				
Assets																									
Cash and cash equivalent	508,484	508,484			508,484																				
	\$ 0	\$ 0	\$ -	\$ -	\$ 0	\$ 40,136	\$ 40,136	\$ -	\$ -	\$ -	\$ 40,136	\$ 40,136	\$ -	\$ -	\$ -	\$ 40,136	\$ 40,136	\$ -	\$ -	\$ -	\$ 40,136	\$ 40,136	\$ -	\$ -	\$ -
Available for sale securities	303,178	303,178			303,178																				
	303,178	303,178			303,178																				
	178	178			178																				
	7	-	817	-	7	538,186	-	538,186	-	538,186	-	538,186	-	538,186	-	538,186	-	538,186	-	538,186	-	538,186	-	538,186	-



Restricted securities	4			4						
	,			,						
	9			9						
	5	4,95		5						
	0	-	0	-	0	5,137	-	5,137	-	5,137
Loans, net	1			1						
	,			,						
	0			0						
	5			5						
	5			9						
	,			,						
	2		1,0	6						
	2		59,	5						
	7	-	-	650	0	930,863	-	-	890,929	890,929
Assets held for sale						965	-	965	-	965
Bank owned life insurance	3			3						
	1			1						
	,			,						
	2			2						
	3	31,2		3						
	4	-	34	-	4	38,552	-	38,552	-	38,552
Accrued interest receivable	3			3						
	,			,						
	7			7						
	7	1,25	2,5	7						
	8	-	2	26	8	4,879	-	2,265	2,614	4,879
Interest rate swap						506	-	506	-	506
Liabilities										



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

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 \$673,657 thousand and \$665,673 thousand to the 401(k) plan in 2022, 2023 and 2021, 2022, 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 \$155,133 thousand as of December 31, 2022, December 31, 2023 is included in Accrued interest payable and other liabilities on the Consolidated Balance Sheet.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 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 2005 Plan as this plan has expired.

For the 2022 Plan, the option price for any stock options cannot be less than 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 and the 2005 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, 2022** **December 31, 2023**. Share data and exercise price range per share have been adjusted to reflect prior stock dividends. Although the 2005 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	2005 Plan	2022 Plan	2014 Plan	2005 Plan
Aggregate shares issuable	150,00		253,57			
	0	275,625	5	150,000	275,625	253,575
Options issued, net of forfeited and expired options	-	(170,106)	(59,870)	(3,400)	(174,006)	(59,870)
Unrestricted stock issued	-	(11,635)	-	-	(11,635)	-
Restricted stock grants issued	-	(75,853)	-	(18,932)	(83,653)	-
Cancelled due to Plan expiration	-	-	(193,705)	-	-	(193,705)
Remaining available for grant	150,00					
	0	18,031	-	127,668	6,331	-
Stock grants issued and outstanding:						
Total vested and unvested shares	-	87,488	-	18,932	114,820	-
Fully vested shares	-	35,824	-	-	52,099	-

Option grants issued and outstanding:							
Total vested and unvested shares	-	166,901	1,379	3,400	174,201	-	
Fully vested shares	-	91,148	1,379	-	124,716	-	
Exercise price range		\$23.75 to					
	-	\$42.62	\$ 13.69	\$ 28.82	\$23.75 to \$42.62	\$	-

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 2022 2023 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.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Stock Options

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

	December 31, 2022			December 31, 2023		
(Dollars in thousands except weighted average data)	Number of Options	Weighted Average Exercise Price	Aggregate Intrinsic Value	Number of Options	Weighted Average Exercise Price	Aggregate Intrinsic Value
Outstanding at January 1, 2022	169,280	\$ 33.89	\$ 962			

Outstanding at January 1, 2023				168,280	\$	33.95	\$	830
Issued	-	-		11,800		31.95		
Exercised	(1,000)	(23.75)		(1,379)		(13.69)		
Forfeited				(4,500)		(35.35)		
Expired	-	-		-		-		
Outstanding at December 31, 2022	168,280	\$	33.95	\$				830
Options exercisable at December 31, 2022	92,527	\$	36.20	\$				340
Outstanding at December 31, 2023				174,201	\$	33.94	\$	664
Options exercisable at December 31, 2023				124,716	\$	35.88	\$	375

For the 1,000 options exercised during the year ended December 31, 2022, there was no intrinsic value for options exercised.

For the years ended December 31, 2022, December 31, 2023 and 2021, 2022, the Company recognized \$167,142 thousand and \$145,167 thousand, respectively, in compensation expense for stock options. As of December 31, 2022, December 31, 2023, there was \$262,163 thousand in unrecognized compensation expense for stock options remaining to be recognized in future reporting periods through 2026, 2028. 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 11,800 shares issued during the year ended December 31, 2023. There were no stock option grants issued during the year ended December 31, 2022. There were stock option grants of 23,600 shares issued during the year ended December 31, 2021, and the 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, 2021, 2023	
Expected volatility <sup>1</sup>	25.16	26.06 %
Expected dividends <sup>2</sup>	3.00	4.00 %
	5	
	!	
	5	
	-	
Expected term (in years) <sup>3</sup>	6.3	6.5
Risk-free rate <sup>4</sup>	1.19	4.12 %

- <sup>1</sup> Based on the monthly historical volatility of the Company's stock price over the expected life of the options.
- <sup>2</sup> Calculated as the ratio of historical dividends paid per share of common stock to the stock price on the date of grant.
- <sup>3</sup> Based on the average of the contractual life and vesting period for the respective option.
- <sup>4</sup> 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary information pertaining to options outstanding at December 31, 2022 December 31, 2023, as adjusted for Stock Dividends, is as follows:

	Options Outstanding		Options Exercisable		Options Outstanding			Options Exercisable	
	Weighted-Average	Weighted-Average	Number of Options	Exercise Price	Number of Options	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number of Options	Weighted-Average Exercise Price
Exercise Price	Outstanding	Contractual Life	Exercise Price	Exercise Price	Outstanding	Contractual Life	Exercise Price	Outstanding	Exercise Price
\$13.69		13		13					
to	1,3	0.1 Y	.6	1,3	.6				
\$20.00	79	ears \$ 9	79	\$ 9					





Issued	28,536	34.70	1,046	27,332	32.73	940
Vested	(13,283)	29.07	(498)	(16,275)	(31.22)	(560)
Forfeited	(600)	33.74	(22)	-	-	-
Nonvested at December 31, 2022	51,664	\$ 32.05	\$ 1,894			
Nonvested at December 31, 2023				62,721	\$ 32.56	\$ 2,156

The weighted average period over which nonvested restricted stock grants are expected to be recognized is 1.715 years.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 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, 2022, December 31, 2023 and December 31, 2021. 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, 2022, December 31, 2023 and December 31, 2021 include 51,664, 62,721 and 37,011 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	Net Income	Weighted Average Shares	Per Share Amount
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				<u>\$ 19,263</u>	<u>5,373,252</u>	<u>\$ 3.58</u>
December 31, 2022						
Basic net income per share	23,438	5,324,740	\$ 4.40	\$ 23,438	5,324,740	\$ 4.40
Effect of dilutive stock options	-	26,618	(0.02)	-	26,618	(0.02)
Diluted net income per share	<u>23,438</u>	<u>5,351,358</u>	<u>\$ 4.38</u>	<u>\$ 23,438</u>	<u>5,351,358</u>	<u>\$ 4.38</u>
December 31, 2021						
Basic net income per share	10,071	4,668,761	\$ 2.16			
Effect of dilutive stock options	-	26,644	(0.02)			
Diluted net income per share	<u>10,071</u>	<u>4,695,405</u>	<u>\$ 2.14</u>			

In 2022 2023 and 2021, 2022, stock options representing 109,201 and 101,901 average shares, respectively, were not included in the calculation of net income per share, as their effect would have been antidilutive.

#### Note 21 – Sale of Sturman Wealth Advisors Segment

Effective December 19, 2022, the Bank closed on the sale of the Sturman Wealth Advisors line of business to the individual running that business ("Buyer") pursuant to an asset purchase agreement for \$1.0 million. The purchase agreement entitles Buyer to the future revenue for investment management, advisory, brokerage, and related services performed for the purchased relationships. In connection with this transaction, the Buyer signed a promissory note with the Bank as the creditor in the amount of \$990 thousand, payable at a market rate of interest over a 7-year period. Goodwill of \$372 thousand and

unamortized intangible assets of \$212 thousand related to the Sturman Wealth line of business were eliminated from the Consolidated Balance Sheet of the Company in December 2022, with a net gain of \$404 thousand recognized in the Consolidated Statements of Income for the year ended December 31, 2022. 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 22 - 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. The Historically, the interest rate on the capital security resets reset every three months at 1.70% above the then current three-month LIBOR. Interest is and was paid quarterly. With the cessation of LIBOR, on September 13, 2023, the rate converted to a spread adjustment of 0.03% plus a margin of 1.70% above the three-month CME Term SOFR.

Total capital securities at December 31, 2022 December 31, 2023 and 2021 2022 were \$3.5 million and \$3.4 million, respectively, 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, 2023 and December 31, 2022:

(Dollars in thousands)			
	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)
	<u>8,817</u>	<u>(37)</u>	<u>8,780</u>
Reclassification into net income	206	(460)	(254)
Related income tax effects	(43)	97	54
	<u>163</u>	<u>(363)</u>	<u>(200)</u>
Accumulated other comprehensive loss at December 31, 2023	<u>\$ (40,044)</u>	<u>\$ -</u>	<u>\$ (40,044)</u>
	Interest Rate		
	AFS Securities	Swap	Total
Accumulated other comprehensive loss at December 31, 2021	\$ (2,164)	\$ (47)	\$ (2,211)
Other comprehensive income (loss) arising during the period	(59,317)	566	(58,751)
Related income tax effects	12,457	(119)	12,338
	<u>(46,860)</u>	<u>447</u>	<u>(46,413)</u>
Accumulated other comprehensive income (loss) at December 31, 2022	<u>\$ (49,024)</u>	<u>\$ 400</u>	<u>\$ (48,624)</u>

### Note 23 - Derivative Instruments and Hedging Activities

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 has had a designated cash flow hedges hedge to manage its exposure to variability in cash flows

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, 2023.

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.

Cash collateral held at other banks for these swaps was \$580 thousand at December 31, 2022. Related to the liquidation of the hedge as noted above, the cash collateral was returned to the Company. Collateral is was dependent on the market valuation of the underlying hedges.

**Loan swaps swap agreements.** The Bank also enters into interest rate swaps with certain qualifying commercial loan customers to meet their interest rate risk management needs. The Bank simultaneously enters into interest rate swaps with dealer counterparties, with identical notional amounts and offsetting terms. The net result of these interest rate swaps is that the customer pays a fixed rate of interest and the Company receives a floating rate. These back-to-back loan swaps are derivative financial instruments and are reported at fair value in "other assets" and "other liabilities" in the Consolidated Balance Sheets. These swaps are designated as fair value hedges and changes in fair value are recorded in current earnings.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note that the Company also 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.

The follow table summarizes the Company's derivative instruments as of December 31, 2022 and 2021:

(Dollars in thousands)	December 31, 2022				December 31, 2022			
	Notional / Contract Amount	Fair Value	Fair Value Balance Sheet Location	Expiration Date	Notional/ Contract Amount	Fair Value	Fair Value Balance Sheet Location	Expiration Date
Interest rate forward swap - cash flow	\$ 4,000	\$ 506	Junior subordinated debt	June 15, 2031	\$ 4,000	\$ 506	Junior subordinated debt	June 15, 2031
(Dollars in thousands)	December 31, 2021							
	Notional / Contract Amount	Fair Value	Fair Value Balance Sheet Location	Expiration Date				
Interest rate forward swap - cash flow	\$ 4,000	\$ (3)	Junior subordinated debt	June 15, 2031				
Interest rate swap - fair value	\$ 3,940	\$ (8)	Other Liabilities	February 12, 2022				

## Note 24 – Segment Reporting

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

The four reportable segments are:

- **Bank** - The commercial banking segment involves making loans and generating deposits from individuals, businesses and charitable organizations. Loan fee income, service charges from deposit accounts, and other non-interest-related

fees, such as fees for debit cards and ATM usage and fees for treasury management services, generate additional income for the Bank segment.

- *Sturman Wealth Advisors* – Sturman Wealth Advisors, formerly known as VNB Investment Services, offered wealth management and investment advisory services. Revenue for this segment was generated primarily from investment advisory and financial planning fees, with a small and decreasing portion attributable to brokerage commissions. The Note that the Bank sold this business line effective December 19, 2022.
- *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

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

derived from Assets Under Management. Investment management services currently are offered through in-house a third-party managers. In addition, royalty income, in the form of fixed and incentive fees, from the sale of Swift R 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

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

investment strategy. Revenue for this segment is generated from management fees which are derived from Assets Under Management and incentive income which is based on the investment returns generated on performance-based Assets Under Management.

A management fee Note that the membership interests in this business line are planned to be 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 administrative and technology support services provided a period of six years. No expenses will be incurred by the Bank is allocated Company related to the non-bank segments. For both the years ended December 31, 2022 and 2021, management fees of \$100 thousand were charged Masonry Capital subsequent to the non-bank segments and eliminated in consolidated totals. April 1, 2024.

Segment information for the years ended **December 31, 2022** **December 31, 2023** and **2021** **2022** is shown in the following tables. Note that asset information is not reported below, as the assets of Sturman Wealth Advisors and 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 chief operating decision maker. Note also that the Bank sold the Sturman Wealth Advisors business line effective December 19, 2022.

2023	VNB			
	Trust & Estate			Masonry
(Dollars in thousands)	Bank	Services	Capital	Consolidated
Net interest income	\$ 48,969	\$ -	\$ -	\$ 48,969
Provision for credit losses	734	-	-	734
Noninterest income	7,064	1,030	1,007	9,101
Noninterest expense	31,822	1,418	823	34,063
Income before income taxes	23,477	(388)	184	23,273
Provision for income taxes	4,052	(81)	39	4,010
Net income (loss)	\$ 19,425	\$ (307)	\$ 145	\$ 19,263

2022	Sturman Wealth Advisors					VNB Trust & Estate Services				
	Bank	rs	s	y	Consolidated	Bank	Advisors	Services	Capital	Consolidated
(Dollars in thousands)										
Net interest income	\$ 53,547	\$ -	\$ -	\$ -	\$ 53,547	\$ 53,547	\$ -	\$ -	\$ -	\$ 53,547
Provision for loan losses	106	-	-	-	106	106	-	-	-	106
Noninterest income	7,936	770	3,937	1,018	13,661	7,936	770	3,937	1,018	13,661
Noninterest expense	35,097	615	1,957	887	38,556	35,097	615	1,957	887	38,556



Income before income taxes	26,280	155	1,980	131	28,546
Provision for income taxes	4,631	33	416	28	5,108
Net income	\$ 21,649	\$ 122	\$ 1,564	\$ 103	\$ 23,438

2021	Bank	Sturman Wealth Advisors	VNB Trust & Estate Services	Masonry Capital	Consolidated
Net interest income	\$ 44,988	\$ -	\$ -	\$ -	\$ 44,988
Provision for loan losses	1,014	-	-	-	1,014
Noninterest income	5,704	1,213	1,969	1,579	10,465
Noninterest expense	39,164	725	1,764	869	42,522
Income before income taxes	10,514	488	205	710	11,917
Provision for income taxes	1,550	104	43	149	1,846
Net income (loss)	\$ 8,964	\$ 384	\$ 162	\$ 561	\$ 10,071

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 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 2023 and 2022, totaling \$6.0 million and 2021, totaling \$7.5 million, and \$7.6 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,		December 31,	
	2022	2021	December 31, 2023	December 31, 2022
<b>ASSETS</b>				
Cash and due from banks	\$ 1,807	\$ 1,417	\$ 251	\$ 1,807
Investment securities	63	64	63	63
Investments in subsidiaries	134,068	163,712	155,409	134,068
Other assets	941	603	803	941
Total assets	<u>\$ 136,879</u>	<u>\$ 165,796</u>	<u>\$ 156,526</u>	<u>\$ 136,879</u>
<b>LIABILITIES &amp; SHAREHOLDERS' EQUITY</b>				
Junior subordinated debt	\$ 3,413	\$ 3,367	\$ 3,459	\$ 3,413
Other liabilities	50	442	27	50
Stockholders' equity	133,416	161,987	153,040	133,416
Total liabilities and stockholders' equity	<u>\$ 136,879</u>	<u>\$ 165,796</u>	<u>\$ 156,526</u>	<u>\$ 136,879</u>
<b>STATEMENTS OF INCOME</b> (Dollars in thousands)	For the years ended		For the years ended	

	December 31, 2022	December 31, 2021	December 31, 2023	December 31, 2022
Dividends from subsidiary	\$ 7,500	\$ 7,600	\$ 6,000	\$ 7,500
Net interest expense	(190)	(148)	(309)	(190)
Noninterest income			463	-
Noninterest expense	1,418	2,325	1,375	1,418
Income before income taxes	\$ 5,892	\$ 5,127	\$ 4,779	\$ 5,892
Income tax (benefit)	(313)	(353)	(233)	(313)
Income before equity in undistributed earnings of subsidiaries	\$ 6,205	\$ 5,480	\$ 5,012	\$ 6,205
Equity in undistributed earnings of subsidiaries	17,233	4,591	14,251	17,233
Net income	\$ 23,438	\$ 10,071	\$ 19,263	\$ 23,438

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Condensed Parent Company Only (Continued)

#### STATEMENTS OF CASH FLOWS

(Dollars in thousands)

	For the years ended		For the years ended	
	December 31, 2022	December 31, 2021	December 31, 2023	December 31, 2022
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income	\$ 23,438	\$ 10,071	\$ 19,263	\$ 23,438
Adjustments to reconcile net income to net cash provided by operating activities:				

Equity in undistributed earnings of subsidiaries	(17,233)	(4,591)	(14,251)	(17,233)
Net accretion of certain acquisition-related adjustments	46	33	46	46
Amortization	55	-	-	55
Deferred tax expense	298	28		
Deferred tax expense (benefit)			(275)	298
Stock option & restricted stock grant expense	687	521	727	687
Increase in other assets	(140)	(365)		
Increase (decrease) in other liabilities	(392)	411		
Increase (decrease) in other assets			138	(140)
Decrease in other liabilities			(23)	(392)
Net cash provided by operating activities	\$ 6,759	\$ 6,108	\$ 5,625	\$ 6,759
CASH FLOWS FROM FINANCING ACTIVITIES				
Gain on termination of swap			460	-
Liquidation of swap collateral			(585)	-
Proceeds from stock options exercised	23	30	18	23
Cash paid in lieu for fractional shares at acquisition	-	(4)		
Dividends paid	(6,392)	(6,408)	(7,074)	(6,392)
Net cash used in financing activities	\$ (6,369)	\$ (6,382)	\$ (7,181)	\$ (6,369)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	390	(274)	(1,556)	390
CASH AND CASH EQUIVALENTS				
Beginning of period	1,417	1,691	1,807	1,417
End of period	\$ 1,807	\$ 1,417	\$ 251	\$ 1,807

## 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. The Company accounts for the affordable housing investments using the equity method and has recorded \$2.52.4 million in other assets at December 31, 2022 December 31, 2023. There are currently no unfunded capital commitments. The related federal tax credits for the year ended December 31, 2022 was December 31, 2023 were \$442 405 thousand, and were included in income tax expense in the Consolidated Statements of Income. There were \$151 thousand in flow-through losses recognized by the Company during the year ended December 31, 2022 December 31, 2023 that were included in noninterest income.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 27 - Sale of Sturman Wealth Advisors Segment

Effective December 19, 2022, the Bank closed on the sale of the Sturman Wealth Advisors line of business to the individual running that business ("Buyer") pursuant to an asset purchase agreement for \$1.0 million. The purchase agreement entitles Buyer to the future revenue for investment management, advisory, brokerage, and related services performed for the purchased relationships. In connection with this transaction, the Buyer signed a promissory note with the Bank as the creditor in the amount of \$990 thousand, payable at a market rate of interest over a 7-year period. Goodwill of \$372 thousand and unamortized intangible assets of \$212 thousand related to the Sturman Wealth line of business were eliminated from the Consolidated Balance Sheet of the Company in December 2022, with a net gain of \$404 thousand recognized in the Consolidated Statements of Income for the year ended December 31, 2022. 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.

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**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, 2022** **December 31, 2023**. 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 was no change in the internal control over financial reporting that occurred during the fourth quarter of 2022 2023 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 rules of the SEC that permit the Company to provide only management's report in this annual report.

**Item 9B. OTHER INFORMATION.**

None

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

Not applicable

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**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 2023 2024 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, 2022** **December 31, 2023**, relating to the Company’s Stock Incentive Plans:

	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))			Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))		
	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights
	(a)	(b)	(c)	(a)	(b)	(c)
Equity compensation plans approved by security holders	168,280	\$33.95	168,031	174,201	\$33.94	133,999
Total	168,280	\$33.95	168,031	174,201	\$33.94	133,999

**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.

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### **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, 2022 December 31, 2023 and December 31, 2021 December 31, 2022
- (ii) Consolidated Statements of Income – Years ended December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022
- (iii) Consolidated Statements of Comprehensive Income (Loss) – Years ended December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022
- (iv) Consolidated Statements of Changes in Shareholders' Equity – Years ended December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022
- (v) Consolidated Statements of Cash Flows – Years ended December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022
- (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.

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(a)(3) Exhibit Index:

Exhibit Number	Description of Exhibit
2.1	<a href="#"><u>Agreement and Plan of Reorganization, dated as of September 30, 2020, between Virginia National Bankshares Corporation and Fauquier Bankshares, Inc. (incorporated by reference to Exhibit 2.1 to Virginia National Bankshares Corporation's Form 8-K filed with the SEC on October 2, 2020).</u></a>
3.1	<a href="#"><u>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).</u></a>
3.2	<a href="#"><u>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).</u></a>
4.1	<a href="#"><u>Description of Securities Registered under Section 12(b) of the Securities Exchange Act of 1934, 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).</u></a>
10.1	<a href="#"><u>Virginia National Bank Amended and Restated 2005 Stock Incentive Plan (incorporated by reference to Exhibit 99.1 to Virginia National Bankshares Corporation's Registration Statement on Form S-8 filed with the Securities and Exchange Commission on July 25, 2017. Virginia National Bankshares Corporation assumed this plan from Virginia National Bank on December 16, 2013 upon consummation of the reorganization under the agreement referenced as Exhibit 2.0).</u></a>

- 10.2 [Virginia National Bankshares Corporation 2014 Stock Incentive Plan \(incorporated by reference to Exhibit 99.2 to Virginia National Bankshares Corporation's Registration Statement on Form S-8 filed with the Securities and Exchange Commission on July 25, 2017\).](#)
- 10.3 [Virginia National Bankshares Corporation 2022 Stock Incentive Plan \(incorporated by reference to Exhibit 10.3 to Virginia National Bankshares Corporation's Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 29, 2023\).](#)
- 10.4 [Form of Amended and Restated Management Continuity Agreement executed September 28, 2020 between Virginia National Bankshares Corporation and each of Glenn W. Rust, Virginia R. Bayes, Tara Y. Harrison and Donna G. Shewmake \(incorporated by reference to Exhibit 10.1 to Virginia National Bankshares Corporation's Current Report on Form 8-K filed with the Securities and Exchange Commission on September 28, 2020\).](#)
- 21.0 [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 [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](#)
- 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, 2022** **December 31, 2023** and **December 31,**
- 104 **2021** **December 31, 2022**, (ii) the Consolidated Statements of Income for the years ended **December 31, 2022** **December 31, 2023** and **December 31, 2021** **December 31, 2022**, (iii) the Consolidated Statements of Comprehensive Income (Loss) for the years ended **December 31, 2022** **December 31, 2023** and **December 31, 2021** **December 31, 2022**, (iv) the Consolidated Statements of Changes in Shareholders' Equity for years ended **December 31, 2022** **December 31, 2023** and **December 31, 2021** **December 31, 2022**, (v) the Consolidated Statements of Cash Flows for the years ended **December 31, 2022** **December 31, 2023** and **December 31, 2021** **December 31, 2022**, 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 interactive data file (embedded with XBRL tags are embedded within the Inline XBRL document) document and are contained within Exhibit 101.0

Item 16. Form 10-K Summary.

Not applicable

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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 29, 2023 March 28, 2024

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 29, 2023 March 28, 2024.

Signatures	Title
_____  /s/ John B. Adams, Jr. _____ John B. Adams, Jr.	Director

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

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Exhibit 4.1 

## DESCRIPTION OF VIRGINIA NATIONAL BANKSHARES CORPORATION CAPITAL STOCK

*The following description of the material terms of the capital stock of Virginia National Bankshares Corporation ("Virginia National") does not purport to be complete and is subject to, and qualified in its entirety by reference to, its articles of incorporation and its bylaws. The Articles and Bylaws are included as exhibits to this Annual Report on Form 10-K.*

### General

The authorized capital stock of Virginia National consists of (i) 10,000,000 shares of common stock, par value \$2.50 per share, and (ii) 2,000,000 shares of preferred stock, par value \$2.50 per share.

### Common Stock

**General.** Each share of Virginia National's common stock has the same relative rights as, and is identical in all respects to, each other share of its common stock. Virginia National's common stock is traded on the Nasdaq Capital Markets under the symbol "VABK." The transfer agent for Virginia National's common stock is American Stock Transfer and Trust Company, at 6201 15th Avenue, Brooklyn, New York 11209.

**Voting Rights.** Each holder of Virginia National common stock is entitled to one vote for each share held on all matters submitted to a vote of shareholders. The holders of shares of common stock do not possess cumulative voting rights in the election of directors. Any issuance by Virginia National of preferred stock with voting rights may affect the voting rights of the holders of Virginia National common stock.

**Dividends.** Holders of Virginia National common stock will be entitled to receive and share equally in such dividends as the board of directors of Virginia National may declare out of funds legally available for such payments. If Virginia National issues preferred stock, holders of such stock may have a priority over holders of common stock with respect to the payment of dividends. Virginia National's ability to pay dividends is limited by restrictions imposed by the Virginia Stock Corporation Act ("VSCA") 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. In addition, as a bank holding company, Virginia National's ability to pay dividends is limited by applicable policies of the Federal Reserve.

The ability of Virginia National to pay dividends on its capital stock is also dependent on the dividends it may receive from Virginia National Bank. The ability of Virginia National Bank to pay dividends on its capital stock is restricted by applicable federal laws and regulations governing national banks. Although Virginia National is not subject to these restrictions as a Virginia corporation, such restrictions will indirectly affect Virginia National in the same manner because dividends received from Virginia National Bank are Virginia National's primary source of funds for the payment of dividends to its shareholders.

**Liquidation Rights.** In the event of a liquidation or dissolution of Virginia National, holders of Virginia National's common stock will be entitled to receive, after payment or provision for payment of all debts and liabilities of Virginia National, all assets of Virginia National available for distribution. If Virginia National issues preferred stock, holders of preferred stock may have a senior interest over holders of common stock in such a distribution.

**No Preemptive Rights; Redemption and Assessment.** Holders of shares of Virginia National's common stock do not have preemptive rights to subscribe for additional shares of Virginia National's securities.

## **Preferred Stock**

Virginia National's articles of incorporation permit it to issue up to 2,000,000 shares of preferred stock in one or more series. Virginia National's board of directors (the "Virginia National Board") is authorized to fix the number and designation of shares, rate of dividends, redemption terms (including purchase and sinking fund provisions), conversion rights, liquidation amounts, voting rights, and any other lawful rights, preferences and limitations of each such series. Preferred stock issued by Virginia National may rank prior to Virginia National common stock as to dividend rights, liquidation preferences, or both, may have full or limited voting rights (including multiple voting rights and voting rights as a class), and may be convertible into shares of Virginia National's common stock.

The creation and issuance of any class or series of preferred stock, and the relative rights, designations and preferences of such class or series, if and when established, will depend upon, among other things, the future capital needs of Virginia National, then existing market conditions and other factors that, in the judgment of the Virginia National Board, might warrant the issuance of preferred stock.

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## **Directors**

The Virginia National Board is not divided into classes and directors serve one-year terms. Virginia National's bylaws state that there must be at least five and no more than 25 individuals serving on the Virginia National Board, the exact number to be fixed and determined from time to time by resolution of a majority of the full board of directors. Subject to the rights of the holders of any series of preferred stock then outstanding, any director of Virginia National may be removed, with or without cause, by the affirmative vote of the holders of a majority of the shares entitled to vote on such matter.

## **Antitakeover Provisions of Virginia National's Articles of Incorporation and Bylaws, and Virginia Law**

**General.** Virginia National's articles of incorporation and bylaws and Virginia law contain provisions that may have the effect of discouraging, delaying, or preventing a change of control of Virginia National by means of a tender offer, a proxy fight, open market purchases of shares of its common stock, or otherwise in a transaction not approved by the Virginia National Board. These provisions are designed to reduce, or have the effect of reducing, Virginia National's vulnerability to coercive takeover practices and inadequate takeover bids. However, the existence of these provisions could prevent Virginia National shareholders from receiving a premium over the then prevailing market price of Virginia National common stock or a transaction that may otherwise be in the best interest of Virginia National shareholders. In addition, these provisions make it more difficult for Virginia National shareholders, should they choose to do so, to remove the Virginia National Board or Virginia National's management.

## **Virginia National's Articles of Incorporation and Bylaws**

**Preferred Stock.** Virginia National's articles of incorporation authorize the Virginia National Board to establish one or more series of preferred stock and to determine, with respect to any series of preferred stock, the preferences, rights, and other terms of such series. See “– Preferred Stock.” Under this authority, the Virginia National Board could create and issue a series of preferred stock with rights, preferences, or restrictions that have the effect of discriminating against an existing or prospective holder of Virginia National's capital stock as a result of such holder beneficially owning or commencing a tender offer for a substantial amount of Virginia National common stock. One of the effects of authorized but unissued and unreserved shares of preferred stock may be to render it more difficult for, or to discourage an attempt by, a potential acquirer to obtain control of Virginia National by means of a merger, tender offer, proxy contest, or otherwise, and thereby protect the continuity of Virginia National's management.

**Board Vacancies.** Virginia law and Virginia National's articles of incorporation and bylaws provide that any vacancy occurring on the Virginia National Board may be filled by the remaining members of the board. In connection with the merger of Virginia National and Fauquier Bankshares, Inc. (“Fauquier”) on April 1, 2021, Virginia National amended its bylaws to facilitate the change in size and composition of the Virginia National Board following the merger. The amended bylaws provide that the Virginia National Board is to be fixed at no more than 13 directors, seven of which will be former members of the Virginia National Board prior to the merger (the “Virginia National Directors”) and six of which will be the former members of the Board of Directors of Fauquier (the “Fauquier Directors”). The bylaws, as amended, provide that until the second anniversary of the merger, all vacancies on the Virginia National Board created by the cessation of service of a Virginia National Director must be filled by a nominee proposed to the nominating committee of the Virginia National Board by a majority of the remaining Virginia National Directors, and all vacancies on the Virginia National Board created by the cessation of service of a Fauquier Director shall be filled by a nominee proposed to the nominating committee of the Virginia National Board by a majority of the remaining Fauquier Directors. Such bylaw provision may not be modified, amended or repealed during such two-year period other than by a majority of the Fauquier Directors and a majority of the Virginia National Directors. These provisions may discourage, delay, or prevent a third party from voting to remove incumbent directors and simultaneously gaining control of the Virginia National Board by filling the vacancies created by that removal with its own nominees.

**Supermajority Voting Provisions.** Virginia National's articles provide that a merger, statutory share exchange, sale or other disposition of all or substantially all of Virginia National's assets otherwise than in the ordinary course of business, dissolution, or any amendment or restatement of Virginia National's articles of incorporation that requires a vote of Virginia National shareholders, must be approved by a majority of the votes entitled to be cast by each voting group that is entitled to vote on the matter, provided that the transaction, amendment or restatement has been approved and recommended by at least two-thirds of the directors in office at the time of such approval and recommendation. If the transaction, amendment or restatement is not approved and recommended by at least two-thirds of the directors, then it must be approved by the vote of more than two-thirds of all the votes entitled to be cast on such matter by each voting group entitled to vote on the matter.

**Shareholder Meetings.** Under its bylaws, special meetings of shareholders may only be called by Virginia National's chairman, chief executive officer, president or by a majority of the Virginia National Board. Under Virginia National's bylaws and Virginia law, shareholders may only conduct business at special meetings of shareholders that is specified in the notice of the meeting. This provision is designed to afford antitakeover protection by making it more difficult for shareholders to call a special meeting of shareholders to consider a proposed merger or other business combination.



**Advance Notification of Shareholder Nominations.** Virginia National's bylaws establish advance notice procedures with respect to the nomination of persons for election as directors, other than nominations made by or at the direction of the Virginia National Board. Pursuant to Virginia National's bylaws, a shareholder may nominate persons for election to the Virginia National Board by delivering written notice to Virginia National's corporate secretary. With respect to an election to be held at an annual meeting of shareholders, its bylaws generally require that such notice be delivered not later than the close of business on the 90<sup>th</sup> day, nor earlier than the close of business on the 120<sup>th</sup> day, prior to the first anniversary of the preceding year's annual meeting (provided, however, that in the event that

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the date of the annual meeting is more than 30 days before or more than 70 days after such anniversary date, notice by the shareholder must be delivered not earlier than the close of business on the 120<sup>th</sup> day prior to such annual meeting and not later than the close of business on the later of the 90<sup>th</sup> day prior to such annual meeting or the 10<sup>th</sup> day following the day on which announcement of the day of such meeting is first made by Virginia National). A shareholder wishing to nominate any person for election as a director must provide Virginia National with certain information concerning the nominee and the proposing shareholder.

**Virginia Antitakeover Statutes.** Virginia has two antitakeover statutes: the Affiliated Transactions Statute and the Control Share Acquisitions Statute.

**Affiliated Transactions Statute.** Under the Affiliated Transactions Statute, an affiliated transaction generally is defined as any of the following transactions:

- merger, a share exchange, material dispositions of corporate assets not in the ordinary course of business to or with an interested shareholder (defined as any holder of more than 10% of any class of outstanding voting shares), or material guarantee of any indebtedness of any interested shareholder;
- certain sales or other dispositions of the corporation's voting shares or any of the corporation's subsidiaries having an aggregate fair market value greater than 5% of the aggregate fair market value of all outstanding voting shares;
- any dissolution of the corporation proposed by or on behalf of an interested shareholder; or
- any reclassification, including reverse stock splits, or recapitalization that increases the percentage of outstanding voting shares owned beneficially by any interested shareholder by more than 5%.

In general, these provisions prohibit a Virginia corporation from engaging in affiliated transactions with an interested shareholder for a period of three years following the date that such person became an interested shareholder unless:

- the board of directors of the corporation and the holders of two-thirds of the voting shares, other than the shares beneficially owned by the interested shareholder, approve the affiliated transaction; or
- before the date the person became an interested shareholder, the board of directors approved the transaction and the transaction resulted in the shareholder becoming an interested shareholder.

After three years, any such transaction must be at a "fair price," as statutorily defined, or must be approved by the holders of two-thirds of the voting shares, other than the shares beneficially owned by the interested shareholder.

The shareholders of a Virginia corporation may adopt an amendment to the corporation's articles of incorporation or bylaws opting out of the Affiliated Transactions Statute. Neither Virginia National's articles of incorporation nor its bylaws contain a provision opting out of the Affiliated Transactions Statute.

**Control Share Acquisitions Statute.** Virginia law also contains provisions relating to control share acquisitions, which are transactions causing the voting strength of any person acquiring beneficial ownership of shares of a Virginia public corporation to meet or exceed certain threshold percentages (20%, 33 1/3% or 50%) of the total votes entitled to be cast for the election of directors. Shares acquired in a control share acquisition have no voting rights unless:

- the voting rights are granted by a majority vote of all outstanding shares other than those held by the acquiring person or any officer or employee director of the corporation; or
- the articles of incorporation or bylaws of the corporation provide that these Virginia law provisions do not apply to acquisitions of its shares.

The acquiring person may require that a special meeting of the shareholders be held to consider the grant of voting rights to the shares acquired in the control share acquisition.

Under Virginia law, a corporation's articles of incorporation or bylaws may contain a provision opting out of the Control Share Acquisitions Statute. Neither Virginia National's articles of incorporation nor its bylaws contain a provision opting out of the Control Share Acquisitions Statute.

### **Limitation of Liability of Directors and Officers**

The VSCA provides that in any proceeding brought by or in the right of a corporation or brought by or on behalf of shareholders of the corporation, the damages assessed against an officer or director arising out of a single transaction, occurrence or course of conduct may not exceed the lesser of (i) the monetary amount, including the elimination of liability, specified in the corporation's articles of incorporation or, if approved by the shareholders, in the corporation's bylaws as a limitation on or elimination of the liability of the officer or director, or (ii) the greater of (a) \$100,000 or (b) the amount of cash compensation received by the officer or director from the corporation during the twelve months immediately preceding the act or omission for which liability was imposed. The liability of an officer or director is not limited under the VSCA or a corporation's articles of incorporation and bylaws if the officer or director engaged in willful misconduct or a knowing violation of the criminal law or of any federal or state securities law.

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Virginia National's articles provide that a director or officer of Virginia National is not liable to Virginia National or its shareholders for monetary damages except for liability resulting from such person having engaged in willful misconduct or a knowing violation of the criminal law or any federal or state securities law.

### **Indemnification**

The Virginia National articles provide that to the fullest extent permitted by the VSCA and any other applicable law, Virginia National is required to indemnify a director or officer of Virginia National who is or was a party to any proceeding by reason of the fact that he or she is or was such a director or officer or is or was serving at the request of or on behalf of Virginia National as a director, trustee, partner or officer of another corporation, partnership, joint venture, trust, employee benefit plan or other enterprise, against any liability incurred by him or her in connection with such proceeding unless he or she engaged in willful misconduct or a knowing violation of the criminal law. Virginia National's board of directors is empowered, by majority vote of a quorum of disinterested directors, to contract in advance to indemnify any director or officer as set forth above.

### **Virginia National Common Stock Not Insured by the FDIC**

Virginia National's common stock is not a deposit or a savings account and is not insured or guaranteed by the FDIC or any other government agency.

Exhibit 10.3

## VIRGINIA NATIONAL BANKSHARES CORPORATION

### 2022 STOCK INCENTIVE PLAN

#### AS APPROVED BY SHAREHOLDERS ON JUNE 23, 2022

#### 1. Purpose; Eligibility.

(a) General Purpose. The purpose of the Virginia National Bankshares Corporation 2022 Stock Incentive Plan is to further the long-term stability and financial success of the Company by attracting and retaining personnel, including employees, directors and Consultants, through the use of stock and stock-based incentives. The Company believes that ownership of Company Stock will stimulate the efforts of those persons upon whose judgment, interest and efforts the Company and its Affiliates depend for the successful conduct of their businesses and will further the alignment of those persons' interests with the interests of the Company's shareholders.

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

(c) Available Awards. Awards of Options, Restricted Stock, Restricted Stock Units, and Other Stock-Based Awards may be granted under the Plan. Options granted under the Plan may be Incentive Stock Options or Nonstatutory Stock Options.

(d) Date of Adoption, Effective Date. The Plan was adopted by the Board of Directors of the Company on April 27, 2022, and will become effective on June 23, 2022, if approved by the shareholders of the Company on June 23, 2022 in accordance with applicable law (such approval date, the "Effective Date").

#### 2. Certain Definitions. The following terms have the meanings indicated:

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

(b) Affiliate. A corporation or other entity that, directly or through one or more intermediaries, controls, is controlled by or is under common control with, the Company. For purposes of an Incentive Stock Option, "Affiliate," refers to a "parent corporation" or "subsidiary corporation" within the meaning of Treasury Regulations under Section 424 of the Code.

(c) Applicable Withholding Taxes. The aggregate amount of federal, state and local income and payroll taxes that the Company or an Affiliate is required to withhold (not in excess of the maximum applicable statutory withholding rate) in connection with any exercise of an Option, or the award, lapse of restrictions or payment with respect to any Award.

(d) Award. The award of an Option, Restricted Stock, Restricted Stock Unit, or Stock Award under the Plan.

(e) Award Agreement. Any agreement, contract, certificate or other written instrument or document (which may be in electronic form) evidencing the terms and conditions of an Award granted under the Plan. Each Award Agreement shall be subject to the terms and conditions of the Plan.

(f) Board. The Board of Directors of the Company.

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(g) Cause. With respect to any employee or Consultant: (1) if the employee or Consultant is a party to an employment agreement, change in control employment agreement, or other services agreement with the Company or its Affiliates and such agreement provides for a definition of Cause, the definition contained therein; or (2) if no such agreement exists, or if such agreement does not define Cause, the definition of Cause contained in the Award Agreement.

In all other cases, Cause shall mean:

(i) Continual or deliberate neglect by the Participant in the performance of his material duties and responsibilities as established from time to time by the Company, or the Participant's repeated failure or refusal to follow reasonable instructions or policies of the Company after being advised in writing of such failure or refusal and being given a reasonable opportunity and period (as determined by the Company) to remedy such failure or refusal;

(ii) Conviction of, indictment for (or its procedural equivalent), entering of a guilty plea or plea of no contest with respect to a felony, a crime of moral turpitude or any other crime with respect to which imprisonment is a possible punishment, or the commission of an act of embezzlement or fraud against the Company or an Affiliate;

(iii) Violation in any material respect of any code or standard of conduct generally applicable to employees of the Company or an Affiliate after being advised in writing of such violation and being given a reasonable opportunity and period (as determined by the Company) to remedy such violation;

(iv) Dishonesty of the Participant with respect to the Company, or breach of a fiduciary duty owed to the Company; or

(v) The willful engaging by the Participant in conduct that is reasonably likely to result, in the good faith judgment of the Company, in material injury to the Company, monetarily, reputationally or otherwise.

The Committee, in its absolute discretion, shall determine the effect of all matters and questions relating to whether a Participant has been discharged for Cause. Notwithstanding the foregoing, with respect to any director, a determination that the director has engaged in conduct that is covered by the definition of Cause shall be made by a majority of the disinterested Board members.

(h) Change in Control. A Change in Control shall occur if, after the Date of Grant of an Award:

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

(ii) Individuals who constitute the Board on the Effective Date of the Plan (the "Incumbent Board") cease to constitute a majority of the Board, provided that any director whose nomination was approved by a vote of at least a majority of the directors then comprising the Incumbent Board will be considered a member of the Incumbent Board, but excluding any such individual whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of directors of the Company;

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

(A) no Person beneficially owns 50% or more of either (1) the then outstanding shares of Company Stock or voting securities of the corporation or other entity resulting from the transaction or (2) the combined voting power of the then outstanding voting securities of such corporation or other entity entitled to vote

generally in the election of members of the board of directors (or similar governing body); and

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

(iv) A complete liquidation or dissolution of the Company, or the sale or other disposition of all or substantially all of the assets of the Company.

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

(i) Code. The Internal Revenue Code of 1986, as amended. Any reference to a section of the Code shall be deemed to include a reference to any regulations promulgated thereunder.

(j) Committee. The Committee appointed by the Board of Directors to administer the Plan pursuant to Section 16 of the Plan, or if no such Committee has been appointed, the Board.

(k) Company. Virginia National Bankshares Corporation, a Virginia corporation.

(l) Company Stock. Common stock of the Company. If the par value of the Company Stock is changed, or in the event of a change in the capital structure of the Company (as provided in Section 13) the shares resulting from such a change shall be deemed to be Company Stock within the meaning of the Plan.

(m) Consultant. A person or entity rendering consulting or advisory services to the Company or an Affiliate who is not an “employee” for purposes of employment tax withholding under the Code or a director of the Company or an Affiliate.

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

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

(p) Fair Market Value.

(i) If the Company Stock is listed on any established stock exchange or quoted on any established stock market system, Fair Market Value shall be the closing price for the Company Stock on the date as of which Fair Market Value is determined for any purpose under the Plan (or if no trades were reported the closing price on the immediately preceding date on which the Company Stock was traded) as reported by such exchange or stock market system or such other source as the Committee deems reliable; provided, however, the Committee may elect to use, subject to applicable requirements of the Code and Treasury Regulations, the average closing price over a designated number of up to thirty (30) consecutive days to determine the Fair Market Value if the daily volume of trading in the Company Stock is not, in the



sole discretion of the Committee, sufficient to be a reliable indicator of Fair Market Value.

(ii) If the Company Stock is not then listed on any established stock exchange or quoted on any established stock market system or if, in the opinion of the Committee, the method set forth in (i) is otherwise inapplicable or inappropriate for any reason, Fair Market Value shall be the fair market value of a share of Company Stock as determined pursuant to a reasonable application of a reasonable method adopted by the Committee in good faith for

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such purpose, which shall be conclusive and binding on all persons; provided, however, that the Fair Market Value of Company Stock subject to an Incentive Stock Option shall be determined in good faith within the meaning of Treasury Regulation § 1.422-2(e)(2) and the Fair Market Value of Company Stock subject to a Nonstatutory Stock Option or a stock appreciation right shall be determined in accordance with Treasury Regulation § 1.409A-1(b)(5)(iv).

(iii) Notwithstanding any other provisions in the Plan, Fair Market Value shall be determined as of the Date of Grant specified in the Award.

(q) Good Reason. If the Participant is a party to an employment agreement, change in control employment agreement, or other services agreement with the Company or an Affiliate and such agreement provides for a definition of Good Reason, the definition contained in the agreement. If no such agreement exists or if such agreement does not define Good Reason, the definition of Good Reason contained in the Award Agreement. In all other cases, Good Reason shall mean the occurrence of one or more of the following without the Participant's express written consent, which circumstances are not remedied by the Company within thirty (30) days of its receipt of a written notice from the Participant describing the applicable circumstances (which notice must be provided by the Participant within ninety (90) days of the Participant's knowledge of the applicable circumstances): (i) any material, adverse change in the Participant's duties, responsibilities, authority, title, status or reporting structure; (ii) a material reduction in the Participant's base salary or bonus opportunity unless any such base salary or bonus opportunity reduction is proportionate to reductions in base salaries or bonus opportunities of other similarly situated employees of the Company; or (iii) a geographical relocation of the Participant's principal office location by more than thirty (30) miles.

(r) Incentive Stock Option. An Option intended to meet the requirements of, and that qualifies for, favorable federal income tax treatment under, Section 422 of the Code, and is so designated.

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

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

(u) Other Stock-Based Award. A right granted under Section 8.

(v) Participant. Any eligible Award recipient who is granted an Award under the Plan.

(w) Performance Award. An Award for which exercise, full enjoyment or receipt thereof by the Participant is contingent on satisfaction or achievement of a performance objective. The terms and conditions of each Performance Award, including the performance objective and performance period, shall be set forth in the applicable Award Agreement with the Participant or in a subplan of the Plan which is incorporated by reference into the Award Agreement

(x) Plan. The Virginia National Bankshares Corporation 2022 Stock Incentive Plan.

(y) Restricted Stock. Company Stock awarded upon the terms and subject to the restrictions set forth in Section 6.

(z) Restricted Stock Unit. An Award, designated as a Restricted Stock Unit under the Plan, that represents the right to receive Company Stock and/or cash in lieu thereof upon the terms and subject to the restrictions set forth in Section 7 and which, unless otherwise expressly provided, is valued by reference to the Fair Market Value of a share of Company Stock.

(aa) Rule 16b-3. Rule 16b-3 promulgated under the Act, including any corresponding subsequent rule or any amendments to Rule 16b-3 enacted after the effective date of the Plan.

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

### 3. Shares Subject to the Plan.



(a) Subject to adjustment as provided in Section 13 of the Plan, a total of 250,000 shares of Company Stock may be issued pursuant to Awards under the Plan. Subject to adjustment as provided in Section 13, no more than an aggregate of 250,000 shares of Company Stock may be issued pursuant to the exercise of Incentive Stock Options granted under the Plan (including shares issued pursuant to the exercise of Incentive Stock Options that are the subject to disqualifying dispositions within in the meaning of Sections 421 and 422 of the Code).

(b) Any shares of Company Stock subject to an Award that is canceled, forfeited or expires prior to exercise, vesting or settlement, either in full or in part, shall again become available for issuance under the Plan; provided that shares subject to an Award shall not again be made available for issuance or delivery under the Plan if such shares are tendered or withheld in payment of an Option exercise price or to satisfy any amount of tax withholding with respect to the Award.

(c) The maximum number of shares of Company Stock with respect to which Awards may be granted in any calendar year to any Participant shall not exceed 40,000 shares in the aggregate. If an Award is to be settled in cash, the number of shares of Company Stock on which the Award is based shall count toward the individual share limit set forth in this Section 3(c).

(d) Notwithstanding anything in the Plan to the contrary, the maximum number of shares of Company Stock with respect to which Awards may be granted in any calendar year to any non-employee director of the Company or an Affiliate shall not exceed 10,000 shares. If an Award is to be settled in cash, the number of shares of Company Stock on which the Award is based shall count toward the individual share limit set forth in this Section 3(d).

#### 4. Stock Options.

(a) Option Grant. Whenever the Committee deems it appropriate to grant Options, an Award Agreement shall be given to the Participant stating the number of shares for which Options are granted, the exercise price per share, whether the options are Incentive Stock Options or Nonstatutory Stock Options, and the conditions to which the grant and exercise of the Options are subject. The Award Agreement shall set forth all restrictions on disposition and transfer applicable to the Option shares. Incentive Stock Options may be granted to employees of the Company or an Affiliate. Non-employee directors and Consultants shall not be eligible to receive Incentive Stock Options. No Option (or portion thereof) that is intended to be an Incentive Stock Option shall be invalid for failure to so qualify, but instead such Option (or portion thereof) shall constitute a Nonstatutory Stock Option.

(b) Exercise Price; No Option repricing. The Committee shall establish the exercise price of Options. The exercise price of an Option shall be not less than 100% of the Fair Market Value of such shares on the Date of Grant, provided that if the Participant is a 10% Shareholder, the

exercise price of an Incentive Stock Option shall not be less than 110% of the Fair Market Value of such shares on the Date of Grant. Notwithstanding any provision of the Plan to the contrary, neither the Committee nor the Board shall have the right or authority to amend or modify the exercise price of any outstanding Option, or to cancel an outstanding Option, at a time when the exercise price of the Option is greater than the Fair Market Value of a share of Company Stock in exchange for cash,

another Award, or other securities, except in connection with a change in capital structure or corporate transaction involving the Company in accordance with Section 13 or Section 15, respectively.

(c) Term. The Committee shall establish the term of each Option in the Participant's Award Agreement. The term of an Option shall not be longer than ten (10) years from the Date of Grant, except that an Incentive Stock Option granted to a 10% Shareholder shall not have a term in excess of five (5) years. No Option may be exercised after the expiration of its term or, except as set forth in the Participant's Award Agreement, after the termination of the Participant's employment with the Company and/or its Affiliates.

(d) Time of Exercise.

- (i) During Participant's Employment or Service. Options may be exercised during their terms in whole or in part at such times as may be specified by the Committee in the Participant's Award Agreement. The Committee may impose such vesting conditions and other requirements as the Committee deems appropriate, and the Committee may include such provisions regarding a Change in Control as the Committee deems appropriate.
- (ii) After Participant's Termination of Employment or Service. The Committee shall set forth in the Participant's Award Agreement when, and under what circumstances, an Option may be exercised after termination of the Participant's employment or period of service; provided that no Incentive Stock Option may be exercised after the earlier of (a) (i) three (3) months from the Participant's termination of employment with the Company for reasons other than Disability or death, or (ii) one (1) year from the Participant's termination of employment on account of Disability or death; or (b) the expiration of the Option's term. The Award Agreement may provide for various conditions with respect to the exercise of the Option after termination of employment, including, but not limited to, compliance with noncompetition and confidentiality covenants.
- (iii) After Participant's Death. If a Participant dies and if the Participant's Award Agreement provides that part or all of the Option may be exercised after the

Participant's death, then such portion may be exercised by the executor or administrator of the Participant's estate, by a person who acquired the right to exercise the Option by bequest or inheritance or by a person designated to exercise the Option upon the Participant's death during the time period specified in the Award Agreement, but not later than the expiration of the Option's term.

The Committee may, in its sole discretion, amend a previously granted Incentive Stock Option to provide for more liberal exercise provisions, provided, however, that if the Incentive Stock Option as amended no longer meets the requirements of Section 422 of the Code, and, as a result the Option no longer qualifies for favorable federal income tax treatment under Section 422 of the Code, the amendment shall not become effective without the written consent of the Participant.

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

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that first become exercisable in a calendar year exceed the Limitation Amount, the excess Options will be treated as Nonstatutory Stock Options to the extent permitted by law.

## 5. Method of Exercise of Options.

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

(b) Payment. In no event shall any shares be issued pursuant to the exercise of an Option until the Participant has made full payment for the shares of Company Stock (including payment of the exercise price and any Applicable Withholding Taxes). Company Stock purchased upon the exercise of an Option granted under the Plan shall be paid for as follows, provided that the Committee may impose such limitations and restrictions on payments with shares of Company Stock (including without limitation by "net share exercise") as the Committee, in its discretion, deems advisable:

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

- (ii) by delivery of Company Stock that the Participant has previously acquired and owned (valued at Fair Market Value on the date of exercise), provided that such method of payment is then permitted under applicable law and the Company Stock was owned by the Participant for such period of time, if any, required to avoid a charge to earnings for financial accounting purposes;
- (iii) if provided in an Award Agreement, by withholding and retention by the Company of sufficient shares of Company Stock issuable in connection with the exercise to cover the exercise price (a “net share exercise”) for an option not intended to be an Incentive Stock Option and, if required by the Committee, Applicable Withholding Taxes;
- (iv) by delivery of a properly executed exercise notice together with irrevocable instructions a creditworthy broker to deliver promptly to the Company, from the sale or loan proceed with respect to the sale of Company Stock or a loan secured by Company Stock, the amount necessary to pay the exercise price and, if required by the Committee, Applicable Withholding Taxes; or
- (v) by any combination of the above permitted forms of payment.

(c) Delivery of Shares. Upon the exercise of an Option in compliance with the provisions of this Section 5, the receipt by the Company of the payment for the shares of Company Stock so acquired, and satisfaction of the provisions of this Section 5, the Company shall deliver or cause to be delivered, within a reasonable time, to the Participant exercising the Option, either certificate(s) or shares held in book-entry form (“Book-Entry Shares”) for the number of shares of Company Stock with respect to which the Option is exercised. The shares of Company Stock shall be registered in the name of the exercising Participant or in such name jointly with the Participant as the Participant may direct in the written notice of exercise. The Company may place on any certificate or Book-Entry Shares representing Company Stock issued upon the exercise of an Option any legend or notation deemed desirable by the Company’s counsel to comply with federal or state securities laws. The Company may require of the Participant a customary indication of his or her investment intent. A Participant shall not possess shareholder rights with respect to shares acquired upon the exercise of an Option until the Participant has made any required payment, including payment of Applicable Withholding Taxes, and the Company has issued a certificate (or made an equivalent book-entry notation in the records of the Company’s stock transfer agent) for the shares of Company Stock acquired.

(d) Disqualifying Disposition. If a Participant disposes of shares acquired upon exercise of an Incentive Stock Option within two (2) years from the date the Option is granted or within one (1) year after the issuance of such shares to the Participant, the Participant shall notify the

Company of such disposition and provide information regarding the date of disposition, sale price, number of shares disposed of, and any other information relating thereto that the Company may reasonably request.

## 6. Restricted Stock Awards.

(a) Grant. Whenever the Committee deems it appropriate to grant a Restricted Stock Award, an Award Agreement shall be given to the Participant stating the number of shares of Restricted Stock for which the Award is granted, the Date of Grant, and the terms and conditions to which the Award is subject. Certificates representing the shares shall be issued (or an equivalent book-entry notation shall be made in the records of the Company's transfer agent) in the name of the Participant, subject to the restrictions imposed by the Plan and the Committee. Alternatively, the Committee may determine that the Restricted Stock shall be held by the Company rather than delivered to the Participant pending the release of the applicable restrictions. A Restricted Stock Award may be made by the Committee in its discretion without cash consideration.

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

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

(d) Rights of the Participant and Restrictions. A Participant shall hold shares of Restricted Stock subject to the restrictions set forth in the Award Agreement and in the Plan. In other respects, unless otherwise provided in the Award Agreement, the Participant shall have all the rights of a shareholder with respect to the shares of Restricted Stock, including, but not limited to, the right to vote such shares and the right to receive all cash dividends and

other distributions paid thereon. To the extent stock certificates are delivered to the Participant, the certificates representing Restricted Stock shall bear a legend referring to the restrictions set forth in the Plan and the Participant's Award Agreement.

## **7. Restricted Stock Unit Awards.**

(a) **Grant.** Whenever the Committee deems it appropriate to grant a Restricted Stock Unit Award, an Award Agreement shall be given to the Participant stating the number of Restricted Stock Units in the Award, the Date of Grant, and the terms and conditions to which the Award is subject. No shares of Company Stock shall be issued at the time a Restricted Stock Unit is granted, and the Company will not be required to set aside a fund for the payment of any such

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award. A Restricted Stock Unit Award may be made by the Committee in its discretion without cash consideration.

(b) **Restrictions on Vesting.** The Committee may place such restrictions on the vesting and settlement of Restricted Stock Units as the Committee deems appropriate, including restrictions relating to continued employment or service and/or achievement of performance objectives. Without limiting the foregoing, the Committee may provide performance or Change in Control acceleration parameters under which all, or a portion, of the Restricted Stock Units will vest on the Company's (or an Affiliate's) achievement of established performance objectives. Restricted Stock Units may not be sold, assigned, transferred, disposed of, pledged, hypothecated or otherwise encumbered.

(c) **Rights of the Participant.** A Participant shall have no voting rights with respect to Restricted Stock Units. At the discretion of the Committee, to the extent set forth in the Award Agreement each Restricted Stock Unit (representing one share of Company Stock) may be credited with cash and stock dividends paid by the Company in respect of one share of Company Stock. Dividends credited to a Participant's account and attributable to any particular Restricted Stock Unit shall be distributed in cash or, at the discretion of the Committee, in shares of Company Stock having a Fair Market Value equal to the amount of such credited dividends, with distribution to occur either upon settlement of such Restricted Stock Unit or at such other time or times set forth in an Award Agreement. Except as otherwise provided in an Award Agreement, if such Restricted Stock Unit is forfeited, the Participant shall have no right to such credited dividends.

(d) **Settlement.** Unless otherwise provided in the Award Agreement, a Participant's Restricted Stock Units which vest shall be immediately settled by the issuance and delivery to the Participant of one share of Company Stock for each vested Restricted



Stock Unit or the payment of cash in an amount equal to the number of shares for which the Restricted Stock Unit vested multiplied by the Fair Market Value of a share of Company Stock on the vesting date, or a combination thereof as determined by the Committee.

#### 8. Other Stock-Based Awards.

(a) Grant. The Committee is authorized to grant other types of equity-based or equity-related Awards not otherwise described by the terms of the Plan (including, subject to the limitations of the minimum vesting provisions of Section 26, the grant or offer for sale of unrestricted shares of Company Stock) to Participants in such amounts and subject to such terms and conditions as the Committee shall determine. Such Awards shall be referred to as “Other Stock-Based Awards.” Each such Other Stock-Based Award may involve the transfer of actual shares to Participants or payment in cash or otherwise of amounts based on the value of shares of Company Stock.

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

9. Applicable Withholding Taxes. Each Participant shall agree, as a condition of receiving an Award, to pay to the Company or the Affiliate, or make arrangements satisfactory to the Company or the Affiliate regarding the payment of, all Applicable Withholding Taxes with respect to the Award. Until the Applicable Withholding Taxes have been paid or arrangements satisfactory to the Company or the Affiliate have been made, no stock certificates or Book-Entry Shares (or, in the case of Restricted Stock, Restricted Stock Units and Other Stock-Based Awards, no stock certificates or Book-Entry Shares free of a restrictive legend or other notation) shall be issued to the Participant. As an alternative to making a cash

payment to the Company or the Affiliate to satisfy Applicable Withholding Tax obligations, the Committee may establish procedures permitting the Participant to elect to (a) deliver shares of already owned Company Stock or (b) have the Company or the Affiliate retain that number of shares of Company Stock from the shares otherwise deliverable under the Award, in either case with respect to which the Company has a statutory obligation to withhold taxes, up to the maximum tax rate applicable to the Participant, as determined by the Committee. Any such election shall be made only in accordance with procedures established by the Committee to avoid a charge to earnings for financial accounting purposes and in accordance with Rule 16b-3.

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

**11. Nontransferability of Awards.**

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

(b) **Limited Transferability.** Notwithstanding the provisions of Section 11(a) and subject to federal and state securities laws, the Committee may on a case-by-case basis grant or amend Nonstatutory Stock Options that permit a Participant to transfer the Options to one or more immediate family members, to a trust for the benefit of immediate family members, or to a partnership, limited liability company, or other entity the only partners, members, or interest-holders of which are among the Participant's immediate family members. Consideration may not be paid for the transfer of Options. The transferee of an Option shall be subject to all conditions applicable to the Option prior to its transfer. The agreement granting the Option shall set forth the transfer conditions and restrictions. The Committee may impose on any transferable Option and on stock issued upon the exercise of an Option such limitations and conditions as the Committee deems appropriate in its sole discretion.

**12. Duration, Amendment or Modification of the Plan.**



(a) Duration. If not sooner terminated by the Board, the Plan shall terminate at the close of business on April 26, 2032. Awards outstanding on the date of such termination shall remain valid in accordance with their terms.

(b) Amendment and Modification. The Board may at any time terminate, suspend, amend or modify the Plan. Any such amendment or modification may be without shareholder approval, except to the extent that such shareholder approval is required by the Code, pursuant to the rules under

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Section 16 of the Act, by any national securities exchange or system on which shares of Company Stock is then listed or quoted, by any regulatory body having jurisdiction with respect thereto, or under any other applicable laws, rules or regulations. Awards outstanding on the date of such action shall remain valid in accordance with their terms. No Awards shall be made under the Plan after its termination.

(c) Amendments to Awards. Subject to the terms and provisions and within the limitations of the Plan, the Committee may waive any conditions or rights under, amend any terms of or alter, suspend, discontinue, cancel or terminate, any outstanding Award on either a prospective or retroactive basis; provided that any such waiver, amendment, alteration, suspension, discontinuance, cancellation or termination that would adversely affect the rights of any Participant or other holder of an outstanding Award shall not be effective without the consent of the affected Participant or holder.

### 13. Change in Capital Structure.

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

(b) In the event of a reorganization, recapitalization or merger in which the Company is the surviving corporation, the result of which is that the Company becomes a majority owned subsidiary of another entity (the "Parent"), then the Committee may take such actions with respect to Awards as the Committee deems appropriate (whose determination shall be binding

on all persons), including without limitation causing any such Award then outstanding to be assumed, or new rights substituted therefor, by the Parent.

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

(d) Notwithstanding anything in the Plan to the contrary, the Committee may take the foregoing actions in this Section 13 without the consent of any Participant, and the Committee's determination shall be conclusive and binding on all persons for all purposes. The Committee shall make its determinations consistent with Rule 16b-3 and the applicable provisions of the Code.

(e) To the extent required to avoid a charge to earnings for financial accounting purposes, adjustments made by the Committee pursuant to this Section 13 to outstanding Awards shall be made

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so that both (i) the aggregate intrinsic value of an Award immediately after the adjustment is not greater than or less than the Award's aggregate intrinsic value before the adjustment and (ii) the ratio of the exercise price per share to the market value per share is not reduced.

**14. Termination of Employment.** The Committee shall have the full power and authority to determine the terms and conditions that shall apply to any Award upon the termination of employment of a Participant, and may provide such terms and conditions in the Award Agreement or in such rules and policies as it may prescribe. If the terms of an Award provide that the Award will be exercisable, or become vested, or that payment will be made thereunder only if the Participant completes a stated period of employment or service, the Committee may decide to what extent leaves of

absence for governmental or military service, illness, temporary disability or other reasons shall not be deemed interruptions of continuous employment or service.

#### 15. Change in Control.

(a) In the event of a Change in Control of the Company, the Committee, as constituted before such Change in Control, shall provide for an outstanding Award to become fully vested, settled, and/or exercisable (in full for time-based Awards and at the greater of target or actual performance levels for performance-based Awards) in the event the Award is not assumed, or new rights substituted therefore, by the acquiring or surviving corporation in such Change in Control; and shall cause any such assumption or substitution to provide that the assumed or substituted Award shall become fully, vested, settled, and/or exercisable (in full for time-based Awards and at the greater of target or actual performance levels for performance-based Awards) in the event of an involuntary termination of employment without Cause or for Good Reason in connection with the Change in Control. In addition, the Committee shall make such adjustments to Awards then outstanding as the Committee deems appropriate to reflect such Change in Control and to retain the economic value of the Award.

(b) The obligations of the Company under the Plan and any Award Agreements shall be binding upon any successor corporation or organization resulting from the merger, consolidation or other reorganization of the Company, or upon any successor corporation or organization succeeding to all or substantially all of the assets and business of the Company and its Affiliates, taken as a whole.

#### 16. Administration of the Plan.

(a) The Committee. The Plan shall be administered by the Committee, which shall be appointed by the Board. The Committee shall consist of “independent” directors for purposes of any relevant stock exchange listing standards. To the extent required by Rule 16b-3, all Awards shall be made by members of the Committee who are “Non-Employee Directors” as that term is defined in Rule 16b-3, or by the Board. In the event the Board determines that a member of the Committee (or any applicable subcommittee) was not an “independent director” under applicable stock exchange listing standards, and/or was not a “non-employee director” as defined in Rule 16b-3, as applicable, on the Date of Grant, such determination shall not invalidate the Award and the Award shall remain valid in accordance with its terms. Any authority granted to the Committee may also be exercised by the full Board.

(b) Authority of the Committee. Subject to the express provisions of the Plan, the Committee shall have full and final authority to impose such limitations or conditions upon an Award as the Committee deems appropriate to achieve the objectives of the Award and the Plan. Without limiting the foregoing and in addition to the powers set forth elsewhere in the Plan, the

Committee shall have the power and complete discretion to determine: (i) which eligible persons shall receive an Award and the nature of the Award; (ii) the number of shares of Company Stock to be covered by each Award; (iii) whether Options shall be Incentive Stock Options or Nonstatutory Stock Options; (iv) the Fair Market Value of Company Stock; (v) the time or times when an Award shall be granted; (vi) subject

to the Plan's minimum vesting provisions, whether an Award shall become vested over a period of time, according to a performance-based vesting schedule or otherwise, and when it shall be fully vested; (vii) the terms and conditions under which restrictions imposed upon an Award shall lapse; (viii) whether a Change in Control has occurred; (ix) factors relevant to the lapse of restrictions, vesting, exercise and settlement of Awards; (x) when Options may be exercised; (xi) whether to approve a Participant's election with respect to Applicable Withholding Taxes; (xii) conditions relating to the length of time before disposition of Company Stock received in connection with an Award is permitted; (xiii) notice provisions relating to the sale of Company Stock acquired under the Plan; (xiv) the manner in which Section 26 of the Plan, "Minimum Vesting Provisions," shall be implemented; and (xiv) any additional requirements relating to Awards that the Committee deems appropriate. To the extent permitted by applicable law and any applicable stock exchange or stock market rules and regulations, the Committee may delegate to the President and/or Chief Executive Officer of the Company the power to designate other officers and employees of the Company who will receive Awards and to determine the extent of the Awards to be received by such Participant. Such delegation must be made by a resolution of the Committee that specifies the maximum number of shares that may be allocated as part of the Awards and such other terms and conditions as may be established by the Committee.

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

(d) Action by the Committee. The Committee may adopt rules and regulations for carrying out the Plan. The Committee shall have the express discretionary authority to construe and interpret the Plan and the Award Agreements, to resolve any ambiguities, to define any terms, and to make any other determinations required by the Plan or an Award Agreement. The interpretation and construction of any provisions of the Plan or an Award Agreement by the

Committee shall be final and conclusive. The Committee may consult with counsel, who may be counsel to the Company, and shall not incur any liability for any action taken in good faith in reliance upon the advice of counsel.

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

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

18. Section 409A. The Plan is intended to provide compensation that is exempt from or that complies with Code Section 409A and Treasury Regulations thereunder ("Section 409A"), and the Plan's terms and the terms of any Award Agreement, including any definition in the Plan or any Award Agreement, shall be administered and construed in a manner that is compliant with or exempt from the application of Section 409A, as appropriate. For purposes of Section 409A, each payment under the Plan shall be deemed to be a separate payment.

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Notwithstanding any provision of the Plan or an Award Agreement to the contrary, to the extent that any payment is subject to Section 409A, if the Participant is a "specified employee" within the meaning of Section 409A as of the date of the Participant's termination of employment and the Company determines, in good faith, that immediate payment of any amounts or benefits under the Plan would cause a violation of Section 409A, then any amounts or benefits payable under the Plan upon the Participant's "separation from service" within the meaning of Section 409A which (i) are subject to the provisions of Section 409A; (ii) are not otherwise exempt from Section 409A; and (iii) would otherwise be payable during the first six-month period following such separation from service, shall be paid on the first business day next following the earlier of (1) the date that is six (6) months and one day following the Participant's separation from service or (2) the date of the Participant's death.

19. Tax Consequences. Nothing in the Plan or an Award Agreement shall constitute a representation by the Company to a Participant regarding the tax consequences of any Award received by a Participant under the Plan. Although the Company may endeavor to (i) qualify an Award for favorable federal tax treatment or (ii) avoid adverse tax treatment (e.g., under Section

409A), the Company makes no representation to that effect and expressly disavows any covenant to maintain favorable tax treatment. The Company shall be unconstrained in its corporate activities without regard to the potential negative tax impact on holders of Awards under the Plan.

20. Clawback. Notwithstanding any other provisions in the Plan, any Award which is subject to recovery under any law, government regulation or stock exchange listing requirement (including but not limited to Section 954 of the Dodd-Frank Act), will be subject to such deductions and clawback as may be required to be made pursuant to such law, government regulation or stock exchange listing requirement (or any policy adopted by the Company or any Affiliate pursuant to any such law, government regulation or stock exchange listing requirement). This Section 20 shall not limit the Company's right to revoke or cancel an Award or take other action against a Participant for any other reason, including, but not limited to, misconduct.

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

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

23. Banking, Statutory and Regulatory Provisions. The Plan and all Awards granted under the Plan shall be subject to any condition, limitation, or prohibition under any Virginia or federal statutory or regulatory policy or rule to which the Company or an Affiliate is subject.



**24. No Employment or Other Service Rights.** Nothing in the Plan or any instrument executed or Award granted under the Plan shall confer upon any Participant any right to continue to serve the Company or an Affiliate in the capacity in effect at the time the Award was granted or shall affect the right of the Company or an Affiliate to terminate (i) the employment of an employee with or without notice and with or without Cause, (ii) the service of a director pursuant to the bylaws of the Company or an Affiliate, and any applicable provisions of the corporate law of Virginia in the case of the Company or the corporate law of the jurisdiction in which an Affiliate is incorporated, as the case may be, or (iii) the service of a Consultant for any reason at any time. Further, the grant of an Award shall not obligate the Company or any Affiliate to pay an employee any particular amount of remuneration or to make further grants to the employee at any time thereafter.

**25. Forfeiture Events.** The Committee may specify in an Award Agreement that the Participant's rights, payments and benefits with respect to an Award shall be subject to reduction, cancellation, forfeiture or recoupment upon the occurrence of certain events, in addition to applicable vesting conditions of an Award. Such events may include, without limitation, breach of non-competition, non-solicitation, confidentiality or other restrictive covenants that are contained in the Award Agreement or otherwise applicable to the Participant, termination of the Participant's employment or service for Cause, or other conduct by the Participant that is detrimental to the business or reputation of the Company and/or its Affiliates. In addition, if a Participant's employment or service is terminated for Cause, then as of the date of the misconduct, any Option held by the Participant shall terminate, and any unvested Restricted Stock and Restricted Stock Units held by the Participant shall be forfeited.

**26. Minimum Vesting Provisions.** Notwithstanding any other provision of the Plan, Awards shall have a minimum vesting/exercise schedule of at least one (1) year, except that a shorter vesting/exercise schedule may apply to Awards for not more than 5% of the shares of Company Stock authorized for issuance under the Plan.

**27. Deferral of Awards.** The Committee may establish one or more programs under the Plan to permit selected Participants the opportunity to elect to defer receipt of consideration upon exercise of an Award, satisfaction of performance criteria, or other event that absent the election would entitle the Participant to payment or receipt of shares of Company Stock or other consideration under an Award. The Committee may establish the election procedures, the timing of such elections, the mechanisms for payments of, and accrual of interest or other earnings, if any, on amounts, shares or other consideration so deferred, and such other terms, conditions, rules and procedures that the Committee deems advisable for the administration of any such deferral program.

28. Non-Uniform Treatment. The Committee shall be entitled to make non-uniform and selective determinations, amendments and adjustments, and to enter into non-uniform and selective Award Agreements.

29. Beneficiary Designation. A Participant may designate a beneficiary to receive any Options that may be exercised after death or to receive any other Award that may be paid after his death, as provided for in the Award Agreement. Such designation and any change or revocation of such designation shall be made in writing in the form and manner prescribed by the Committee (or its delegate). In the event that the designated beneficiary dies prior to the Participant, or in the event that no beneficiary has been designated, any Awards that may be exercised or paid following the Participant's death shall be transferred or paid in accordance with the Participant's will or the laws of descent and distribution.

30. Creditors. The interests of any Participant under the Plan or any Award Agreement are not subject to the claims of creditors and may not, in any way, be assigned, alienated or encumbered.

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31. Unfunded Status of the Plan. The Plan, insofar as it provides for Awards, shall be unfunded, and the Company shall not be required to segregate any assets that may at any time be represented by Awards under the Plan. Any liability of the Company to any person with respect to any Award shall be based solely upon any contractual obligations that may be created pursuant to the Plan. No such obligation of the Company shall be deemed to be secured by any pledge of, or other encumbrance on, any property of the Company.

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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 29, 2023 March 28, 2024, 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, 2022 December 31, 2023.



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

Richmond, Virginia

March 29, 2023 28, 2024

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**EXHIBIT 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 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 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 or 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 ; 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 29, 2023** **March 28, 2024**

/s/ Glenn W. Rust

Glenn W. Rust

President and Chief Executive Officer

**EXHIBIT 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 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 29, 2023** **March 28, 2024**

/s/ Tara Y. Harrison

Tara Y. Harrison

Executive Vice President and Chief Financial Officer

**EXHIBIT** **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, 2022** **December 31, 2023**, 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

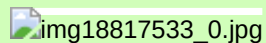
Glenn W. Rust, President and Chief Executive Officer

/s/ Tara Y. Harrison

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

March 29, 2023 28, 2024

Exhibit 97



## CLAWBACK POLICY

(Effective October 2, 2023)

### Introduction

The Board of Directors (the “**Board**”) of Virginia National Bankshares Corporation (the “**Company**”) believes that it is in the best interests of the Company and its shareholders to create and maintain a culture that emphasizes integrity and accountability and that reinforces the Company’s pay-for-performance compensation philosophy. The Board has therefore adopted this policy which provides for the recoupment of certain executive compensation in certain events (the “**Policy**”). This Policy is designed to comply with Rule 10D-1 under the Securities Exchange Act of 1934, as amended (the “**Exchange Act**”), and the listing standards of the Nasdaq Stock Market.

### Administration

This Policy shall be administered by the Board or, if so designated by the Board, the Compensation Committee, in which case references herein to the Board shall be deemed references to the Compensation Committee. Any determinations made by the Board shall be final and binding on all affected individuals.

### Covered Executives

This Policy applies to the Company’s current and former executive officers (within the meaning of Rule 10D-1 under the Exchange Act and the listing standards of the Nasdaq Stock Market) (“**Covered Executives**”).

This Policy applies to Incentive Compensation (as defined below) received by a Covered Executive (a) after beginning services as a Covered Executive; (b) who served as a Covered Executive at any time

during the performance period for such Incentive Compensation; and (c) while the Company had a listed class of securities on a national securities exchange.

### **Recoupment; Accounting Restatement**

In the event the Company is required to prepare an accounting restatement of its financial statements due to the Company's material noncompliance with any financial reporting requirement under the securities laws, the Board will reasonably promptly require recoupment of any erroneously awarded Incentive Compensation received by any Covered Executive during the three

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completed fiscal years immediately preceding the date on which the Company is required to prepare an accounting restatement and such additional periods as may be required under Rule 10D-1 under the Exchange Act or the listing standards of the Nasdaq Stock Market. Recoupment under this Policy will be required on a "no fault" basis, without regard to whether any misconduct occurred or a Covered Executive's responsibility for the erroneous financial statements.

For purposes of this Policy, an "accounting restatement" includes any required accounting restatement to correct an error in previously issued financial statements that is material to the previously issued financial statements, or that would result in a material misstatement if the error were corrected in the current period or left uncorrected in the current period.

### **Incentive Compensation**

For purposes of this Policy, Incentive Compensation means incentive-based compensation (within the meaning of Rule 10D-1 under the Exchange Act and the listing standards of the Nasdaq Stock Market), including, without limitation, any of the following (provided that such compensation is granted, earned or vested based wholly or in part on the attainment of one or more financial reporting measures):

- Cash bonuses;
- Other short- and long-term cash awards;
- Stock options;
- Restricted stock;
- Restricted stock units;
- Performance stock units;
- Stock appreciation rights; and
- Other stock-based awards.

Financial reporting measures include any measure that is determined and presented in accordance with the accounting principles used in preparing the Company's financial statements, or any measure derived wholly or in part from such measures (including non-GAAP financial measures), or the Company's stock price or total shareholder return.

#### **Excess Incentive Compensation: Amount Subject to Recovery**

The amount of erroneously awarded compensation to be recovered will be the excess of the Incentive Compensation received by the Covered Executive based on the erroneous data over the Incentive Compensation that would have been received by the Covered Executive had it been based on the restated amounts, computed without regard to any taxes paid, as determined by the Board.

If the Board cannot determine the amount of excess Incentive Compensation received by the Covered Executive directly from the information in the accounting restatement, then it will make its determination based on a reasonable estimate of the effect of the accounting restatement.

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For purposes of this Policy, Incentive Compensation will be deemed to be received in the fiscal period during which the financial reporting measure specified the applicable Incentive Compensation award is attained, even if the payment or grant occurs after the end of that period.

#### **Method of Recoupment**

The Board will determine, in its sole discretion, the method for recouping Incentive Compensation hereunder, which may include, without limitation:

- requiring reimbursement of cash Incentive Compensation previously paid;
- seeking recovery of any gain realized on the vesting, exercise, settlement, sale, transfer, or disposition of any equity-based awards;
- offsetting (at the time such compensation would otherwise be payable, to the extent required for compliance with Internal Revenue Code section 409A ("409A")) the recouped amount from compensation otherwise owed or payable by the Company to the Covered Executive;
- withholding future incentive compensation awards and equity awards;
- cancelling (at a time permissible under 409A, if applicable) outstanding vested or unvested awards; and/or
- taking any other remedial and recovery action permitted by law, as determined by the Board.

#### **Reporting and Disclosure**

The Company shall file all public disclosures with respect to this Policy required by applicable federal securities laws or the listing standards of the Nasdaq Stock Market or that the Board determines to be in the best interests of the Company's shareholders.

#### **No Indemnification**

The Company shall not indemnify any Covered Executives against the loss of any erroneously awarded Incentive Compensation.

#### **Interpretation**

The Board is authorized to interpret and construe this Policy and to make all determinations necessary, appropriate or advisable for the administration of this Policy. It is intended that this Policy be interpreted in a manner that is consistent with the requirements of Rule 10D-1 under the Exchange Act and the listing standards of the Nasdaq Stock Market or other national securities exchange on which the Company's securities are then listed.

#### **Effective Date**

This Policy shall be effective as of October 2, 2023 (the “**Effective Date**”) and shall apply to Incentive Compensation that is received by Covered Executives on or after the Effective Date, even if such Incentive Compensation was granted, awarded, earned or paid to a Covered Executive prior to the Effective Date or was made pursuant to the terms of an employment agreement, award agreement or other compensation plan, program or arrangement existing on or prior to the Effective Date.

#### **Amendment; Termination**

The Board may amend or terminate this Policy from time to time in its discretion; provided, however, that no amendment or termination of this Policy shall be effective if such amendment or termination (taking into account any other actions taken contemporaneously by the Company) would cause the Company to violate applicable federal securities laws or the listing standards of the Nasdaq Stock Market.

#### **Other Recoupment Rights**

The Board intends that this Policy will be applied to the fullest extent of the law. Any right of recoupment under this Policy is in addition to, and not in lieu of, any other remedies or rights of recoupment that may be available to the Company by law or pursuant to the terms of any compensation plan or arrangement, employment agreement, award agreement, or similar agreement.

#### **Impracticability**

The Board shall recover any excess Incentive Compensation in accordance with this Policy unless such recovery would be impracticable, as determined by the Compensation Committee in accordance with Rule 10D-1 under the Exchange Act and the listing standards of the Nasdaq Stock Market.

**Successors**

This Policy shall be binding and enforceable against all Covered Executives and their beneficiaries, heirs, executors, administrators or other legal representatives.

**Acknowledgment**

Each Covered Executive shall sign and return to the Company, within 30 calendar days following the later of (i) the effective date of this Policy set forth above or (ii) the date the individual becomes a Covered Executive, the Acknowledgement Form attached hereto as Exhibit A, pursuant to which the Covered Executive agrees to be bound by, and to comply with, the terms and conditions of this Policy.

**EXHIBIT A**  
**VIRGINIA NATIONAL BANKSHARES CORPORATION**  
**CLAWBACK POLICY**  
**ACKNOWLEDGEMENT FORM**

By signing below, the undersigned acknowledges and confirms that the undersigned has received and reviewed a copy of the Virginia National Bankshares Corporation Clawback Policy (as may be amended, restated, supplemented or otherwise modified from time to time, the “**Policy**”).

By signing this Acknowledgement Form, the undersigned acknowledges and agrees that the undersigned is and will continue to be subject to the Policy and that the Policy will apply both during and after the undersigned’s employment with Virginia National Bankshares Corporation and/or its affiliates (collectively, the “**Company**”). Further, by signing below, the undersigned agrees to abide by the terms of the Policy, including, without limitation, by promptly repaying or returning any erroneously awarded compensation (as described in the Policy) to the Company as determined in accordance with the Policy. In the event of any inconsistency between the Policy and the terms of any employment agreement or award agreement to which the undersigned is a party, or the terms of any compensation plan, program or arrangement under which any compensation has been granted, awarded, earned or paid, the terms of the Policy shall govern.

Signature \_\_\_\_\_



Print Name \_\_\_\_\_  
Date \_\_\_\_\_

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