Virginia Community Capital, Incorporated

Annual Report

December 31, 2012

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Virginia Community Capital, Inc. and its subsidiaries (the Organization) which are comprised of the consolidated statements of financial position as of December 31, 2012 and 2011, and the related consolidated statements of activities and cash flows for the years then ended.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Virginia Community Capital, Inc. and its subsidiaries as of December 31, 2012 and 2011, and the results of its activities and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Elliott Davis, LLC

Richmond, Virginia
March 21, 2013

Elliott Davis LLC, 3900 Westerre Parkway, Suite 102 Richmond, VA 23233
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Consolidated Statements of Financial Position

For the year ended December 31, 2012

	2012	2011
Assets		
Cash and due from banks	$ 34,921	$ 113,628
Interest-bearing deposits	7,300,642	2,075,490
Federal funds sold	533,000	599,000
Certificates of deposit	11,632,506	11,204,506
Investment securities available for sale	350,817	840,930
Investment securities held to maturity	501,720	-
Restricted equity securities	451,700	406,450
Loans, net of allowance for loan losses of $623,437 and $1,180,162 at December 31, 2012 and 2011, respectively	63,230,629	69,195,638
Grants receivable	421,791	519,266
Accrued interest receivable	307,886	290,730
Premises and equipment	306,076	125,851
Other real estate owned	1,010,216	-
Other assets	241,262	284,079
Total assets	$ 86,323,166	$ 85,655,568
Liabilities		
Noninterest-bearing deposits	$ 230,839	$ 489,818
Interest-bearing deposits	41,117,577	43,142,027
Total deposits	41,348,416	43,631,845
Borrowings	20,940,000	19,940,000
Secured borrowings	1,097,259	1,409,106
Deferred revenue	116,412	72,904
Accrued interest payable	56,457	40,037
Other liabilities	439,210	464,428
Total liabilities	63,997,754	65,558,320
Net Assets		
Unrestricted	21,072,094	20,057,554
Accumulated other comprehensive income (loss)	2,794	(3,644)
Total consolidated net assets before noncontrolling interest in subsidiary	21,074,888	20,053,910
Noncontrolling interest in subsidiary	1,250,524	43,338
Total net assets	22,325,412	20,097,248
Total liabilities and net assets	$ 86,323,166	$ 85,655,568

Consolidated Statements of Activities

For the year ended December 31, 2012

	December 31, 2012		
	Unrestricted	Temporarily Restricted	Total
Revenue and Support			
Grants and contract income	$ 947,800	$ 457,958	$ 1,405,758
Interest and fees on loans	4,210,232	-	4,210,232
Interest income	268,923	-	268,923
Miscellaneous income	67,380	-	67,380
Net assets released from restrictions	457,958	(457,958)	-
Total revenue and support	5,952,293	-	5,952,293
Expenses			
Program Services			
Salaries and wages	828,090	-	828,090
Payroll taxes	76,841	-	76,841
Employee benefits	114,819	-	114,819
Program services	373,841	-	373,841
Office expense	166,788	-	166,788
Professional fees	308,589	-	308,589
Depreciation expense	63,417	-	63,417
Interest expense	1,482,878	-	1,482,878
Provision for (recovery of) loan losses	(81,707)	-	(81,707)
Other expenses	331,081	-	331,081
Total program services expenses	3,664,637	-	3,664,637
Management and General			
Salaries and wages	602,611	-	602,611
Payroll taxes	55,918	-	55,918
Employee benefits	83,555	-	83,555
Office and administrative expenses	55,596	-	55,596
Professional fees	102,863	-	102,863
Depreciation expense	21,139	-	21,139
Other expenses	110,360	-	110,360
Total management and general expenses	1,032,042	-	1,032,042
Total expenses	4,696,679	-	4,696,679
Change in net assets/net income before provision for income taxes	1,255,614	-	1,255,614
Provision for income tax expense	233,888	-	233,888
Change in net assets/net income	1,021,726	-	1,021,726
Change in accumulated other comprehensive income (loss)	6,438	-	6,438
Change in net assets/net income and accumulated other comprehensive income (loss)	1,028,164	-	1,028,164
Change in net assets/net income attributable to noncontrolling interest	(7,186)	-	(7,186)
Change in net assets/net income	1,020,978	-	1,020,978
Net assets beginning of year	20,053,910	-	20,053,910
Net assets end of year	$ 21,074,888	$ -	$ 21,074,888

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 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	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 Cash Flows

For the years ended December 31, 2012 and 2011

	2012	2011
Cash flows from operating activities		
Change in net assets	$ 1,021,726	$ 629,139
Adjustments to reconcile change in net assets to net cash provided by operations:		
Depreciation and amortization	84,556	71,672
Provision for loan losses	(81,707)	370,233
Net realized losses on sales of securities	-	69,744
Accretion of discount on securities, net of amortization of premiums	(69)	(132)
Changes in assets and liabilities:		
Accrued income	(17,156)	(69,544)
Grants receivable	97,475	(181,695)
Other assets	97,630	(69,323)
Accrued interest payable	16,420	6,664
Deferred revenue	43,508	(264,667)
Other liabilities	(25,218)	232,909
Net cash provided by operating activities	1,237,165	795,000
Cash flows from investing activities		
Net (increase) decrease in interest-bearing deposits	(5,225,152)	4,755,026
Net decrease in federal funds sold	66,000	1,838,000
Net (increase) decrease in certificates of deposit	(428,000)	2,681,169
Purchases of securities available for sale	(649,909)	(1,500,000)
Purchases of securities held to maturity	(1,251,875)	-
Proceeds from sales, maturities and calls of securities available for sale	1,150,000	4,530,256
Proceeds from maturities and calls of securities held to maturity	750,000	-
Purchases of restricted equity securities	(45,250)	(85,600)
Net decrease (increase) in loans	5,036,500	(27,162,686)
Net purchases of premises and equipment	(264,781)	(84,372)
Net cash used in investing activities	(862,467)	(15,028,207)
Cash flows from financing activities		
Net (decrease) increase in deposits	(2,283,429)	4,356,201
Net increase in borrowings	1,000,000	9,825,597
Net (decrease) increase in secured borrowings	(311,847)	55,042
Dividends paid on subsidiary preferred stock	(25,422)	-
Net proceeds from the sale of preferred stock of subsidiary	1,167,293	-
Net cash (used in) provided by financing activities	(453,405)	14,236,840
Net (decrease) increase in cash and cash equivalents	(78,707)	3,633
Cash and cash equivalents, beginning	113,628	109,995
Cash and cash equivalents, ending	$ 34,921	$ 113,628
Supplemental disclosure of cash flow information		
Interest paid	$ 1,466,458	$ 1,345,100
Income taxes paid	$ 304,314	$ 197,888
Supplemental disclosure of noncash investing and financing activities		
Transfer of foreclosed properties	$ 1,010,216	$ -

See Notes to Consolidated Financial Statements

Notes to Consolidated 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.

River City Real Estate 1001, LLC was formed in 2012 as a wholly owned real estate holdings subsidiary of the Organization. Mountain Real Estate 2001, LLC, was also formed in 2012 as a wholly owned real estate holdings subsidiary of the Bank. Both were formed to hold and manage foreclosed real estate.

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 subsidiaries. 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 Consolidated 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, 2012 or 2011.

Reclassification

Certain amounts in the 2011 consolidated financial statements have been reclassified to conform to the 2012 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 Deposit

Certificates of deposit consist primarily of FDIC-insured non-negotiable deposits in 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 of Richmond, the Federal Home Loan Bank of Atlanta 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.

Note 1. Nature of Business 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.

Note 1. Nature of Business 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

Functional expenses are allocated between the parent and the subsidiary based on factors such volume, usage, or time, depending on the individual functional expense.

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 are presented as secured borrowings on the consolidated statements of financial position.

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 is subject to federal income taxes.

Provision for income taxes is based on amounts reported in the Bank's statements 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 or other assets when applicable. Such unrealized gains or losses are recorded as adjustments 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 may be provided for any deferred tax asset for which the ultimate realization is uncertain. No valuation allowance was necessary for the periods presented.

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

Revenue Recognition and Allocation

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

Other Real Estate Owned

Assets acquired through, or in lieu of, loan foreclosures are to be sold and are initially recorded at the lower of the investment in the loan or fair value less anticipated costs to sell at the date of foreclosure establishing a new cost basis. After foreclosure, valuations are periodically performed by management, and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in foreclosed asset expense.

Recent Accounting Pronouncements

The following accounting standards may affect the future financial reporting by Virginia Community Capital Inc. and its subsidiaries:

The FASB amended the Comprehensive Income topic of the ASC in February 2013. The amendments addresses reporting of amounts reclassified out of accumulated other comprehensive income. Specifically, the amendments do not change the current requirements for reporting net income or other comprehensive income in financial statements. However, the amendments do require an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, in certain circumstances an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income. The amendments will be effective for the Organization on a prospective basis for reporting periods beginning after December 15, 2013. Early adoption is permitted. The Organization does not expect these amendments to have a material effect on its financial statements.

In February 2013 the FASB also amended the Financial Instruments topic of the ASC to address the scope and applicability of a certain disclosures to nonpublic entities. The amendments clarify that the requirement to disclose “the level of the fair value hierarchy within which the fair value measurements are categorized in their entirety (Level 1, 2, or 3)” does not apply to nonpublic entities for items that are not measured at fair value in the statement of financial position but for which fair value is disclosed. The Organization does not expect these amendments to have a material effect on its financial statements.

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

Notes to Consolidated Financial Statements

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, 2012, and 2011, these reserve balances amounted to $50,000 and $75,000, respectively. Additionally, at December 31, 2012 and 2011, 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. The amortized cost of securities and their approximate fair values at December 31 are:

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
2012				
Available for sale				
U.S. Government sponsored entities	$ 250,000	$ -	$ (50)	$ 249,950
Obligations of states and political subdivisions	96,583	4,284	-	100,867
Total	$ 346,583	$ 4,284	$ (50)	$ 350,817
Held to maturity				
U.S. Government sponsored entities	$ 501,720	$ -	$ (493)	$ 501,227
2011				
Available for sale				
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

Securities with an amortized cost of $848,303 and $750,000 were pledged or otherwise restricted at December 31, 2012 and 2011, respectively.

In 2012, the Organization had no realized gains or losses on sales of securities. In 2011, the Organization had realized losses of $69,744 on sales of securities. These losses were included as revenue and support on the consolidated statements of activities.

The scheduled maturities of securities at December 31, 2012 are as follows:

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in 2015	$ -	$ -	$ 501,720	$ 501,227
Due in 2018	250,000	249,950	-	-
Due in 2038	96,583	100,867	-	-
	$ 346,583	$ 350,817	$ 501,720	$ 501,227

Note 3. Investments, continued

As of December 31, 2012, no securities had been in an unrealized loss position for 12 or more consecutive months. 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, 2012 and 2011.

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
2012						
U.S. Government sponsored entities	$ 249,950	$ (50)	$ -	$ -	$ 249,950	$ (50)
Total temporarily impaired securities	$ 249,950	$ (50)	$ -	$ -	$ 249,950	$ (50)
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)

Restricted equity securities consist of investments in common stock of the Federal Reserve Bank of Richmond, the Federal Home Loan Bank of Atlanta and 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, 2012 and 2011 are as follows:

	2012	2011
Commercial, industrial and other loans	$ 21,240,780	$ 23,588,953
Commercial real estate-construction	18,596,663	28,247,132
Commercial real estate-other	24,016,623	18,539,715
	63,854,066	70,375,800
Allowance for loan losses	(623,437)	(1,180,162)
Loans, net of allowance	$ 63,230,629	$ 69,195,638

Loans with balances of $3,945,098 and $4,127,522 were pledged at December 31, 2012 and 2011, respectively.

Note 5. Allowance for Loan Losses

The allocation of the allowance for loan losses by loan components at December 31, 2012 was as follows:

	Commercial, Industrial and Other Loans	Commercial Real Estate-Construction	Commercial Real Estate-Other	Unallocated	Total
2012					
Allowance for loan losses:					
Beginning balance	$ 200,445	$ 336,489	$ 460,883	$ 182,345	$ 1,180,162
Charge-offs	-	(96,182)	(378,836)	-	(475,018)
Recoveries	-	-	-	-	-
Provision	(124,547)	(33,597)	10,411	66,026	(81,707)
Ending balance	$ 75,898	$ 206,710	$ 92,458	$ 248,371	$ 623,437
Ending balance:					
Individually evaluated for impairment	$ -	$ -	$ 22,829	$ -	$ 22,829
Collectively evaluated for impairment	$ 75,898	$ 206,710	$ 69,629	$ 248,371	$ 600,608
Loans Receivable:					
Ending balance	$ 21,240,780	$ 18,596,663	$ 24,016,623		$ 63,854,066
Ending balance:					
Individually evaluated for impairment	$ 1,333,732	$ -	$ 1,232,021		$ 2,565,753
Collectively evaluated for impairment	$ 19,907,048	$ 18,596,663	$ 22,784,602		$ 61,288,313

The following table presents impaired loans by class of loans as of December 31, 2012:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
2012					
With no related allowance recorded:					
Commercial, industrial, and other loans	$ 1,339,913	$ 1,333,732	$ -	$ 40,381	$ 73,750
Commercial real estate construction	-	-	-	-	-
Commercial real estate-other	610,180	609,654	-	628,569	48,511
	1,950,093	1,943,386	-	668,950	122,261
With allowance recorded:					
Commercial, industrial, and other loans	-	-	-	-	-
Commercial real estate construction	-	-	-	-	-
Commercial real estate-other	622,352	622,367	22,829	641,108	47,929
	622,352	622,367	22,829	641,108	47,929
Total					
Commercial, industrial, and other loans	1,339,913	1,333,732	-	40,381	73,750
Commercial real estate construction	-	-	-	-	-
Commercial real estate-other	1,232,532	1,232,021	22,829	1,269,677	96,440
	$ 2,572,445	$ 2,565,753	$ 22,829	$ 1,310,058	$ 170,190

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.

2012	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	$ 1,000,000	$ -	$ -	$ 1,000,000	$ 20,240,780	$ 21,240,780	$ -
Commercial real estate construction	650,000	498,770	-	1,148,770	17,447,893	18,596,663	-
Commercial real estate other	-	-	-	-	24,016,623	24,016,623	-
Total	$ 1,650,000	$ 498,770	$ -	$ 2,148,770	$ 61,705,296	$ 63,854,066	$ -

Note 5. Allowance for Loan Losses, continued

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 loan 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	18,820	370,233
Ending balance	$ 200,445	$ 336,489	$ 460,883	$ 182,345	$ 1,180,162
Ending balance:					
Individually evaluated for impairment	$ 101,719	$ 77,244	$ 382,810	$ -	$ 561,773
Collectively evaluated for impairment	$ 98,726	$ 259,245	$ 78,073	$ 182,345	$ 618,389
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	16,937,971	18,539,715	-
Total	$ -	$ 208,247	$ 1,393,497	$ 1,601,744	$ 68,774,056	$ 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 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 Organization 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.

Loans by Risk Rating December 31, 2012	**Commercial Industrial and Other Loans**	**Commercial Real Estate-Construction**	**Commercial Real Estate-Other**
Pass Credits	$ 19,907,048	$ 15,490,009	$ 22,784,623
Marginal	-	3,106,654	-
Special Mention	-	-	-
Substandard	1,333,732	-	1,232,000
Doubtful	-	-	-
Loss	-	-	-
Total	$ 21,240,780	$ 18,596,663	$ 24,016,623

Note 5. Allowance for Loan Losses, continued

Loans by Risk Rating December 31, 2011	**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

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.

During 2012, three loans were modified through rate reductions and were considered to be troubled debt restructurings.

Information regarding loans modified in a troubled debt restructuring for the year ended December 31, 2012 is as follows:

	December 31, 2012		
	Number of contracts	**Pre-modification outstanding recorded investment**	**Post modification outstanding recorded investment**
Commercial real estate - other	3	$1,233,343	$1,232,020
Total	3	$1,233,343	$1,232,020

One loan for $89,316 subsequently defaulted and is in the process of collection. The Organization did not modify any loans for the year ended December 31, 2011which 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 six consecutive timely payments illustrate that the loan is actually performing.

Note 6. Grants Receivable

Grants receivable consist of the following:

	2012	**2011**
USDA and SBA Awards	$ 6,791	$ 19,266
Bank Enterprise Award	415,000	500,000
Total	$ 421,791	$ 519,266

Note 6. Grants Receivable, continued

During 2011, the Organization was awarded contracts totaling $164,553 for which they had not incurred any reimbursable expenses. These amounts will be recorded as revenue in future periods when the grant requirements are met. As of December 31, 2012, $113,352 of these contracts had been recorded as revenue in 2012. Receivables are recorded when the Organization receives notice of a grant award.

Note 7. Premises and Equipment

Components of Premises and Equipment

Components of premises and equipment and total accumulated depreciation at December 31, 2012 and 2011 are as follows:

	2012	2011
Furniture and equipment	$ 416,406	$ 284,313
Leasehold improvements	56,300	35,404
Vehicle	64,077	59,053
Construction in process	2,666	-
Premises and equipment, total	539,449	378,770
Less accumulated depreciation	(233,373)	(252,919)
Premises and equipment, net of depreciation	$ 306,076	$ 125,851

Depreciation and amortization expense for the years ending December 31, 2012 and 2011 was $84,556 and $71,672, respectively.

Leases

The Organization leases office space in Richmond and Christiansburg, Virginia. The leases in Richmond and Christiansburg expire March 31, 2017 and May 31, 2014, respectively. Future lease payments are as follows:

	Richmond Office	Christiansburg Office	Total
2013	$ 68,709	$ 87,060	$ 155,769
2014	71,458	36,275	107,733
2015	74,316	-	74,316
2016	77,289	-	77,289
2017	12,965	-	12,965
	$ 304,737	$ 123,335	$ 428,072

Rent expense for the years ended December 31, 2012 and 2011 was $122,009 and $91,311, respectively.

Note 8. Deposits

The major components of deposits in the consolidated statements of financial position at December 31, 2012 and 2011 are as follows:

	2012	2011
Noninterest-bearing demand	$ 230,839	$ 489,818
Interest-bearing demand	4,549,366	6,208,612
Time deposits	36,568,211	36,933,415
Total deposits	$ 41,348,416	$ 43,631,845

Note 8. Deposits, continued

The aggregate amount of time deposits in denomination of $100,000 or more at December 31, 2012 and 2011 was $15,154,447 and $18,774,136, respectively. At December 31, 2012, the scheduled maturities of time deposits are as follows:

2013	$ 11,444,008
2014	3,850,838
2015	9,219,493
2016	5,898,054
2017	3,496,807
Thereafter	2,659,011
	$ 36,568,211

Note 9. Borrowings

Borrowings at December 31, 2012 consist of the following:

	Rate	Maturity	2012	2011
BB&T	4.25%	06/10/2012	$ -	$ 500,000
Wells Fargo	2.00%	01/01/2013	-	1,000,000
Wells Fargo	3.98%	03/23/2013	-	2,385,000
Bon Secours Health Systems	2.25%	04/01/2014	300,000	300,000
HSBC	3.33%	09/22/2014	-	3,340,000
Stellar One	3.00%	03/14/2015	500,000	-
Stellar One	3.00%	04/18/2015	500,000	-
Communities at Work Fund	4.30%	10/07/2015	5,000,000	5,000,000
Calvert Foundation	4.50%	03/01/2016	1,000,000	1,000,000
Impact PRI	2.75%	07/29/2016	225,000	-
PNC LOC	2.25%	10/05/2016	3,000,000	500,000
Opportunity Finance Network	4.25%	05/10/2017	2,000,000	-
Bank of America	3.50%	06/26/2018	6,000,000	3,500,000
Community Development Capital Initiative	2.00%	09/25/2018	1,915,000	1,915,000
Wells Fargo EQ2	2.00%	02/02/2021	500,000	500,000
			$ 20,940,000	$ 19,940,000

At December 31, 2012, the scheduled maturities of borrowings are as follows:

2013	$ -
2014	300,000
2015	6,000,000
2016	4,225,000
2017	2,000,000
Thereafter	8,415,000
	$ 20,940,000

At December 31, 2012, the Organization had unused Federal Fund lines of Credit of $2,500,000, and other various unused commitments of $2,500,000 with rates ranging from 3.00% 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;

Note 10. Fair Value of Financial Instruments, continued

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.

Recurring Fair Value

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

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.

The table below presents the recorded amount of assets measured at fair value on a recurring basis. There were no liabilities measured at fair value on a recurring basis.

December 31, 2012	**Total**	**Level 1**	**Level 2**	**Level 3**
Investment securities available for sale:				
U.S. Government sponsored entities	$ 249,950	$ -	$ 249,950	$ -
Obligations of states and political subdivisions	100,867	-	100,867	-
Total assets measured at fair value	$ 350,817	$ -	$ 350,817	$ -

December 31, 2011	**Total**	**Level 1**	**Level 2**	**Level 3**
Investment securities available for sale:				
U.S. Government sponsored entities	$ 745,742	$ -	$ 745,742	$ -
Obligations of states and political subdivisions	95,188	-	95,188	-
Total assets measured at fair value	$ 840,930	$ -	$ 840,390	$ -

Non-recurring Fair Value

The following describes the valuation techniques used by the Organization to measure certain assets recorded at fair value on a nonrecurring basis in the financial statements:

Impaired Loans: 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. The value of business equipment is based upon an outside appraisal if deemed significant, or the net book value on the applicable business' financial statements if not considered significant using observable market data. Likewise, values for inventory and accounts receivables collateral are based on financial statement balances or aging reports.

Other real estate owned: Other real estate owned 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.

Notes to Consolidated Financial Statements

Note 10. Fair Value of Financial Instruments, continued

The table below presents the recorded amount of assets measured at fair value on a non-recurring basis. There were no liabilities measured at fair value on a non-recurring basis.

December 31, 2012	**Total**	**Level 1**	**Level 2**	**Level 3**
Impaired loans	$ 599,538	$ -	$ -	$ 599,538
Other real estate owned	1,010,216	-	-	1,010,216
Total assets recorded at fair value	$ 1,609,754	$ -	$ -	$ 1,609,754

December 31, 2011	**Total**	**Level 1**	**Level 2**	**Level 3**
Impaired loans	$ 2,037,123	$ -	$ -	$ 2,037,123
Total assets recorded at fair value	$ 2,037,123	$ -	$ -	$ 2,037,123

The following table presents quantitative information about level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis at December 31, 2012.

(Dollars in thousands)

	December 31, 2012	**Valuation Techniques**	**Unobservable Inputs**	**Range (Wtd Avg)**
Impaired loans:				
Commercial real estate	599,538	Appraised Value	Appraisals and/or sales of comparable properties	14.82-14.82% (14.82%)
Other real estate owned:				
Commercial real estate	1,010,216	Appraised Value/	Appraisals and/or sales of comparable properties	0.00%-38.84% (10.76%)
	$ 1,609,754			

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, 2012 and 2011 amounted to $49,479 and $53,620, respectively.

Note 12. Income Taxes

Current and Deferred Income Tax Components

The components of income tax expense, all federal, for the period ended December 31, 2012 and 2011 is as follows:

	2012	2011
Current	$ 206,673	$ 299,738
Deferred expense (benefit)	27,215	(8,221)
Income tax expense	$ 233,888	$ 291,517

Rate Reconciliation

The Bank is subject to income taxation only at the Federal level A reconciliation of income tax expense computed at the statutory federal income tax rate to income tax expense included in the statement of operations for the years ended December 31, 2012 and 2011 is as follows:

	2012	2011
Tax at statutory federal rate	$ 233,389	$ 291,816
Other	499	(299)
	$ 233,888	$ 291,517

Deferred Income Tax Analysis

The significant components of net deferred tax assets at December 31, 2012 and 2011 are summarized as follows:

	2012	2011
Deferred tax assets		
Allowance for loan losses	$ 177,551	$ 221,092
Pre-opening expenses	33,213	35,312
Unrealized losses on securities available for sale	-	1,877
Deferred tax asset	210,764	258,481
Deferred tax liabilities		
Deferred loan costs	(64,761)	(106,314)
Prepaid expenses	(9,994)	(7,117)
Depreciation	(32,832)	(12,781)
Unrealized gains on securities available for sale	(1,439)	-
Deferred tax liability	(109,026)	(126,212)
Net deferred tax asset	$ 101,738	$ 132,269

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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 2009 through 2011 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, 2012 and 2011.

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.

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

	2012	2011
Commitments to grant loans	$ 22,171	$ 5,225
Unfunded commitments under lines of credit	8,508	21,176
	$ 30,679	$ 26,401

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 4. 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, 2012 or 2011.

Deposits from related parties held by the Bank at December 31, 2012 and 2011 amounted to $173,878 and $180,655, 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, 2012, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2012, 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. Below is a summary of the Bank's capital ratios for December 31, 2012 and December 31, 2011. (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, 2012						
Total Capital						
(to Risk-Weighted Assets)	$ 11,451	30.4%	$ 3,009	8.0%	$ 3,762	10.0%
Tier I Capital						
(to Risk-Weighted Assets)	$ 11,109	29.5%	$ 1,505	4.0%	$ 2,257	6.0%
Tier I Capital						
(to Average Assets)	$ 11,109	20.5%	$ 2,170	4.0%	$ 2,712	5.0%
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%

Note 16. Subsequent Events

These financial statements have been updated for subsequent events occurring prior to March __, 2013 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, 2012 and 2011

	2012	2011
Assets		
Cash and due from banks	$ 381,075	$ 137,958
Interest-bearing deposits	1,227,949	1,721,476
Certificates of deposit	1,370,777	1,469,777
Loans, net of allowance for loan losses of $281,506 and $472,791 at December 31, 2012 and 2011, respectively	28,910,129	26,993,229
Grants receivable	6,791	19,266
Accrued interest receivable	117,177	103,870
Premises and equipment	135,738	57,342
Investment in subsidiary	11,213,724	9,612,866
Other real estate owned	52,025	-
Other assets	71,321	68,547
Total assets	$ 43,486,706	$ 40,184,331
Liabilities		
Borrowings	$ 20,940,000	$ 19,940,000
Deferred revenue	116,412	72,904
Accrued interest payable	24,923	8,877
Other liabilities	79,959	65,302
Total liabilities	21,161,294	20,087,083
Net Assets		
Unrestricted	21,072,094	20,057,554
Accumulated other comprehensive income (loss)	2,794	(3,644)
Total net assets of Virginia Community Capital, Inc.	21,074,888	20,053,910
Equity in noncontrolling interest	1,250,524	43,338
Total net assets	22,325,412	20,097,248
Total liabilities and net assets	$ 43,486,706	$ 40,184,331

Note 17. Parent Company Only Financial Information, continued

Statements of Activities
For the year ended December 31, 2012

	December 31, 2012		
	Unrestricted	**Temporarily Restricted**	**Total**
Revenue and Support			
Grants and contract income	$ 532,800	$ 457,958	$ 990,758
Interest and fees on loans	1,654,822	-	1,654,822
Interest income	30,133	-	30,133
Miscellaneous income	57,818	-	57,818
Net assets released from restrictions	457,958	(457,958)	-
Total revenue and support	2,733,531	-	2,733,531
Expenses			
Program Services			
Salaries and wages	395,691	-	395,691
Payroll taxes	34,167	-	34,167
Employee benefits	52,855	-	52,855
Program services	134,386	-	134,386
Office expense	71,856	-	71,856
Professional fees	185,634	-	185,634
Depreciation expense	29,135	-	29,135
Interest expense	688,944	-	688,944
Provision for loan losses	(28,891)	-	(28,891)
Other expenses	102,347	-	102,347
Total program services expenses	1,666,124	-	1,666,124
Management and General			
Salaries and wages	287,950	-	287,950
Payroll taxes	24,863	-	24,863
Employee benefits	38,463	-	38,463
Office and administrative expenses	23,952	-	23,952
Professional fees	61,878	-	61,878
Depreciation expense	9,712	-	9,712
Other expenses	34,116	-	34,116
Total management and general expenses	480,934	-	480,934
Total expenses	2,147,058	-	2,147,058
Change in net assets/net income	586,473	-	586,473
Change in accumulated other comprehensive income (loss)	6,438	-	6,438
Change in equity from undistributed income of bank subsidiary	452,549	-	452,549
Change in equity from undistributed loss of subsidiary LLC	(17,296)	-	(17,296)
Change in net assets/net income and accumulated other comprehensive income (loss)	1,028,164		1,028,164
Change in net assets/net income attributable to noncontrolling interest	(7,186)	-	(7,186)
Change in net assets/net income attributable to Virginia Community Capital, Inc.	1,020,978	-	1,020,978
Net assets beginning of year	20,053,910	-	20,053,910
Net assets end of year	$ 21,074,888	$ -	$ 21,074,888

Note 17. Parent Company Only 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	$ 271,875	$ 359,587	$ 631,462
Interest and fees on loans	1,224,838	-	1,224,838
Interest income	66,477	-	66,477
Realized losses on sales 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	2,261,780	-	2,261,780
Expenses			
Program Services			
Salaries and wages	436,603	-	436,603
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 (recovery of) 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 Only Financial Information, continued

Statements of Cash Flows
For the years ended December 31, 2012 and 2011

	2012	2011
Cash flows from operating activities		
Change in net assets	$ 586,473	$ 62,376
Adjustments to reconcile change in net assets to net cash provided by operations:		
Depreciation and amortization	38,847	37,646
Provision for (recovery of) loan losses	(28,891)	120,184
Realized losses on sales of securities	-	13,125
Changes in assets and liabilities:		
Accrued income	(13,307)	(26,345)
Grants receivable	12,475	318,305
Other assets	36,821	15,154
Accrued interest payable	16,046	4,240
Deferred revenue	43,508	(264,667)
Noncontrolling interest in subsidiary	(1,198,762)	(15,000)
Other liabilities	14,657	15,336
Net cash provided by operating activities	(492,133)	280,354
Cash flows from investing activities		
Net (increase) decrease in interest-bearing deposits	493,527	(398,953)
Net (increase) decrease in certificates of deposit	99,000	(249,831)
Proceeds from sales, calls and maturities of available for sale securities	-	1,836,875
Net increase in loans	(1,940,034)	(11,522,396)
Net purchases of premises and equipment	(117,243)	(36,171)
Net cash used in investing activities	(1,464,750)	(10,370,476)
Cash flows from financing activities		
Proceeds from the sale of preferred stock of subsidiary	1,200,000	-
Net increase in borrowings	1,000,000	9,825,597
Net cash provided by financing activities	2,200,000	9,825,597
Net increase (decrease) in cash and cash equivalents	243,117	(264,525)
Cash and cash equivalents, beginning	137,958	402,483
Cash and cash equivalents, ending	$ 381,075	$ 137,958
Supplemental disclosure of cash flow information		
Interest paid	$ 672,898	$ 521,316
Income taxes paid	$ -	$ -
Supplemental disclosure of noncash investing and financing activities		
Other real estate acquired in settlement of loans	$ 52,025	$ -

Notes to Consolidated 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, 2012 and 2011 are as follows:

Balance Sheets
December 31, 2012 and 2011

	2012	2011
Assets		
Cash and due from banks	$ 25,980	$ 106,178
Interest-bearing deposits	6,175,376	956,294
Federal funds sold	533,000	599,000
Certificates of deposit	10,261,729	9,734,729
Investment securities available for sale	350,817	840,930
Investment securities held to maturity	501,720	-
Restricted equity securities	451,700	406,450
Loans, net of allowance for loan losses of $341,931 and $707,371 at December 31, 2012 and 2011, respectively	34,320,500	42,202,409
Grants receivable	415,000	500,000
Accrued interest receivable	190,709	186,860
Premises and equipment	170,338	68,509
Other real estate owned	958,191	-
Other assets	169,941	215,531
Total assets	$ 54,525,001	$ 55,816,890
Liabilities		
Noninterest-bearing deposits	$ 602,973	$ 620,326
Interest-bearing deposits	41,220,260	43,744,307
Total deposits	41,823,233	44,364,633
Secured borrowings	1,097,259	1,409,106
Accrued interest payable	31,534	31,160
Other liabilities	359,251	399,125
Total liabilities	43,311,277	46,204,024
Commitments and contingencies	-	-
Shareholders' equity		
Preferred stock, 1,000,000 shares authorized; Series A, perpetual, no par value, $50,000 liquidation value, 4% nonconvertible, noncumulative: 24 and no shares issued and outstanding for 2012 and 2011, respectively	1,200,000	-
Common stock, $2,500 par value, 10,000,000 shares authorized; 1,834 shares issued and outstanding for 2012 and 2011	4,584,725	4,584,725
Additional paid in capital	4,437,568	4,470,275
Retained earnings	988,637	561,510
Accumulated other comprehensive income (loss)	2,794	(3,644)
Total shareholder's equity	11,213,724	9,612,866
Total liabilities and shareholder's equity	$ 54,525,001	$ 55,816,890

Note 18. Subsidiary Bank Financial Information, continued

Statements of Operations
For the years ended December 31, 2012 and 2011

	2012	2011
Interest and dividend income		
Loans and fees on loans	$ 2,541,345	$ 2,191,914
Federal funds sold	1,570	1,076
Investment securities-taxable	23,866	34,866
Investment securities-nontaxable	4,882	4,860
Deposits with other banks	208,876	297,060
Total interest and dividend income	2,780,539	2,529,776
Interest expense		
Deposits	714,799	745,189
Federal funds purchased	151	124
Secured borrowings	79,388	81,310
Total interest expense	794,338	826,623
Net interest income	1,986,201	1,703,153
Provision for (recovery of) loan losses	(52,816)	250,049
Net interest income after provision for loan losses	2,039,017	1,453,104
Noninterest income		
Losses from sale of securities	-	(56,619)
Bank enterprise award	415,000	500,000
Other noninterest income	40,924	31,068
Total noninterest income	455,924	474,449
Noninterest expense		
Salaries and employee benefits	927,846	483,088
Occupancy and equipment	153,501	100,821
Data processing	59,230	69,747
Advertising and marketing	22,605	26,046
Audit	33,251	27,806
Legal	15,819	4,655
Consulting	114,869	22,792
FDIC insurance	66,467	81,427
Franchise tax expense	146,328	94,054
Other real estate owned expense	30,314	-
Other expenses	238,274	158,836
Total noninterest expense	1,808,504	1,069,272
Net income before income tax expense	686,437	858,281
Income tax expense	233,888	291,517
Net income	452,549	566,764
Dividends paid to preferred stock holders	(25,422)	-
Net income available to common shareholders	$ 427,127	$ 566,764
Basic income per common share	$ 232.89	$ 309.05
Weighted average common shares outstanding	1,834	1,834

Note 18. Subsidiary Bank Financial Information, continued

Statements of Comprehensive Income
For the years ended December 31, 2012 and 2011

	2012	2011
Net income	$ 452,549	$ 566,764
Other comprehensive income:		
Unrealized gains on available for sale securities	9,754	48,494
Tax expense from unrealized gains on available for sale securities	(3,316)	(16,488)
Losses realized on sales of available for sale securities	-	56,619
Tax benefit from realized losses on sales of available for sale securities	-	(19,250)
Other comprehensive income	6,438	69,375
Comprehensive income	$ 458,987	$ 636,139

Note 18. Subsidiary Bank Financial Information, continued

Statements of Changes in Shareholders' Equity
For the years ended December 31, 2012 and 2011

	Preferred Stock	Common Stock Shares	Common Stock Amount	Additional Paid In Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total
Balance, January 1, 2011	$ -	1,834	$ 4,584,725	$ 4,470,275	$ (5,254)	$ (73,019)	$ 8,976,727
Comprehensive income	-	-	-	-	566,764	69,375	636,139
Balance, December 31, 2011	-	1,834	4,584,725	4,470,275	561,510	(3,644)	9,612,866
Issuance of preferred stock	1,200,000	-	-	-	-	-	1,200,000
Expenses related to preferred stock issuance				(32,707)	-	-	(32,707)
Dividends paid on preferred stock	-	-	-	-	(25,422)	-	(25,422)
Comprehensive income	-	-	-	-	452,549	6,438	458,987
Balance, December 31, 2012	$ 1,200,000	1,834	$ 4,584,725	$ 4,437,568	$ 988,637	$ 2,794	$ 11,213,724

Notes to Consolidated Financial Statements

Note 18. Subsidiary Bank Financial Information, continued

Statements of Cash Flows
For the years ended December 31, 2012 and 2011

	2012	2011
Cash flows from operating activities		
Net income	$ 452,549	$ 566,764
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and amortization	45,709	34,026
Deferred income tax expense	27,215	(8,221)
Provision for loan losses	(52,816)	250,049
Net realized gain losses on securities	-	56,619
Accretion of discount on securities, net of amortization of premiums	(69)	(132)
Changes in assets and liabilities:		
Accrued income	(3,849)	(43,199)
Grants receivable	85,000	(500,000)
Other assets	15,059	(61,253)
Accrued interest payable	374	2,424
Other liabilities	(51,874)	217,272
Net cash provided by operating activities	517,298	514,349
Cash flows from investing activities		
Net (increase) decrease in interest-bearing deposits	(5,219,082)	4,604,050
Net decrease in federal funds sold	66,000	1,838,000
Net (increase) decrease in certificates of deposit	(527,000)	2,931,000
Purchases of securities available for sale	(649,909)	(1,500,000)
Purchases of securities held to maturity	(1,251,875)	-
Proceeds from sales, maturities and calls of securities available for sale	1,150,000	2,693,381
Proceeds from maturities and calls of securities held to maturity	750,000	-
Purchases of restricted equity securities	(45,250)	(85,600)
Net (increase) decrease in loans	6,976,534	(15,640,289)
Net purchases of premises and equipment	(147,538)	(48,201)
Net cash provided by (used in) investing activities	1,101,880	(5,207,659)
Cash flows from financing activities		
Net increase (decrease) in deposits	(2,541,400)	4,642,219
Net increase (decrease) in secured borrowings	(311,847)	55,042
Proceeds from sale of preferred stock	1,200,000	-
Expenses related to stock issuance	(32,707)	-
Dividends paid on preferred stock	(13,422)	-
Net cash (used in) provided by financing activities	(1,699,376)	4,697,261
Net (decrease) increase in cash and cash equivalents	(80,198)	3,951
Cash and cash equivalents, beginning	106,178	102,227
Cash and cash equivalents, ending	$ 25,980	$ 106,178
Supplemental disclosure of cash flow information		
Interest paid	$ 793,964	$ 824,199
Taxes paid	$ 304,314	$ 197,888
Supplemental disclosure of noncash investing and financing activities		
Other real estate acquired in settlement of loans	$ 958,191	$ -
Accrued dividends on preferred stock	$ 12,000	$ -