Virginia Community Capital, Incorporated

Annual Report

December 31, 2011

2011 Annual Report

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Independent Auditor's Report

Board of Directors
Virginia Community Capital, Inc.
Christiansburg, Virginia

We have audited the consolidated statements of financial position of Virginia Community Capital, Inc. and its subsidiary as of December 31, 2011 and 2010 and the related consolidated statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting amounts and disclosures in the financial statements. 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Virginia Community Capital, Inc. and its subsidiary as of December 31, 2011 and 2010, and the changes in net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Elliott Davis, LLC

Galax, Virginia
March 22, 2012

Elliott Davis LLC, 104 Cranberry Road, P.O. Box 760, Galax, VA 24333
Phone: 276.238.1800 Fax: 276.238.1801 www.elliottdavis.com

Consolidated Statements of Financial Position

December 31, 2011 and 2010

	2011	2010
Assets		
Cash and due from banks	$ 113,628	$ 109,995
Interest-bearing deposits	2,075,490	6,830,516
Federal funds sold	599,000	2,437,000
Certificates of deposit	11,204,506	13,885,675
Investment securities available for sale	840,930	3,753,677
Restricted equity securities	406,450	320,850
Loans, net of allowance for loan losses of $1,180,162 and $795,736 at December 31, 2011 and 2010, respectively	69,195,638	42,403,185
Grants receivable	519,266	337,571
Accrued interest receivable	290,730	221,186
Premises and equipment	125,851	92,859
Other assets	284,079	285,787
Total assets	$ 85,655,568	$ 70,678,301
Liabilities		
Noninterest-bearing deposits	$ 489,818	$ 581,557
Interest-bearing deposits	43,142,027	38,693,787
Total deposits	43,631,845	39,275,344
Borrowings	19,940,000	10,114,403
Secured borrowings	1,409,106	1,354,064
Deferred revenue	72,904	337,571
Accrued interest payable	40,037	33,373
Other liabilities	464,428	231,820
Total liabilities	65,558,320	51,346,575
Net Assets		
Unrestricted	20,057,554	19,431,575
Accumulated other comprehensive income (loss)	(3,644)	(155,026)
Total consolidated net assets before noncontrolling interest in subsidiary	20,053,910	19,276,549
Noncontrolling interest in subsidiary	43,338	55,177
Total net assets	20,097,248	19,331,726
Total liabilities and net assets	$ 85,655,568	$ 70,678,301

See Notes to Consolidated Financial Statements

Consolidated Statements of Activities

For the year ended December 31, 2011

	December 31, 2011		
	Unrestricted	Temporarily Restricted	Total
Revenue and Support			
Grants and contract income	$ 766,875	$ 364,587	$ 1,131,462
Interest and fees on loans	3,416,752		3,416,752
Interest income	403,925		403,925
Realized gains (losses) on sales of securities	(69,744)		(69,744)
Miscellaneous income	380,036		380,036
Net assets released from restrictions	364,587	(364,587)	-
Total revenue and support	5,262,431	-	5,262,431
Expenses			
Program Services			
Salaries and wages	644,574		644,574
Payroll taxes	65,085		65,085
Employee benefits	96,114		96,114
Program services	315,325		315,325
Office expense	114,382		114,382
Professional fees	259,716		259,716
Depreciation expense	53,754		53,754
Interest expense	1,351,764		1,351,764
Provision for loan losses	370,233		370,233
Other expenses	256,381		256,381
Total program services expenses	3,527,328		3,527,328
Management and General			
Salaries and wages	469,065		469,065
Payroll taxes	47,363		47,363
Employee benefits	69,943		69,943
Office and administrative expenses	38,127		38,127
Professional fees	86,572		86,572
Depreciation expense	17,918		17,918
Other expenses	85,459		85,459
Total management and general expenses	814,447		814,447
Total expenses	4,341,775		4,341,775
Change in net assets/net income before provision for income taxes	920,656		920,656
Provision for income tax expense	291,517		291,517
Change in net assets/net income	629,139		629,139
Change in accumulated other comprehensive income (loss)	151,382		151,382
Change in net assets/net income and accumulated other comprehensive income (loss)	780,521		780,521
Change in net assets/net income attributable to noncontrolling interest	(3,160)		(3,160)
Change in net assets/net income attributable to Virginia Community Capital, Inc.	777,361		777,361
Net assets beginning of year	19,276,549		19,276,549
Net assets end of year	$ 20,053,910	$	$ 20,053,910

See Notes to Consolidated Financial Statements

Consolidated Statements of Activities

For the year ended December 31, 2010

	December 31, 2010		
	Unrestricted	Temporarily Restricted	Total
Revenue and Support			
Grants and contract income	$ 733,775	$ 378,786	$ 1,112,561
Interest and fees on loans	2,063,677	-	2,063,677
Interest income	479,967	-	479,967
Realized gains on sales of securities	47,596	-	47,596
Miscellaneous income	102,979	-	102,979
Net assets released from restrictions	378,786	(378,786)	-
Total revenue and support	3,806,780	-	3,806,780
Expenses			
Program Services			
Salaries and wages	437,714	-	437,714
Payroll taxes	54,236	-	54,236
Employee benefits	67,753	-	67,753
Program services	258,378	-	258,378
Office expense	105,555	-	105,555
Professional fees	302,135	-	302,135
Depreciation expense	64,333	-	64,333
Interest expense	816,208	-	816,208
Provision for loan losses	366,788	-	366,788
Other expenses	178,472	-	178,472
Total program services expenses	2,651,572	-	2,651,572
Management and General			
Salaries and wages	318,530	-	318,530
Payroll taxes	39,468	-	39,468
Employee benefits	49,304	-	49,304
Office and administrative expenses	35,185	-	35,185
Professional fees	100,712	-	100,712
Depreciation expense	21,444	-	21,444
Other expenses	59,491	-	59,491
Total management and general expenses	624,134	-	624,134
Total expenses	3,275,706	-	3,275,706
Change in net assets/net income before provision for income taxes	531,074	-	531,074
Provision for income tax expense	250,718	-	250,718
Change in net assets/net income	280,356	-	280,356
Change in accumulated other comprehensive income (loss)	(147,787)	-	(147,787)
Change in net assets/net income and accumulated other comprehensive income (loss)	132,569	-	132,569
Change in net assets/net income attributable to noncontrolling interest	(1,937)	-	(1,937)
Change in net assets/net income attributable to Virginia Community Capital, Inc.	130,632	-	130,632
Net assets beginning of year	19,145,917	-	19,145,917
Net assets end of year	$ 19,276,549	$ -	$ 19,276,549

See Notes to Consolidated Financial Statements

Consolidated Statements of Cash Flows

For the year ended December 31, 2011 and 2010

	2011	2010
Cash flows from operating activities		
Change in net assets	$ 629,139	$ 280,356
Adjustments to reconcile change in net assets to net cash (used in) provided by operations:		
Depreciation and amortization	71,672	85,777
Provision for loan losses	370,233	366,788
Net realized (gains) losses on sales of securities	69,744	(47,596)
Loss on disposal of premises and equipment	-	622
Accretion of discount on securities, net of amortization of premiums	(132)	(4,339)
Changes in assets and liabilities:		
Accrued income	(69,544)	(101,966)
Grants receivable	(181,695)	351,285
Other assets	(69,323)	94,606
Accrued interest payable	6,664	18,535
Deferred revenue	(264,667)	(351,285)
Other liabilities	232,909	108,536
Net cash provided by operating activities	795,000	801,319
Cash flows from investing activities		
Net (increase) decrease in federal funds sold	1,838,000	(760,000)
Net (increase) decrease in interest-bearing deposits	4,755,026	(3,676,053)
Net (increase) decrease in certificates of deposit	2,681,169	(987,273)
Purchases of securities available for sale	(1,500,000)	(15,668,415)
Proceeds from sales, maturities, calls, and principal paydown of securities available for sale	4,530,256	13,236,402
Proceeds from maturities, calls and principal paydowns of securities held to maturity	-	2,000,000
Purchases of restricted equity securities	(85,600)	(57,550)
Net increase in loans	(27,162,686)	(20,922,807)
Purchase of premises and equipment	(84,372)	(66,375)
Proceeds of premises and equipment	-	440
Net cash used in investing activities	(15,028,207)	(26,901,631)
Cash flows from financing activities		
Net increase in deposits	4,356,201	22,272,690
Net increase in borrowings	9,825,597	2,214,736
Net increase in secured borrowings	55,042	1,354,064
Proceeds from sale of capital stock	-	5,000
Net cash provided by financing activities	14,236,840	25,846,490
Net increase (decrease) in cash and cash equivalents	3,633	(253,822)
Cash and cash equivalents, beginning	109,995	363,817
Cash and cash equivalents, ending	$ 113,628	$ 109,995
Supplemental disclosure of cash flow information		
Interest paid	$ 1,345,100	$ 797,272
Income taxes paid	$ 197,888	$ -

Notes to Financial Statements

Note 1. Nature of Business and Summary of Significant Accounting Policies

Nature of Business

Virginia Community Capital Inc., (the Organization) is a non-profit, non-stock entity dedicated to revitalizing communities, facilitating the creation of jobs, and increasing the amount of affordable housing throughout Virginia. Its mission is to create an innovative financing system that offers financial products designed to increase economic diversity, development and sustainability in economically depressed communities.

The Organization formed a subsidiary for-profit community development bank, Community Capital Bank of Virginia (the Bank). The Organization funded the subsidiary with a purchase of its common stock in the amount of $7,000,000 on December 31, 2007. The Bank received regulatory approval and opened for business on August 20, 2008. As a state chartered, Federal Reserve member bank, the Bank is subject to regulation by the Virginia Bureau of Financial Institutions and the Federal Deposit Insurance Corporation. This regulated banking entity operates under the same mission guidelines as the Organization. The Bank's Board of Directors purchased common stock in the Bank at $5,000 each as mandated by State Law, thus establishing a noncontrolling interest in the Bank.

The accounting and reporting policies of the Organization and the Bank follow generally accepted accounting principles and general practices within the non-profit and financial services industry. Following is a summary of the more significant policies:

Critical Accounting Policies

Management believes the policies with respect to the methodology for the determination of the allowance for loan losses and asset impairment judgments involve a high degree of complexity. Management must make difficult and subjective judgments which require assumptions or estimates about highly uncertain matters. Changes in these judgments, assumptions or estimates could cause reported results to differ materially. These critical policies and their application are periodically reviewed with the Audit Committee and Board of Directors.

Principles of Consolidation

The consolidated financial statements include the accounts of the Organization and its subsidiary. All significant intercompany balances and transactions have been eliminated in consolidation. The Organization consolidates subsidiaries in which it holds, directly or indirectly, more than 50 percent of the voting rights or where it exercises control. Entities where the Organization holds 20 percent to 50 percent of the voting rights, or has the ability to exercise significant influence, or both, are accounted for under the equity method.

Use of Estimates

In preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated statements of financial position and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses and the valuation of deferred tax assets.

Basis of Accounting

The financial statements are prepared using the accrual basis of accounting. Under this basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

Notes to Financial Statements

Note 1. Nature of Business and Summary of Significant Accounting Policies, continued

Financial Statement Presentation

Net assets, revenues and expenses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted – All resources over which the governing board has discretionary control. The board of the Organization may elect to designate such resources for specific purposes. This designation may be removed at the board's discretion.

Temporarily Restricted – Resources accumulated through donations or grants for specific operating or capital purposes. Such resources will become unrestricted when the requirements of the donor or grantee have been satisfied through expenditures for the specified purpose or program or through the passage of time.

Permanently Restricted – Net assets subject to donor-imposed stipulations that are to be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on related investments for general or specific purposes. There were no permanently restricted net assets at December 31, 2011 or 2010.

Reclassification

Certain amounts in the 2010 consolidated financial statements have been reclassified to conform to the 2011 presentation.

Cash and Cash Equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents are defined as those amounts included in the consolidated statements of financial position caption "cash and due from banks."

Interest Bearing Deposits with Banks

Interest bearing deposits with banks include savings and money market accounts with correspondents with no stated maturity.

Certificates of Deposits

Non-negotiable investments in FDIC-insured certificates of deposit with other financial institutions.

Securities

Certain debt securities that management has the positive intent and ability to hold to maturity are classified as "held to maturity" and recorded at amortized cost. Trading securities are recorded at fair value with changes in fair value included in earnings. Securities not classified as held to maturity or trading, including equity securities with readily determinable fair values, are classified as "available for sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income. Restricted equity securities consist of stock in the Federal Reserve Bank and Community Banker's Bank and are carried at cost.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value of held to maturity and available for sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In determining whether other-than-temporary impairment exists, management considers many factors, including (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Organization to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Notes to Financial Statements

Note 1. Organization and Summary of Significant Accounting Policies, continued

Loans Receivable

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at their outstanding principal amount adjusted for any charge-offs and the allowance for loan losses. Loan origination fees, net of certain direct origination costs, are deferred and recognized, as an adjustment of the related loan yield using the interest method. Discounts and premiums on any purchased loans are amortized to income using the interest method over the remaining period to contractual maturity, adjusted for anticipated prepayments.

Interest is accrued and credited to income based on the principal amount outstanding. The accrual of interest on impaired loans is discontinued when, in management’s opinion, the borrower may be unable to meet payments as they become due. When interest accrual is discontinued, all unpaid accrued interest for the current year is reversed. Interest income is subsequently recognized on the cash basis or cost recovery method, as appropriate. When facts and circumstances indicate the borrower has regained the ability to meet the required payments, the loan is returned to accrual status. Past due status of loans is determined based on contractual terms.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as impaired. For such loans an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-impaired loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating losses in the portfolio.

A loan is considered impaired when, based on current information and events, it is probable that the Organization will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status and other circumstances impacting the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Notes to Financial Statements

Note 1. Organization and Summary of Significant Accounting Policies, continued

Premises and Equipment

Organization premises, furniture and equipment, and leasehold improvements are carried at cost, less accumulated depreciation and amortization computed by the straight-line method over the following estimated useful lives:

	Years
Buildings and improvements	3-20
Furniture and equipment	3-10
Vehicle	4-10

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities.

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 Organization, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of the right) to pledge or exchange the transferred assets, and (3) the Organization does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Secured Borrowings

Loan participations sold that did not meet criteria for transfer of financial assets and thus are presented as secured borrowings.

Income Taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Bank, however, is a taxable entity, and will be subject to federal income taxes when it begins to generate income, and has exhausted any net operating loss carryforwards.

Provision for income taxes is based on amounts reported in the statement of operations (after exclusion of non-taxable income such as interest on state and municipal securities) and consists of taxes currently due plus deferred taxes on temporary differences in the recognition of income and expenses for tax and financial statement purposes. Deferred tax assets and liabilities are included in the financial statements at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

Deferred income tax liabilities relating to unrealized gains, or the deferred tax asset in the case of unrealized loss on investment securities available for sale is recorded in other liabilities, assets, or other assets when applicable. Such unrealized gains or loss is recorded as an adjustment to equity in the financial statements as a component of accumulated other comprehensive income (loss) and not included in income until realized.

A valuation allowance is provided for any deferred tax asset for which the ultimate realization is uncertain.

Revenue Recognition

Grant revenue is recognized when earned by the Organization through performance as specified in each grant award.

Note 2. Restrictions on Cash and Amounts Due From Banks

The Bank is required to maintain average balances on hand or with certain correspondents. At December 31, 2010, and December 31, 2011 these reserve balances amounted to $75,000. Additionally, at December 31, 2011 and 2010, the Organization was required to maintain a certificate of deposit with a balance of no less than $350,000 with Bank of America as collateral for credit extended to the Organization.

Note 3. Investments

Investments have been classified in the consolidated statements of financial position according to management's intent. At December 31, 2011 and 2010, all of the Company's securities were classified as available for sale. The carrying amount of securities and their approximate fair values at December 31 are:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
2011				
U.S. Government sponsored entities	$ 750,000	$ -	$ 4,258	$ 745,742
Obligations of states and political subdivisions	96,451	-	1,263	95,188
Total	$ 846,451	$ -	$ 5,521	$ 840,930
2010				
U.S. Government treasuries	$ 3,500,000	$ -	$ 182,658	$ 3,317,342
Obligations of states and political subdivisions	96,319	-	6,259	90,060
U.S. Government sponsored entities	350,000	-	3,725	346,275
Total	$ 3,946,319	$ -	$ 192,642	$ 3,753,677

Securities with an amortized cost of $750,000 were pledged or otherwise restricted at December 31, 201. No securities were pledged or otherwise restricted at December 31, 2010.

In 2011, the Organization had realized losses of $69,744 on sales of securities. These gains are included as miscellaneous income/(loss) on the consolidated statements of activity. In 2010, the Organization had realized gains of $47,596 on sales of securities.

The scheduled maturities of securities at December 31, 2011 are as follows:

	Amortized Cost	Fair Value
Due in 2018	$ 750,000	$ 745,742
Due in 2019 and beyond	96,451	95,188
	$ 846,451	$ 840,930

Notes to Financial Statements

Note 3. Investments, continued

As of December 31, 2011, the Organization had one security with an unrealized loss position where such positions had existed for 12 months or more, consecutively. Management does not consider the security to be “other-than-temporarily impaired”. The following table details unrealized losses and related fair values in the Organization’s available-for-sale investment securities portfolios. This information is aggregated by the length of time that individual securities have been in a continuous unrealized loss position as of December 31, 2011.

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
2011						
U.S. Government sponsored entities	$ 745,742	$ 4,258	$ -	$ -	$ 745,742	$ 4,258
Obligations of states and political subdivisions	-	-	95,188	1,263	95,188	1,263
Total temporarily impaired securities	$ 745,742	$ 4,258	$ 95,188	$ 1,263	$ 840,930	$ 5,521
2010						
U.S. Government treasuries	$ 3,317,342	$ 182,658	$ -	$ -	$ 3,317,342	$ 182,658
U.S. Government sponsored entities	346,275	3,725	-	-	346,275	3,725
Obligations of states and political subdivisions	90,060	6,259	-	-	90,060	6,259
Total temporarily impaired securities	$ 3,753,677	$ 192,642	$ -	$ -	$ 3,753,677	$ 192,642

Restricted equity securities consist of investments in common stock of the Federal Reserve Bank of Richmond and investments in common stock of Community Bankers Bank. The Federal Reserve Bank of Richmond requires banks to purchase stock as a condition for membership in the Federal Reserve System.

Note 4. Loans Receivable

The major components of loans in the consolidated statements of financial position at December 31, 2011 and 2010 are as follows:

	2011	2010
Commercial, industrial and other loans	$ 23,588,953	$ 9,013,568
Commercial real estate-construction	28,247,132	17,266,384
Commercial real estate-other	18,539,715	16,918,969
	70,375,800	43,198,921
Allowance for loan losses	(1,180,162)	(795,736)
Loans, net of allowance	$ 69,195,638	$ 42,403,185

Loans with balances of $4,127,522 and $6,198,697 were pledged at December 31, 2011 and 2010, respectively.

Note 5. Allowance for Loan Losses

The allocation of the allowance for loan losses by loan components at December 31, 2011 was as follows:

	Commercial, Industrial and Other Loans	Commercial Real Estate-Construction	Commercial Real Estate-Other	Unallocated	Total
2011					
Allowance for credit losses:					
Beginning balance	$ 208,210	$ 211,341	$ 212,660	$ 163,525	$ 795,736
Charge-offs	-	-	-	-	-
Recoveries	14,193	-	-	-	14,193
Provision	(21,958)	125,148	248,223	18,821	370,234
Ending balance	$ 200,445	$ 336,489	$ 460,883	$ 182,346	$ 1,180,163
Ending balance:					
Individually evaluated for impairment	$ 101,719	$ 77,244	$ 382,810	$ -	$ 561,773
Ending balance:					
Collectively evaluated for impairment	$ 98,726	$ 259,245	$ 78,073	$ 182,346	$ 618,390
Ending balance:					
Loans Receivable:					
Ending balance	$ 23,588,953	$ 28,247,132	$ 18,539,715		$ 70,375,800
Ending balance:					
Individually evaluated for impairment	$ 169,419	$ 510,193	$ 2,597,246		$ 3,276,858
Collectively evaluated for impairment	$ 23,419,534	$ 27,736,939	$ 15,942,469		$ 67,098,942

The following table presents impaired loans by class of loans as of December 31, 2011:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
2011					
With no related allowance recorded:					
Commercial, industrial, and other loans	$ -	$ -	$ -	$ -	$ -
Commercial real estate construction	123,825	123,222	-	123,825	9,648
Commercial real estate-other	557,125	554,740	-	172,823	37,760
	$ 680,950	$ 677,962	$ -	$ 296,648	$ 47,408
With allowance recorded:					
Commercial, industrial, and other loans	$ 169,777	$ 169,419	$ 101,719	$ 169,777	$ 12,665
Commercial real estate construction	387,556	386,972	77,244	130,991	45,809
Commercial real estate-other	2,048,935	2,042,505	382,810	441,024	115,614
	$ 2,606,268	$ 2,598,896	$ 561,773	$ 741,792	$ 174,088
Total					
Commercial, industrial, and other loans	$ 169,777	$ 169,419	$ 101,719	$ 169,777	$ 12,665
Commercial real estate construction	511,381	510,194	77,244	254,816	55,457
Commercial real estate-other	2,606,060	2,597,245	382,810	613,847	153,374
	$ 3,287,218	$ 3,276,858	$ 561,773	$ 1,038,440	$ 221,496

Nonperforming loans and impaired loans are defined differently. As such, some loans may be included in both categories, whereas other loans may only be included in one category. The following presents by class, an aging analysis of the recorded investment in loans.

2011	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	Recorded Investment> 90 Days Accruing
Commercial, industrial, and other loans	$ -	$ -	$ -	$ -	$ 23,588,953	$ 23,588,953	$ -
Commercial real estate construction	-	-	-	-	28,247,132	28,247,132	-
Commercial real estate other	-	208,247	1,393,497	1,601,744	15,336,227	18,539,715	-
Total	$ -	$ 208,247	$ 1,393,497	$ 1,601,744	$ 67,172,312	$ 70,375,800	$ -

Note 5. Allowance for Loan Losses, continued

Credit Quality Indicators:

The Organization categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The organization analyzes loans individually by classifying the loans as to credit risk. Loans graded Marginal, Special Mention, Substandard, Doubtful or 9 (Loss) are reviewed at least quarterly by the Organization for further deterioration or improvement to determine appropriate classification, to determine if there is any impairment of the loan, and if impairment exists, the amount that should be reserved for anticipated losses. All other loans above $500,000 are reviewed annually to determine the appropriate loan grading. In addition, during the renewal process of any loan, as well as when a loan becomes past due, the Organization will evaluate the loan grade.

Loans graded 1 (Prime), 2 (Excellent), 3 (Good) or 4 (Average) are excluded from the scope of the annual review and considered pass credits until: (a) they become past due; (b) management becomes aware of a deterioration in the credit worthiness of the borrower; or (c) the customer contacts the Organization for a modification. In these circumstances, the loan is specifically evaluated for potential classification as special mention, substandard, doubtful, loss, or in some instances even charged-off. The company uses the following definitions for risk ratings:

Prime – Loans in this category are considered to be of the highest quality and carry minimal credit risk. Overall asset quality is excellent and the borrower is very liquid. Leverage is very low relative to the borrower's industry and is stable or decreasing. Cash flow is continually very high relative to all demands. Earnings are always strong and are stable or increasing even through economic swings. Multiple sources of financing/refinancing exist, including access to public markets. Loans fully secured by U.S. Government and Government Agency obligations, and deposit accounts (in our bank) will also be rated as 1.

Excellent – Loans in this category are considered to be of excellent quality. The borrower has very good liquidity and overall asset quality. Leverage is relatively low and is stable or declining. Margins and ratios are consistently above industry norms. Earnings are strong and stable, but the rate of growth may differ from year to year. Cash flow is more than sufficient to meet total demands. Multiple sources of financing are available.

Good - Loans in this category are of good quality. The borrower has a history of successful performance, but may be susceptible to economic changes. Asset quality and liquidity are still considered good. Overall leverage is normal for the industry in which the borrower operates and is stable. Cash flow levels may fluctuate but are sufficient to meet obligations. Margins and ratios are generally in line with or exceed industry norms. Earnings may have been inconsistent in the past, but have now stabilized and are equivalent to or better than the industry average. Other sources of financing, particularly from a number of other financial institutions, should be obtainable.

Average - Loans in this category are of average quality and risk is well within the CDFI's range of acceptability. They may differ from "3" loans because the borrower may be entering an expansion mode, acquiring another company, introducing new products or investing large amounts of capital in upgrading equipment or the facility. The borrower's business may be cyclical or its customer base may have concentrations. Asset quality is acceptable. Liquidity levels fluctuate and usage of short term credit may be needed on a regular basis to finance growth or fluctuations in revenues and current assets. Leverage may be slightly to moderately higher than the industry, but is stable. Cash flow may fluctuate, but is evident in sales and earnings. The long-term outlook should be favorable. Management and owners have unquestioned character, although depth of management may be an issue.

Note 5. Allowance for Loan Losses, continued

Marginal - Loans in this grade are considered to have a higher than normal credit risk and servicing needs. Asset quality is marginally acceptable. Leverage may fluctuate and is above normal for the industry. Cash flow is marginally adequate, but is not clearly sufficient to ensure continued performance of contractual obligations without improving trends. A loss year or earnings decline may occur, but the borrower has sufficient strength and financial flexibility to offset these events. A reasonable expectation exists that operating performance will improve in the near future. Some management weaknesses may exist. These borrowers are currently performing as agreed, but may be adversely affected by deteriorating industry conditions, competition, operating deficiencies, pending litigation of a significant nature, or declining asset quality, and therefore should be monitored closely. Access to alternative financing sources may not be possible or limited to asset-based lenders and other institutions specializing in high risk financing. Loans in this category may be considered Watch List accounts.

Special Mention - Although repayment of principal and interest may continue, a loan in this category carries undesirable credit risk and possesses potential weaknesses which may, if not corrected, weaken the asset or inadequately protect the CDFI's credit position at some future date. A customer in this rating will reflect one or more of the following characteristics: deterioration in revenues, earnings or cash flow, deterioration in the balance sheet composition, or adverse conditions are known which could substantially affect operations in the near future. In addition, these are credits that the CDFI may be unable to manage properly because of an inadequate loan agreement, inability to control collateral, failure to obtain proper documentation, or any other deviation from sound lending principles may be placed in this category.

Substandard - Substandard assets are inadequately protected by the sound net worth and paying capacity of the borrower or the collateral pledged. Sound worth and paying capacity of a guarantor should be considered only if judged to be strong and dependable. Customers in this category have well defined weaknesses and the possibility exists that the CDFI will sustain some loss if the deficiencies are not corrected. Characteristics of a substandard loan include one or more of the following characteristics: a significant deterioration in earnings, cash flow or balance sheet composition, a deficient equity position, insufficient cash flow to meet maturity obligations, recent evidence of slow payments, a lack of adequate collateral or a dependence on illiquid collateral for repayment.

Doubtful - Doubtful ratings are applied to loans that exhibit weaknesses that make collection or liquidation in full improbable. This rating is used when the expected loss cannot be calculated, but estimates indicate that the loss will be significant in relation to the outstanding loan balance. The possibility of loss is extremely high, but because of certain important and reasonably specific pending factors which my work to the advantage and strengthening of the loan, its classification as a loss is deferred until its more exact status may be determined. Pending factors include proposed merger, acquisition, or liquidation procedures, capital injection, perfecting liens on additional collateral, and refinancing plans.

Loss - This rating is applied when the borrower's outstanding debt is considered uncollectible or of such little value that continuance as a CDFI asset is not warranted. This rating does not suggest that there is absolutely no recovery or salvage value, but that it is not practical or desirable to defer writing off the debt.

	Commercial Industrial and Other Loans	Commercial Real Estate-Construction	Commercial Real Estate-Other
Pass Credits	$ 23,419,534	$ 27,736,939	$ 15,942,468
Marginal	-	297,227	995,323
Special Mention	-	123,222	-
Substandard	-	89,744	1,601,924
Doubtful	169,419	-	-
Loss	-	-	-
Total	$ 23,588,953	$ 28,247,132	$ 18,539,715

Notes to Financial Statements

Note 5. Allowance for Loan Losses, continued

Troubled Debt Restructurings

As a result of adopting the amendments in Accounting Standards Update (ASU) 2011-02, Virginia Community Capital, Inc. reassessed all restructurings that occurred on or after the beginning of the fiscal year of adoption (January 1, 2011) to determine whether they are considered troubled debt restructurings (TDRs) under the amended guidance. The amendments in ASU 2011-02 require prospective application of the impairment measurement guidance in ASC 310-10-35 for any loans newly identified as impaired. At year end, there were no loans for which the allowance was previously measured under a general allowance methodology and are now impaired under ASC 310-10-35.

The Bank did not modify any loans for the year ended December 31, 2011 that were considered to be troubled debt restructurings.

In the determination of the allowance for loan losses, management considers troubled debt restructurings to be nonperforming impaired loans until consecutive payments illustrate that the loan will actually perform.

Note 6. Grants Awards

During the year, the Organization has been awarded contracts totaling $164,553 for which they have not incurred any reimbursable expenses at December 31, 2011. These amounts will be recorded as revenue in future periods in which the grant requirements are met. Grants awards consist of the following:

	2011	2010
Mary Babcock Reynolds Foundation	$ -	$ 22,500
USDA and SBA Awards	19,266	-
Bank Enterprise Award	500,000	-
Department of Health and Human Services	-	315,071
Total	$ 519,266	$ 337,571

Note 7. Premises and Equipment

Components of Premises and Equipment

Components of premises and equipment and total accumulated depreciation at December 31, 2011 and 2010 are as follows:

	2011	2010
Furniture and equipment	$ 284,313	$ 222,081
Leasehold improvements	35,404	33,904
Vehicle	59,053	38,414
Property and equipment, total	378,770	294,399
Less accumulated depreciation	252,920	201,540
Property and equipment, net of depreciation	$ 125,850	$ 92,859

Depreciation and amortization expense for the years ending December 31, 2011 and 2010 was $71,672 and $85,777, respectively.

Note 7. Premises and Equipment, continued

Leases

The Organization leases office space in Richmond and Christiansburg, Virginia. The leases in Richmond and Christiansburg expire December 31, 2011 and February 28, 2012, respectively. Future lease payments are as follows:

	Richmond Office	Christiansburg Office	Total
2012	$ -	$ 8,254	$ 8,254
2013	-	-	-
	$ -	$ 8,254	$ 8,254

Rent expense for the years ended December 31, 2011 and 2010 was $91,311 and $88,796, respectively.

Note 8. Deposits

The major components of deposits in the consolidated statements of financial position at December 31, 2011 and 2010 are as follows:

	2011	2010
Noninterest-bearing demand	$ 489,818	$ 581,857
Interest-bearing demand	6,208,612	2,499,661
Time deposits	36,933,415	36,194,126
Total deposits	$ 43,631,845	$ 39,275,644

The aggregate amount of time deposits in denomination of $100,000 or more at December 31, 2011 and 2010 was $18,774,136 and $19,336,172, respectively.

At December 31, 2011, the scheduled maturities of time deposits are as follows:

2012	$ 13,429,512
2013	4,926,165
2014	1,342,071
2015	8,082,541
Thereafter	9,153,127
	$ 36,933,416

Note 9. Borrowings

Borrowings at December 31, 2011 consist of the following:

	Rate	Maturity	2011	2010
BB&T	4.25%	06/10/2012	500,000	-
Wachovia	2.00%	01/01/2013	1,000,000	1,000,000
Wachovia	3.98%	03/23/2013	2,385,000	2,499,403
Calvert Foundation	4.50%	03/01/2014	1,000,000	1,000,000
Bon Secours Health Systems	2.25%	04/01/2014	300,000	-
HSBC	3.33%	09/22/2014	3,340,000	-
PNC LOC	2.25%	12/15/2016	500,000	-
Bank of America	4.00%	06/26/2018	3,500,000	3,500,000
Community Development Capital Initiative	2.00%	09/23/2018	1,915,000	1,915,000
Communities at Work Fund	4.30%	10/25/2018	5,000,000	200,000
Wachovia EQ2	2.00%	02/02/2021	500,000	-
			$ 19,940,000	$ 10,114,403

Note 9. Borrowings, continued

At December 31, 2011, the scheduled maturities of borrowings are as follows:

2012	$	500,000
2013		3,385,000
2014		4,640,000
2015		-
Thereafter		11,415,000
	$	19,940,000

At December 31, 2011, the Organization had unused Federal Fund lines of Credit of $2,500,000, and other various unused commitments of $4,500,000 with rates ranging from 2.00% to 4.50%.

Note 10. Fair Value of Financial Instruments

Fair Value Hierarchy

There are three levels of inputs in the fair value hierarchy that may be used to measure fair value. Financial instruments are considered *Level 1* when valuation can be based on quoted prices in active markets for identical assets or liabilities. *Level 2* financial instruments are valued using quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or models using inputs that are observable or can be corroborated by observable market data of substantially the full term of the assets or liabilities. Financial instruments are considered *Level 3* when their values are determined using pricing models, discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable and when determination of the fair value requires significant management judgment or estimation.

Financial Instruments Measured at Fair Value

The following sections provide a description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the fair value hierarchy:

Securities: Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities would include highly liquid government bonds, mortgage products and exchange traded equities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flow. Level 2 securities would include U.S. agency securities, mortgage-backed agency securities, obligations of states and political subdivisions and certain corporate, asset backed and other securities. In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy.

Impaired Loans: Where impairment of a loan is based on a loan's observable market price or the fair value of the collateral of a collateral-dependent loan. Fair value of the loan's collateral, when the loan is dependent on collateral, is determined by appraisals or independent valuation which is then adjusted for the cost related to liquidation of the collateral.

Foreclosed Properties: Foreclosed assets are adjusted to fair value upon transfer of the loans to other real estate owned. Real estate acquired in settlement of loans is recorded initially at estimated fair value of the property less estimated selling costs at the date of foreclosure. The initial recorded value may be subsequently reduced by additional allowances, which are charged to earnings if the estimated fair value of the property less estimated selling costs declines below the initial recorded value. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price or a current appraised value, the Bank records the foreclosed asset as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Bank records the foreclosed asset as nonrecurring Level 3.

Notes to Financial Statements

Note 10. Fair Value of Financial Instruments, continued

Recurring Fair Value

The table below presents the recorded amount of assets and liabilities measured at fair value on a recurring basis.

December 31, 2011	Total	Level 1	Level 2	Level 3
Investment securities available-for-sale	$ 840,930	$ -	$ 840,390	$ -
Total assets measured at fair value	$ 840,930	$ -	$ 840,390	$ -
Total liabilities measured at fair value	$ -	$ -	$ -	$ -
December 31, 2010				
Investment securities available-for-sale	$ 3,753,677	$ -	$ 3,753,677	$ -
Total assets measured at fair value	$ 3,753,677	$ -	$ 3,753,677	$ -
Total liabilities measured at fair value	$ -	$ -	$ -	$ -

Non-recurring Fair Value

The table below presents the recorded amount of assets and liabilities measured at fair value on a non-recurring basis.

December 31, 2011	Total	Level 1	Level 2	Level 3
Impaired loans	$ 2,725,445	$ -	$ -	$ 2,725,445
Total assets recorded at fair value	$ 2,725,445	$ -	$ -	$ 2,725,445
Total liabilities recorded at fair value	$ -	$ -	$ -	$ -
December 31, 2010				
Impaired loans	$ 387,029	$ -	$ -	$ 387,029
Total assets recorded at fair value	$ 387,029	$ -	$ -	$ 387,029
Total liabilities recorded at fair value	$ -	$ -	$ -	$ -

Note. 11 Benefit Plans

The Organization introduced a profit sharing plan (the Plan) in 2008 pursuant to Section 401(k) of the Internal Revenue Code (the Code). Any employee who has at least 3 months of service is eligible to participate in the Plan.

Participants may contribute a percentage of compensation, subject to a maximum allowed under the Code. In addition, the Organization makes certain matching contributions and may make additional contributions at the discretion of the Board of Directors. The Organization's expenses relating to the Plan for the years ended December 31, 2011 and 2010 amounted to $53,620 and $37,583, respectively.

Note 12. Income Taxes

Current and Deferred Income Tax Components

The components of income tax expense (benefit), all federal, for the period ended December 31, 2011 and 2010 is as follows:

	2011	2010
Current	$ 299,738	$ 80,856
Deferred expense (benefit)	(8,221)	169,862
Deferred tax asset valuation allowance change	-	-
Income tax expense	$ 291,517	$ 250,718

Rate Reconciliation

A reconciliation of income tax expense (benefit) computed at the statutory federal income tax rate to income tax expense included in the statement of operations for the years ended December 31, 2011 and 2010 is as follows:

	2011	2010
Tax at statutory federal rate	$ 291,816	$ 198,345
Other	(299)	52,373
	$ 291,517	$ 250,718

Deferred Income Tax Analysis

The significant components of net deferred tax assets at December 31, 2011 and 2010 are summarized as follows:

	2011	2010
Deferred tax assets		
Allowance for loan losses	$ 221,092	$ 140,012
Pre-opening expenses	35,312	38,578
Depreciation	-	1,864
Unrealized losses on securities available for sale	1,877	37,616
Deferred tax asset	258,481	218,070
Deferred tax liabilities		
Deferred loan costs	106,314	87,120
Prepaid expenses	7,117	6,902
Depreciation	12,781	-
Deferred tax liability	126,212	94,022
Deferred tax asset valuation allowance	-	-
Net deferred tax asset	$ 132,269	$ 124,048

The Organization is subject to income taxation only at the Federal level.

The Organization classifies interest and penalties related to income tax assessments, if any, in interest expense or noninterest expense, respectively in the consolidated statements of activities. Tax years 2008 through 2010 are subject to examination by the Internal Revenue Service. The Organization has analyzed the tax positions taken or expected to be taken in its tax returns and has concluded it has no liability related to uncertain tax positions.

Note 13. Commitments and Contingencies

Litigation

In the normal course of business the Organization may be involved in various legal proceedings. The Organization was not involved in any litigation during the years ended December 31, 2011 and 2010.

Financial Instruments with Off-Balance Sheet Risk

The Organization 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 include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, credit risk in excess of the amount recognized in the consolidated statements of financial position.

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

Financial Instruments with Off-Balance Sheet Risk, continued

At December 31, the following financial instruments were outstanding whose contract amounts represent credit risk (in thousands):

	2011	2010
Commitments to grant loans	$ 5,225	$ 17,961
Unfunded commitments under lines of credit	21,176	16,658
	$ 26,401	$ 34,619

The Organization has made certain loans that included pass-through grant subsidies to the borrowers. If these loans cease to qualify for their intended use during their expected terms, the grants are to be repaid to the Organization and become the property of the Organization. Any amounts recovered under these provisions are to be reported by the Organization as grant income in the period received. No provision has been made in the financial records for this contingent receivable due to the uncertain nature of timing and amount of any receipts.

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 Organization evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Organization upon extension of credit, is based on management's credit evaluation of the party. Collateral held varies, but may include accounts receivable, inventory, property and equipment, residential real estate and income-producing commercial properties.

Standby letters of credit are conditional financial commitments issued by the Organization to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Collateral held varies as specified above and is required in instances which the Organization deems necessary.

Concentrations of Credit Risk

All of the Organization's loans and commitments to extend credit have been granted to businesses throughout the Commonwealth of Virginia. The concentrations of credit by type of loan are set forth in Note 5. The Organization's focus is toward commercial and small business transactions, and accordingly, it does not have a material number of credits to any single borrower or group of related borrowers.

Note 14. Transactions with Related Parties

The Organization has entered into transactions with its directors, significant shareholders and their affiliates (related parties). Such transactions were made in ordinary course of business on substantially the same terms and conditions, including interest rates, as those prevailing at the same time for comparable transactions with other customers, and did not, in the opinion of management, involve more than normal credit risk or present other unfavorable features. The Organization had no extensions of credit to related parties at December 31, 2011 or 2010.

Deposits from related parties held by the Bank at December 31, 2011 and 2010 amounted to $180,655 and $125,528, respectively.

Note 15. Minimum Regulatory Capital Requirements

The Bank is subject to various regulatory capital requirements administered by 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 financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2009, that the Bank meets all capital adequacy requirements to which it is subject. Below is a summary of the Bank's capital ratios for December 31, 2011 and December 31, 2010.

As of December 31, 2010, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum total risk-based, Tier I risk-based and Tier I leverage ratios as set forth in the following table. There are no conditions or events since the notification that management believes have changed the Bank's category. (Dollars in thousands)

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
December 31, 2011						
Total Capital						
(to Risk-Weighted Assets)	$ 10,005	24.0%	$ 3,331	8.0%	$ 4,164	10.0%
Tier I Capital						
(to Risk-Weighted Assets)	$ 9,485	22.8%	$ 1,666	4.0%	$ 2,499	6.0%
Tier I Capital						
(to Average Assets)	$ 9,485	17.3%	$ 2,196	4.0%	$ 2,745	5.0%
December 31, 2010						
Total Capital						
(to Risk-Weighted Assets)	$ 9,146	30.3%	$ 2,418	8.0%	$ 3,023	10.0%
Tier I Capital						
(to Risk-Weighted Assets)	$ 8,926	29.5%	$ 1,209	4.0%	$ 1,814	6.0%
Tier I Capital						
(to Average Assets)	$ 8,926	19.4%	$ 1,844	4.0%	$ 2,305	5.0%

Note 16. Subsequent Events

These financial statements have been updated for subsequent events occurring prior to March 22, 2012 which is the date these financial statements were available to be issued.

Note 17. Parent Company Financial Information

Condensed financial information of Virginia Community Capital, Inc. is presented as follows:

Statements of Financial Position
December 31, 2011 and 2010

	2011	2010
Assets		
Cash and due from banks	$ 137,958	$ 402,486
Interest-bearing deposits	1,721,476	1,322,523
Certificates of deposit	1,469,777	1,219,945
Investment securities available for sale	-	1,767,993
Loans, net of allowance for loan losses of $472,791 and $338,414 at December 31, 2011 and 2010, respectively	26,993,229	15,591,017
Accrued interest receivable	103,870	77,525
Premises and equipment	57,342	45,449
Grants receivable	19,266	337,571
Investment in subsidiary	9,612,866	8,976,727
Other assets	68,547	97,069
Total assets	$ 40,184,331	$ 29,838,305
Liabilities		
Borrowings	$ 19,940,000	$ 10,114,403
Deferred revenue	72,904	337,571
Accrued interest payable	8,877	4,637
Other liabilities	65,302	49,967
Total liabilities	20,087,083	10,506,578
Net Assets		
Temporarily restricted	-	-
Unrestricted	20,057,554	19,431,575
Accumulated other comprehensive income (loss)	(3,644)	(155,026)
Total net assets of Virginia Community Capital, Inc.	20,053,910	19,276,549
Equity in noncontrolling interest	43,338	55,178
Total net assets	20,097,248	19,331,727
Total liabilities and net assets	$ 40,184,331	$ 29,838,305

Notes to Financial Statements

Note 17. Parent Company Financial Information, continued

Statements of Activities
For the year ended December 31, 2011

	December 31, 2011		
	Unrestricted	Temporarily Restricted	Total
Revenue and Support			
Grants and contract income	$ 291,875	$ 359,587	$ 651,462
Interest and fees on loans	1,224,838	-	1,224,838
Interest income	66,477	-	66,477
Realized gain on sale of securities	(13,125)	-	(13,125)
Miscellaneous income	352,128	-	352,128
Net assets released from restrictions	359,587	(359,587)	-
Total revenue and support	2,281,780	-	2,281,780
Expenses			
Program Services			
Salaries and wages	436,603	-	436,303
Payroll taxes	36,368	-	36,368
Employee benefits	53,191	-	53,191
Program services	112,641	-	112,641
Office expense	55,363	-	55,363
Professional fees	218,277	-	218,277
Depreciation expense	28,234	-	28,234
Interest expense	525,555	-	525,555
Provision for loan losses	120,184	-	120,184
Other expenses	97,103	-	97,103
Total program services expenses	1,683,519	-	1,683,519
Management and General			
Salaries and wages	317,721	-	317,721
Payroll taxes	26,465	-	26,465
Employee benefits	38,708	-	38,708
Office and administrative expenses	18,454	-	18,454
Professional fees	72,759	-	72,759
Depreciation expense	9,411	-	9,411
Other expenses	32,367	-	32,367
Total management and general expenses	515,885	-	515,885
Total expenses	2,199,404	-	2,199,404
Change in net assets/net income	62,376	-	62,376
Change in accumulated other comprehensive income (loss)	151,382	-	151,382
Change in equity from undistributed income of subsidiary	566,764	-	566,764
Change in net assets/net income and accumulated other comprehensive income (loss)	780,522	-	780,522
Change in net assets/net income attributable to noncontrolling interest	(3,161)	-	(3,161)
		-	
Change in net assets/net income attributable to Virginia Community Capital, Inc.	777,361	-	777,361
Net assets beginning of year	19,276,549	-	19,276,549
Net assets end of year	$ 20,053,910	$ -	$ 20,053,910

Note 17. Parent Company Financial Information, continued

Statements of Activities, continued
For the year ended December 31, 2010

	December 31, 2010		
	Unrestricted	**Temporarily Restricted**	**Total**
Revenue and Support			
Grants and contract income	$ 133,775	$ 378,786	$ 512,561
Interest and fees on loans	834,429	-	834,429
Interest income	118,021	-	118,021
Realized gain on sale of securities	20,398	-	20,398
Miscellaneous income	93,111	-	93,111
Net assets released from restrictions	378,786	(378,786)	-
Total revenue and support	1,578,520	-	1,578,520
Expenses			
Program Services			
Salaries and wages	309,876	-	309,876
Payroll taxes	30,149	-	30,149
Employee benefits	37,999	-	37,999
Program services	107,068	-	107,068
Office expense	50,873	-	50,873
Professional fees	242,886	-	242,886
Depreciation expense	34,840	-	34,840
Interest expense	329,726	-	329,726
Provision for loan losses	15,431	-	15,431
Other expenses	65,603	-	65,603
Total program services expenses	1,224,451	-	1,224,451
Management and General			
Salaries and wages	225,500	-	225,500
Payroll taxes	21,940	-	21,940
Employee benefits	27,652	-	27,652
Office and administrative expenses	16,958	-	16,958
Professional fees	80,962	-	80,962
Depreciation expense	11,613	-	11,613
Other expenses	21,868	-	21,868
Total management and general expenses	406,493	-	406,493
Total expenses	1,630,944	-	1,630,944
Change in net assets/net income	(52,424)	-	(52,424)
Change in accumulated other comprehensive income (loss)	(147,787)	-	(147,787)
Change in equity from undistributed income of subsidiary	332,651	-	332,651
Change in net assets/net income and accumulated other comprehensive income (loss)	132,440	-	132,440
Change in net assets/net income attributable to noncontrolling interest	(1,937)	-	(1,937)
Change in net assets/net income attributable to Virginia Community Capital, Inc.	130,503	-	130,503
Net assets beginning of year	19,146,046	-	19,146,046
Net assets end of year	$ 19,276,549	$ -	$ 19,276,549

Note 17. Parent Company Financial Information, continued

Statements of Cash Flows
For the years ended December 31, 2011 and 2010

	2011	2010
Cash flows from operating activities		
Change in net assets	$ 62,376	$ (52,424)
Adjustments to reconcile change in net assets to net cash provided by operations:		
Depreciation and amortization	37,646	46,453
Provision for (loss of) loan losses	120,184	15,431
Realized gains on sales of securities	13,125	(20,398)
Accretion of discount on securities, net of amortization of premiums	-	(4,085)
Loss on disposal of premises and equipment	-	311
Changes in assets and liabilities:		
Accrued income	(26,345)	(19,356)
Grants receivable	318,305	351,285
Other assets	15,154	47,435
Accrued interest payable	4,240	4,207
Deferred revenue	(264,667)	(351,285)
Noncontrolling interest in subsidiary	(15,000)	-
Other liabilities	15,336	(37,759)
Net cash (used in) provided by operating activities	280,354	(20,185)
Cash flows from investing activities		
Net (increase) in interest-bearing deposits	(398,953)	(416,331)
Net (increase) decrease in certificates of deposit	(249,831)	1,383,457
Purchases of securities available for sale	-	(6,170,915)
Proceeds from sales, calls and maturities of available for sale securities	1,836,875	4,345,398
Purchases and proceeds from maturities, calls and principal paydowns of securities held to maturity	-	2,000,000
Capital downstreamed to subsidiary bank	-	(2,000,000)
Net increase in loans	(11,522,396)	(2,085,088)
Purchases of premises and equipment	(36,171)	(33,187)
Disposals of premises and equipment	-	220
Net cash used in investing activities	(10,370,476)	(2,976,446)
Cash flows from financing activities		
Net increase in borrowings	9,825,597	2,214,736
Net cash (used in) provided by financing activities	9,825,597	2,214,736
Net (decrease) in cash and cash equivalents	(264,525)	(781,895)
Cash and cash equivalents, beginning	402,483	1,184,381
Cash and cash equivalents, ending	$ 137,958	$ 402,486
Supplemental disclosure of cash flow information		
Interest paid	$ 521,316	$ 325,519
Income taxes paid	$ -	$ -

Notes to Financial Statements

Note 18. Subsidiary Bank Financial Information

Financial information of Community Capital Bank of Virginia as of, and for the years ended December 31, 2011 and 2010 are as follows:

Balance Sheets
December 31, 2011 and 2010

	2011	**2010**
Assets		
Cash and due from banks	$ 106,178	$ 102,227
Interest-bearing deposits	956,294	5,560,344
Federal funds sold	599,000	2,437,000
Investment securities available for sale	840,930	1,985,684
Certificates of deposit	9,734,729	12,665,729
Restricted equity securities	406,450	320,850
Loans, net of allowance for loan losses of $707,371 and $457,322 at December 31, 2011 and 2010, respectively	42,202,409	26,812,169
Accrued interest receivable	186,860	143,661
Premises and equipment	68,509	47,410
Grants receivable	500,000	-
Other assets	215,531	188,719
Total assets	$ 55,816,890	$ 50,263,793
Liabilities		
Noninterest-bearing deposits	$ 620,326	$ 976,275
Interest-bearing deposits	43,744,307	38,746,139
Total deposits	44,364,633	39,722,414
Secured borrowings	1,409,106	1,354,064
Accrued interest payable	31,160	28,736
Other liabilities	399,125	181,852
Total liabilities	46,204,024	41,287,066
Commitments and contingencies	-	-
Shareholders' equity		
Preferred stock, 1,000,000 shares authorized; no shares issued and outstanding	-	-
Common stock, $2,500 par value, 10,000,000 shares authorized; 1,834 shares issued and outstanding for 2011 and 2010	4,584,725	4,584,725
Additional paid in capital	4,470,275	4,470,275
Retained deficit	561,510	(5,254)
Accumulated other comprehensive income (loss)	(3,644)	(73,019)
Total shareholder's equity	9,612,866	8,976,727
Total liabilities and shareholder's equity	$ 55,816,890	$ 50,263,793

Note 18. Subsidiary Bank Financial Information, continued

Statements of Operations
For the years ended December 31, 2011 and 2010

	2011	2010
Interest and dividend income		
Loans and fees on loans	$ 2,191,914	$ 1,229,248
Federal funds sold	1,076	3,899
Investment securities-taxable	34,866	59,443
Investment securities-nontaxable	4,860	5,233
Deposits with other banks	297,060	293,772
Total interest and dividend income	2,529,776	1,591,595
Interest expense		
Deposits	745,189	486,482
Federal funds purchased	124	-
Secured borrowings	81,310	-
Total interest expense	826,623	486,482
Net interest income	1,703,153	1,105,113
Provision for loan losses	250,049	351,357
Net interest income after provision for loan losses	1,453,104	753,756
Noninterest income		
Gains (losses) from sale of securities	(56,619)	27,198
Bank enterprise award	500,000	600,000
Other noninterest income	31,068	9,867
Total noninterest income	474,449	637,065
Noninterest expense		
Salaries and employee benefits	483,088	313,888
Occupancy and equipment	100,821	99,837
Data processing	69,747	53,530
Advertising and marketing	26,046	26,672
Audit	27,806	23,646
Legal	4,655	7,184
Consulting	22,792	48,170
FDIC insurance	81,427	53,890
Franchise tax expense	94,054	88,712
Other expenses	158,836	91,923
Total noninterest expense	1,069,272	807,452
Net income before income tax expense	858,281	583,369
Income tax expense	291,517	250,718
Net income	$ 566,764	$ 332,651
Basic income (loss) per share	$ 309.05	$ 190.29
Weighted average shares outstanding	1,834	1,748

Notes to Financial Statements

Note 18. Subsidiary Bank Financial Information, continued

Statements of Changes in Shareholders' Equity
For the years ended December 31, 2011 and 2010

	Common Stock Shares	Common Stock Amount	Additional Pain In Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2009	1,411	$3,527,600	$3,527,400	$ (337,905)	$ (7,239)	$ 6,709,856
Comprehensive income						
Net income	-	-	-	332,651	-	332,651
Change in unrealized loss on investment securities available for sale, net of income taxes	-	-	-	-	(65,780)	(65,780)
Total comprehensive income						266,871
Sale of common stock to holding company	423	1,057,125	942,875	-	-	2,000,000
Balance, December 31, 2010	1,834	4,584,725	4,470,275	(5,254)	(73,019)	8,976,727
Comprehensive income						
Net income	-	-	-	566,764	-	566,764
Change in unrealized loss on investment securities available for sale, net of income taxes	-	-	-	-	69,375	69,375
Total comprehensive income						636,139
Balance, December 31, 2011	1,834	$4,584,725	$4,470,275	$ 561,510	$ (3,644)	$ 9,612,866

Note 18. Subsidiary Bank Financial Information, continued

Statement of Cash Flows
For the years ended December 31, 2011 and 2010

	2011	2010
Cash flows from operating activities		
Net income	$ 566,764	$ 332,651
Adjustments to reconcile net loss to net cash used by operations:		
Depreciation and amortization	34,026	39,324
Deferred income tax expense	(8,221)	51,243
Provision for loan losses	250,049	351,357
Net realized gain (loss) on securities	56,619	(27,198)
Accretion of discount on securities, net of amortization of premiums	(132)	(254)
Loss on disposal of premises and equipment	-	311
Changes in assets and liabilities:		
Accrued income	(43,199)	(82,609)
Grants receivable	(500,000)	-
Other assets	(61,253)	77,096
Accrued interest payable	2,424	14,329
Other liabilities	217,272	70,553
Net cash provided by operating activities	514,349	826,803
Cash flows from investing activities		
Net (increase) decrease in federal funds sold	1,838,000	(760,000)
Net (increase) decrease in interest-bearing deposits	4,604,050	(3,310,123)
Net (increase) decrease in certificates of deposits	2,931,000	(2,370,729)
Purchases of securities available for sale	(1,500,000)	(9,497,500)
Proceeds from sales, maturities and calls of securities available for sale	2,693,381	8,891,004
Purchases of restricted equity securities	(85,600)	(57,550)
Net increase in loans	(15,640,289)	(18,837,720)
Purchases/disposal of premises and equipment	(48,201)	(33,187)
Disposals of premises and equipment	-	220
Net cash used in investing activities	(5,207,659)	(25,975,585)
Cash flows from financing activities		
Net increase in deposits	4,642,219	21,567,186
Net increase in secured borrowings	55,042	1,354,064
Proceeds from sale of common stock	-	2,000,000
Net cash provided by financing activities	4,697,261	24,921,250
Net increase (decrease) in cash and cash equivalents	3,951	(227,532)
Cash and cash equivalents, beginning	102,227	329,759
Cash and cash equivalents, ending	$ 106,178	$ 102,227
Supplemental disclosure of cash flow information		
Interest paid	$ 824,199	$ 472,153
Taxes paid	$ 197,888	$ -