

Virginia Community Capital, Incorporated



Annual Report

December 31, 2014

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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 comprise the consolidated statements of financial position as of December 31, 2014 and 2013, and the related consolidated statements of activities and cash flows for the years then ended and the related notes to the financial statements.

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, 2014 and 2013, 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.

A handwritten signature in cursive script that reads "Elliott Davis Decosimo, LLC".

Richmond, Virginia
March 26, 2015

Consolidated Statements of Financial Position

As of December 31, 2014 and 2013

| | <u>2014</u> | <u>2013</u> |
|---|-----------------------|-----------------------|
| Assets | | |
| Cash and due from banks | \$ 140,483 | \$ 245,387 |
| Interest-bearing deposits | 4,446,830 | 5,809,649 |
| Federal funds sold | 858,000 | 147,000 |
| Certificates of deposit | 15,273,022 | 15,705,369 |
| Investment securities available for sale | 1,021,415 | 993,825 |
| Investment securities held to maturity | 771,868 | 776,344 |
| Restricted equity securities | 433,400 | 433,400 |
| Cash funded loan loss reserves | 450,000 | 98,400 |
| Loans, net of allowance for loan losses of \$1,020,083 and \$730,874 at December 31, 2014 and 2013, respectively | 93,738,786 | 75,129,808 |
| Grants receivable | 854,150 | 642,885 |
| Accrued interest receivable | 471,095 | 374,153 |
| Premises and equipment | 1,149,752 | 375,856 |
| Other real estate owned | 692,653 | 897,069 |
| Other assets | 200,195 | 229,310 |
| Total assets | <u>\$ 120,501,649</u> | <u>\$ 101,858,455</u> |
| Liabilities | | |
| Noninterest-bearing deposits | \$ 1,128,326 | \$ 358,229 |
| Interest-bearing deposits | 65,463,885 | 56,788,969 |
| Total deposits | 66,592,211 | 57,147,198 |
| Borrowings | 27,361,198 | 20,184,998 |
| Deferred revenue | 1,276,505 | 611,459 |
| Accrued interest payable | 119,847 | 60,097 |
| Other liabilities | 508,496 | 329,014 |
| Total liabilities | <u>95,858,257</u> | <u>78,332,766</u> |
| Net Assets | | |
| Temporarily restricted | 710,000 | 162,581 |
| Permanently restricted | 1,032,200 | 1,032,200 |
| Unrestricted | 21,622,477 | 20,080,474 |
| Accumulated other comprehensive income (loss) | 19,598 | (1,316) |
| Total consolidated net assets before noncontrolling interest in subsidiary | 23,384,275 | 22,273,939 |
| Noncontrolling interest in subsidiary | 1,259,117 | 1,251,750 |
| Total net assets | <u>24,643,392</u> | <u>23,525,689</u> |
| Total liabilities and net assets | <u>\$ 120,501,649</u> | <u>\$ 101,858,455</u> |

See Notes to Consolidated Financial Statements

Consolidated Statements of Activities

For the year ended December 31, 2014

| | December 31, 2014 | | | Total |
|--|----------------------|------------------------|------------------------|----------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | |
| Revenue and Support | | | | |
| Grants and contract income | \$ 1,630,608 | \$ 902,829 | \$ - | \$ 2,533,437 |
| Interest and fees on loans | 4,605,433 | - | - | 4,605,433 |
| Interest income | 299,883 | - | - | 299,883 |
| Miscellaneous income | 365,330 | - | - | 365,330 |
| Net assets released from restrictions | 291,229 | (291,229) | - | - |
| Total revenue and support | <u>7,192,483</u> | <u>611,600</u> | <u>-</u> | <u>7,804,083</u> |
| Expenses | | | | |
| Program Services | | | | |
| Salaries and wages | 1,107,205 | - | - | 1,107,205 |
| Payroll taxes | 113,204 | - | - | 113,204 |
| Employee benefits | 172,202 | - | - | 172,202 |
| Program services | 575,256 | - | - | 575,256 |
| Office expense | 227,368 | - | - | 227,368 |
| Professional fees | 360,503 | - | - | 360,503 |
| Depreciation expense | 101,105 | - | - | 101,105 |
| Interest expense | 1,444,869 | - | - | 1,444,869 |
| Provision for loan losses | 289,209 | - | - | 289,209 |
| Other expenses | 540,900 | - | - | 540,900 |
| Total program services expenses | <u>4,931,821</u> | <u>-</u> | <u>-</u> | <u>4,931,821</u> |
| Management and General | | | | |
| Salaries and wages | 805,727 | - | - | 805,727 |
| Payroll taxes | 82,380 | - | - | 82,380 |
| Employee benefits | 125,314 | - | - | 125,314 |
| Office and administrative expenses | 75,789 | - | - | 75,789 |
| Professional fees | 120,168 | - | - | 120,168 |
| Depreciation expense | 33,701 | - | - | 33,701 |
| Other expenses | 180,300 | - | - | 180,300 |
| Total management and general expenses | <u>1,423,379</u> | <u>-</u> | <u>-</u> | <u>1,423,379</u> |
| Total expenses | <u>6,355,200</u> | <u>-</u> | <u>-</u> | <u>6,355,200</u> |
| Change in net assets/net income before provision for income taxes | 837,283 | 611,600 | - | 1,448,883 |
| Provision for income tax expense | 247,280 | - | - | 247,280 |
| Change in net assets/net income | 590,003 | 611,600 | - | 1,201,603 |
| Change in accumulated other comprehensive income (loss) | 20,914 | - | - | 20,914 |
| Change in net assets/net income and accumulated other comprehensive income | 610,917 | 611,600 | - | 1,222,517 |
| Dividends paid on subsidiary's preferred stock | (48,000) | - | - | (48,000) |
| Return of program funds to USDA | - | (64,181) | - | (64,181) |
| Change in net assets/net income before noncontrolling interest in subsidiary | 562,917 | 547,419 | - | 1,110,336 |
| Net assets before noncontrolling interest in subsidiary beginning of year | <u>21,079,158</u> | <u>162,581</u> | <u>1,032,200</u> | <u>22,273,939</u> |
| Net assets before noncontrolling interest in subsidiary end of year | <u>\$ 21,642,075</u> | <u>\$ 710,000</u> | <u>\$ 1,032,200</u> | <u>\$ 23,384,275</u> |

See Notes to Consolidated Financial Statements

Consolidated Statements of Activities

For the year ended December 31, 2013

| | December 31, 2013 | | | Total |
|--|----------------------|---------------------------|---------------------------|----------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | |
| Revenue and Support | | | | |
| Grants and contract income | \$ 802,479 | \$ 132,795 | \$ 650,000 | \$ 1,585,274 |
| Interest and fees on loans | 4,093,337 | - | - | 4,093,337 |
| Interest income | 256,950 | - | - | 256,950 |
| Miscellaneous income | 808,348 | - | - | 808,348 |
| Net assets released from restrictions | 34,395 | (34,395) | - | - |
| Total revenue and support | <u>5,995,509</u> | <u>98,400</u> | <u>650,000</u> | <u>6,743,909</u> |
| Expenses | | | | |
| Program Services | | | | |
| Salaries and wages | 1,025,459 | - | - | 1,025,459 |
| Payroll taxes | 100,860 | - | - | 100,860 |
| Employee benefits | 138,455 | - | - | 138,455 |
| Program services | 338,813 | - | - | 338,813 |
| Office expense | 189,278 | - | - | 189,278 |
| Professional fees | 348,675 | - | - | 348,675 |
| Depreciation expense | 85,386 | - | - | 85,386 |
| Interest expense | 1,409,967 | - | - | 1,409,967 |
| Provision for loan losses | 107,438 | - | - | 107,438 |
| Other expenses | 371,032 | - | - | 371,032 |
| Total program services expenses | <u>4,115,363</u> | <u>-</u> | <u>-</u> | <u>4,115,363</u> |
| Management and General | | | | |
| Salaries and wages | 746,239 | - | - | 746,239 |
| Payroll taxes | 73,397 | - | - | 73,397 |
| Employee benefits | 100,756 | - | - | 100,756 |
| Office and administrative expenses | 63,093 | - | - | 63,093 |
| Professional fees | 116,225 | - | - | 116,225 |
| Depreciation expense | 28,462 | - | - | 28,462 |
| Other expenses | 123,383 | - | - | 123,383 |
| Total management and general expenses | <u>1,251,555</u> | <u>-</u> | <u>-</u> | <u>1,251,555</u> |
| Total expenses | <u>5,366,918</u> | <u>-</u> | <u>-</u> | <u>5,366,918</u> |
| Change in net assets/net income before provision for income taxes | 628,591 | 98,400 | 650,000 | 1,376,991 |
| Provision for income tax expense | 125,830 | - | - | 125,830 |
| Change in net assets/net income | 502,761 | 98,400 | 650,000 | 1,251,161 |
| Change in accumulated other comprehensive income (loss) | (4,110) | - | - | (4,110) |
| Change in net assets/net income and accumulated other comprehensive income | 498,651 | 98,400 | 650,000 | 1,247,051 |
| Dividends paid on subsidiary's preferred stock | (48,000) | - | - | (48,000) |
| Change in net assets/net income before noncontrolling interest in subsidiary | 450,651 | 98,400 | 650,000 | 1,199,051 |
| Net assets before noncontrolling interest in subsidiary beginning of year | 20,628,507 | 64,181 | 382,200 | 21,074,888 |
| Net assets before noncontrolling interest in subsidiary end of year | <u>\$ 21,079,158</u> | <u>\$ 162,581</u> | <u>\$ 1,032,200</u> | <u>\$ 22,273,939</u> |

See Notes to Consolidated Financial Statements

Consolidated Statements of Cash Flows

For the years ended December 31, 2014 and 2013

| | <u>2014</u> | <u>2013</u> |
|---|---------------------|---------------------|
| <i>Cash flows from operating activities</i> | | |
| Change in net assets | \$ 1,201,603 | \$ 1,251,161 |
| Adjustments to reconcile change in net assets to net cash provided by operations: | | |
| Depreciation and amortization | 134,806 | 113,847 |
| Provision for loan losses | 289,209 | 107,438 |
| (Gain) loss on sale of other real estate owned | 37,348 | (5,679) |
| Impairment write-downs on other real estate owned | 67,266 | - |
| Net amortization on securities | 17,046 | (1,573) |
| Changes in assets and liabilities: | | |
| Accrued income | (96,942) | (66,267) |
| Grants receivable | (211,265) | (221,094) |
| Other assets | 18,237 | 22,044 |
| Accrued interest payable | 59,750 | 3,640 |
| Deferred revenue | 665,046 | 495,047 |
| Other liabilities | 179,482 | (110,196) |
| Net cash provided by operating activities | <u>2,361,586</u> | <u>1,588,368</u> |
| <i>Cash flows from investing activities</i> | | |
| Net decrease in interest-bearing deposits | 1,362,819 | 1,490,993 |
| Net (increase) decrease in federal funds sold | (711,000) | 386,000 |
| Net (increase) decrease in certificates of deposit | 432,347 | (4,072,863) |
| Purchases of securities available for sale | - | (650,000) |
| Purchases of securities held to maturity | - | (279,035) |
| Redemption of restricted equity securities | - | 18,300 |
| Proceeds from sale of other real estate owned | 314,979 | 118,826 |
| Net increase in loans | (19,113,365) | (12,006,616) |
| Net purchases of premises and equipment | (908,702) | (183,628) |
| Net cash used in investing activities | <u>(18,622,922)</u> | <u>(15,178,023)</u> |
| <i>Cash flows from financing activities</i> | | |
| Net increase in deposits | 9,444,013 | 15,798,782 |
| Net increase (decrease) in borrowings | 7,176,200 | (755,002) |
| Net decrease in secured borrowings | - | (1,097,259) |
| Dividends paid on subsidiary preferred stock | (48,000) | (48,000) |
| Return of program funds to USDA | (64,181) | - |
| Net cash provided by financing activities | <u>16,508,032</u> | <u>13,898,521</u> |
| Net increase in cash and cash equivalents | 246,696 | 308,866 |
| <i>Cash and cash equivalents, beginning</i> | <u>343,787</u> | <u>34,921</u> |
| <i>Cash and cash equivalents, ending</i> | <u>\$ 590,483</u> | <u>\$ 343,787</u> |
| <i>Supplemental disclosure of cash flow information</i> | | |
| Interest paid | <u>\$ 1,398,990</u> | <u>\$ 1,406,328</u> |
| Income taxes paid | <u>\$ 146,230</u> | <u>\$ 130,541</u> |
| <i>Supplemental disclosure of noncash investing and financing activities</i> | | |
| Transfer of foreclosed properties | <u>\$ 215,178</u> | <u>\$ -</u> |

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 Federal Reserve, 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 2013 as a wholly-owned real estate holdings subsidiary of the Organization. Mountain Real Estate 2001, LLC, was also formed in 2013 as a wholly-owned real estate holdings subsidiary of the Bank. Both were formed to hold and manage foreclosed real estate.

CCB Real Estate Holdings, Inc. was formed in 2014 as a real estate holdings subsidiary of the Bank. The corporation was formed to hold property purchased for the relocation of the Christiansburg branch and administrative headquarters at 110 Peppers Ferry Road in Christiansburg, Virginia. The Organization intends to relocate its Christiansburg branch to this new location in July of 2015.

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.

Reclassification

Certain amounts in the 2013 consolidated financial statements have been reclassified to conform to the 2014 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.

Notes to Consolidated Financial Statements

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 payoff 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 collectability 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.

Grants Receivable and Revenue Recognition

Grants receivable and related deferred revenue are recorded at the time of notification from a grantor. Grants are classified in one of three categories, permanently restricted, temporarily restricted and unrestricted. Classification is determined based on the designation by the grantor for the use of funds. Grant revenue is recognized when earned performance by the Organization through performance as specified in each grant award.

Notes to Consolidated Financial Statements

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:

| | <u>Years</u> |
|----------------------------|--------------|
| Buildings and improvements | 3-20 |
| Furniture and equipment | 3-10 |
| Vehicle | 4-7 |

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.

Notes to Consolidated Financial Statements

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

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:

In November 2014, the FASB issued guidance that gives acquired entities the option to apply pushdown accounting in their separate financial statements when an acquirer obtains control of them. In a related move, the Securities and Exchange Commission (SEC) rescinded its guidance, which previously required or precluded pushdown accounting depending on the specific circumstances. Pushdown accounting is the practice of adjusting an acquired company's separate financial statements to reflect the new basis of accounting established by the buyer for the acquired company. This commonly takes the form of "stepping up" net assets to fair value, which generally includes the recognition of goodwill and other intangibles assets. The new guidance provides an acquired entity with an option to apply pushdown accounting in its separate financial statements upon occurrence of an event in which an acquirer obtains control of the acquired entity. If the acquired company doesn't elect to apply pushdown accounting in the period of acquisition, it could do so in a later period through a retrospective adjustment, as long as the change is deemed to be "preferable" accounting. However, once pushdown is applied, it cannot subsequently be reversed. The new guidance was effective upon issuance for current and future reporting periods and any open reporting periods for which financial statements have not yet been issued. The Company does not expect this guidance to have any effect over its financial statements.

In January 2015, the FASB issued guidance that eliminates the concept of extraordinary items from U.S. GAAP. Existing U.S. GAAP required that an entity separately classify, present, and disclose extraordinary events and transactions. Presently, an event or transaction is presumed to be an ordinary and usual activity of the reporting entity unless the event or transaction is both unusual in nature and infrequent in occurrence. The amendments will eliminate the requirements for reporting entities to consider whether an underlying event or transaction is extraordinary, however, the presentation and disclosure guidance for items that are unusual in nature or occur infrequently will be retained and will be expanded to include items that are both unusual in nature and infrequently occurring. The amendments are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. The Company does not expect this guidance to have any 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.

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, 2014, and 2013, these reserve balances amounted to \$250,000. Additionally, at December 31, 2014 and 2013, 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.

Notes to Consolidated Financial Statements

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:

| | <u>Amortized Cost</u> | <u>Unrealized Gains</u> | <u>Unrealized Losses</u> | <u>Fair Value</u> |
|--|---------------------------|-----------------------------|------------------------------|-----------------------|
| 2014 | | | | |
| <i>Available for sale</i> | | | | |
| U.S. Government sponsored entities | \$ 250,000 | \$ - | \$ (2,977) | \$ 247,023 |
| Obligations of states and political subdivisions | <u>746,848</u> | <u>27,544</u> | <u>-</u> | <u>774,392</u> |
| Total | <u>\$ 996,848</u> | <u>\$ 27,544</u> | <u>\$ (2,977)</u> | <u>\$ 1,021,415</u> |
| <i>Held to maturity</i> | | | | |
| U.S. Government sponsored entities | \$ 500,528 | \$ 178 | \$ - | \$ 500,706 |
| Obligations of states and political subdivisions | <u>271,340</u> | <u>-</u> | <u>(1,610)</u> | <u>269,730</u> |
| Total | <u>\$ 771,868</u> | <u>\$ 178</u> | <u>\$ (1,610)</u> | <u>\$ 770,436</u> |
| 2013 | | | | |
| <i>Available for sale</i> | | | | |
| U.S. Government sponsored entities | \$ 250,000 | \$ - | \$ (4,496) | \$ 245,504 |
| Obligations of states and political subdivisions | <u>746,716</u> | <u>4,031</u> | <u>(2,426)</u> | <u>748,321</u> |
| Total | <u>\$ 996,716</u> | <u>\$ 4,031</u> | <u>\$ (6,922)</u> | <u>\$ 993,825</u> |
| <i>Held to maturity</i> | | | | |
| U.S. Government sponsored entities | \$ 501,124 | \$ - | \$ (757) | \$ 500,367 |
| Obligations of states and political subdivisions | <u>275,220</u> | <u>-</u> | <u>(14,185)</u> | <u>261,065</u> |
| Total | <u>\$ 776,344</u> | <u>\$ -</u> | <u>\$ (14,942)</u> | <u>\$ 761,402</u> |

Securities with an amortized cost of \$1,496,738 and \$1,222,208 were pledged as collateral or otherwise restricted at December 31, 2014 and 2013, respectively.

The Organization had no realized gains or losses on sales of securities in 2014 and 2013, respectively.

The scheduled maturities of securities at December 31, 2014 are as follows:

| | <u>Available for Sale</u> | | <u>Held to Maturity</u> | |
|-------------|---------------------------|-----------------------|---------------------------|-----------------------|
| | <u>Amortized Cost</u> | <u>Fair Value</u> | <u>Amortized Cost</u> | <u>Fair Value</u> |
| Due in 2015 | \$ - | \$ - | \$ 500,528 | \$ 500,706 |
| Due in 2018 | 400,000 | 401,215 | - | - |
| Due in 2020 | 500,000 | 519,905 | - | - |
| Due in 2030 | - | - | 271,340 | 269,730 |
| Due in 2038 | <u>96,848</u> | <u>100,295</u> | <u>-</u> | <u>-</u> |
| | <u>\$ 996,848</u> | <u>\$ 1,021,415</u> | <u>\$ 771,868</u> | <u>\$ 770,436</u> |

Notes to Consolidated Financial Statements

Note 3. Investments, continued

As of December 31, 2014, the Company had one security that had been in an unrealized loss position for 12 or more consecutive months. The market value of this security fluctuates with changes in market rates, and the loss position, which has decreased consistently over 2014, is not considered a credit issue. The Company 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 and held to maturity 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, 2014 and 2013.

| | <u>Less Than 12 Months</u> | | <u>12 Months or Greater</u> | | <u>Total</u> | |
|---|----------------------------|--------------------------|-----------------------------|--------------------------|---------------------|--------------------------|
| | <u>Fair Value</u> | <u>Unrealized Losses</u> | <u>Fair Value</u> | <u>Unrealized Losses</u> | <u>Fair Value</u> | <u>Unrealized Losses</u> |
| 2014 | | | | | | |
| U.S. Government sponsored entities | \$ 247,023 | \$ (2,977) | \$ - | \$ - | \$ 247,023 | \$ (2,977) |
| Obligations of state and political subdivisions | - | - | 269,730 | (1,610) | 269,730 | (1,610) |
| Total temporarily impaired securities | <u>\$ 247,023</u> | <u>\$ (2,977)</u> | <u>\$ 269,730</u> | <u>\$ (1,610)</u> | <u>\$ 516,753</u> | <u>\$ (4,587)</u> |
| 2013 | | | | | | |
| U.S. Government sponsored entities | \$ 745,871 | \$ (5,253) | \$ - | \$ - | \$ 745,871 | \$ (5,253) |
| Obligations of state and political subdivisions | 355,325 | (16,611) | - | - | 355,325 | (16,611) |
| Total temporarily impaired securities | <u>\$ 1,101,196</u> | <u>\$ (21,864)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 1,101,196</u> | <u>\$ (21,864)</u> |

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. Certificates of Deposits in Other Banks

The Company maintains a relatively large portfolio of certificates of deposits in other banks. As of December 31, 2014 and 2013, the balance of these was \$15,273,022 and \$15,705,369, respectively. The weighted average yield on these was 1.30% and 1.29% at December 31, 2014 and 2013.

The majority of these deposits are FDIC insured. As of December 31, 2014 and 2013, \$1,030,000 and \$2,030,000, respectively, were uninsured.

Note 5. Loans Receivable

The major components of loans in the consolidated statements of financial position at December 31, 2014 and 2013 are as follows:

| | <u>2014</u> | <u>2013</u> |
|--|----------------------|----------------------|
| Commercial, industrial and other loans | \$ 28,674,317 | \$ 25,360,907 |
| Commercial real estate-construction | 30,086,069 | 26,566,734 |
| Commercial real estate-other | <u>35,998,483</u> | <u>23,933,041</u> |
| | 94,758,869 | 75,860,682 |
| Allowance for loan losses | <u>(1,020,083)</u> | <u>(730,874)</u> |
| Loans, net of allowance | <u>\$ 93,738,786</u> | <u>\$ 75,129,808</u> |

There were no loans pledged at December 31, 2014 and 2013.

Notes to Consolidated Financial Statements

Note 6. Allowance for Loan Losses

The allocation of the allowance for loan losses by loan components at December 31, 2014 was as follows:

| | <u>Commercial, Industrial and Other Loans</u> | <u>Commercial Real Estate- Construction</u> | <u>Commercial Real Estate- Other</u> | <u>Unallocated</u> | <u>Total</u> |
|---------------------------------------|---|---|--|--------------------|----------------------|
| 2014 | | | | | |
| Allowance for loan losses: | | | | | |
| Beginning balance | \$ 71,337 | \$ 219,608 | \$ 151,761 | \$ 288,168 | \$ 730,874 |
| Charge-offs | - | - | - | - | - |
| Recoveries | - | - | - | - | - |
| Provision | (7,225) | (93,282) | 64,138 | 325,578 | 289,209 |
| Ending balance | <u>\$ 64,112</u> | <u>\$ 126,326</u> | <u>\$ 215,899</u> | <u>\$ 613,746</u> | <u>\$ 1,020,083</u> |
| Ending balance: | | | | | |
| Individually evaluated for impairment | <u>\$ -</u> | <u>\$ 60,200</u> | <u>\$ 120,280</u> | <u>\$ -</u> | <u>\$ 180,480</u> |
| Collectively evaluated for impairment | <u>\$ 64,112</u> | <u>\$ 66,126</u> | <u>\$ 95,619</u> | <u>\$ 613,746</u> | <u>\$ 839,603</u> |
| Loans Receivable: | | | | | |
| Ending balance | <u>\$ 28,674,317</u> | <u>\$ 30,086,069</u> | <u>\$ 35,998,483</u> | | <u>\$ 94,758,869</u> |
| Ending balance: | | | | | |
| Individually evaluated for impairment | <u>\$ -</u> | <u>\$ 4,049,413</u> | <u>\$ 1,510,235</u> | | <u>\$ 5,559,648</u> |
| Collectively evaluated for impairment | <u>\$ 28,674,317</u> | <u>\$ 26,036,656</u> | <u>\$ 34,488,248</u> | | <u>\$ 89,199,221</u> |

The following table presents impaired loans by class of loans as of December 31, 2014:

| | <u>Recorded Investment</u> | <u>Unpaid Principal Balance</u> | <u>Related Allowance</u> | <u>Average Recorded Investment</u> | <u>Interest Income Recognized</u> |
|---|--------------------------------|---|------------------------------|--|---|
| 2014 | | | | | |
| With no related allowance recorded: | | | | | |
| Commercial, industrial, and other loans | \$ - | \$ - | \$ - | \$ - | \$ - |
| Commercial real estate construction | 3,667,781 | 3,667,213 | - | 3,240,618 | 586,315 |
| Commercial real estate-other | 1,195,484 | 1,176,832 | - | 1,162,251 | 73,781 |
| | <u>4,863,265</u> | <u>4,844,045</u> | <u>-</u> | <u>4,402,869</u> | <u>660,096</u> |
| With allowance recorded: | | | | | |
| Commercial, industrial, and other loans | - | - | - | - | - |
| Commercial real estate construction | 387,402 | 382,200 | 60,200 | 104,015 | 2,548 |
| Commercial real estate-other | 310,859 | 333,403 | 120,280 | 310,859 | 34,486 |
| | <u>698,261</u> | <u>715,603</u> | <u>180,480</u> | <u>414,874</u> | <u>37,034</u> |
| Total | | | | | |
| Commercial, industrial, and other loans | - | - | - | - | - |
| Commercial real estate construction | 4,055,183 | 4,049,413 | 60,200 | 3,344,633 | 588,863 |
| Commercial real estate-other | 1,506,343 | 1,510,235 | 120,280 | 1,473,110 | 108,267 |
| | <u>\$ 5,561,526</u> | <u>\$ 5,559,648</u> | <u>\$ 180,480</u> | <u>\$ 4,817,743</u> | <u>\$ 697,130</u> |

At December 31, 2014, the Organization had \$450,000 of cash funded loan loss reserves, received by grants, which are not included in the above tables. This amount is presented separately on the balance sheet. Of this, \$44,242 is assigned to commercial, industrial and other loans, \$30,703 to commercial real estate – other, \$8,431 to commercial real estate construction and \$366,624 is unallocated.

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.

| | <u>30-59 Days Past Due</u> | <u>60-89 Days Past Due</u> | <u>90 Days or Greater</u> | <u>Total Past Due</u> | <u>Current</u> | <u>Total Loans Receivable</u> | <u>Recorded Investment >90 Days Accruing</u> |
|--|--------------------------------|--------------------------------|-------------------------------|---------------------------|----------------------|---------------------------------------|---|
| 2014 | | | | | | | |
| Commercial, industrial, and other loans | \$ 195,541 | \$ - | \$ - | \$ 195,541 | \$ 28,478,776 | \$ 28,674,317 | \$ - |
| Commercial real estate construction | 502,743 | 11,685 | 382,200 | 896,628 | 29,189,441 | 30,086,069 | - |
| Commercial real estate other | - | 1,506,753 | 260,444 | 1,767,197 | 34,231,286 | 35,998,483 | - |
| Total | <u>\$ 698,284</u> | <u>\$ 1,518,438</u> | <u>\$ 642,644</u> | <u>\$ 2,859,366</u> | <u>\$ 91,899,503</u> | <u>\$ 94,758,869</u> | <u>\$ -</u> |

Notes to Consolidated Financial Statements

Note 6. Allowance for Loan Losses, continued

The allocation of the allowance for loan losses by loan components at December 31, 2013 was as follows:

| | <u>Commercial, Industrial and Other Loans</u> | <u>Commercial Real Estate- Construction</u> | <u>Commercial Real Estate- Other</u> | <u>Unallocated</u> | <u>Total</u> |
|---------------------------------------|---|---|--|--------------------|----------------------|
| 2013 | | | | | |
| Allowance for loan losses: | | | | | |
| Beginning balance | \$ 75,898 | \$ 206,710 | \$ 92,458 | \$ 248,371 | \$ 623,437 |
| Charge-offs | - | - | - | - | - |
| Recoveries | - | - | - | - | - |
| Provision | (4,561) | 12,898 | 59,303 | 39,798 | 107,438 |
| Ending balance | <u>\$ 71,337</u> | <u>\$ 219,608</u> | <u>\$ 151,761</u> | <u>\$ 288,168</u> | <u>\$ 730,874</u> |
| Ending balance: | | | | | |
| Individually evaluated for impairment | <u>\$ 11,127</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 11,127</u> |
| Collectively evaluated for impairment | <u>\$ 60,210</u> | <u>\$ 219,608</u> | <u>\$ 151,761</u> | <u>\$ 288,168</u> | <u>\$ 719,747</u> |
| Loans Receivable: | | | | | |
| Ending balance | <u>\$ 25,360,907</u> | <u>\$ 26,566,734</u> | <u>\$ 23,933,041</u> | | <u>\$ 75,860,682</u> |
| Ending balance: | | | | | |
| Individually evaluated for impairment | <u>\$ 11,127</u> | <u>\$ 1,650,000</u> | <u>\$ 1,577,813</u> | | <u>\$ 3,238,940</u> |
| Collectively evaluated for impairment | <u>\$ 25,349,780</u> | <u>\$ 24,916,734</u> | <u>\$ 22,355,228</u> | | <u>\$ 72,621,742</u> |

The following table presents impaired loans by class of loans as of December 31, 2013:

| | <u>Recorded Investment</u> | <u>Unpaid Principal Balance</u> | <u>Related Allowance</u> | <u>Average Recorded Investment</u> | <u>Interest Income Recognized</u> |
|---|--------------------------------|---|------------------------------|--|---|
| 2013 | | | | | |
| With no related allowance recorded: | | | | | |
| Commercial, industrial, and other loans | \$ - | \$ - | \$ - | \$ - | \$ - |
| Commercial real estate construction | 1,657,912 | 1,650,000 | - | 195,316 | 123,287 |
| Commercial real estate-other | 1,443,739 | 1,577,813 | - | 1,329,950 | 114,901 |
| | <u>3,101,651</u> | <u>3,227,813</u> | <u>-</u> | <u>1,525,266</u> | <u>238,188</u> |
| With allowance recorded: | | | | | |
| Commercial, industrial, and other loans | 15,120 | 11,127 | 11,127 | 15,120 | 3,871 |
| Commercial real estate construction | - | - | - | - | - |
| Commercial real estate-other | - | - | - | - | - |
| | <u>15,120</u> | <u>11,127</u> | <u>11,127</u> | <u>15,120</u> | <u>3,871</u> |
| Total | | | | | |
| Commercial, industrial, and other loans | 15,120 | 11,127 | 11,127 | 15,120 | 3,871 |
| Commercial real estate construction | 1,657,912 | 1,650,000 | - | 195,316 | 123,287 |
| Commercial real estate-other | 1,443,739 | 1,577,813 | - | 1,329,950 | 114,901 |
| | <u>\$ 3,116,771</u> | <u>\$ 3,238,940</u> | <u>\$ 11,127</u> | <u>\$ 1,540,386</u> | <u>\$ 242,059</u> |

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.

| | <u>30-59 Days Past Due</u> | <u>60-89 Days Past Due</u> | <u>90 Days or Greater</u> | <u>Total Past Due</u> | <u>Current</u> | <u>Total Loans Receivable</u> | <u>Recorded Investment >90 Days Accruing</u> |
|--|--------------------------------|--------------------------------|-------------------------------|---------------------------|----------------------|---------------------------------------|---|
| 2013 | | | | | | | |
| Commercial, industrial, and other loans | \$ - | \$ - | \$ - | \$ - | \$ 25,360,907 | \$ 25,360,907 | \$ - |
| Commercial real estate construction | - | - | - | - | 26,566,734 | 26,566,734 | - |
| Commercial real estate other | 1,421,219 | 158,576 | 257,321 | 1,837,116 | 20,258,809 | 23,933,041 | 35,451 |
| Total | <u>\$ 1,421,219</u> | <u>\$ 158,576</u> | <u>\$ 257,321</u> | <u>\$ 1,837,116</u> | <u>\$ 72,186,450</u> | <u>\$ 75,860,682</u> | <u>\$ 35,451</u> |

Notes to Consolidated Financial Statements

Note 6. 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 Prime, Excellent, Good or 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 Prime.

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.

Notes to Consolidated Financial Statements

Note 6. 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 may 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, 2014 | Commercial Industrial and Other Loans | Commercial Real Estate- Construction | Commercial Real Estate- Other |
|---|--|---|--|
| Pass Credits | \$ 24,510,311 | \$ 23,823,290 | \$ 34,411,158 |
| Marginal | 4,149,456 | 2,205,699 | 916,388 |
| Special Mention | 14,550 | 3,667,213 | 194,657 |
| Substandard | - | 389,867 | 476,280 |
| Total | <u>\$ 28,674,317</u> | <u>\$ 30,086,069</u> | <u>\$ 35,998,483</u> |

Notes to Consolidated Financial Statements

Note 6. Allowance for Loan Losses, continued

| Loans by Risk Rating December 31, 2013 | <u>Commercial Industrial and Other Loans</u> | <u>Commercial Real Estate- Construction</u> | <u>Commercial Real Estate- Other</u> |
|---|--|---|--|
| Pass Credits | \$ 24,345,860 | \$ 20,955,474 | \$ 22,390,588 |
| Marginal | 999,435 | 5,611,260 | 924,665 |
| Special Mention | 15,612 | - | 199,446 |
| Substandard | - | - | 418,342 |
| Total | <u>\$ 25,360,907</u> | <u>\$ 26,566,734</u> | <u>\$ 23,933,041</u> |

Troubled Debt Restructurings

During 2014, one loan was modified through a payment reduction, and was considered to be a troubled debt restructuring. During 2013, two loans were modified through payment reductions, and were considered to be troubled debt restructurings. One of these loans also experienced a rate reduction.

Information regarding loans modified in a troubled debt restructuring for the years ended December 31, 2014 and 2013, respectively, is as follows:

| | <u>December 31, 2014</u> | | | <u>December 31, 2013</u> | | |
|--|------------------------------------|--|---|------------------------------------|--|---|
| | <u>Number of Contracts</u> | <u>Pre- modification Outstanding Recorded Investment</u> | <u>Post- modification Outstanding Recorded Investment</u> | <u>Number of Contracts</u> | <u>Pre- modification Outstanding Recorded Investment</u> | <u>Post- modification Outstanding Recorded Investment</u> |
| Commercial, industrial and other loans | - | \$ - | \$ - | 1 | \$ 153,278 | \$ 118,241 |
| Commercial real estate – other | <u>1</u> | <u>147,250</u> | <u>147,250</u> | <u>1</u> | <u>66,279</u> | <u>64,806</u> |
| Total | <u>1</u> | <u>\$ 147,250</u> | <u>\$ 147,250</u> | <u>2</u> | <u>\$ 219,557</u> | <u>\$ 183,047</u> |

The loan modified during 2014 subsequently defaulted and has been placed on non-accrual. Default is considered to have occurred when the loan goes 90 days past due.

Note 7. Grants Receivable

Grants receivable consist of the following:

| | <u>2014</u> | <u>2013</u> |
|--------------------------------------|-------------------|-------------------|
| CDFI FA Award | \$ 829,292 | \$ 357,550 |
| Industrial Revitalization Fund Award | - | 265,000 |
| NMTC Training Assistance Award | 24,858 | 12,429 |
| USDA and SBA Awards | - | 7,906 |
| Total | <u>\$ 854,150</u> | <u>\$ 642,885</u> |

Notes to Consolidated Financial Statements

Note 8. Premises and Equipment

Components of Premises and Equipment

Components of premises and equipment and total accumulated depreciation at December 31, 2014 and 2013 are as follows:

| | <u>2014</u> | <u>2013</u> |
|---|---------------------|-------------------|
| Furniture and equipment | \$ 593,855 | \$ 580,075 |
| Leasehold improvements | 58,429 | 56,300 |
| Vehicle | 86,503 | 64,077 |
| Buildings and improvements | 475,015 | - |
| Land | <u>316,648</u> | <u>-</u> |
| Premises and equipment, total | 1,530,480 | 700,452 |
| Less accumulated depreciation | <u>(380,728)</u> | <u>(324,596)</u> |
| Premises and equipment, net of depreciation | <u>\$ 1,149,752</u> | <u>\$ 375,856</u> |

Depreciation and amortization expense for the years ended December 31, 2014 and 2013 was \$134,806 and \$113,848, respectively. During 2014, the Organization purchased a building that will house the Christiansburg branch and administrative offices. The Organization expects to spend \$700,000 during 2015 renovating the building.

Leases

The Organization leases office space in Richmond, Christiansburg and Springfield, Virginia. The leases in Richmond, Christiansburg and Springfield expire April 30, 2017, May 31, 2015 and June 30, 2015, respectively. Future lease payments are as follows:

| | <u>Richmond Office</u> | <u>Christiansburg Office</u> | <u>Springfield Office</u> | <u>Total</u> |
|------|----------------------------|----------------------------------|-------------------------------|------------------|
| 2015 | \$ 124,787 | \$ 37,360 | \$ 3,750 | \$ 165,897 |
| 2016 | 129,526 | - | - | 129,526 |
| 2017 | 30,779 | - | - | 30,779 |
| | <u>\$ 285,092</u> | <u>\$ 37,360</u> | <u>\$ 3,750</u> | <u>\$326,202</u> |

Rent expense for the years ended December 31, 2014 and 2013 was \$215,711 and \$168,198, respectively.

Note 9. Deposits

The major components of deposits in the consolidated statements of financial position at December 31, 2014 and 2013 are as follows:

| | <u>2014</u> | <u>2013</u> |
|----------------------------|----------------------|----------------------|
| Noninterest-bearing demand | \$ 1,128,326 | \$ 358,229 |
| Interest-bearing demand | 13,424,917 | 20,584,159 |
| Time deposits | <u>52,038,968</u> | <u>36,204,810</u> |
| Total deposits | <u>\$ 66,592,211</u> | <u>\$ 57,147,198</u> |

The aggregate amount of time deposits in denomination of \$100,000 or more at December 31, 2014 and 2013 was \$22,720,287 and \$14,803,793, respectively. At December 31, 2014, the scheduled maturities of time deposits are as follows:

| | |
|------------|----------------------|
| 2015 | \$ 28,332,840 |
| 2016 | 7,581,107 |
| 2017 | 5,063,685 |
| 2018 | 2,517,475 |
| 2019 | 4,915,345 |
| Thereafter | <u>3,628,516</u> |
| | <u>\$ 52,038,968</u> |

Notes to Consolidated Financial Statements

Note 10. Borrowings

Borrowings at December 31, 2014 and 2013, respectively, consist of the following:

| Description | Rate | Maturity | 2014 | 2013 |
|--|-------------|------------|----------------------|----------------------|
| Union First Market | 3.00% | 03/14/2015 | \$ 1,999,692 | \$ 1,499,942 |
| Capital One | 3.00% | 10/01/2015 | 500,000 | - |
| Wells Fargo | LIBOR+2.90% | 03/27/2016 | 3,000,000 | - |
| Bon Secours Health Systems | 2.00% | 04/01/2016 | 500,000 | 500,000 |
| Impact PRI | 2.75% | 07/29/2016 | 225,000 | 225,000 |
| PNC LOC | 2.25% | 10/05/2016 | 3,000,000 | 3,000,000 |
| Local Impact Opportunity Notes | 1.50% | 12/17/2016 | 50,000 | 50,000 |
| Local Impact Opportunity Notes | 1.50% | 01/03/2017 | 100,000 | - |
| Local Impact Opportunity Notes | 1.50% | 01/13/2017 | 25,000 | - |
| Bon Secours Health Systems | 2.25% | 04/01/2017 | 300,000 | 300,000 |
| Opportunity Finance Network | 4.25% | 06/30/2017 | 1,000,000 | 2,000,000 |
| Local Impact Opportunity Notes | 1.50% | 07/01/2017 | 250,000 | - |
| CDFI Fund | 2.25% | 08/01/2017 | 1,177,056 | 1,177,056 |
| Bank of America | 3.10% | 06/26/2018 | 6,000,000 | 6,000,000 |
| Community Development Capital Initiative | 2.00% | 09/25/2018 | 1,915,000 | 1,915,000 |
| Communities at Work Fund | 4.30% | 11/01/2018 | - | 500,000 |
| Local Impact Opportunity Notes | 2.25% | 12/17/2018 | 50,000 | 50,000 |
| Local Impact Opportunity Notes | 2.25% | 04/08/2019 | 50,000 | - |
| CDFI Fund | 2.00% | 04/16/2019 | 989,450 | - |
| Local Impact Opportunity Notes | 2.25% | 07/01/2019 | 150,000 | - |
| Local Impact Opportunity Notes | 2.25% | 12/24/2019 | 80,000 | - |
| Goldman Sachs | 3.75% | 04/20/2020 | 4,000,000 | 1,968,000 |
| Jessie Ball DuPont | 2.00% | 07/08/2020 | 1,000,000 | 500,000 |
| Wells Fargo EQ2 | 2.00% | 02/02/2021 | 500,000 | 500,000 |
| Wells Fargo EQ2 | 2.00% | 03/20/2024 | 500,000 | - |
| | | | <u>\$ 27,361,198</u> | <u>\$ 20,184,998</u> |

Performance against debt covenants is measured on a quarterly basis. As of December 31, 2014, the Organization was in compliance with all covenants.

At December 31, 2014, the scheduled maturities of borrowings are as follows:

| | |
|------------|----------------------|
| 2015 | \$ 2,499,692 |
| 2016 | 6,775,000 |
| 2017 | 2,852,056 |
| 2018 | 8,954,450 |
| 2019 | 280,000 |
| Thereafter | <u>6,000,000</u> |
| | <u>\$ 27,361,198</u> |

At December 31, 2014, the Organization had unused Federal Fund lines of credit of \$2,500,000, and other various unused commitments of \$3,966,723 with rates ranging from 1.00% to LIBOR + 2.90%.

Notes to Consolidated Financial Statements

Note 11. 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.

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.

| <u>December 31, 2014</u> | <u>Total</u> | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
|--|---------------------|-----------------------|-----------------------|-----------------------|
| <i>Investment securities available for sale:</i> | | | | |
| U.S. Government sponsored entities | \$ 247,023 | \$ - | \$ 247,023 | \$ - |
| Obligations of states and political subdivisions | <u>774,392</u> | <u>-</u> | <u>774,392</u> | <u>-</u> |
| Total assets measured at fair value | <u>\$ 1,021,415</u> | <u>\$ -</u> | <u>\$ 1,021,415</u> | <u>\$ -</u> |
| <u>December 31, 2013</u> | | | | |
| <i>Investment securities available for sale:</i> | | | | |
| U.S. Government sponsored entities | \$ 245,504 | \$ - | \$ 245,504 | \$ - |
| Obligations of states and political subdivisions | <u>748,321</u> | <u>-</u> | <u>748,321</u> | <u>-</u> |
| Total assets measured at fair value | <u>\$ 993,825</u> | <u>\$ -</u> | <u>\$ 993,825</u> | <u>\$ -</u> |

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.

Notes to Consolidated Financial Statements

Note 11. Fair Value of Financial Instruments, continued

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.

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, 2014 | Total | Level 1 | Level 2 | Level 3 |
|-------------------------------------|-------------------|----------------|----------------|-------------------|
| Impaired loans | \$ 296,463 | \$ - | \$ - | \$ 296,463 |
| Other real estate owned | 692,653 | - | - | 692,653 |
| Total assets recorded at fair value | <u>\$ 989,116</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 989,116</u> |

| December 31, 2013 | | | | |
|-------------------------------------|---------------------|-------------|-------------|---------------------|
| Impaired loans | \$ 1,650,000 | \$ - | \$ - | \$ 1,650,000 |
| Other real estate owned | 897,069 | - | - | 897,069 |
| Total assets recorded at fair value | <u>\$ 2,547,069</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 2,547,069</u> |

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, 2014 and 2013, respectively.

| | December 31, 2014 | Valuation Techniques | Unobservable Inputs | Range (Wtd Avg) |
|---------------------------------------|------------------------------|--|--|----------------------------|
| Impaired loans: | | | | |
| Commercial real estate - construction | 296,463 | Appraisals and/or sales of comparable properties | Management discount to reflect current market conditions | 0.00% (0.00%) |
| Other real estate owned: | | | | |
| Commercial real estate - other | <u>692,653</u> | Appraisals and/or sales of comparable properties | Management discount to reflect current market conditions | 0.00%-22.58% (7.36%) |
| | <u>\$ 989,116</u> | | | |
| | December 31, 2013 | Valuation Techniques | Unobservable Inputs | Range (Wtd Avg) |
| Impaired loans: | | | | |
| Commercial real estate - construction | 1,650,000 | Appraisals and/or sales of comparable properties | Management discount to reflect current market conditions | 0.00% (0.00%) |
| Other real estate owned: | | | | |
| Commercial real estate - other | <u>897,069</u> | Appraisals and/or sales of comparable properties | Management discount to reflect current market conditions | 0.00%-19.05% (6.68%) |
| | <u>\$ 2,547,069</u> | | | |

Notes to Consolidated Financial Statements

Note 12. 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, 2014 and 2013 amounted to \$79,612 and \$69,543, respectively.

Note 13. Income Taxes

Current and Deferred Income Tax Components

The components of income tax expense, all federal, for the period ended December 31, 2014 and 2013 is as follows:

| | <u>2014</u> | <u>2013</u> |
|----------------------------|-------------------|-------------------|
| Current | \$ 249,959 | \$ 31,377 |
| Deferred expense (benefit) | (2,679) | 94,453 |
| Income tax expense | <u>\$ 247,280</u> | <u>\$ 125,830</u> |

Expense 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, 2014 and 2013 is as follows:

| | <u>2014</u> | <u>2013</u> |
|-------------------------------|-------------------|-------------------|
| Tax at statutory federal rate | \$ 248,723 | \$ 127,779 |
| Other | (1,443) | (1,949) |
| | <u>\$ 247,280</u> | <u>\$ 125,830</u> |

Deferred Income Tax Analysis

The significant components of net deferred tax assets at December 31, 2014 and 2013 are summarized as follows:

| | <u>2014</u> | <u>2013</u> |
|--|------------------|------------------|
| <i>Deferred tax assets</i> | | |
| Allowance for loan losses | \$ 169,566 | \$ 124,482 |
| Other real estate owned | 31,443 | 16,128 |
| Pre-opening expenses | 26,315 | 29,381 |
| Unrealized losses on securities available for sale | - | 1,525 |
| Deferred tax asset | <u>227,324</u> | <u>171,516</u> |
| <i>Deferred tax liabilities</i> | | |
| Deferred loan costs | (153,376) | (114,164) |
| Prepaid expenses | (14,118) | (9,953) |
| Depreciation | (46,208) | (37,200) |
| Unrealized gains on securities available for sale | (4,969) | - |
| Startup costs for CCB Real Estate Holdings, Inc. | (2,219) | - |
| Deferred tax liability | <u>(220,890)</u> | <u>(161,317)</u> |
| Net deferred tax asset | <u>\$ 6,434</u> | <u>\$ 10,249</u> |

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 2011 through 2014 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.

Notes to Consolidated Financial Statements

Note 14. 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, 2014 and 2013.

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):

| | <u>2014</u> | <u>2013</u> |
|--|------------------|------------------|
| Commitments to grant loans | \$ 16,629 | \$ 13,799 |
| Unfunded commitments under lines of credit | <u>38,256</u> | <u>25,488</u> |
| | <u>\$ 54,885</u> | <u>\$ 39,287</u> |

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.

Notes to Consolidated Financial Statements

Note 15. 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, 2014 or 2013.

Deposits from related parties held by the Bank at December 31, 2014 and 2013 amounted to \$53,124 and \$62,437, respectively.

Note 16. 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, 2014, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2014, 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, 2014 and December 31, 2013. (Dollars in thousands)

| | <u>Actual</u> | | <u>Minimum Capital Requirement</u> | | <u>Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions</u> | |
|---------------------------|---------------|--------------|------------------------------------|--------------|---|--------------|
| | <u>Amount</u> | <u>Ratio</u> | <u>Amount</u> | <u>Ratio</u> | <u>Amount</u> | <u>Ratio</u> |
| December 31, 2014 | | | | | | |
| Total Capital | | | | | | |
| (to Risk-Weighted Assets) | \$ 15,977 | 25.4% | \$ 5,040 | 8.0% | \$ 6,300 | 10.0% |
| Tier I Capital | | | | | | |
| (to Risk-Weighted Assets) | \$ 12,353 | 19.6% | \$ 2,520 | 4.0% | \$ 3,780 | 6.0% |
| Tier I Capital | | | | | | |
| (to Average Assets) | \$ 12,353 | 14.7% | \$ 3,366 | 4.0% | \$ 4,208 | 5.0% |
| December 31, 2013 | | | | | | |
| Total Capital | | | | | | |
| (to Risk-Weighted Assets) | \$ 14,894 | 28.1% | \$ 4,238 | 8.0% | \$ 5,308 | 10.0% |
| Tier I Capital | | | | | | |
| (to Risk-Weighted Assets) | \$ 11,403 | 21.5% | \$ 2,119 | 4.0% | \$ 3,185 | 6.0% |
| Tier I Capital | | | | | | |
| (to Average Assets) | \$ 11,403 | 15.9% | \$ 2,876 | 4.0% | \$ 3,595 | 5.0% |

Notes to Consolidated Financial Statements

Note 17. Subsequent Events

These financial statements have been updated for subsequent events occurring through March 26, 2015 which is the date these financial statements were available to be issued.

Note 18. Parent Company Financial Information

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

Statements of Financial Position December 31, 2014 and 2013

| | <u>2014</u> | <u>2013</u> |
|--|----------------------|----------------------|
| Assets | | |
| Cash and due from banks | \$ 151,197 | \$ 778,292 |
| Interest-bearing deposits | 468,512 | 1,564,051 |
| Certificates of deposit | 1,128,022 | 1,124,369 |
| Investment securities available for sale | 259,953 | 251,742 |
| Cash funded loan loss reserves | 450,000 | 98,400 |
| Loans, net of allowance for loan losses of \$396,112 and \$239,502 at December 31, 2014 and 2013, respectively | 37,342,873 | 28,151,675 |
| Grants receivable | 854,150 | 642,885 |
| Accrued interest receivable | 135,741 | 114,058 |
| Premises and equipment | 173,366 | 170,688 |
| Investment in subsidiaries | 12,372,423 | 11,413,462 |
| Other real estate owned | 34,632 | 46,368 |
| Other assets | 107,158 | 96,534 |
| Total assets | <u>\$ 53,478,027</u> | <u>\$ 44,452,524</u> |
| Liabilities | | |
| Borrowings | \$ 27,361,198 | \$ 20,184,998 |
| Deferred revenue | 1,276,505 | 611,459 |
| Accrued interest payable | 80,449 | 29,285 |
| Other liabilities | 116,483 | 101,093 |
| Total liabilities | <u>28,834,635</u> | <u>20,926,835</u> |
| Net Assets | | |
| Temporarily restricted | 710,000 | 162,581 |
| Permanently restricted | 1,032,200 | 1,032,200 |
| Unrestricted | 21,622,477 | 21,144,655 |
| Accumulated other comprehensive income (loss) | 19,598 | (1,316) |
| Total net assets of Virginia Community Capital, Inc. | 23,384,275 | 22,273,939 |
| Equity in noncontrolling interest | 1,259,117 | 1,251,750 |
| Total net assets | <u>24,643,392</u> | <u>23,525,689</u> |
| Total liabilities and net assets | <u>\$ 53,478,027</u> | <u>\$ 44,452,524</u> |

Notes to Consolidated Financial Statements

Note 18. Parent Company Only Financial Information, continued

Statements of Activities For the year ended December 31, 2014

| | December 31, 2014 | | | Total |
|--|----------------------|------------------------|------------------------|----------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | |
| Revenue and Support | | | | |
| Grants and contract income | \$ 1,275,608 | \$ 902,829 | \$ - | \$ 2,178,437 |
| Interest and fees on loans | 1,630,080 | - | - | 1,630,080 |
| Interest income | 31,081 | - | - | 31,081 |
| Miscellaneous income | 265,488 | - | - | 265,488 |
| Net assets released from restrictions | <u>291,229</u> | <u>(291,229)</u> | <u>-</u> | <u>-</u> |
| Total revenue and support | <u>3,493,486</u> | <u>611,600</u> | <u>-</u> | <u>4,105,086</u> |
| Expenses | | | | |
| Program Services | | | | |
| Salaries and wages | 635,718 | - | - | 635,718 |
| Payroll taxes | 57,984 | - | - | 57,984 |
| Employee benefits | 85,592 | - | - | 85,592 |
| Program services | 230,766 | - | - | 230,766 |
| Office expense | 134,355 | - | - | 134,355 |
| Professional fees | 260,069 | - | - | 260,069 |
| Depreciation expense | 46,716 | - | - | 46,716 |
| Interest expense | 696,585 | - | - | 696,585 |
| Provision for loan losses | 156,610 | - | - | 156,610 |
| Other expenses | <u>272,582</u> | <u>-</u> | <u>-</u> | <u>272,582</u> |
| Total program services expenses | <u>2,576,977</u> | <u>-</u> | <u>-</u> | <u>2,576,977</u> |
| Management and General | | | | |
| Salaries and wages | 462,620 | - | - | 462,620 |
| Payroll taxes | 42,196 | - | - | 42,196 |
| Employee benefits | 62,287 | - | - | 62,287 |
| Office and administrative expenses | 44,785 | - | - | 44,785 |
| Professional fees | 86,689 | - | - | 86,689 |
| Depreciation expense | 15,572 | - | - | 15,572 |
| Other expenses | <u>90,861</u> | <u>-</u> | <u>-</u> | <u>90,861</u> |
| Total management and general expenses | <u>805,010</u> | <u>-</u> | <u>-</u> | <u>805,010</u> |
| Total expenses | <u>3,381,987</u> | <u>-</u> | <u>-</u> | <u>3,381,987</u> |
| Change in net assets/net income before undistributed income of subsidiaries | 111,499 | 611,600 | - | 723,099 |
| Change in equity from undistributed income of bank subsidiary | 484,257 | - | - | 484,257 |
| Change in equity from undistributed income of subsidiary LLC | <u>(5,753)</u> | <u>-</u> | <u>-</u> | <u>(5,753)</u> |
| Change in net assets/net income | 590,003 | 611,600 | - | 1,201,603 |
| Change in accumulated other comprehensive income (loss) | 20,914 | - | - | 20,914 |
| Dividends paid on subsidiary's preferred stock | (48,000) | - | - | (48,000) |
| Return of program funds to USDA | <u>-</u> | <u>(64,181)</u> | <u>-</u> | <u>(64,181)</u> |
| Change in net assets/net income attributable to Virginia Community Capital, Inc. | 562,917 | 547,419 | - | 1,110,336 |
| Net assets beginning of year | <u>21,079,158</u> | <u>162,581</u> | <u>1,032,200</u> | <u>22,273,939</u> |
| Net assets end of year | <u>\$ 21,642,075</u> | <u>\$ 710,000</u> | <u>\$ 1,032,200</u> | <u>\$ 23,384,275</u> |

Notes to Consolidated Financial Statements

Note 18. Parent Company Only Financial Information, continued

Statements of Activities
For the year ended December 31, 2013

| | December 31, 2013 | | | Total |
|--|----------------------|---------------------------|---------------------------|----------------------|
| | Unrestricted | Temporarily Restricted | Permanently Restricted | |
| Revenue and Support | | | | |
| Grants and contract income | \$ 802,479 | \$ 132,795 | \$ 650,000 | \$ 1,585,274 |
| Interest and fees on loans | 1,624,451 | - | - | 1,624,451 |
| Interest income | 30,881 | - | - | 30,881 |
| Miscellaneous income | 644,028 | - | - | 644,028 |
| Net assets released from restrictions | 34,395 | (34,395) | - | - |
| Total revenue and support | <u>3,136,234</u> | <u>98,400</u> | <u>650,000</u> | <u>3,884,634</u> |
| Expenses | | | | |
| Program Services | | | | |
| Salaries and wages | 660,651 | - | - | 660,651 |
| Payroll taxes | 54,752 | - | - | 54,752 |
| Employee benefits | 63,698 | - | - | 63,698 |
| Program services | 148,948 | - | - | 148,948 |
| Office expense | 100,087 | - | - | 100,087 |
| Professional fees | 265,861 | - | - | 265,861 |
| Depreciation expense | 38,496 | - | - | 38,496 |
| Interest expense | 699,611 | - | - | 699,611 |
| Recovery of loan losses | (42,004) | - | - | (42,004) |
| Other expenses | 147,623 | - | - | 147,623 |
| Total program services expenses | <u>2,137,723</u> | <u>-</u> | <u>-</u> | <u>2,137,723</u> |
| Management and General | | | | |
| Salaries and wages | 480,764 | - | - | 480,764 |
| Payroll taxes | 39,844 | - | - | 39,844 |
| Employee benefits | 46,353 | - | - | 46,353 |
| Office and administrative expenses | 33,362 | - | - | 33,362 |
| Professional fees | 88,621 | - | - | 88,621 |
| Depreciation expense | 12,832 | - | - | 12,832 |
| Other expenses | 49,493 | - | - | 49,493 |
| Total management and general expenses | <u>751,269</u> | <u>-</u> | <u>-</u> | <u>751,269</u> |
| Total expenses | <u>2,888,992</u> | <u>-</u> | <u>-</u> | <u>2,888,992</u> |
| Change in net assets/net income before undistributed income of subsidiaries | 247,242 | 98,400 | 650,000 | 995,642 |
| Change in equity from undistributed income of bank subsidiary | 249,992 | - | - | 249,992 |
| Change in equity from undistributed income of subsidiary LLC | 5,527 | - | - | 5,527 |
| Change in net assets/net income | 502,761 | 98,400 | 650,000 | 1,251,161 |
| Change in accumulated other comprehensive income (loss) | (4,110) | - | - | (4,110) |
| Dividends paid on subsidiary's preferred stock | 48,000 | - | - | 48,000 |
| Change in net assets/net income attributable to Virginia Community Capital, Inc. | 450,651 | 98,400 | 650,000 | 1,199,051 |
| Net assets beginning of year | 20,628,507 | 64,181 | 382,200 | 21,074,888 |
| Net assets end of year | <u>\$ 21,079,158</u> | <u>\$ 162,581</u> | <u>\$ 1,032,200</u> | <u>\$ 22,273,939</u> |

Notes to Consolidated Financial Statements

Note 18. Parent Company Only Financial Information, continued

Statements of Cash Flows For the years ended December 31, 2014 and 2013

| | 2014 | 2013 |
|---|-------------------|-------------------|
| <i>Cash flows from operating activities</i> | | |
| Change in net assets | \$ 1,201,603 | \$ 1,251,161 |
| Adjustments to reconcile change in net assets to net cash provided by operations: | | |
| Depreciation and amortization | 62,288 | 51,328 |
| Provision for (recovery of) loan losses | 156,610 | (42,004) |
| Loss (gain) on sale of other real estate owned | 994 | (284) |
| Impairment write-downs on foreclosed assets | 4,878 | - |
| Net amortization (accretion) on securities | 12,703 | (5,852) |
| Changes in assets and liabilities: | | |
| Accrued income | (21,683) | 3,119 |
| Grants receivable | (211,265) | (636,094) |
| Other assets | (10,623) | (25,214) |
| Investment in subsidiary | (958,961) | (199,738) |
| Accrued interest payable | 51,163 | 4,363 |
| Deferred revenue | 665,046 | 495,047 |
| Noncontrolling interest in subsidiary | 7,367 | 1,226 |
| Other liabilities | 15,390 | 21,134 |
| Net cash provided by operating activities | 975,510 | 918,192 |
| <i>Cash flows from investing activities</i> | | |
| Net decrease (increase) in interest-bearing deposits | 1,095,539 | (336,102) |
| Net (increase) decrease in certificates of deposit | (3,653) | 246,408 |
| Purchase of securities available for sale | - | (250,000) |
| Proceeds from sale of other real estate owned | 5,863 | 5,941 |
| Net (increase) decrease in loans | (9,347,808) | 800,458 |
| Net purchases of premises and equipment | (64,965) | (86,278) |
| Net cash provided by (used in) investing activities | (8,315,024) | 380,427 |
| <i>Cash flows from financing activities</i> | | |
| Dividends paid on subsidiary's preferred stock | (48,000) | (48,000) |
| Net increase (decrease) in borrowings | 7,176,200 | (755,002) |
| Return of program funds to USDA | (64,181) | - |
| Net cash provided by (used in) financing activities | 7,064,019 | (803,002) |
| Net (decrease) increase in cash and cash equivalents | (275,495) | 495,617 |
| <i>Cash and cash equivalents, beginning</i> | 876,692 | 381,075 |
| <i>Cash and cash equivalents, ending</i> | \$ 601,197 | \$ 876,692 |
| <i>Supplemental disclosure of cash flow information</i> | | |
| Interest paid | \$ 645,421 | \$ 695,249 |
| <i>Supplemental disclosure of noncash investing and financing activities</i> | | |
| Other real estate acquired in settlement of loans | \$ - | \$ - |

Notes to Consolidated Financial Statements

Note 19. Subsidiary Bank Financial Information

Financial information of Community Capital Bank of Virginia as of, and for the years ended December 31, 2014 and 2013 are as follows:

Balance Sheets
December 31, 2014 and 2013

| | <u>2014</u> | <u>2013</u> |
|---|----------------------|----------------------|
| Assets | | |
| Cash and due from banks | \$ 321,049 | \$ 283,660 |
| Interest-bearing deposits | 4,081,605 | 4,348,653 |
| Federal funds sold | 858,000 | 147,000 |
| Certificates of deposit | 14,145,000 | 14,581,000 |
| Investment securities available for sale | 761,463 | 742,082 |
| Investment securities held to maturity | 771,868 | 776,344 |
| Restricted equity securities | 433,400 | 433,400 |
| Loans, net of allowance for loan losses of \$623,971 and \$491,372 at December 31, 2014 and 2013, respectively | 59,395,913 | 49,978,133 |
| Accrued interest receivable | 335,354 | 260,096 |
| Premises and equipment | 976,386 | 205,168 |
| Other real estate owned | 658,021 | 850,701 |
| Other assets | 89,437 | 132,624 |
| Total assets | <u>\$ 82,827,496</u> | <u>\$ 72,738,861</u> |
| Liabilities | | |
| Noninterest-bearing deposits | \$ 1,460,089 | \$ 1,174,795 |
| Interest-bearing deposits | 65,567,172 | 56,892,024 |
| Total deposits | 67,027,261 | 58,066,819 |
| Subordinated debt | 3,000,000 | 3,000,000 |
| Accrued interest payable | 39,398 | 30,812 |
| Other liabilities | 392,013 | 231,367 |
| Total liabilities | <u>70,458,672</u> | <u>61,328,998</u> |
| Commitments and contingencies | - | - |
| Shareholders' equity | | |
| Preferred stock, 1,000 shares authorized; Series A, perpetual, no par value, \$50,000 liquidation value, 4% nonconvertible, noncumulative: 24 shares issued and outstanding for 2014 and 2013, respectively | 1,200,000 | 1,200,000 |
| Common stock, \$2,500 par value, 4,000 shares authorized; 1,936 and 1,834 shares issued and outstanding for 2014 and 2013 | 4,839,725 | 4,584,725 |
| Additional paid in capital | 4,692,568 | 4,437,568 |
| Retained earnings | 1,626,885 | 1,190,628 |
| Accumulated other comprehensive income (loss) | 9,646 | (3,058) |
| Total shareholder's equity | <u>12,368,824</u> | <u>11,409,863</u> |
| Total liabilities and shareholder's equity | <u>\$ 82,827,496</u> | <u>\$ 72,738,861</u> |

Notes to Consolidated Financial Statements

Note 19. Subsidiary Bank Financial Information, continued

Statements of Operations *For the years ended December 31, 2014 and 2013*

| | <u>2014</u> | <u>2013</u> |
|--|-------------------|-------------------|
| <i>Interest and dividend income</i> | | |
| Loans and fees on loans | \$ 2,935,701 | \$ 2,448,409 |
| Federal funds sold | 1,778 | 1,320 |
| Investment securities-taxable | 22,032 | 22,431 |
| Investment securities-nontaxable | 21,865 | 14,521 |
| Deposits with other banks | <u>223,359</u> | <u>188,168</u> |
| Total interest and dividend income | <u>3,204,735</u> | <u>2,674,849</u> |
| <i>Interest expense</i> | | |
| Deposits | 748,314 | 675,704 |
| Federal funds purchased | 202 | 198 |
| Secured borrowings | - | 34,825 |
| Subordinated debt | <u>60,833</u> | <u>25,500</u> |
| Total interest expense | <u>809,349</u> | <u>736,227</u> |
| Net interest income | 2,395,386 | 1,938,622 |
| <i>Provision for loan losses</i> | | |
| Net interest income after provision for loan losses | <u>132,599</u> | <u>149,441</u> |
| | <u>2,262,787</u> | <u>1,789,181</u> |
| <i>Noninterest income</i> | | |
| Gain on sale of other real estate owned | - | 5,395 |
| Bank enterprise award | 355,000 | - |
| Other noninterest income | <u>171,185</u> | <u>197,633</u> |
| Total noninterest income | <u>526,185</u> | <u>203,028</u> |
| <i>Noninterest expense</i> | | |
| Salaries and employee benefits | 1,059,634 | 839,105 |
| Occupancy and equipment | 190,253 | 171,677 |
| Data processing | 56,222 | 55,054 |
| Advertising and marketing | 23,274 | 10,842 |
| Audit | 39,321 | 41,074 |
| Legal | 6,668 | 10,879 |
| Consulting | 87,924 | 58,464 |
| FDIC insurance | 67,665 | 61,742 |
| Franchise tax expense | 118,339 | 102,614 |
| Other real estate owned expense, net | 119,078 | 27,786 |
| Other expenses | <u>289,057</u> | <u>237,151</u> |
| Total noninterest expense | <u>2,057,435</u> | <u>1,616,388</u> |
| Net income before income tax expense | 731,537 | 375,821 |
| Income tax expense | <u>247,280</u> | <u>125,829</u> |
| Net income | 484,257 | 249,992 |
| Dividends paid to preferred shareholders | <u>(48,000)</u> | <u>(48,000)</u> |
| Net income available to common shareholders | <u>\$ 436,257</u> | <u>\$ 201,992</u> |
| <i>Basic income per common share</i> | | |
| | <u>\$ 237.48</u> | <u>\$ 110.14</u> |
| <i>Weighted average common shares outstanding</i> | | |
| | <u>1,837</u> | <u>1,834</u> |

Notes to Consolidated Financial Statements

Note 19. Subsidiary Bank Financial Information, continued

Statements of Comprehensive Income
For the years ended December 31, 2014 and 2013

| | <u>2014</u> | <u>2013</u> |
|---|-------------------|-------------------|
| <i>Net income</i> | \$ 484,257 | \$ 249,992 |
| <i>Other comprehensive income (loss):</i> | | |
| Unrealized gains (losses) on available for sale securities | 19,248 | (8,867) |
| Tax expense (benefit) from unrealized gains (losses) on available for sale securities | <u>(6,544)</u> | <u>3,015</u> |
| Other comprehensive income (loss) | <u>12,704</u> | <u>(5,852)</u> |
| <i>Comprehensive income</i> | <u>\$ 496,961</u> | <u>\$ 244,140</u> |

Notes to Consolidated Financial Statements

Note 19. Subsidiary Bank Financial Information, continued

*Statements of Changes in Shareholders' Equity
For the years ended December 31, 2014 and 2013*

| | Preferred Stock | Common Stock | | Additional Paid In Capital | Retained Earnings (Deficit) | Accumulated Other Comprehensive Income | Total |
|-----------------------------------|---------------------|--------------|---------------------|----------------------------------|-----------------------------------|---|----------------------|
| | | Shares | Amount | | | (Loss) | |
| Balance, January 1, 2013 | \$ 1,200,000 | 1,834 | \$ 4,584,725 | \$ 4,437,568 | \$ 988,636 | \$ 2,794 | \$ 11,213,723 |
| Dividends paid on preferred stock | - | - | - | - | (48,000) | - | (48,000) |
| Net income | - | - | - | - | 249,992 | - | 249,992 |
| Comprehensive loss | - | - | - | - | - | (5,852) | (5,852) |
| Balance, December 31, 2013 | <u>\$ 1,200,000</u> | <u>1,834</u> | <u>\$ 4,584,725</u> | <u>\$ 4,437,568</u> | <u>\$ 1,190,628</u> | <u>\$ (3,058)</u> | <u>\$ 11,409,863</u> |
| Issuance of common stock | - | 102 | 255,000 | 255,000 | - | - | 510,000 |
| Dividends paid on preferred stock | - | - | - | - | (48,000) | - | (48,000) |
| Net income | - | - | - | - | 484,257 | - | 484,257 |
| Comprehensive income | - | - | - | - | - | 12,704 | 12,704 |
| Balance, December 31, 2014 | <u>\$ 1,200,000</u> | <u>1,936</u> | <u>\$ 4,839,725</u> | <u>\$ 4,692,568</u> | <u>\$ 1,626,885</u> | <u>\$ 9,646</u> | <u>\$ 12,368,824</u> |

Notes to Consolidated Financial Statements

Note 19. Subsidiary Bank Financial Information, continued

Statements of Cash Flows *For the years ended December 31, 2014 and 2013*

| | 2014 | 2013 |
|---|--------------|--------------|
| <i>Cash flows from operating activities</i> | | |
| Net income | \$ 484,257 | \$ 249,992 |
| Adjustments to reconcile net income to net cash provided by operations: | | |
| Depreciation and amortization | 72,518 | 62,519 |
| Provision for loan losses | 132,599 | 149,441 |
| Loss (gain) on sale of other real estate owned | 36,354 | (5,395) |
| Impairment write downs on other real estate owned | 62,388 | - |
| Net amortization on securities | 4,344 | 4,279 |
| Changes in assets and liabilities: | | |
| Accrued income | (75,258) | (69,387) |
| Grants receivable | - | 415,000 |
| Deferred income tax | 3,815 | 91,621 |
| Other assets | 32,828 | (51,289) |
| Accrued interest payable | 8,586 | (722) |
| Other liabilities | 160,645 | (127,884) |
| Net cash provided by operating activities | 923,076 | 718,175 |
| <i>Cash flows from investing activities</i> | | |
| Net decrease in interest-bearing deposits | 267,048 | 1,826,723 |
| Net (increase) decrease in federal funds sold | (711,000) | 386,000 |
| Net increase (decrease) in certificates of deposit | 436,000 | (4,319,271) |
| Purchases of securities available for sale | - | (400,000) |
| Purchases of securities held to maturity | - | (279,035) |
| (Purchases) redemption of restricted equity securities | - | 18,300 |
| Proceeds from sale of other real estate owned | 309,116 | 112,885 |
| Net increase in loans | (9,765,557) | (15,807,074) |
| Net purchases of premises and equipment | (843,736) | (97,350) |
| Net cash provided by investing activities | (10,308,129) | (18,558,822) |
| <i>Cash flows from financing activities</i> | | |
| Net increase in deposits | 8,960,442 | 16,243,586 |
| Net decrease in secured borrowings | - | (1,097,259) |
| Net increase in subordinated debt | - | 3,000,000 |
| Proceeds from sale of common stock | 510,000 | - |
| Dividends paid on preferred stock | (48,000) | (48,000) |
| Net cash provided by financing activities | 9,422,442 | 18,098,327 |
| Net increase in cash and cash equivalents | 37,389 | 257,680 |
| <i>Cash and cash equivalents, beginning</i> | 283,660 | 25,980 |
| <i>Cash and cash equivalents, ending</i> | \$ 321,049 | \$ 283,660 |
| <i>Supplemental disclosure of cash flow information</i> | | |
| Interest paid | \$ 814,403 | \$ 736,950 |
| Taxes paid | \$ 146,230 | \$ 130,541 |
| <i>Supplemental disclosure of noncash investing and financing activities</i> | | |
| Other real estate acquired in settlement of loans | \$ 215,178 | \$ - |
| Accrued dividends on preferred stock | \$ - | \$ - |