

Davis Financial Portfolio

(Portfolio of Davis Variable Account Fund, Inc.)

December 31, 2011

Annual Report

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This Annual Report is authorized for use by existing shareholders. Prospective shareholders must receive a current Davis Financial Portfolio prospectus, which contains more information about investment strategies, risks, charges, and expenses. Please read the prospectus carefully before investing or sending money.

Shares of the Davis Financial Portfolio are not deposits or obligations of any bank, are not guaranteed by any bank, are not insured by the FDIC or any other agency, and involve investment risks, including possible loss of the principal amount invested.

Performance Overview

Davis Financial Portfolio delivered a negative return on net asset value of 7.96% for the year ended December 31, 2011. Over the same time period, the Standard & Poor's 500[®] Index ("Index") returned 2.11%. The Portfolio's financial sector holdings out-performed the corresponding sector¹ within the Index, but under-performed the Index as a whole. The Portfolio had a limited amount of assets invested in other sectors. Of the non-financial holdings, material and energy companies detracted² from performance while industrial, consumer discretionary, and consumer staple companies contributed to performance.

Factors Impacting the Portfolio's Performance

Insurance companies were the most important contributor to the Portfolio's performance. The Portfolio's insurance companies out-performed the corresponding industry group within the Index (up 2% versus down 8% for the Index). Transatlantic Holdings³ and Markel were important contributors to performance. China Life Insurance was among the most important detractors from performance. The Portfolio no longer owns China Life Insurance.

Banking companies were the most important detractor from the Portfolio's performance. The Portfolio's banking companies under-performed the corresponding industry group within the Index (down 31% versus down 11% for the Index). State Bank of India, ICICI Bank, and Wells Fargo were among the most important detractors from performance.

Diversified financial companies were also an important detractor from the Portfolio's performance. The Portfolio's diversified financial companies out-performed the corresponding industry group within the Index (down 5% versus down 27% for the Index). Oaktree, Visa, Cielo, Moody's, and American Express were among the most important contributors to performance. Goldman Sachs, Bank of New York Mellon, Brookfield Asset Management, and Julius Baer Group were among the most important detractors from performance. The Portfolio no longer owns Moody's.

Another important contributor to the Portfolio's performance was Iron Mountain. Other important detractors from the Portfolio's performance included Canadian Natural Resources and Sino-Forest. The Ontario Securities Commission issued a release on August 26, 2011 halting trading of Sino-Forest on the Toronto Stock Exchange, causing the security to be fair valued by the Portfolio. Davis Advisors' portfolio managers continue to monitor and evaluate the situation. As of the date of this report, trading is still halted and the Portfolio continues to fair value this position. The Portfolio no longer owns Iron Mountain.

The Portfolio had approximately 19% of its net assets invested in foreign companies at December 31, 2011. As a whole, those companies under-performed the domestic companies held by the Portfolio.

Davis Financial Portfolio's investment objective is long-term growth of capital. There can be no assurance that the Portfolio will achieve its objective. Davis Financial Portfolio's principal risks are: stock market risk, manager risk, common stock risk, concentrated portfolio risk, financial services risk, focused portfolio risk, foreign country risk, under \$10 billion market capitalization risk, interest rate sensitivity risk, credit risk, fees and expenses risk, and headline risk. See the prospectus for a full description of each risk.

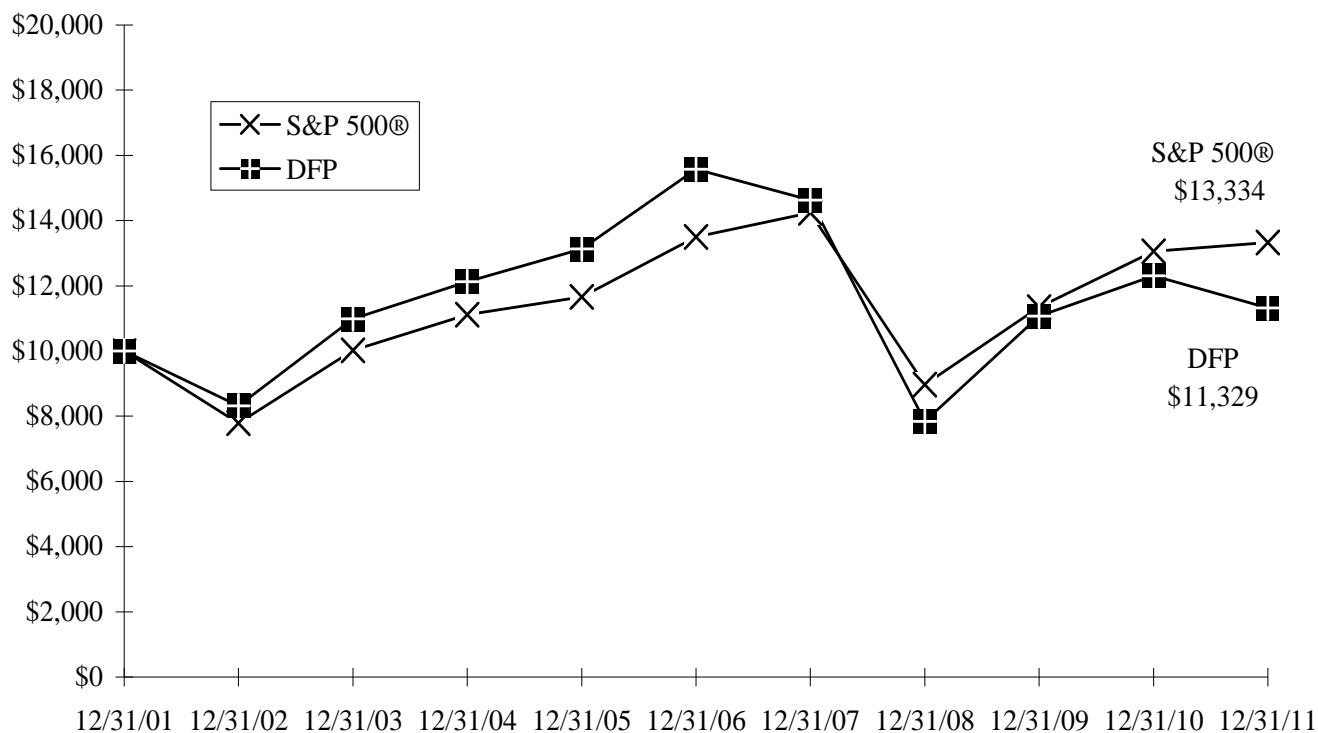
Davis Financial Portfolio concentrates its investments in the financial sector, and it may be subject to greater risks than a portfolio that does not concentrate its investments in a particular sector. The Portfolio's investment performance, both good and bad, is expected to reflect the economic performance of the financial sector more than a portfolio that does not concentrate its portfolio.

¹ The companies included in the Standard & Poor's 500[®] Index are divided into ten sectors. One or more industry groups make up a sector.

² A company's or sector's contribution to or detraction from the Portfolio's performance is a product both of its appreciation or depreciation and its weighting within the Portfolio. For example, a 5% holding that rises 20% has twice as much impact as a 1% holding that rises 50%.

³ This Management Discussion of Fund Performance discusses a number of individual companies. The information provided in this report does not provide information reasonably sufficient upon which to base an investment decision and should not be considered a recommendation to purchase or sell any particular security. The Schedule of Investments lists the Portfolio's holdings of each company discussed.

COMPARISON OF A \$10,000 INVESTMENT IN DAVIS FINANCIAL PORTFOLIO VERSUS THE STANDARD & POOR’S 500® INDEX OVER 10 YEARS FOR AN INVESTMENT MADE ON DECEMBER 31, 2001



AVERAGE ANNUAL TOTAL RETURN FOR PERIODS ENDED DECEMBER 31, 2011

FUND & BENCHMARK INDEX	1-YEAR	5-YEAR	10-YEAR	SINCE FUND’S INCEPTION (07/01/99)	GROSS EXPENSE RATIO	NET EXPENSE RATIO
Davis Financial Portfolio	(7.96)%	(6.16)%	1.26%	1.70%	0.69%	0.69%
Standard & Poor’s 500® Index	2.11%	(0.25)%	2.92%	1.08%		

The Standard & Poor’s 500® Index is an unmanaged index of 500 selected common stocks, most of which are listed on the New York Stock Exchange. The Index is adjusted for dividends, weighted towards stocks with large market capitalizations, and represents approximately two-thirds of the total market value of all domestic common stocks. Investments cannot be made directly in the Index.

The performance data for Davis Financial Portfolio contained in this report represents past performance and assumes that all distributions were reinvested, and should not be considered as an indication of future performance from an investment in the Portfolio today. The investment return and principal value will fluctuate so that shares may be worth more or less than their original cost when redeemed. Portfolio performance changes over time and current performance may be higher or lower than stated. The operating expense ratio may vary in future years. For more current information please call Davis Funds Investor Services at 1-800-279-0279.

Portfolio performance numbers are net of all Portfolio operating expenses, but do not include any insurance charges imposed by your insurance company’s separate account. If performance included the effect of these additional charges, the return would be lower.

Davis Financial Portfolio received a favorable class action settlement from a company that it no longer owns. This settlement had a material impact on the investment performance of the Portfolio in 2009. This was a one-time event that is unlikely to be repeated.

DAVIS FINANCIAL PORTFOLIO

Fund Overview
December 31, 2011

Portfolio Composition (% of Fund's 12/31/11 Net Assets)		Industry Weightings (% of 12/31/11 Stock Holdings)		
			<u>Fund</u>	<u>S&P 500®</u>
Common Stock (U.S.)	72.21%	Diversified Financials	40.33%	5.25%
Common Stock (Foreign)	19.33%	Insurance	36.48%	3.58%
Short-Term Investments	7.92%	Banks	15.65%	2.73%
Other Assets & Liabilities	0.54%	Food & Staples Retailing	3.04%	2.41%
	100.00%	Energy	2.54%	12.30%
		Retailing	1.72%	3.73%
		Materials	0.24%	3.50%
		Information Technology	–	19.00%
		Health Care	–	11.85%
		Capital Goods	–	8.18%
		Other	–	27.47%
			100.00%	100.00%

Top 10 Long-Term Holdings (% of Fund's 12/31/11 Net Assets)

Transatlantic Holdings, Inc.	Reinsurance	11.67%
American Express Co.	Consumer Finance	9.71%
Wells Fargo & Co.	Commercial Banks	8.04%
Loews Corp.	Multi-line Insurance	6.03%
Markel Corp.	Property & Casualty Insurance	5.93%
Julius Baer Group Ltd.	Capital Markets	5.55%
Bank of New York Mellon Corp.	Capital Markets	5.14%
State Bank of India Ltd., GDR	Commercial Banks	4.75%
Progressive Corp.	Property & Casualty Insurance	4.44%
Brookfield Asset Management Inc., Class A	Capital Markets	3.98%

New Positions Added (01/01/11-12/31/11)

(Highlighted positions are those greater than 1.80% of the Fund's 12/31/11 total net assets)

Security	Industry	Date of 1 st Purchase	% of Fund's 12/31/11 Net Assets
Alleghany Corp.	Property & Casualty Insurance	11/21/11	1.86%
Bed Bath & Beyond Inc.	Retailing	03/17/11	1.57%
CVS Caremark Corp.	Food & Staples Retailing	05/05/11	2.78%
Iron Mountain Inc.	Commercial & Professional Services	02/04/11	–
Sino-Forest Corp.	Materials	06/06/11	0.23%

Positions Closed (01/01/11-12/31/11)

(Gains and losses greater than \$1,000,000 are highlighted)

Security	Industry	Date of Final Sale	Realized Gain(Loss)
ACE Ltd.	Property & Casualty Insurance	10/04/11	\$ 313,555
China Life Insurance Co., Ltd., ADR	Life & Health Insurance	08/11/11	1,369,665
D&B Corp.	Commercial & Professional Services	06/01/11	1,606,447
GAM Holding Ltd.	Capital Markets	08/10/11	721,779
Iron Mountain Inc.	Commercial & Professional Services	12/29/11	377,616
Moody's Corp.	Diversified Financial Services	03/17/11	770,662
SKBHC Holdings LLC	Commercial Banks	07/20/11	(213,085)

Example

As a shareholder of the Fund, you incur ongoing costs only, including advisory and administrative fees and other Fund expenses. The Expense Example is intended to help you understand your ongoing costs (in dollars) of investing in the Fund and to compare these costs with the ongoing costs of investing in other mutual funds. The Expense Example is based on an investment of \$1,000 invested at the beginning of the period and held for the entire period indicated, which for the Fund is for the six-month period ended December 31, 2011. Please note that the Expense Example is general and does not reflect charges imposed by your insurance company’s separate account or account specific costs, which may increase your total costs of investing in the Fund. If these charges or account specific costs were included in the Expense Example, the expenses would have been higher.

Actual Expenses

The information represented in the row entitled “Actual” provides information about actual account values and actual expenses. You may use the information in this row, together with the amount you invested, to estimate the expenses that you paid over the period. Simply divide your account value by \$1,000 (for example, an \$8,600 account value divided by \$1,000 = 8.6), then multiply the result by the number under the heading “Expenses Paid During Period” to estimate the expenses you paid on your account during this period.

Hypothetical Example for Comparison Purposes

The information represented in the row entitled “Hypothetical” provides information about hypothetical account values and hypothetical expenses based on the Fund’s actual expense ratio and an assumed rate of return of 5% per year before expenses, which is not the Fund’s actual return. The hypothetical account values and expenses may not be used to estimate the actual ending account balance or expenses you paid for the period. You may use this information to compare the ongoing costs of investing in the Fund and other funds. To do so, compare this 5% hypothetical example with the 5% hypothetical examples that appear in the shareholder reports of the other funds.

Please note that the expenses shown in the table are meant to highlight your ongoing costs only. Therefore, the information in the row entitled “Hypothetical” is useful in comparing ongoing costs only, and will not help you determine the relative total costs of owning different funds.

	Beginning Account Value (07/01/11)	Ending Account Value (12/31/11)	Expenses Paid During Period* (07/01/11-12/31/11)
Actual	\$1,000.00	\$906.41	\$3.41
Hypothetical	\$1,000.00	\$1,021.63	\$3.62

Hypothetical assumes 5% annual return before expenses.

* Expenses are equal to the Fund’s annualized operating expense ratio (0.71%)**, multiplied by the average account value over the period, multiplied by 184/365 (to reflect the one-half year period).

** The expense ratio reflects the impact, if any, of certain reimbursements from the Adviser.

DAVIS FINANCIAL PORTFOLIO

 Schedule of Investments
 December 31, 2011

	Shares/Units	Value (Note 1)
COMMON STOCK – (91.54%)		
CONSUMER DISCRETIONARY – (1.57%)		
Retailing – (1.57%)		
Bed Bath & Beyond Inc. *	16,500	\$ 956,588
TOTAL CONSUMER DISCRETIONARY		956,588
CONSUMER STAPLES – (2.78%)		
Food & Staples Retailing – (2.78%)		
CVS Caremark Corp.	41,500	1,692,370
TOTAL CONSUMER STAPLES		1,692,370
ENERGY – (2.32%)		
Canadian Natural Resources Ltd. (Canada)	37,790	1,412,212
TOTAL ENERGY		1,412,212
FINANCIALS – (84.64%)		
Banks – (14.33%)		
Commercial Banks – (14.33%)		
Banco Santander Brasil S.A., ADS (Brazil)	20,000	162,800
ICICI Bank Ltd., ADR (India)	15,750	416,272
State Bank of India Ltd., GDR (India)	45,148	2,889,472
U.S. Bancorp	13,150	355,708
Wells Fargo & Co.	177,500	4,891,900
		8,716,152
Diversified Financials – (36.92%)		
Capital Markets – (19.51%)		
Ameriprise Financial, Inc.	17,740	880,614
Bank of New York Mellon Corp.	157,020	3,126,268
Brookfield Asset Management Inc., Class A (Canada)	88,200	2,423,736
Charles Schwab Corp.	16,000	180,160
Goldman Sachs Group, Inc.	17,490	1,581,621
Julius Baer Group Ltd. (Switzerland)	86,380	3,378,687
T. Rowe Price Group Inc.	5,260	299,452
		11,870,538
Consumer Finance – (10.08%)		
American Express Co.	125,180	5,904,741
First Marblehead Corp. *	194,994	228,143
		6,132,884
Diversified Financial Services – (7.33%)		
Bank of America Corp.	14,486	80,542
Cielo S.A. (Brazil)	25,500	658,946
Oaktree Capital Group LLC, Class A (a)	28,700	1,291,500
RHJ International (Belgium)*	62,000	281,655
Visa Inc., Class A	21,100	2,142,283
		4,454,926
		22,458,348
Insurance – (33.39%)		
Multi-line Insurance – (6.03%)		
Loews Corp.	97,380	3,666,357
Property & Casualty Insurance – (12.23%)		
Alleghany Corp. *	3,980	1,135,454
Markel Corp. *	8,695	3,605,556

DAVIS FINANCIAL PORTFOLIO

Schedule of Investments - (Continued)
December 31, 2011

	Shares/Principal	Value (Note 1)
COMMON STOCK – (CONTINUED)		
FINANCIALS – (CONTINUED)		
Insurance – (Continued)		
Property & Casualty Insurance – (Continued)		
Progressive Corp.	138,440	\$ 2,700,964
		7,441,974
Reinsurance – (15.13%)		
Everest Re Group, Ltd.	25,040	2,105,614
Transatlantic Holdings, Inc.	129,767	7,102,148
		9,207,762
		20,316,093
TOTAL FINANCIALS		51,490,593
MATERIALS – (0.23%)		
Sino-Forest Corp. (Canada)*	198,000	136,620
TOTAL MATERIALS		136,620
TOTAL COMMON STOCK – (Identified cost \$49,936,129)		55,688,383
SHORT-TERM INVESTMENTS – (7.92%)		
Banc of America Securities LLC Joint Repurchase Agreement, 0.04%, 01/03/12, dated 12/30/11, repurchase value of \$1,198,005 (collateralized by: U.S. Government agency mortgages in a pooled cash account, 3.00%-5.50%, 01/01/27-12/01/41, total market value \$1,221,960)	\$ 1,198,000	1,198,000
Mizuho Securities USA Inc. Joint Repurchase Agreement, 0.05%, 01/03/12, dated 12/30/11, repurchase value of \$3,619,020 (collateralized by: U.S. Government agency mortgages and obligations in a pooled cash account, 0.665%-7.00%, 06/30/13-08/01/41, total market value \$3,691,380)	3,619,000	3,619,000
TOTAL SHORT-TERM INVESTMENTS – (Identified cost \$4,817,000)		4,817,000
Total Investments – (99.46%) – (Identified cost \$54,753,129) – (b)		60,505,383
Other Assets Less Liabilities – (0.54%)		328,490
Net Assets – (100.00%)		\$ 60,833,873

ADR: American Depositary Receipt

ADS: American Depositary Share

GDR: Global Depositary Receipt

* Non-Income producing security.

(a) Restricted Security – See Note 7 of the Notes to Financial Statements.

(b) Aggregate cost for federal income tax purposes is \$54,873,919. At December 31, 2011 unrealized appreciation (depreciation) of securities for federal income tax purposes is as follows:

Unrealized appreciation	\$ 13,615,927
Unrealized depreciation	(7,984,463)
Net unrealized appreciation	\$ 5,631,464

See Notes to Financial Statements

DAVIS FINANCIAL PORTFOLIO**Statement of Assets and Liabilities
At December 31, 2011****ASSETS:**

Investments in securities at value* (see accompanying Schedule of Investments)	\$	60,505,383
Cash		2,671
Receivables:		
Capital stock sold		729
Dividends and interest		12,416
Investment securities sold		407,754
Prepaid expenses		1,233
Total assets		60,930,186

LIABILITIES:

Payables:		
Capital stock redeemed		44,445
Accrued audit fees		12,100
Accrued management fee		29,304
Other accrued expenses		10,464
Total liabilities		96,313

NET ASSETS **\$ 60,833,873**

SHARES OUTSTANDING **6,098,433**

NET ASSET VALUE, offering, and redemption price per share (Net assets ÷ Shares outstanding) **\$ 9.98**

NET ASSETS CONSIST OF:

Par value of shares of capital stock	\$	6,098
Additional paid-in capital		56,645,710
Undistributed net investment income		528,054
Accumulated net realized losses from investments		(2,098,305)
Net unrealized appreciation on investments and foreign currency transactions		5,752,316
Net Assets	\$	60,833,873

*Including:

Cost of Investments	\$	54,753,129
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See Notes to Financial Statements

DAVIS FINANCIAL PORTFOLIO

**Statement of Operations
For the year ended December 31, 2011**

INVESTMENT INCOME:

Income:

Dividends*	\$	1,208,820
Interest		2,025
Total income		1,210,845

Expenses:

Management fees (Note 3)	\$	396,882
Custodian fees		26,938
Transfer agent fees		8,472
Audit fees		18,000
Legal fees		2,054
Accounting fees (Note 3)		2,004
Reports to shareholders		14,347
Directors' fees and expenses		20,327
Registration and filing fees		55
Miscellaneous		8,484
Total expenses		497,563
Expenses paid indirectly (Note 4)		(8)
Net expenses		497,555
Net investment income		713,290

**REALIZED & UNREALIZED GAIN (LOSS) ON INVESTMENTS
AND FOREIGN CURRENCY TRANSACTIONS:**

Net realized gain (loss) from:		
Investment transactions		10,110,063
Foreign currency transactions		(3,670)
Net realized gain		10,106,393
Net decrease in unrealized appreciation		(16,489,959)
Net realized and unrealized loss on investments and foreign currency transactions		(6,383,566)
Net decrease in net assets resulting from operations	\$	(5,670,276)

*Net of foreign taxes withheld as follows	\$	17,031
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See Notes to Financial Statements

DAVIS FINANCIAL PORTFOLIO

Statements of Changes in Net Assets

	Year ended December 31,	
	2011	2010
OPERATIONS:		
Net investment income	\$ 713,290	\$ 803,918
Net realized gain from investments and foreign currency transactions	10,106,393	1,250,736
Net increase (decrease) in appreciation on investments and foreign currency transactions	(16,489,959)	6,094,685
Net increase (decrease) in net assets resulting from operations	(5,670,276)	8,149,339
DIVIDENDS AND DISTRIBUTIONS TO SHAREHOLDERS FROM:		
Net investment income	(872,599)	(650,801)
CAPITAL SHARE TRANSACTIONS:		
Net decrease in net assets resulting from capital share transactions (Note 5)	(15,025,823)	(12,933,188)
Total decrease in net assets	(21,568,698)	(5,434,650)
NET ASSETS:		
Beginning of year	82,402,571	87,837,221
End of year*	\$ 60,833,873	\$ 82,402,571
*Including undistributed net investment income of	\$ 528,054	\$ 853,377

See Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Fund is a separate series of Davis Variable Account Fund, Inc. (a Maryland corporation), which is registered under the Investment Company Act of 1940, as amended, as a diversified, open-end management investment company. Only insurance companies, for the purpose of funding variable annuity or variable life insurance contracts, may purchase shares of the Fund. The following is a summary of significant accounting policies followed by the Fund in the preparation of its financial statements.

Security Valuation - The Fund calculates the net asset value of its shares as of the close of the New York Stock Exchange (“Exchange”), normally 4:00 P.M. Eastern time, on each day the Exchange is open for business. Securities listed on the Exchange (and other national exchanges) are valued at the last reported sales price on the day of valuation. Securities traded in the over-the-counter market (e.g. NASDAQ) and listed securities for which no sale was reported on that date are stated at the average of closing bid and asked prices. Securities traded on foreign exchanges are valued based upon the last sales price on the principal exchange on which the security is traded prior to the time when the Fund’s assets are valued. Securities (including restricted securities) for which market quotations are not readily available are valued at their fair value. Securities whose values have been materially affected by what Davis Selected Advisers, L.P. (“Davis Advisors” or “Adviser”), the Fund’s investment adviser, identifies as a significant event occurring before the Fund’s assets are valued but after the close of their respective exchanges will be fair valued. Fair value is determined in good faith using consistently applied procedures under the supervision of the Board of Directors. These procedures include certain standardized methodologies to fair value securities. Such methodologies include, but are not limited to, pricing securities at a discount of a last traded price. Short-term securities purchased within 60 days to maturity are valued at amortized cost, which approximates market value. These valuation procedures are reviewed and subject to approval by the Board of Directors. There have been no significant changes to the fair valuation procedures during the period.

Value Measurements - Fair value is defined as the price that the Fund would receive upon selling an investment in an orderly transaction to an independent buyer in the principal or most advantageous market for the investment. Various inputs are used to determine the fair value of the Fund’s investments. These inputs are summarized in the three broad levels listed below.

- Level 1 – quoted prices in active markets for identical securities
- Level 2 – other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.)
- Level 3 – significant unobservable inputs (including the Fund’s own assumptions in determining the fair value of investments)

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

Value Measurements – (Continued)

The following is a summary of the inputs used as of December 31, 2011 in valuing the Fund's investments carried at value:

	Investments in Securities at Value			Total
	Valuation Inputs			
	Level 1: Quoted Prices	Level 2: Other Significant Observable Inputs	Level 3: Significant Unobservable Inputs	
<u>Equity securities:</u>				
Consumer discretionary	\$ 956,588	\$ –	\$ –	\$ 956,588
Consumer staples	1,692,370	–	–	1,692,370
Energy	1,412,212	–	–	1,412,212
Financials	50,199,093	1,291,500	–	51,490,593
Materials	–	–	136,620	136,620
Short-term securities	–	4,817,000	–	4,817,000
Total Investments	<u>\$ 54,260,263</u>	<u>\$ 6,108,500</u>	<u>\$ 136,620</u>	<u>\$ 60,505,383</u>

The following table reconciles the valuation of assets in which significant unobservable inputs (Level 3) were used in determining fair value during the year ended December 31, 2011:

Investment Securities:

Beginning balance	\$ 395,726
Net realized loss	(213,085)
Increase in unrealized depreciation	(938,101)
Cost of purchases	1,287,806
Proceeds from sales	(395,726)
Ending balance	<u>\$ 136,620</u>

Increase in unrealized depreciation during the period on Level 3 securities still held at December 31, 2011 and included in the change in net assets for the year \$ (1,151,186)

The cost of purchases and the proceeds from sales may include securities received or delivered through corporate actions or exchanges. Realized and unrealized gains (losses) are included in the related amounts on investments in the Statement of Operations.

Master Repurchase Agreements - The Fund, along with other affiliated funds, may transfer uninvested cash balances into one or more master repurchase agreement accounts. These balances are invested in one or more repurchase agreements, secured by U.S. Government securities. A custodian bank holds securities pledged as collateral for repurchase agreements until the agreements mature. Each agreement requires that the market value of the collateral be sufficient to cover payments of interest and principal; however, in the event of default by the other party to the agreement, retention of the collateral may be subject to legal proceedings.

Currency Translation - The market values of all assets and liabilities denominated in foreign currencies are recorded in the financial statements after translation to the U.S. Dollar based upon the mean between the bid and offered quotations of the currencies against U.S. Dollars on the date of valuation. The cost basis of such assets and liabilities is determined based upon historical exchange rates. Income and expenses are translated at average exchange rates in effect as accrued or incurred.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

Foreign Currency - The Fund may enter into forward purchases or sales of foreign currencies to hedge certain foreign currency denominated assets and liabilities against declines in market value relative to the U.S. Dollar. Forward currency contracts are marked-to-market daily and the change in market value is recorded by the Fund as an unrealized gain or loss. When the forward currency contract is closed, the Fund records a realized gain or loss equal to the difference between the value of the forward currency contract at the time it was opened and value at the time it was closed. Investments in forward currency contracts may expose the Fund to risks resulting from unanticipated movements in foreign currency exchange rates or failure of the counter-party to the agreement to perform in accordance with the terms of the contract.

Reported net realized foreign exchange gains or losses arise from the sales of foreign currencies, currency gains or losses realized between the trade and settlement dates on securities transactions, the difference between the amounts of dividends, interest, and foreign withholding taxes recorded on the Fund's books, and the U.S. Dollar equivalent of the amounts actually received or paid. Net unrealized foreign exchange gains and losses arise from changes in the value of assets and liabilities other than investments in securities at fiscal year end, resulting from changes in the exchange rate. The Fund includes foreign currency gains and losses realized on the sale of investments together with market gains and losses on such investments in the Statement of Operations.

Federal Income Taxes - It is the Fund's policy to comply with the requirements of the Internal Revenue Code applicable to regulated investment companies, and to distribute substantially all of its taxable income, including any net realized gains on investments not offset by loss carryovers, to shareholders. Therefore, no provision for federal income or excise tax is required. The Adviser has analyzed the Fund's tax positions taken on federal and state income tax returns for all open tax years and has concluded that as of December 31, 2011, no provision for income tax is required in the Fund's financial statements related to these tax positions. The Fund's federal and state (Arizona and Maryland) income and federal excise tax returns for tax years for which the applicable statutes of limitations have not expired are subject to examination by the Internal Revenue Service and state departments of revenue. The earliest tax year that remains subject to examination by these jurisdictions is 2008.

The Regulated Investment Company Modernization Act of 2010 ("Act") was enacted on December 22, 2010. The Act makes changes to several tax rules impacting the Fund. Although the Act provides several benefits, including the unlimited carryforward of future capital losses, there may be a greater likelihood that all or a portion of the Fund's pre-enactment capital loss carryforwards may expire without being utilized due to the fact that post-enactment capital losses are required to be utilized before pre-enactment capital loss carryforwards. At December 31, 2011, the Fund had available for federal income tax purposes unused capital loss carryforwards as follows:

	Capital Loss Carryforwards	
Pre-Enactment Expiring 12/31/2017	\$	
		1,978,000
Utilized in 2011	\$	9,695,000

Securities Transactions and Related Investment Income - Securities transactions are accounted for on the trade date (date the order to buy or sell is executed) with realized gain or loss on the sale of securities being determined based upon identified cost. Dividend income is recorded on the ex-dividend date. Interest income, which includes accretion of discount and amortization of premium, is accrued as earned.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

Dividends and Distributions to Shareholders - Dividends and distributions to shareholders are recorded on the ex-dividend date. Net investment income (loss), net realized gains (losses), and net unrealized appreciation (depreciation) on investments may differ for financial statement and tax purposes primarily due to differing treatments of wash sales, foreign currency transactions, passive foreign investment company shares, and partnership income. The character of dividends and distributions made during the fiscal year from net investment income and net realized securities gains may differ from their ultimate characterization for federal income tax purposes. Also, due to the timing of dividends and distributions, the fiscal year in which amounts are distributed may differ from the fiscal year in which income or realized gain was recorded by the Fund. The Fund adjusts certain components of capital to reflect permanent differences between financial statement amounts and net income and realized gains/losses determined in accordance with income tax rules. Accordingly, during the year ended December 31, 2011, amounts have been reclassified to reflect a decrease in undistributed net investment income of \$166,014 and a corresponding decrease in accumulated net realized losses from investments and foreign currency transactions. The Fund's net assets have not been affected by this reclassification.

The tax character of distributions paid during the years ended December 31, 2011 and 2010 was as follows:

	<u>2011</u>	<u>2010</u>
Ordinary income	\$ 872,599	\$ 650,801

As of December 31, 2011, the components of distributable earnings (accumulated losses) on a tax basis were as follows:

Undistributed net investment income	\$ 534,417
Accumulated net realized losses from investments and foreign currency transactions	(1,977,516)
Net unrealized appreciation on investments	<u>5,631,527</u>
Total	<u>\$ 4,188,428</u>

Indemnification - Under the Fund's organizational documents, its officers and directors are indemnified against certain liabilities arising out of the performance of their duties to the Fund. In addition, some of the Fund's contracts with its service providers contain general indemnification clauses. The Fund's maximum exposure under these arrangements is unknown since the amount of any future claims that may be made against the Fund cannot be determined and the Fund has no historical basis for predicting the likelihood of any such claims.

Use of Estimates in Financial Statements - In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management makes 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, as well as the reported amounts of income and expenses during the reporting period. Actual results may differ from these estimates.

Directors Fees and Expenses - The Fund set up a Rabbi Trust to provide for the deferred compensation plan for Independent Directors that enables them to elect to defer receipt of all or a portion of annual fees they are entitled to receive. The value of an eligible Director's account is based upon years of service and fees paid to each Director during the years of service. The amount paid to the Director by the Trust under the plan will be determined based upon the performance of the Davis Funds in which the amounts are invested.

NOTE 2 - PURCHASES AND SALES OF SECURITIES

The cost of purchases and proceeds from sales of investment securities (excluding short-term securities) during the year ended December 31, 2011 were \$7,855,968 and \$26,807,408, respectively.

NOTE 3 - INVESTMENT ADVISORY FEES AND OTHER TRANSACTIONS WITH AFFILIATES

Advisory fees are paid monthly to the Adviser at an annual rate of 0.55% of the Fund's average net assets.

Boston Financial Data Services, Inc. ("BFDS") is the Fund's primary transfer agent. State Street Bank and Trust Company ("State Street Bank") is the Fund's primary accounting provider. Fees for accounting services are included in the custodian fee as State Street Bank also serves as the Fund's custodian. The Adviser is also paid for certain accounting services. The fee paid to the Adviser for these services during the year ended December 31, 2011 amounted to \$2,004. Certain directors and officers of the Fund are also directors and officers of the general partner of the Adviser.

Davis Selected Advisers-NY, Inc. ("DSA-NY"), a wholly-owned subsidiary of the Adviser, acts as sub-adviser to the Fund. DSA-NY performs research and portfolio management services for the Fund under a Sub-Advisory Agreement with the Adviser. The Fund pays no fees directly to DSA-NY.

During the year ended December 31, 2011, Davis Financial Portfolio transferred securities valued at \$395,726 to another registered investment company managed by the Adviser. Davis Financial Portfolio realized a loss of \$213,085.

NOTE 4 - EXPENSES PAID INDIRECTLY

Under an agreement with State Street Bank, custodian fees are reduced for earnings on cash balances maintained at the custodian by the Fund. Such reductions amounted to \$8 during the year ended December 31, 2011.

NOTE 5 - CAPITAL STOCK

At December 31, 2011, there were 500 million shares of capital stock (\$0.001 par value per share) authorized. Transactions in capital stock were as follows:

	Year ended December 31, 2011		Year ended December 31, 2010	
	Shares	Amount	Shares	Amount
Shares sold	430,782	\$ 4,640,929	1,402,090	\$ 14,260,345
Shares issued in reinvestment of distributions	87,173	872,599	59,325	650,801
	517,955	5,513,528	1,461,415	14,911,146
Shares redeemed	(1,908,509)	(20,539,351)	(2,770,797)	(27,844,334)
Net decrease	(1,390,554)	\$ (15,025,823)	(1,309,382)	\$ (12,933,188)

NOTE 6 - BANK BORROWINGS

The Fund may borrow up to 5% of its assets from a bank to purchase portfolio securities, or for temporary and emergency purposes. The purchase of securities with borrowed funds creates leverage in the Fund. The Fund has entered into an agreement, which enables it to participate with certain other funds managed by the Adviser in an unsecured line of credit with a bank, which permits borrowings up to \$50 million, collectively. Interest is charged based on its borrowings, at a rate equal to the higher of the Federal Funds Rate or the Overnight Libor Rate, plus 1.25%. The Fund had no borrowings during the year ended December 31, 2011.

NOTE 7 - RESTRICTED SECURITIES

Restricted securities are not registered under the Securities Act of 1933 and may have contractual restrictions on resale. They are valued under methods approved by the Board of Directors as reflecting fair value. The aggregate value of restricted security amounted to \$1,291,500 or 2.12% of the Fund's net assets as of December 31, 2011.

Information regarding restricted securities is as follows:

Security	Acquisition Date	Units	Cost per Unit	Valuation per Unit as of December 31, 2011
Oaktree Capital Group LLC, Class A	05/21/07	28,700	\$ 36.21	\$ 45.00

The following financial information represents selected data for each share of capital stock outstanding throughout each period:

	Year ended December 31,				
	2011	2010	2009	2008	2007
Net Asset Value, Beginning of Period	\$ 11.00	\$ 9.98	\$ 7.12	\$ 14.27	\$ 16.29
Income (Loss) from Investment Operations:					
Net Investment Income	0.14	0.12	0.05	0.08	0.17
Net Realized and Unrealized Gains (Losses)	(1.01)	0.99	2.88	(6.76)	(1.12)
Total from Investment Operations	(0.87)	1.11	2.93	(6.68)	(0.95)
Dividends and Distributions:					
Dividends from Net Investment Income	(0.15)	(0.09)	(0.07)	–	(0.17)
Distributions from Realized Gains	–	–	–	(0.47)	(0.90)
Total Dividends and Distributions	(0.15)	(0.09)	(0.07)	(0.47)	(1.07)
Net Asset Value, End of Period	\$ 9.98	\$ 11.00	\$ 9.98	\$ 7.12	\$ 14.27
Total Return ^a	(7.96)%	11.10%	41.18% ^b	(46.36)%	(6.05)%
Ratios/Supplemental Data:					
Net Assets, End of Period (in thousands)	\$ 60,834	\$ 82,403	\$ 87,837	\$ 57,321	\$ 116,725
Ratio of Expenses to Average Net Assets:					
Gross	0.69%	0.69%	0.78%	0.88%	0.85%
Net ^c	0.69%	0.69%	0.78%	0.88%	0.85%
Ratio of Net Investment Income to Average					
Net Assets	0.99%	0.99%	0.67%	0.73%	0.97%
Portfolio Turnover Rate ^d	11%	2%	10%	16%	17%

a Assumes hypothetical initial investment on the business day before the first day of the fiscal period, with all dividends and distributions reinvested in additional shares on the reinvestment date, and redemption at the net asset value calculated on the last business day of the fiscal period. Total returns do not reflect charges attributable to your insurance company's separate account. Inclusion of these charges would reduce the total returns shown.

b Davis Financial Portfolio received a favorable class action settlement from a company that it no longer owns. This settlement had an approximate impact of 0.4% on the investment performance of the Fund in 2009. This was a one-time event that is unlikely to be repeated.

c The Net Ratio of Expenses to Average Net Assets reflects the impact, if any, of the reduction of expenses paid indirectly and of certain reimbursements from the Adviser.

d The lesser of purchases or sales of portfolio securities for a period, divided by the monthly average of the market value of portfolio securities owned during the period. Securities with a maturity or expiration date at the time of acquisition of one year or less are excluded from the calculation.

See Notes to Financial Statements

**The Shareholders and Board of Directors
Davis Variable Account Fund, Inc.:**

We have audited the accompanying statement of assets and liabilities of Davis Financial Portfolio (a separate series of Davis Variable Account Fund, Inc.), including the schedule of investments as of December 31, 2011, and the related statement of operations for the year then ended, the statements of changes in net assets for each of the years in the two-year period then ended, and the financial highlights for each of the years in the five-year period then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of December 31, 2011, by correspondence with the custodian. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Davis Financial Portfolio as of December 31, 2011, the results of its operations for the year then ended, the changes in its net assets for each of the years in the two-year period then ended, and the financial highlights for each of the years in the five-year period then ended, in conformity with U.S. generally accepted accounting principles.

KPMG LLP

Denver, Colorado
February 9, 2012

Federal Income Tax Information (Unaudited)

During the calendar year ended December 31, 2011, \$734,051 or 84% of dividends paid by the Fund constituted income qualifying for the corporate dividends-received deduction.

Portfolio Proxy Voting Policies and Procedures

The Fund has adopted Portfolio Proxy Voting Policies and Procedures under which the Fund votes proxies relating to securities held by the Fund. A description of the Fund's Portfolio Proxy Voting Policies and Procedures is available (i) without charge, upon request, by calling the Fund toll-free at 1-800-279-0279, (ii) on the Fund's website at www.davisfunds.com, and (iii) on the SEC's website at www.sec.gov.

In addition, the Fund is required to file Form N-PX, with its complete proxy voting record for the 12 months ended June 30th, no later than August 31st of each year. The Fund's Form N-PX filing is available (i) without charge, upon request, by calling the Fund toll-free at 1-800-279-0279, (ii) on the Fund's website at www.davisfunds.com, and (iii) on the SEC's website at www.sec.gov.

Form N-Q

The Fund files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The Fund's Form N-Q is available without charge, upon request, by calling 1-800-279-0279, on the Fund's website at www.davisfunds.com, or on the SEC's website at www.sec.gov. The Fund's Form N-Q may be reviewed and copied at the SEC's Public Reference Room in Washington, DC, and information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330.

DAVIS FINANCIAL PORTFOLIO

Directors and Officers

For the purposes of their service as directors to the Davis Funds, the business address for each of the directors is 2949 E. Elvira Road, Suite 101, Tucson, AZ 85756. Each Director serves until their retirement, resignation, death or removal. Subject to exceptions and exemptions, which may be granted by the Independent Directors, Directors must retire at the close of business on the last day of the calendar year in which the Director attains age seventy-four (74).

Name (birthdate)	Position(s) Held With Fund	Term of Office and Length of Time Served	Principal Occupation(s) During Past Five Years	Number of Portfolios in Fund Complex Overseen by Director	Other Directorships Held by Director
<i>Independent Directors</i>					
Marc P. Blum (09/09/42)	Director	Director since 1986	Chief Executive Officer, World Total Return Fund, LLLP; of Counsel to Gordon, Feinblatt, Rothman, Hoffberger and Hollander, LLC (law firm).	13	Director, Legg Mason Investment Counsel & Trust Company N.A. (asset management company) and Rodney Trust Company (Delaware).
John S. Gates, Jr. (08/02/53)	Director	Director since 2007	Chairman and Chief Executive Officer of PortaeCo LLC, a private investment company (beginning in 2006); Co-founder of CenterPoint Properties Trust (REIT); Co-chairman and Chief Executive Officer for 22 years (until 2006).	13	Director, DCT Industrial Trust (REIT); Chairman, Regional Transportation Authority of Chicago.
Thomas S. Gayner (12/16/61)	Director/ Chairman	Director since 2004	President and Chief Investment Officer, Markel Corporation (insurance company).	13	Director, Washington Post Co. (publishing company); Director, Colfax Corp. (engineering and manufacturer of pumps and fluid handling equipment).
G. Bernard Hamilton (03/18/37)	Director (Retired 12/31/11)	Director since 1978	Managing General Partner, Avanti Partners, L.P. (investment partnership), retired 2005.	13	none
Samuel H. Iapalucci (07/19/52)	Director	Director since 2006	Former Executive Vice President and Chief Financial Officer, CH2M-HILL Companies, Ltd. (engineering).	13	Director, Trow Global Holdings Inc. (engineering & consulting).
Robert P. Morgenthau (03/22/57)	Director	Director since 2002	Principal, Spears Abacus Advisors, LLC (investment management firm); former Chairman, NorthRoad Capital Management, LLC (investment management firm).	13	none
Marsha Williams (03/28/51)	Director	Director since 1999	Retired; former Senior Vice President and Chief Financial Officer, Orbitz Worldwide, Inc. (travel-services provider) 2007-2010; former Executive Vice President and Chief Financial Officer, Equity Office Properties Trust (REIT).	13	Director, Modine Manufacturing, Inc. (heat transfer technology); Director, Chicago Bridge & Iron Company, N.V. (industrial construction and engineering); Director, Fifth Third Bancorp (diversified financial services).

Name (birthdate)	Position(s) Held With Fund	Term of Office and Length of Time Served	Principal Occupation(s) During Past Five Years	Number of Portfolios in Fund Complex Overseen by Director	Other Directorships Held by Director
<i>Inside Directors*</i>					
Andrew A. Davis (06/25/63)	Director	Director since 1997	President or Vice President of each Davis Fund and Selected Fund; President, Davis Selected Advisers, L.P., and also serves as an executive officer in certain companies affiliated with the Adviser.	16	Director, Selected Funds (consisting of three portfolios) since 1998.
Christopher C. Davis (07/13/65)	Director	Director since 1997	President or Vice President of each Davis Fund, Selected Fund, and Clipper Fund; Chairman, Davis Selected Advisers, L.P., and also serves as an executive officer in certain companies affiliated with the Adviser, including sole member of the Adviser's general partner, Davis Investments, LLC; Employee of Shelby Cullom Davis & Co. (registered broker/dealer).	16	Director, Selected Funds (consisting of three portfolios) since 1998; Director, Washington Post Co. (publishing company).

* Andrew A. Davis and Christopher C. Davis own partnership units (directly, indirectly, or both) of the Adviser and are considered to be "interested persons" of the Funds as defined in the Investment Company Act of 1940. Andrew A. Davis and Christopher C. Davis are brothers.

Officers

Andrew A. Davis (born 06/25/63, Davis Funds officer since 1997). See description in the section on Inside Directors.

Christopher C. Davis (born 07/13/65, Davis Funds officer since 1997). See description in the section on Inside Directors.

Kenneth C. Eich (born 08/14/53, Davis Funds officer since 1997). Executive Vice President and Principal Executive Officer of each of the Davis Funds (consisting of 13 portfolios), Selected Funds (consisting of three portfolios), and Clipper Fund, Inc. (consisting of one portfolio); Chief Operating Officer, Davis Selected Advisers, L.P., and also serves as an executive officer in certain companies affiliated with the Adviser.

Douglas A. Haines (born 03/04/71, Davis Funds officer since 2004). Vice President, Treasurer, Chief Financial Officer, Principal Financial Officer, and Principal Accounting Officer of each of the Davis Funds (consisting of 13 portfolios), Selected Funds (consisting of three portfolios), and Clipper Fund, Inc. (consisting of one portfolio); Vice President and Director of Fund Accounting, Davis Selected Advisers, L.P.

Sharra L. Haynes (born 09/25/66, Davis Funds officer since 1997). Vice President, Chief Compliance Officer of each of the Davis Funds (consisting of 13 portfolios), Selected Funds (consisting of three portfolios), and Clipper Fund, Inc. (consisting of one portfolio); Vice President and Chief Compliance Officer, Davis Selected Advisers, L.P., and also serves as an executive officer in certain companies affiliated with the Adviser.

Thomas D. Tays (born 03/07/57, Davis Funds officer since 1997). Vice President and Secretary of each of the Davis Funds (consisting of 13 portfolios), Selected Funds (consisting of three portfolios), and Clipper Fund, Inc. (consisting of one portfolio); Vice President, Chief Legal Officer and Secretary, Davis Selected Advisers, L.P., and also serves as an executive officer in certain companies affiliated with the Adviser.

Arthur Don (born 09/24/53, Davis Funds officer since 1991). Assistant Secretary (for clerical purposes only) of each of the Davis Funds and Selected Funds; Shareholder, Greenberg Traurig, LLP (law firm); counsel to the Independent Directors and the Davis Funds.

DAVIS FINANCIAL PORTFOLIO

Investment Adviser

Davis Selected Advisers, L.P. (Doing business as “Davis Advisors”)
2949 East Elvira Road, Suite 101
Tucson, Arizona 85756
(800) 279-0279

Distributor

Davis Distributors, LLC
2949 East Elvira Road, Suite 101
Tucson, Arizona 85756

Transfer Agent

Boston Financial Data Services, Inc.
c/o The Davis Funds
P.O. Box 8406
Boston, Massachusetts 02266-8406

Custodian

State Street Bank and Trust Co.
One Lincoln Street
Boston, Massachusetts 02111

Counsel

Greenberg Traurig, LLP
77 West Wacker Drive, Suite 3100
Chicago, Illinois 60601

Independent Registered Public Accounting Firm

KPMG LLP
707 Seventeenth Street, Suite 2700
Denver, Colorado 80202

For more information about Davis Financial Portfolio, including management fee, charges, and expenses, see the current prospectus, which must precede or accompany this report. The Fund’s Statement of Additional Information contains additional information about the Fund’s Directors and is available without charge upon request by calling 1-800-279-0279 and on the Fund’s website at www.davisfunds.com. Quarterly Fact sheets are available on the Fund’s website at www.davisfunds.com.

Davis Advisors
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