

Virginia Community Capital, Incorporated



Annual Report

December 31, 2015

Table of Contents

Independent Auditor's Report

Consolidated Statements of Financial Position	1
Consolidated Statements of Activities.....	2-3
Consolidated Statements of Cash Flows	4
Notes to Consolidated Financial Statements	5



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, 2015 and 2014, and the related consolidated statements of activities and cash flows for the years then ended and the related notes to the consolidated 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, 2015 and 2014, 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 24, 2016

Consolidated Statements of Financial Position

As of December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Assets		
Cash and due from banks	\$ 274,577	\$ 140,483
Interest-bearing deposits	16,088,137	4,446,830
Federal funds sold	16,000	858,000
Certificates of deposit	15,246,957	15,273,022
Investment securities available for sale	2,486,183	1,021,415
Investment securities held to maturity	267,460	771,868
Restricted equity securities	627,900	433,400
Cash funded loan loss reserves	333,019	450,000
Loans, net of allowance for loan losses of \$1,730,763 and \$1,020,083 at December 31, 2015 and 2014, respectively	109,562,412	93,738,786
Grants receivable	815,591	854,150
Accrued interest receivable	515,229	471,095
Premises and equipment	2,189,620	1,149,752
Other real estate owned	478,289	692,653
Other assets	306,279	200,195
Total assets	<u>\$ 149,207,653</u>	<u>\$ 120,501,649</u>
Liabilities		
Noninterest-bearing deposits	\$ 3,353,830	\$ 1,128,326
Interest-bearing deposits	86,369,323	65,463,885
Total deposits	89,723,153	66,592,211
Borrowings	32,291,818	27,361,198
Deferred revenue	1,249,620	1,276,505
Accrued interest payable	101,139	119,847
Other liabilities	426,653	508,496
Total liabilities	<u>123,792,383</u>	<u>95,858,257</u>
Commitments and contingencies		
Net Assets		
Temporarily restricted	594,611	710,000
Permanently restricted	1,032,200	1,032,200
Unrestricted	22,521,711	21,622,477
Accumulated other comprehensive income	11,306	19,598
Total consolidated net assets before noncontrolling interest in subsidiary	24,159,828	23,384,275
Noncontrolling interest in subsidiary	1,255,442	1,259,117
Total net assets	<u>25,415,270</u>	<u>24,643,392</u>
Total liabilities and net assets	<u>\$ 149,207,653</u>	<u>\$ 120,501,649</u>

Consolidated Statements of Activities

For the year ended December 31, 2015

	December 31, 2015			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenue and Support				
Grants and contract income	\$ 2,492,297	\$ 128,841	\$ -	\$ 2,621,138
Interest and fees on loans	5,232,640	-	-	5,232,640
Interest income	275,193	-	-	275,193
Miscellaneous income	147,841	-	-	147,841
Net assets released from restrictions	<u>244,230</u>	<u>(244,230)</u>	-	-
Total revenue and support	<u>8,392,201</u>	<u>(115,389)</u>	-	<u>8,276,812</u>
Expenses				
Program Services				
Salaries and wages	1,512,664	-	-	1,512,664
Payroll taxes	138,529	-	-	138,529
Employee benefits	232,177	-	-	232,177
Program services	418,884	-	-	418,884
Office expense	194,768	-	-	194,768
Professional fees	310,670	-	-	310,670
Depreciation expense	106,685	-	-	106,685
Interest expense	1,458,634	-	-	1,458,634
Provision for loan losses	710,680	-	-	710,680
Other expenses	<u>382,029</u>	-	-	<u>382,029</u>
Total program services expenses	<u>5,465,720</u>	-	-	<u>5,465,720</u>
Management and General				
Salaries and wages	999,232	-	-	999,232
Payroll taxes	91,510	-	-	91,510
Employee benefits	153,371	-	-	153,371
Office and administrative expenses	128,660	-	-	128,660
Professional fees	205,222	-	-	205,222
Depreciation expense	70,473	-	-	70,473
Other expenses	<u>252,360</u>	-	-	<u>252,360</u>
Total management and general expenses	<u>1,900,828</u>	-	-	<u>1,900,828</u>
Total expenses	<u>7,366,548</u>	-	-	<u>7,366,548</u>
Change in net assets/net income before provision for income taxes	1,025,653	(115,389)	-	910,264
Provision for income tax expense	<u>78,419</u>	-	-	<u>78,419</u>
Change in net assets/net income	947,234	(115,389)	-	831,845
Change in accumulated other comprehensive income (loss)	<u>(8,292)</u>	-	-	<u>(8,292)</u>
Change in net assets/net income and accumulated other comprehensive income	938,942	(115,389)	-	823,553
Dividends paid on subsidiary's preferred stock	<u>(48,000)</u>	-	-	<u>(48,000)</u>
Change in net assets/net income before noncontrolling interest in subsidiary	890,942	(115,389)	-	775,553
Net assets before noncontrolling interest in subsidiary beginning of year	<u>21,642,075</u>	<u>710,000</u>	<u>1,032,200</u>	<u>23,384,275</u>
Net assets before noncontrolling interest in subsidiary end of year	<u>\$ 22,533,017</u>	<u>\$ 594,611</u>	<u>\$ 1,032,200</u>	<u>\$ 24,159,828</u>

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	21,079,158	162,581	1,032,200	22,273,939
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 Cash Flows

For the years ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<i>Cash flows from operating activities</i>		
Change in net assets	\$ 831,845	\$ 1,201,603
Adjustments to reconcile change in net assets to net cash provided by operations:		
Depreciation and amortization	177,158	134,806
Provision for loan losses	710,680	289,209
(Gain) loss on sale of other real estate owned	8,444	37,348
Impairment write-downs on other real estate owned	9,968	67,266
Net (accretion) amortization on securities	(24,277)	17,046
Changes in assets and liabilities:		
Accrued interest receivable	(44,134)	(96,942)
Grants receivable	38,559	(211,265)
Other assets	(100,764)	18,237
Accrued interest payable	(18,708)	59,750
Deferred revenue	(26,885)	665,046
Other liabilities	(81,843)	179,482
Net cash provided by operating activities	<u>1,480,043</u>	<u>2,361,586</u>
<i>Cash flows from investing activities</i>		
Net decrease in certificates of deposit	26,065	432,347
Purchases of securities available for sale	(1,831,252)	-
Proceeds from maturities of securities available for sale	350,000	-
Proceeds from maturities of securities held to maturity	500,000	-
Proceeds from investment paydowns	27,882	-
Purchase of restricted equity securities	(194,500)	-
Proceeds from sale of other real estate owned	331,312	314,979
Net increase in loans	(16,669,666)	(19,113,365)
Decrease (increase) in cash funded loan loss reserve	116,981	(351,600)
Net purchases of premises and equipment	(1,217,026)	(908,702)
Net cash used in investing activities	<u>(18,560,204)</u>	<u>(19,626,341)</u>
<i>Cash flows from financing activities</i>		
Net increase in deposits	23,130,942	9,444,013
Net increase in borrowings	930,620	7,176,200
Net increase in FHLB borrowings	4,000,000	-
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>28,013,562</u>	<u>16,508,032</u>
Net increase (decrease) in cash and cash equivalents	10,933,401	(756,723)
<i>Cash and cash equivalents, beginning</i>	<u>5,445,313</u>	<u>6,202,036</u>
<i>Cash and cash equivalents, ending</i>	<u>\$ 16,378,714</u>	<u>\$ 5,445,313</u>
<i>Supplemental disclosure of cash flow information</i>		
Interest paid	<u>\$ 1,477,341</u>	<u>\$ 1,398,990</u>
Income taxes paid	<u>\$ 321,003</u>	<u>\$ 146,230</u>
<i>Supplemental disclosure of noncash investing and financing activities</i>		
Transfer of foreclosed properties	<u>\$ 135,360</u>	<u>\$ 215,178</u>

See Notes to Consolidated Financial Statements

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

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 relocated its Christiansburg branch to this new location in July of 2015. CCB Real Estate Holdings, Inc. issued 164 shares of common stock valued at \$10,000 per share on December 31, 2015. All of the stock is owned by Community Capital Bank.

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

Critical Accounting Policies

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

Principles of Consolidation

The consolidated financial statements include the accounts of the Organization and its 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

December 31, 2015 and 2014

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 Directors of the Organization may elect to designate such resources for specific purposes. This designation may be removed at the Board of Director'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 2014 consolidated financial statements have been reclassified to conform to the 2015 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.

Investment 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

December 31, 2015 and 2014

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

Loans Receivable

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

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

Allowance for Loan Losses

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

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the 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, collaterals net realizable 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. Factors taken into consideration for the unallocated component include housing vacancy and unemployment rates in Virginia, levels and trends in the Organizations delinquencies, impaired loans and net charge offs, risk rating of portfolio, experience of lending team and average loan size.

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 net realizable 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

December 31, 2015 and 2014

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	3-40
Furniture and equipment	3-10
Vehicle	4-7

Functional Allocation of Expenses

Functional expenses are allocated between the Organization 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

The Bank has a facility with the Federal Home Loan Bank of Atlanta for Daily Rate Credit. This provides secured, short-term funding to help manage liquidity and daily funding needs. At December 31, 2015, the Bank had \$4,000,000 borrowed against this facility, secured by cash.

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 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

December 31, 2015 and 2014

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 January 2015, the FASB issued guidance to eliminate from U.S. GAAP the concept of an extraordinary item, which is an event or transaction that is both (1) unusual in nature and (2) infrequently occurring. Under the new guidance, an entity will no longer (1) segregate an extraordinary item from the results of ordinary operations; (2) separately present an extraordinary item on its income statement, net of tax, after income from continuing operations; or (3) disclose income taxes and earnings-per-share data applicable to an extraordinary item. The amendments will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015, with early adoption permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. The Company will apply the guidance prospectively. The Company does not expect these amendments to have a material effect on its financial statements.

In February 2015, the FASB issued guidance which amends the consolidation requirements and significantly changes the consolidation analysis required under U.S. GAAP. Although the amendments are expected to result in the deconsolidation of many entities, the Company will need to reevaluate all its previous consolidation conclusions. The amendments will be effective for fiscal years beginning after December 15, 2015, and interim periods beginning after December 15, 2017, with early adoption permitted (including during an interim period), provided that the guidance is applied as of the beginning of the annual period containing the adoption date. The Company does not expect these amendments to have a material effect on its financial statements.

In November 2015, the FASB amended the Income Taxes topic of the Accounting Standards Codification simplify the presentation of deferred income taxes by requiring that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The amendments will be effective for financial statements issued for annual periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018, with early adoption permitted as of the beginning of an interim or annual reporting period. The Company will apply the guidance prospectively. The Company does not expect these amendments to have a material effect on its financial statements.

In January 2016, the FASB amended the Financial Instruments topic of the Accounting Standards Codification to address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The amendments will be effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. The Company will apply the guidance by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. The amendments related to equity securities without readily determinable fair values will be applied prospectively to equity investments that exist as of the date of adoption of the amendments. The Company does not expect these amendments to have a material effect on its financial statements.

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

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, 2015, and 2014, these reserve balances amounted to \$250,000. Additionally, at December 31, 2015 and 2014, 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

December 31, 2015 and 2014

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>
2015				
<i>Available for sale</i>				
U.S. Government sponsored entities	\$ 251,449	\$ -	\$ (986)	\$ 250,463
Obligations of states and political subdivisions	650,000	18,244	-	668,244
Collateralized mortgage obligations	1,263,865	-	(1,899)	1,261,966
Mortgage backed securities	<u>307,652</u>	<u>-</u>	<u>(2,142)</u>	<u>305,510</u>
Total	<u>\$ 2,472,966</u>	<u>\$ 18,244</u>	<u>\$ (5,027)</u>	<u>\$ 2,486,183</u>
<i>Held to maturity</i>				
Obligations of states and political subdivisions	<u>\$ 267,460</u>	<u>\$ -</u>	<u>\$ (2,185)</u>	<u>\$ 265,275</u>
2014				
<i>Available for sale</i>				
U.S. Government sponsored entities	\$ 250,000	\$ -	\$ (2,977)	\$ 247,023
Obligations of states and political subdivisions	746,848	27,544	-	774,392
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	271,340	-	(1,610)	269,730
Total	<u>\$ 771,868</u>	<u>\$ 178</u>	<u>\$ (1,610)</u>	<u>\$ 770,436</u>

Securities with an amortized cost of \$2,560,796 and \$1,496,738 were pledged as collateral or otherwise restricted at December 31, 2015 and 2014, respectively. The collateralized mortgage obligation bond is guaranteed by the full faith and credit of the United States Department of Treasury. The Organization had no realized gains or losses on sales of securities in 2015 and 2014, respectively.

The scheduled maturities of securities at December 31, 2015 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>
U.S. Government sponsored entities:				
Due one to five years	\$ 251,449	\$ 250,463	\$ -	\$ -
Obligations of states and political subdivisions:				
Due less than one year	\$ 150,000	\$ 153,050	\$ -	\$ -
Due one to five years	500,000	515,194	-	-
Due after ten years	-	-	267,460	265,275
	<u>\$ 650,000</u>	<u>\$ 668,244</u>	<u>\$ 267,460</u>	<u>\$ 265,275</u>
Collateralized mortgage obligations:				
Due after ten years	<u>\$ 1,263,865</u>	<u>\$ 1,261,966</u>	<u>\$ -</u>	<u>\$ -</u>
Mortgage backed securities:				
Due after five years but within ten years	<u>\$ 307,652</u>	<u>\$ 305,510</u>	<u>\$ -</u>	<u>\$ -</u>
Total Securities				
Due less than one year	\$ 150,000	\$ 153,050	\$ -	\$ -
Due one to five years	751,449	765,657	-	-
Due after five years but within ten years	307,652	305,510	-	-
Due after ten years	1,263,865	1,261,966	267,460	265,275
	<u>\$ 2,472,966</u>	<u>\$ 2,486,183</u>	<u>\$ 267,460</u>	<u>\$ 265,275</u>

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

Note 3. Investments, continued

As of December 31, 2015, the Organization did not have any securities that had been in an unrealized loss position for 12 or more consecutive months. The following table details unrealized losses and related fair values in the Organization's available for sale 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, 2015 and 2014.

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
2015						
U.S. Government sponsored entities	\$ 250,463	\$ (986)	\$ -	\$ -	\$ 250,463	\$ (986)
Obligations of state and political subdivisions	265,275	(2,185)	-	-	265,275	(2,185)
Collateralized mortgage obligations	1,261,966	(1,899)	-	-	1,261,966	(1,899)
Mortgage backed securities	305,510	(2,142)	-	-	305,510	(2,142)
Total temporarily impaired securities	<u>\$ 2,083,214</u>	<u>\$ (7,212)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,083,214</u>	<u>\$ (7,212)</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>

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 Organization maintains a relatively large portfolio of certificates of deposits in other banks. As of December 31, 2015 and 2014, the balance of these was \$15,246,957 and \$15,273,022, respectively. The weighted average yield on these was 1.35% and 1.21% at December 31, 2015 and 2014.

The majority of these deposits are FDIC-insured. As of December 31, 2015 and 2014, \$397,957 and \$1,030,000, respectively, were uninsured.

Note 5. Loans Receivable

The major components of loans in the consolidated statements of financial position at December 31, 2015 and 2014 are as follows:

	<u>2015</u>	<u>2014</u>
Commercial, industrial and other loans	\$ 34,281,888	\$ 28,674,317
Commercial real estate construction	28,205,474	30,086,069
Commercial real estate other	48,805,813	35,998,483
	111,293,175	94,758,869
Allowance for loan losses	(1,730,763)	(1,020,083)
Loans, net of allowance	<u>\$ 109,562,412</u>	<u>\$ 93,738,786</u>

There were no loans pledged at December 31, 2015 and 2014.

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

Note 6. Allowance for Loan Losses

The allocation of the allowance for loan losses by loan components at December 31, 2015 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>
2015					
Allowance for loan losses:					
Beginning balance	\$ 64,112	\$ 126,326	\$ 215,899	\$ 613,746	\$ 1,020,083
Charge-offs	-	-	-	-	-
Recoveries	-	-	-	-	-
Provision	81,518	516,858	(74,914)	187,218	710,680
Ending balance	<u>\$ 145,630</u>	<u>\$ 643,184</u>	<u>\$ 140,985</u>	<u>\$ 800,964</u>	<u>\$ 1,730,763</u>
Ending balance:					
Individually evaluated for impairment	<u>\$ 17,546</u>	<u>\$ 615,310</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 632,856</u>
Collectively evaluated for impairment	<u>\$ 128,084</u>	<u>\$ 27,874</u>	<u>\$ 140,985</u>	<u>\$ 800,964</u>	<u>\$ 1,097,907</u>
Loans Receivable:					
Ending balance	<u>\$ 34,281,888</u>	<u>\$ 28,205,474</u>	<u>\$ 48,805,813</u>		<u>\$ 111,293,175</u>
Ending balance:					
Individually evaluated for impairment	<u>\$ 39,829</u>	<u>\$ 2,462,792</u>	<u>\$ 67,505</u>		<u>\$ 2,570,126</u>
Collectively evaluated for impairment	<u>\$ 34,242,059</u>	<u>\$ 25,742,682</u>	<u>\$ 48,738,308</u>		<u>\$ 108,723,049</u>

The following table presents impaired loans by class of loans as of December 31, 2015:

	<u>Recorded Investment</u>	<u>Unpaid Principal Balance</u>	<u>Related Allowance</u>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>
2015					
With no related allowance recorded:					
Commercial, industrial, and other loans	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial real estate construction	1,063,240	1,042,935	-	1,063,240	45,798
Commercial real estate-other	73,605	67,505	-	73,605	-
	<u>1,136,845</u>	<u>1,110,440</u>	<u>-</u>	<u>1,136,845</u>	<u>45,798</u>
With allowance recorded:					
Commercial, industrial, and other loans	17,546	39,829	17,546	17,546	2,290
Commercial real estate construction	1,479,617	1,419,857	615,310	774,265	27,979
Commercial real estate-other	-	-	-	-	-
	<u>1,497,163</u>	<u>1,459,686</u>	<u>632,856</u>	<u>791,811</u>	<u>30,269</u>
Total					
Commercial, industrial, and other loans	17,546	39,829	17,546	17,546	2,290
Commercial real estate construction	2,542,857	2,462,792	615,310	1,837,505	73,777
Commercial real estate-other	73,605	67,505	-	73,605	-
	<u>\$ 2,634,008</u>	<u>\$ 2,570,126</u>	<u>\$ 632,856</u>	<u>\$ 1,928,656</u>	<u>\$ 76,067</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>
2015							
Commercial, industrial, and other loans	\$ 34,875	\$ -	\$ -	\$ 34,875	\$ 34,247,013	\$ 34,281,888	\$ -
Commercial real estate construction	1,004,949	-	1,571,838	2,576,787	25,628,687	28,205,474	155,925
Commercial real estate other	-	-	932,489	932,489	47,873,324	48,805,813	895,904
Total	<u>\$ 1,039,824</u>	<u>\$ -</u>	<u>\$ 2,504,327</u>	<u>\$ 3,544,151</u>	<u>\$ 107,749,024</u>	<u>\$ 111,293,175</u>	<u>\$ 1,051,829</u>

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

Note 6. Allowance for Loan Losses, continued

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, 2015 and 2014, the Organization had \$333,019 and \$450,000, respectively of cash funded loan loss reserves, received by grants, which are not included in the above tables. This amount is presented separately on the Statement of Financial Position. At December 31, 2015, \$44,457 is assigned to commercial, industrial and other loans, \$38,562 to commercial real estate – other and \$250,000 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

December 31, 2015 and 2014

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 Marginal, 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 Organization) 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 Organization’s range of acceptability. They may differ from loans rated “Good” 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

December 31, 2015 and 2014

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 Organization'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 Organization 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 Organization 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 an Organization 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, 2015	Commercial Industrial and Other Loans	Commercial Real Estate- Construction	Commercial Real Estate-Other	Total
Pass Credits	\$ 29,408,495	\$ 25,061,234	\$ 47,604,370	\$ 102,074,099
Marginal	4,379,627	535,210	116,154	5,030,991
Special Mention	493,766	806,973	1,031,589	2,332,328
Substandard	-	1,802,057	53,700	1,855,757
Total	<u>\$ 34,281,888</u>	<u>\$ 28,205,474</u>	<u>\$ 48,805,813</u>	<u>\$ 111,293,175</u>

Based on information received after the end of the year, the Organization downgraded one relationship consisting of two loans from Special Mention to Substandard after December 31, 2015. The total balance was \$955,771 as of December 31, 2015. These loans were considered impaired after the downgrade. There was no additional loan loss allowance required as a result of this downgrade. See Note 17.

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

Note 6. Allowance for Loan Losses, continued

Loans by Risk Rating December 31, 2014	Commercial Industrial and Other Loans	Commercial Real Estate- Construction	Commercial Real Estate-Other	Total
Pass Credits	\$ 24,510,311	\$ 23,823,290	\$ 34,411,158	\$ 82,744,759
Marginal	4,149,456	2,205,699	916,388	7,271,543
Special Mention	14,550	3,667,213	194,657	3,876,420
Substandard	-	389,867	476,280	866,147
Total	<u>\$ 28,674,317</u>	<u>\$ 30,086,069</u>	<u>\$ 35,998,483</u>	<u>\$ 94,758,869</u>

Troubled Debt Restructurings

During 2015, one loan was modified through a deferred payment plan and was considered to be a troubled debt restructuring. During 2014, one loan was modified through a payment reduction and was considered to be a troubled debt restructuring.

Information regarding loans modified in a troubled debt restructuring for the years ended December 31, 2015 and 2014, respectively, is as follows:

	December 31, 2015			December 31, 2014		
	Number of Contracts	Pre- modification Outstanding Recorded Investment	Post- modification Outstanding Recorded Investment	Number of Contracts	Pre- modification Outstanding Recorded Investment	Post- modification Outstanding Recorded Investment
Commercial real estate - construction	1	\$ 385,470	\$ 398,984	-	\$ -	\$ -
Commercial real estate - other	-	-	-	1	147,250	147,250
Total	<u>1</u>	<u>\$ 385,470</u>	<u>\$ 398,984</u>	<u>1</u>	<u>\$ 147,250</u>	<u>\$ 147,250</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:

	2015	2014
Community Development Financial Institutions Financial Assistance Award	\$ 1,623,256	\$ 1,658,585
Healthy Foods Financing Initiative Financial Assistance Award	1,000,000	-
Alleghany Foundation	500,000	-
Hopewell EDA	850	-
New Market Tax Credit Training Assistance Award	-	49,714
Learning Exchange Pledges	-	1,750
Total grants receivable	3,124,106	1,710,049
Unearned grants receivable	(2,308,515)	(855,899)
Total grants receivable, net	<u>\$ 815,591</u>	<u>\$ 854,150</u>

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

Note 8. Premises and Equipment

Components of Premises and Equipment

Components of premises and equipment and total accumulated depreciation at December 31, 2015 and 2014 are as follows:

	<u>2015</u>	<u>2014</u>
Furniture and equipment	\$ 869,861	\$ 593,885
Leasehold improvements	62,217	58,429
Vehicle	86,502	86,503
Buildings and improvements	1,242,132	475,015
Land	390,606	316,648
Premises and equipment, total	<u>2,651,318</u>	<u>1,530,480</u>
Less accumulated depreciation	(461,698)	(380,728)
Premises and equipment, net of depreciation	<u>\$ 2,189,620</u>	<u>\$ 1,149,752</u>

Depreciation and amortization expense for the years ended December 31, 2015 and 2014 was \$177,158 and \$134,806, respectively. During 2014, the Organization purchased a building that will house the Christiansburg branch and administrative offices. The Organization branch took occupancy of the building on July 31, 2015.

Leases

The Organization leases office space in Richmond, Norfolk and Springfield, Virginia. The leases in Richmond and Norfolk expire April 30, 2017 and June 30, 2021, respectively. The decision to close the Springfield office was made in December 2015, with the office expected to close and lease terminate in February 2016. Future lease payments are as follows:

	<u>Richmond Office</u>	<u>Norfolk Office</u>	<u>Springfield Office</u>	<u>Total</u>
2016	\$ 129,526	\$ 46,864	\$ 751	\$ 177,141
2017	30,779	48,035	-	78,814
2018	-	49,236	-	49,236
2019	-	50,467	-	50,467
2020	-	51,729	-	51,729
2021	-	4,391	-	4,391
	<u>\$ 160,305</u>	<u>\$ 250,722</u>	<u>\$ 751</u>	<u>\$ 411,778</u>

Rent expense for the years ended December 31, 2015 and 2014 was \$192,434 and \$215,711, respectively.

Note 9. Deposits

The major components of deposits in the Consolidated Statements of Financial Position at December 31, 2015 and 2014 are as follows:

	<u>2015</u>	<u>2014</u>
Noninterest-bearing demand	\$ 3,353,830	\$ 1,128,326
Interest-bearing demand	13,940,744	13,424,917
Time deposits	72,428,579	52,038,968
Total deposits	<u>\$ 89,723,153</u>	<u>\$ 66,592,211</u>

The aggregate amount of time deposits in denomination of \$250,000 or more at December 31, 2015 and 2014 was \$21,638,801 and \$4,673,191, respectively. At December 31, 2015, the scheduled maturities of time deposits are as follows:

2016	\$ 47,296,001
2017	11,407,732
2018	3,982,321
2019	4,673,593
2020	4,738,937
Thereafter	329,995
	<u>\$ 72,428,579</u>

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

Note 10. Borrowings

Borrowings at December 31, 2015 and 2014, respectively, consist of the following:

Description	Rate	Maturity	2015	2014
Union First Market	3.00%	09/30/2015	\$ -	\$ 1,999,692
FHLB Daily Rate Credit	0.54%	On Demand	4,000,000	-
Bank of Botetourt	2.50%	On Demand	2,000,000	-
Wells Fargo	LIBOR+2.90%	03/27/2016	1,000,000	3,000,000
Bon Secours Health Systems	2.00%	04/01/2016	500,000	500,000
Bank of America	3.10%	05/31/2016	1,000,000	1,000,000
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 (subordinated)	*See note below		1,000,000	755,000
Bon Secours Health Systems	2.25%	04/01/2017	300,000	300,000
Bank of America	3.10%	05/31/2017	1,000,000	1,000,000
Opportunity Finance Network	4.25%	06/30/2017	-	1,000,000
CDFI Fund	2.25%	08/01/2017	1,177,056	1,177,056
Appalachian Community Capital	2.41%	10/13/2017	3,000,000	-
WoodForest Bank	2.75%	05/10/2018	222,688	-
Bank of America	3.10%	05/31/2018	1,000,000	1,000,000
Community Development Capital Initiative (subordinated)	2.00%	09/25/2018	1,915,000	1,915,000
Capital One	3.00%	01/01/2019	496,209	500,000
CDFI Fund	2.00%	04/16/2019	989,450	989,450
Bank of America	3.10%	05/31/2019	1,500,000	1,500,000
HSBC	2.08%	10/31/2019	1,500,000	-
Goldman Sachs	3.75%	04/20/2020	-	4,000,000
Bank of America	3.10%	05/31/2020	1,500,000	1,500,000
Jessie Ball DuPont	2.00%	07/08/2020	1,500,000	1,000,000
Wells Fargo EQ2 (subordinated)	2.00%	02/02/2021	500,000	500,000
Wells Fargo EQ2 (subordinated)	2.00%	03/20/2024	500,000	500,000
CDFI Fund	1.95%	12/30/2027	341,415	-
United States Department of Agriculture	1.00%	03/31/2044	2,125,000	-
			<u>\$ 32,291,818</u>	<u>\$ 27,361,198</u>

*Local Impact Opportunity Notes range in size from \$25,000-\$250,000, with rates of 1.50%-2.25%. The first of these notes matures on 12/17/2016, with the final note maturing on 05/18/2020.

Performance against debt covenants is measured on a quarterly basis. As of December 31, 2015, the Organization was in compliance with all covenants.

At December 31, 2015, the scheduled maturities of borrowings are as follows:

2016	\$ 11,775,000
2017	5,852,056
2018	3,382,688
2019	4,765,659
2020	3,050,000
Thereafter	<u>3,466,415</u>
	<u>\$ 32,291,818</u>

At December 31, 2015, the Organization had unused Federal Fund lines of credit of \$2,484,000, and other various unused commitments of \$4,500,000 with rates ranging from 1.00% to 4.00%.

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

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 Organization to measure certain financial assets recorded at fair value on a recurring basis in the financial statements:

Investment 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, 2015</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	\$ 250,463	\$ -	\$ 250,463	\$ -
Obligations of states and political subdivisions	668,244	-	668,244	-
Collateralized mortgage obligation	1,261,966	-	1,261,966	-
Mortgage backed securities	305,510	-	305,510	-
Total assets measured at fair value	<u>\$ 2,486,183</u>	<u>\$ -</u>	<u>\$ 2,486,183</u>	<u>\$ -</u>

December 31, 2014

<i>Investment securities available for sale:</i>				
U.S. Government sponsored entities	\$ 247,023	\$ -	\$ 247,023	\$ -
Obligations of states and political subdivisions	774,392	-	774,392	-
Total assets measured at fair value	<u>\$ 1,021,415</u>	<u>\$ -</u>	<u>\$ 1,021,415</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

December 31, 2015 and 2014

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.

<u>December 31, 2015</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Impaired loans	\$ 1,419,857	\$ -	\$ -	\$ 1,419,857
Other real estate owned	<u>478,289</u>	<u>-</u>	<u>-</u>	<u>478,289</u>
Total assets measured at fair value	<u>\$ 1,898,146</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,819,146</u>

December 31, 2014

Impaired loans	\$ 296,463	\$ -	\$ -	\$ 296,463
Other real estate owned	<u>692,653</u>	<u>-</u>	<u>-</u>	<u>692,653</u>
Total assets measured at fair value	<u>\$ 989,116</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 989,116</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, 2015 and 2014, respectively.

	<u>December 31, 2015</u>	<u>Valuation Techniques</u>	<u>Unobservable Inputs</u>	<u>Range (Wtd Avg)</u>
Impaired loans:				
Commercial real estate - construction	1,419,857	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>478,289</u>	Appraisals and/or sales of comparable properties	Management discount to reflect current market conditions	0.00%-6.67% (1.05%)
	<u>\$ 1,898,146</u>			
	<u>December 31, 2014</u>	<u>Valuation Techniques</u>	<u>Unobservable Inputs</u>	<u>Range (Wtd Avg)</u>
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%-19.43% (7.36%)
	<u>\$ 989,116</u>			

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

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, 2015 and 2014 amounted to \$93,707 and \$79,612, 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, 2015 and 2014 is as follows:

	<u>2015</u>	<u>2014</u>
Current	\$ 171,511	\$ 249,959
Deferred expense (benefit)	(93,092)	(2,679)
Income tax expense	<u>\$ 78,419</u>	<u>\$ 247,280</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 Activities for the years ended December 31, 2015 and 2014 is as follows:

	<u>2015</u>	<u>2014</u>
Tax at statutory federal rate	\$ 111,451	\$ 248,723
Other	(33,032)	(1,443)
	<u>\$ 78,419</u>	<u>\$ 247,280</u>

Deferred Income Tax Analysis

The significant components of net deferred tax assets at December 31, 2015 and 2014 are summarized as follows:

	<u>2015</u>	<u>2014</u>
<i>Deferred tax assets</i>		
Allowance for loan losses	\$ 307,838	\$ 169,566
Other real estate owned	8,201	31,443
Pre-opening expenses	23,249	26,315
Deferred tax asset	<u>339,288</u>	<u>227,324</u>
<i>Deferred tax liabilities</i>		
Deferred loan costs	(143,246)	(153,376)
Prepaid expenses	(14,108)	(14,118)
Depreciation	(77,440)	(46,208)
Unrealized gains on securities available for sale, net	(1,911)	(4,969)
Startup expenses for CCB Real Estate Holdings, Inc.	-	(2,219)
Deferred tax liability	<u>(236,705)</u>	<u>(220,890)</u>
Net deferred tax asset	<u>\$ 102,583</u>	<u>\$ 6,434</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 2012 through 2015 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

December 31, 2015 and 2014

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, 2015 and 2014.

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>2015</u>	<u>2014</u>
Commitments to grant loans	\$ 11,713	\$ 16,629
Unfunded commitments under lines of credit	20,057	38,256
	<u>\$ 31,770</u>	<u>\$ 54,885</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.

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

December 31, 2015 and 2014

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, 2015 or 2014.

Deposits from related parties held by the Bank at December 31, 2015 and 2014 amounted to \$24,985 and \$53,124, respectively.

Note 16. Minimum Regulatory Capital Requirements

The Bank is subject to regulatory capital requirements administered by the federal banking agencies. Capital adequacy guidelines and prompt corrective action regulations involve quantitative measure of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet minimum capital requirements can initiate regulatory actions. The final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. banks (Basel III rules) became effective for the Company on January 1, 2015 with full compliance with all of the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital. Capital amounts and ratios for December 31, 2014 are calculated using Basel I rules.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required.

As of December 31, 2015, 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, Tier I leverage and Common equity tier I ratios as set forth in the following table. There are no conditions or events since the notification that management believes have significantly impacted the Bank's category. At December 31, 2015, management believes the Company and the Bank's Basel III capital calculations exceed requirements.

Below is a summary of the Bank's capital ratios for December 31, 2015 and December 31, 2014. (Dollars in thousands)

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2015						
Total Capital						
(to Risk-Weighted Assets)	\$ 16,594	18.29%	\$ 7,258	8.0%	\$ 9,073	10.0%
Tier I Capital						
(to Risk-Weighted Assets)	\$ 11,360	12.52%	\$ 5,444	6.0%	\$ 7,258	8.0%
Common Equity Tier I Capital						
(to Average Assets)	\$ 11,360	12.52%	\$ 4,083	4.5%	\$ 5,897	6.5%
Tier I Capital						
(to Average Assets)	\$ 11,360	11.73%	\$ 3,873	4.0%	\$ 4,841	5.0%
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%

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

Note 17. Subsequent Events

These financial statements have been updated for subsequent events occurring through March 24, 2016 which is the date these financial statements were available to be issued. The Organization had a type two subsequent event in February 2016, which is discussed in more detail in Note 6.

Note 18. Parent Company Financial Information

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

Statements of Financial Position December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Assets		
Cash and due from banks	\$ 199,840	\$ 151,197
Interest-bearing deposits	1,987,039	468,512
Certificates of deposit	1,128,022	1,128,022
Investment securities available for sale	257,598	259,953
Cash funded loan loss reserves	333,019	450,000
Loans, net of allowance for loan losses of \$696,396 and \$396,112 at December 31, 2015 and 2014, respectively	37,253,397	37,342,873
Grants receivable	815,591	854,150
Accrued interest receivable	170,606	135,741
Premises and equipment	314,212	173,366
Investment in subsidiaries	12,567,844	12,372,423
Other real estate owned	17,645	34,632
Other assets	80,768	107,158
Total assets	<u>\$ 55,125,581</u>	<u>\$ 53,478,027</u>
Liabilities		
Borrowings	\$ 28,291,818	\$ 27,361,198
Deferred revenue	1,241,551	1,276,505
Accrued interest payable	57,804	80,449
Other liabilities	119,138	116,483
Total liabilities	<u>29,710,311</u>	<u>28,834,635</u>
Commitments and contingencies		
Net Assets		
Temporarily restricted	594,611	710,000
Permanently restricted	1,032,200	1,032,200
Unrestricted	22,521,711	21,622,477
Accumulated other comprehensive income	11,306	19,598
Total net assets before noncontrolling interest in subsidiary	24,159,828	23,384,275
Equity in noncontrolling interest	1,255,442	1,259,117
Total net assets	<u>25,415,270</u>	<u>24,643,392</u>
Total liabilities and net assets	<u>\$ 55,125,581</u>	<u>\$ 53,478,027</u>

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

Note 18. Parent Company Only Financial Information, continued

Statements of Activities For the year ended December 31, 2015

	December 31, 2015			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Revenue and Support				
Grants and contract income	\$ 2,492,297	\$ 128,841	\$ -	\$ 2,621,138
Interest and fees on loans	1,774,375	-	-	1,774,375
Interest income	31,664	-	-	31,664
Miscellaneous income	9,850	-	-	9,850
Net assets released from restrictions	<u>244,230</u>	<u>(244,230)</u>	<u>-</u>	<u>-</u>
Total revenue and support	<u>4,552,416</u>	<u>(115,389)</u>	<u>-</u>	<u>4,437,027</u>
Expenses				
Program Services				
Salaries and wages	885,132	-	-	885,132
Payroll taxes	71,953	-	-	71,953
Employee benefits	121,325	-	-	121,325
Program services	169,114	-	-	169,114
Office expense	103,931	-	-	103,931
Professional fees	212,269	-	-	212,269
Depreciation expense	50,666	-	-	50,666
Interest expense	688,508	-	-	688,508
Recovery of loan losses	300,284	-	-	300,284
Other expenses	<u>178,650</u>	<u>-</u>	<u>-</u>	<u>178,650</u>
Total program services expenses	<u>2,781,832</u>	<u>-</u>	<u>-</u>	<u>2,781,832</u>
Management and General				
Salaries and wages	584,698	-	-	584,698
Payroll taxes	47,531	-	-	47,531
Employee benefits	80,145	-	-	80,145
Office and administrative expenses	68,655	-	-	68,655
Professional fees	140,220	-	-	140,220
Depreciation expense	33,468	-	-	33,468
Other expenses	<u>118,012</u>	<u>-</u>	<u>-</u>	<u>118,012</u>
Total management and general expenses	<u>1,072,729</u>	<u>-</u>	<u>-</u>	<u>1,072,729</u>
Total expenses	<u>3,854,561</u>	<u>-</u>	<u>-</u>	<u>3,854,561</u>
Change in net assets/net income before undistributed income of subsidiaries	697,855	(115,389)	-	582,466
Change in equity from undistributed income of bank subsidiary	249,379	-	-	249,379
Change in equity from undistributed income of subsidiary LLC	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Change in net assets/net income	947,234	(115,389)	-	831,845
Change in accumulated other comprehensive income (loss)	(8,292)	-	-	(8,292)
Dividends paid on subsidiary's preferred stock	<u>(48,000)</u>	<u>-</u>	<u>-</u>	<u>(48,000)</u>
Change in net assets/net income attributable to Virginia Community Capital, Inc.	890,942	(115,389)	-	775,553
Net assets beginning of year	<u>21,642,075</u>	<u>710,000</u>	<u>1,032,200</u>	<u>23,384,275</u>
Net assets end of year	<u>\$ 22,533,017</u>	<u>\$ 594,611</u>	<u>\$ 1,032,200</u>	<u>\$ 24,159,828</u>

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

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	291,229	(291,229)	-	-
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	272,582	-	-	272,582
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	90,861	-	-	90,861
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	(5,753)	-	-	(5,753)
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	-	(64,181)	-	(64,181)
Change in net assets/net income attributable to Virginia Community Capital, Inc.	562,917	547,419	-	1,110,336
Net assets beginning of year	21,079,158	162,581	1,032,200	22,273,939
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

December 31, 2015 and 2014

Note 18. Parent Company Only Financial Information, continued

Statements of Cash Flows For the years ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities		
Change in net assets	\$ 831,845	\$ 1,201,603
Adjustments to reconcile change in net assets to net cash provided by operations:		
Depreciation and amortization	84,134	62,288
Provision for loan losses	300,284	156,610
Loss on sale of other real estate owned	422	994
Impairment write-downs on foreclosed assets	-	4,878
Net (accretion) amortization on securities	(5,937)	12,703
Changes in assets and liabilities:		
Accrued interest receivable	(34,865)	(21,683)
Grants receivable	38,559	(211,265)
Other assets	26,390	(10,623)
Investment in subsidiaries	(195,421)	(958,961)
Accrued interest payable	(22,645)	51,163
Deferred revenue	(34,954)	665,046
Noncontrolling interest in subsidiary	(3,675)	7,367
Other liabilities	2,655	15,390
Net cash provided by operating activities	<u>986,792</u>	<u>975,510</u>
Cash flows from investing activities		
Net increase in certificates of deposit	-	(3,653)
Proceeds from sale of other real estate owned	16,565	5,863
Net increase in loans	(210,808)	(9,347,808)
Decrease in cash funded loan loss reserves	116,981	(351,600)
Net purchases of premises and equipment	(224,980)	(64,965)
Net cash used in investing activities	<u>(302,242)</u>	<u>(9,762,163)</u>
Cash flows from financing activities		
Dividends paid on subsidiary's preferred stock	(48,000)	(48,000)
Net increase in borrowings	930,620	7,176,200
Return of program funds to USDA	-	(64,181)
Net cash provided by financing activities	<u>882,620</u>	<u>7,064,019</u>
Net increase (decrease) in cash and cash equivalents	1,567,170	(1,722,634)
Cash and cash equivalents, beginning	<u>619,709</u>	<u>2,342,343</u>
Cash and cash equivalents, ending	<u>\$ 2,186,879</u>	<u>\$ 619,709</u>
Supplemental disclosure of cash flow information		
Interest paid	<u>\$ 711,153</u>	<u>\$ 645,421</u>
Supplemental disclosure of noncash investing and financing activities		
Other real estate acquired in settlement of loans	<u>\$ -</u>	<u>\$ -</u>

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

Note 19. Subsidiary Bank Financial Information

Financial information of Community Capital Bank of Virginia as of, and for the years ended December 31, 2015 and 2014 are as follows:

Balance Sheets December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Assets		
Cash and due from banks	\$ 332,074	\$ 321,049
Interest-bearing deposits	14,204,639	4,081,605
Federal funds sold	16,000	858,000
Certificates of deposit	14,118,935	14,145,000
Investment securities available for sale	2,228,586	761,463
Investment securities held to maturity	267,460	771,868
Restricted equity securities	627,900	433,400
Loans, net of allowance for loan losses of \$1,034,367 and \$623,971 at December 31, 2015 and 2014, respectively	75,309,015	59,395,913
Accrued interest receivable	344,623	335,354
Premises and equipment	1,875,408	976,386
Other real estate owned	460,644	658,021
Other assets	221,933	89,437
Total assets	<u>\$ 110,007,217</u>	<u>\$ 82,827,496</u>
Liabilities		
Noninterest-bearing deposits	\$ 3,611,168	\$ 1,460,089
Interest-bearing deposits	<u>86,472,864</u>	<u>65,567,172</u>
Total deposits	90,084,032	67,027,261
FHLB borrowings	4,000,000	-
Subordinated debt	3,000,000	3,000,000
Deferred revenue	8,069	-
Accrued interest payable	43,336	39,398
Other liabilities	<u>307,514</u>	<u>392,013</u>
Total liabilities	<u>97,442,951</u>	<u>70,458,672</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 2015 and 2014, respectively	1,200,000	1,200,000
Common stock, \$2,500 par value, 4,000 shares authorized; 1,936 shares issued and outstanding for 2015 and 2014	4,839,725	4,839,725
Additional paid in capital	4,692,568	4,692,568
Retained earnings	1,828,264	1,626,885
Accumulated other comprehensive income	3,709	9,646
Total shareholder's equity	<u>12,564,266</u>	<u>12,368,824</u>
Total liabilities and shareholder's equity	<u>\$ 110,007,217</u>	<u>\$ 82,827,496</u>

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

Note 19. Subsidiary Bank Financial Information, continued

Statements of Operations For the years ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Interest and dividend income		
Loans and fees on loans	\$ 3,388,807	\$ 2,935,701
Federal funds sold	2,236	1,778
Investment securities-taxable	41,720	22,032
Investment securities-nontaxable	24,093	21,865
Deposits with other banks	<u>175,733</u>	<u>223,359</u>
Total interest and dividend income	<u>3,632,589</u>	<u>3,204,735</u>
Interest expense		
Deposits	769,999	748,314
Federal funds purchased	260	202
Secured borrowings	120	-
Subordinated debt	<u>60,833</u>	<u>60,833</u>
Total interest expense	<u>831,212</u>	<u>809,349</u>
Net interest income	2,801,377	2,395,386
Provision for loan losses		
Net interest income after provision for loan losses	<u>410,396</u>	<u>132,599</u>
	<u>2,390,981</u>	<u>2,262,787</u>
Noninterest income		
Gain on sale of other real estate owned	2,025	-
Bank enterprise award	-	355,000
Other noninterest income	<u>240,069</u>	<u>171,185</u>
Total noninterest income	<u>242,094</u>	<u>526,185</u>
Noninterest expense		
Salaries and employee benefits	1,336,699	1,059,634
Occupancy and equipment	231,895	190,253
Data processing	61,021	56,222
Advertising and marketing	18,305	23,274
Audit	37,885	39,321
Legal	3,555	6,668
Consulting	121,962	87,924
FDIC insurance	83,483	67,665
Franchise tax expense	91,064	118,339
Other real estate owned expense, net	10,413	119,078
Other expenses	<u>308,995</u>	<u>289,057</u>
Total noninterest expense	<u>2,305,277</u>	<u>2,057,435</u>
Net income before income tax expense	327,798	731,537
Income tax expense	<u>78,419</u>	<u>247,280</u>
Net income	249,379	484,257
Dividends paid to preferred shareholders	<u>(48,000)</u>	<u>(48,000)</u>
Net income available to common shareholders	<u>\$ 201,379</u>	<u>\$ 436,257</u>
Basic income per common share	<u>\$ 104.02</u>	<u>\$ 237.48</u>
Weighted average common shares outstanding	<u>1,936</u>	<u>1,837</u>

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

Note 19. Subsidiary Bank Financial Information, continued

*Statements of Comprehensive Income
For the years ended December 31, 2015 and 2014*

	<u>2015</u>	<u>2014</u>
<i>Net income</i>	\$ 249,379	\$ 484,257
<i>Other comprehensive income (loss):</i>		
Unrealized (losses) gains on available for sale securities	(8,995)	19,248
Tax (benefit) expense from unrealized (losses) gains on available for sale securities	<u>3,058</u>	<u>(6,544)</u>
Other comprehensive (loss) income	<u>(5,937)</u>	<u>12,704</u>
<i>Comprehensive income</i>	<u>\$ 243,442</u>	<u>\$ 496,961</u>

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

Note 19. Subsidiary Bank Financial Information, continued

*Statements of Changes in Shareholders' Equity
For the years ended December 31, 2015 and 2014*

	<u>Preferred Stock</u>	<u>Common Stock</u>		<u>Additional Paid In Capital</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total</u>
		<u>Shares</u>	<u>Amount</u>				
Balance, January 1, 2014	\$ 1,200,000	1,834	\$ 4,584,725	\$ 4,437,568	\$ 1,190,628	\$ (3,058)	\$ 11,409,863
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>
Issuance of common stock	-	-	-	-	-	-	-
Dividends paid on preferred stock	-	-	-	-	(48,000)	-	(48,000)
Net income	-	-	-	-	249,379	-	249,379
Comprehensive loss	-	-	-	-	-	(5,937)	(5,937)
Balance, December 31, 2015	<u>\$ 1,200,000</u>	<u>1,936</u>	<u>\$ 4,839,725</u>	<u>\$ 4,692,568</u>	<u>\$ 1,828,264</u>	<u>\$ 3,709</u>	<u>\$ 12,564,266</u>

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

Note 19. Subsidiary Bank Financial Information, continued

Statements of Cash Flows For the years ended December 31, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<i>Cash flows from operating activities</i>		
Net income	\$ 249,379	\$ 484,257
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and amortization	93,024	72,518
Provision for loan losses	410,396	132,599
Loss on sale of other real estate owned	8,022	36,354
Impairment write downs on other real estate owned	9,968	62,388
Net (accretion) amortization on securities	(18,340)	4,344
Changes in assets and liabilities:		
Accrued income	(9,269)	(75,258)
Deferred income tax	(96,149)	3,815
Other assets	(33,288)	32,828
Accrued interest payable	3,938	8,586
Deferred revenue	8,069	-
Other liabilities	(84,499)	160,645
Net cash provided by operating activities	<u>541,251</u>	<u>923,076</u>
<i>Cash flows from investing activities</i>		
Net increase in certificates of deposit	26,065	436,000
Purchases of securities available for sale	(1,831,252)	-
Proceeds from maturities of securities available for sale	350,000	-
Proceeds from maturity of securities held to maturity	500,000	-
Proceeds from investment paydowns	27,881	-
Purchase of restricted equity securities	(194,500)	-
Proceeds from sale of other real estate owned	314,747	309,116
Net increase in loans	(16,458,858)	(9,765,557)
Net purchases of premises and equipment	(992,046)	(843,736)
Net cash used in investing activities	<u>(18,257,963)</u>	<u>(9,864,177)</u>
<i>Cash flows from financing activities</i>		
Net increase in deposits	23,056,771	8,960,442
Net increase in FHLB borrowings	4,000,000	-
Proceeds from sale of common stock	-	510,000
Dividends paid on preferred stock	(48,000)	(48,000)
Net cash provided by financing activities	<u>27,008,771</u>	<u>9,422,442</u>
Net increase in cash and cash equivalents	9,292,059	481,341
<i>Cash and cash equivalents, beginning</i>	<u>5,260,654</u>	<u>4,779,313</u>
<i>Cash and cash equivalents, ending</i>	<u>\$ 14,552,713</u>	<u>\$ 5,260,654</u>
<i>Supplemental disclosure of cash flow information</i>		
Interest paid	<u>\$ 827,275</u>	<u>\$ 814,403</u>
Taxes paid	<u>\$ 321,003</u>	<u>\$ 146,230</u>
<i>Supplemental disclosure of noncash investing and financing activities</i>		
Other real estate acquired in settlement of loans	<u>\$ 135,360</u>	<u>\$ 215,178</u>
Accrued dividends on preferred stock	<u>\$ -</u>	<u>\$ -</u>