

FINANCIAL REPORT

THE FREEDOM BANK OF VIRGINIA

YEARS ENDED DECEMBER 31, 2014 AND 2013

THE FREEDOM BANK OF VIRGINIA

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THOMPSON GREENSPON

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders
The Freedom Bank of Virginia
Fairfax, Virginia

We have audited the accompanying financial statements of The Freedom Bank of Virginia, which comprise the balance sheets as of December 31, 2014 and 2013, and the related statements of operations, comprehensive income, changes in stockholders' equity and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the 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 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 financial statements referred to above present fairly, in all material respects, the financial position of The Freedom Bank of Virginia as of December 31, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Thompson Greenspon

Fairfax, Virginia
March 23, 2015

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THE FREEDOM BANK OF VIRGINIA

BALANCE SHEETS
DECEMBER 31, 2014 AND 2013

	2014	2013
ASSETS		
Cash and Due from Banks	$ 4,917,099	$ 8,171,071
Interest Bearing Deposits with Banks	1,024,155	1,020,078
Federal Funds Sold	24,837,000	16,817,000
Securities Available-for-Sale	27,294,953	23,740,219
Securities Held-to-Maturity	5,610	44,679
Federal Reserve Bank Stock, at cost	829,200	778,000
Federal Home Loan Bank Stock, at cost	274,800	-
Loans Held for Sale	649,975	768,900
Loans Receivable	278,989,586	220,164,884
Allowance for Possible Loan Losses	(2,685,807)	(2,587,363)
Net Loans	276,303,779	217,577,521
Bank Premises and Equipment, net	830,770	292,377
Accrued Interest Receivable	864,224	697,326
Deferred Tax Asset	1,320,000	859,000
Bank-Owned Life Insurance	2,160,567	2,101,603
Other Assets	1,299,512	1,334,285
Total Assets	$ 342,611,644	$ 274,202,059

The Notes to Financial Statements are an integral part of these statements.

LIABILITIES AND STOCKHOLDERS' EQUITY	2014	2013
Liabilities		
Deposits		
Demand deposits		
Non-interest bearing	$ 51,431,344	$ 39,085,418
Interest bearing	65,959,271	47,370,151
Savings deposits	2,637,231	3,704,290
Time deposits	191,660,138	156,993,688
Total Deposits	311,687,984	247,153,547
Other accrued expenses	1,062,136	852,477
Accrued interest payable	92,304	77,310
Total Liabilities	312,842,424	248,083,334
Stockholders' Equity		
Common stock, $3.16 par value, 5,000,000 shares authorized: 4,025,349 shares issued and outstanding, 2014; 3,814,956 shares issued and outstanding, 2013	12,707,042	12,042,200
Additional paid-in capital	17,457,152	16,371,940
Accumulated other comprehensive income (loss), net	(118,889)	(418,932)
Retained deficit	(276,085)	(1,876,483)
Total Stockholders' Equity	29,769,220	26,118,725
Total Liabilities and Stockholders' Equity	$ 342,611,644	$ 274,202,059

THE FREEDOM BANK OF VIRGINIA

STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
Interest Income		
Interest and fees on loans	$ 13,098,078	$ 10,728,017
Interest on investment securities	535,438	498,274
Interest on Federal funds sold	23,428	32,757
Total Interest Income	13,656,944	11,259,048
Interest Expense		
Interest on deposits	2,267,925	1,984,920
Net Interest Income	11,389,019	9,274,128
Provision for Possible Loan Losses	486,000	297,500
Net Interest Income after Provision for Possible Loan Losses	10,903,019	8,976,628
Other Income		
Service charges and other income	501,558	821,214
Increase in cash surrender value of bank-owned life insurance	58,964	58,428
Total Other Income	560,522	879,642
Operating Expenses		
Officers and employee compensation and benefits	5,974,486	5,224,922
Occupancy expense	622,690	533,771
Equipment and depreciation expense	370,921	240,302
Insurance expense	237,421	213,319
Professional fees	844,756	636,913
Data and item processing	816,954	733,474
Business development	185,868	163,386
Franchise taxes	260,048	248,180
Other operating expenses	549,999	490,230
Total Operating Expenses	9,863,143	8,484,497
Income before Income Taxes	1,600,398	1,371,773
Income Tax Expense	-	-
Net Income	$ 1,600,398	$ 1,371,773
Earnings per Common Share - Basic	$ 0.42	$ 0.36
Earnings per Common Share - Diluted	$ 0.40	$ 0.36
Weighted-Average Common Shares Outstanding - Basic	3,833,821	3,792,514
Weighted-Average Common Shares Outstanding - Diluted	3,978,880	3,792,514

The Notes to Financial Statements are an integral part of these statements.

THE FREEDOM BANK OF VIRGINIA

STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
Net Income	$ 1,600,398	$ 1,371,773
Other Comprehensive Income (Loss):		
Unrealized holding gain (loss) arising during the year, net of tax expense of $161,562 in 2014 and tax benefit of $379,475 in 2013	300,043	(704,741)
Comprehensive Income	$ 1,900,441	$ 667,032

The Notes to Financial Statements are an integral part of these statements.

THE FREEDOM BANK OF VIRGINIA

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2014 AND 2013

		Shares of Common Stock	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (Deficit)	Total Stockholders' Equity
Balance, December 31, 2012	*	2,866,117	$ 11,942,228	$ 16,284,303	$ 285,809	$ (3,248,256)	$ 25,264,084
Net income		-	-	-	-	1,371,773	1,371,773
Other comprehensive loss		-	-	-	(704,741)	-	(704,741)
Six-for-five stock split		573,232	-	-	-	-	-
Stock options exercised		28,800	99,972	87,637	-	-	187,609
Balance, December 31, 2013	*	3,468,149	12,042,200	16,371,940	(418,932)	(1,876,483)	26,118,725
Net income		-	-	-	-	1,600,398	1,600,398
Other comprehensive income		-	-	-	300,043	-	300,043
Stock warrants exercised		73	231	379	-	-	610
Eleven-for-ten stock split		346,807	-	-	-	-	-
Stock options exercised		23,260	73,501	66,794	-	-	140,295
Sale of common stock		187,060	591,110	1,009,781	-	-	1,600,891
Stock-based compensation		-	-	8,258	-	-	8,258
Balance, December 31, 2014		4,025,349	$ 12,707,042	$ 17,457,152	$ (118,889)	$ (276,085)	$ 29,769,220

* Shares of common stock retroactively adjusted for the six-for-five stock split effective August 13, 2013 is 3,439,340 as of December 31, 2012
* Shares of common stock retroactively adjusted for the eleven-for-ten stock split effective April 1, 2014 is 3,814,956 and 3,783,274 as of December 31, 2013 and 2012, respectively.

The Notes to Financial Statements are an integral part of these statements.

THOMPSON GREENSPON

THE FREEDOM BANK OF VIRGINIA

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
Cash Flows from Operating Activities		
Net income	$ 1,600,398	$ 1,371,773
Noncash items included in net income		
Depreciation and amortization	167,795	91,530
Provision for possible loan losses	486,000	297,500
Net amortization of available-for-sale securities	202,071	481,794
(Gain) loss on sale of available-for-sale securities	(26,693)	19,554
Stock-based compensation expense	8,258	-
Deferred income tax	(461,000)	(541,000)
Increase in cash surrender value of bank-owned life insurance	(58,964)	(58,428)
(Increase) Decrease in		
Loans held for sale	118,925	2,887,929
Accrued interest receivable	(166,898)	(90,050)
Other assets	(126,789)	542,472
Increase (Decrease) in		
Other accrued expenses	209,659	273,908
Accrued interest payable	14,994	7,458
Net Cash Provided by Operating Activities	1,967,756	5,284,440
Cash Flows from Investing Activities		
Federal funds sold, net	(8,020,000)	1,971,000
Interest bearing deposit with banks	(4,077)	(4,072)
Loan originations, net	(59,212,258)	(48,209,996)
Purchase of available-for-sale securities	(14,665,874)	(7,564,873)
Maturities, calls and paydowns of securities available-for-sale	5,107,507	8,611,051
Proceeds from sales of securities available-for-sale	6,289,860	2,345,833
Purchase of Federal Home Loan Bank stock	(274,800)	-
Paydowns of held-to-maturity securities	39,069	303,937
Purchase of Federal Reserve Bank stock	(51,200)	(31,350)
Acquisition of bank equipment	(706,188)	(184,407)
Net Cash Used by Investing Activities	(71,497,961)	(42,762,877)
Cash Flows from Financing Activities		
Increase in deposits, net	64,534,437	34,577,805
Proceeds from stock options and warrants exercised	140,905	187,609
Proceeds from sale of stock, net	1,600,891	-
Net Cash Provided by Financing Activities	66,276,233	34,765,414
Net Decrease in Cash and Due from Banks	(3,253,972)	(2,713,023)
Cash and Due from Banks, beginning of year	8,171,071	10,884,094
Cash and Due from Banks, end of year	$ 4,917,099	$ 8,171,071

The Notes to Financial Statements are an integral part of these statements.

	2014	2013
Noncash Investing Activity		
Unrealized gain (loss) on securities available-for-sale, net	$ 300,043	$ (704,741)
Supplemental Information		
Cash paid during the year for interest	$ 2,252,931	$ 1,977,462
Cash paid during the year for income taxes	$ 438,000	$ 469,000

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of The Freedom Bank of Virginia (the Bank) conform to generally accepted accounting principles (GAAP) and reflect practices of the banking industry. The policies are summarized below.

Nature of Operations

The Freedom Bank of Virginia is a state chartered bank and a member of the Federal Reserve and is subject to the rules and regulations of the Virginia State Banking Commission, the Federal Reserve and the Federal Deposit Insurance Corporation (FDIC). The Bank provides banking services at its branch offices in Vienna, Fairfax and Reston, Virginia, and serves customers primarily in the Northern Virginia area. The Bank was in organization during the period January 27, 2000 through July 22, 2001, and opened for business on July 23, 2001.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Certain amounts in the 2013 financial statements have been reclassified. Total stockholders' equity and net income are unchanged due to these reclassifications.

The determination of the adequacy of the allowance for loan losses is based on estimates that are particularly susceptible to significant changes in the economic environment and market conditions. In connection with the determination of the estimated losses on loans, management obtains independent appraisals for significant collateral.

Interest Bearing Deposits with Banks

The Bank maintains an interest bearing deposit with another institution in Virginia. Interest bearing deposits are valued at cost. Interest income is recorded as interest income on investment securities.

Securities

Debt securities are classified as held-to-maturity when the Bank has the positive intent and ability to hold the securities to maturity. Securities held-to-maturity are carried at amortized cost.

Debt securities not classified as held-to-maturity or trading securities are classified as available-for-sale. Securities available-for-sale are carried at fair value with unrealized gains and losses reported in other comprehensive income. Realized gains (losses) on securities available-for-sale are included in other income (expense) and, when applicable, are reported as a reclassification adjustment, net of tax, in other comprehensive income.

The amortization of premiums and accretion of discounts are recognized in interest income using methods approximating the interest method over the period to maturity. Declines in the fair value of individual held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary result in write-downs of the individual securities to their fair value. The related write-downs are included in earnings as realized losses. Gains and losses on sales of securities are recorded on the trade date and are determined using the specific-identification method.

Federal Reserve Bank stock is considered a restricted investment security, is carried at cost and is evaluated annually for impairment. The stock is required in order to be a member of the Federal Reserve.

1. **NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

Securities (continued)

Federal Home Loan Bank (FHLB) stock is considered a restricted investment security, is carried at cost and is evaluated annually for impairment. The stock is required in order to be a member of the FHLB.

Loans and Loan Fees

Loans that management has the intent and ability to hold for the foreseeable future, or until maturity or pay-off, generally are stated at the principal amount outstanding, less the allowance for loan losses and net deferred loan fees. Interest on loans is generally computed using the simple interest method.

Loan origination and commitment fees, as well as certain direct origination costs, are deferred and amortized as a yield adjustment over the lives of the related loans using the interest method. Amortization of deferred loan fees is discontinued when a loan is placed on non-accrual status.

The accrual of interest on mortgage and commercial loans is discontinued at the time the loan is 90 days delinquent, unless the credit is well secured and in process of collection. Other personal loans are typically charged off no later than 180 days past due. In all cases, loans are placed on non-accrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on non-accrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Loans Held for Sale

Loans held for sale consist primarily of residential mortgage loans, which are secured by one-to-four family residential real estate. Loans held for sale are carried at the lower of aggregate cost, net of purchase discounts or premiums, deferred fees, and deferred origination costs, or fair value. The Bank sells its mortgage loans forward to investors and the estimated fair value is largely dependent upon the terms of these outstanding loan purchase commitments, as well as movement in market interest rates. Income from loans sold is included in service charges and other income on the financial statements. Income from loans sold was $234,881 and $445,935 for the years ended December 31, 2014 and 2013, respectively.

Allowance for Loan Losses

The allowance for loan losses is maintained at a level that, in management's judgment, is adequate to absorb credit losses inherent in the loan portfolio. The amount of the allowance is based on management's ongoing evaluation of the collectability of the loan portfolio, including the nature of the portfolio, credit concentrations, trends in historical loss experience, specific impaired loans, economic conditions, and other risks inherent in the portfolio.

1. **NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

Allowance for Loan Losses (continued)

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due, according to the contractual terms of the loan agreement. Allowances for impaired loans are generally determined based on collateral values or the present value of estimated cash flows. Although management uses available information to recognize losses on loans, because of uncertainties associated with local economic conditions, collateral values, and future cash flows on impaired loans, it is reasonably possible that a material change could occur in the allowance for loan losses in the near term. However, the amount of the change that is reasonably possible cannot be estimated. The allowance is increased by a provision for loan losses, which is charged to expense and reduced by charge-offs, net of recoveries. Changes in the allowance relating to impaired loans are charged or credited to the provision for loan losses. Past due status is determined based on contractual terms.

Bank Premises and Equipment

Bank premises and equipment are stated at cost, less accumulated depreciation and amortization. Leasehold improvements are amortized over the shorter of the asset life or lease term using the straight-line method. Furniture and equipment are depreciated over estimated useful lives of three to seven years using the straight-line method. The Bank depreciates premises and equipment using accelerated methods for income tax reporting.

Expenditures for maintenance, repairs and improvements that do not materially extend the useful lives of bank premises and equipment are charged to earnings. When bank premises or equipment are sold or otherwise disposed of, the cost and related accumulated depreciation or amortization are removed from the accounts, and the effect is reflected in current earnings.

Leases that meet certain specified criteria are accounted for as capital assets and liabilities, and those not meeting the criteria are accounted for as operating leases.

Other Real Estate Owned

Real estate properties acquired through or in lieu of loan foreclosures are initially recorded at the fair value less estimated selling cost at the date of foreclosure. Any write-downs based on the asset's fair value at the date of acquisition are charged to the allowance for loan losses. After foreclosure, valuations are periodically performed by management and property held for sale is carried at the lower of the new cost basis or fair value less cost to sell. Impairment losses on property to be held and used are measured as the amount by which the carrying amount of a property exceeds its fair value. Costs of significant property improvements are capitalized, whereas costs relating to holding property are expensed. The portion of interest costs relating to development of real estate is capitalized. Valuations are periodically performed by management, and any subsequent write-downs are recorded as a charge to operations, if necessary, to reduce the carrying value of a property to the lower of its cost or fair value less cost to sell. The Bank owned no other real estate at December 31, 2014 and 2013.

1. **NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

Bank-Owned Life Insurance

The Bank entered into bank-owned single premium life insurance policies during 2012 that are maintained by two counterparties. Under the bank-owned life insurance policies, executives or other key individuals are the insured and the Bank is the owner and beneficiary of each policy. As such, the insured has no claim to either the insurance policy, cash value, or a portion of the policy's death proceeds. The increase in the cash surrender value over time is recorded as other income. The Bank monitors the financial strength and condition of both counterparties.

Stockholders' Equity

At December 31, 2014, warrants were outstanding and exercisable to purchase 367,553 shares of common stock at $8.36 per share if exercised by January 15, 2015, and 71,121 shares of common stock at $8.36 per share if exercised by February 16, 2015. The amounts and number of warrants have been adjusted for the six-for-five stock split that was effective on February 16, 2012 and August 13, 2013 and the eleven-for-ten stock split that was effective on April 1, 2014.

On February 20, 2014, the Bank declared an eleven-for-ten stock split, effective for stockholders of record on April 1, 2014. On July 22, 2013, the Bank declared a six-for-five stock split, effective for stockholders of record on August 13, 2013. All references to share and per share amounts in the financial statements have been restated to reflect the stock splits.

On October 31, 2014, the Bank released an Offering Memorandum for up to $4,000,000 of common stock, par value $3.16 per share, at an offering price of $9.00 per share ("capital offering"). The offering was for a maximum of 444,445 shares of common stock. The offering closed December 12, 2014 and the amount of funds raised from the capital offering, net of related expenses, was $1,600,891. Common stock of 187,060 shares was issued. Capital funds raised were allocated to common stock and additional paid-in capital.

On December 22, 2014, the Bank released an Offering Memorandum for subscription rights to holders of common stock ("rights offering"). Pursuant to this rights offering, the Bank offered subscription rights to purchase up to 66,667 units (each a "unit") at a per unit price of $45.00. Each unit will consist of five shares of common stock and one two-year warrant to purchase one share of common stock at a price of $9.00 per share. Shareholders who own outstanding warrants to purchase common stock may surrender these warrants in exchange for a credit of $.64 per warrant surrendered toward the purchase price of units they purchase in this rights offering. The offering closed January 30, 2015. The amount of funds raised from the rights offering, net of related expenses, was $1,893,612. Common stock of 244,713 shares was issued. Capital funds raised were allocated to common stock and additional paid-in capital.

The proceeds of the capital and rights offerings are for general corporate purposes which may include improving the Bank's regulatory capital position and supporting future growth.

Comprehensive income represents all changes in equity that result from recognized transactions and other economic events of the period. Other comprehensive income refers to revenues, expenses, gains and losses that under accounting principles generally accepted in the United States of America are included in comprehensive income but excluded from net income, such as unrealized gains and losses on certain investments in debt and equity securities.

1. **NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

Income Taxes

Income taxes are provided for the tax effects of the transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related primarily to the difference between the basis of the allowance for loan losses. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred tax assets and liabilities are reflected at 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.

Management has determined that recent profitability and projections of future taxable income will be adequate to absorb the Bank's allowance for loan loss included in the deferred tax asset.

The Bank files an income tax return in the U.S. Federal jurisdiction. The Bank pays state franchise tax in lieu of state income taxes. Currently, the 2013, 2012 and 2011 income tax returns are open and subject to examination. The Bank is not currently under audit by any income tax jurisdiction.

The Bank has no uncertain tax positions that qualify for either recognition or disclosure in the financial statements, and no interest and penalties have been recorded in the accompanying financial statements related to uncertain tax positions.

Earnings per Share (EPS)

Basic EPS excludes dilution and is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding for the year. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Bank.

Stock-Based Compensation

The Bank recognizes the cost of employee services received in exchange for an award of equity instruments in the financial statements over the period the employee is required to perform the services in exchange for the award (presumptively the vesting period). The Bank also measures the cost of employee services received in exchange for an award based on the grant-date fair value of the award.

Employment Contracts

In August 2010, the Bank entered into an employment agreement with the Bank's current President. The agreement provides for a base salary, a performance bonus, annual adjustments to compensation and other benefits. The agreement has an initial term of 17 months and will be automatically renewed for successive 12-month terms until employment is terminated under specific conditions as provided in the agreement.

The Bank has also entered into employment agreements with certain other key employees. The agreements provide for base salary, performance bonuses and other benefits. The terms of the agreements range from one to two years with options to extend for additional one-year periods until employment is terminated under specific conditions as provided in the agreements.

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Statements of Cash Flows

The Bank considers all cash and amounts due from banks, excluding interest-bearing deposits in other banks and Federal funds sold, to be cash equivalents for purposes of the statements of cash flows. The Freedom Bank of Virginia periodically has bank deposits, including short-term investments, in excess of Federally insured limits.

Off-Balance Sheet Credit Related Financial Instruments

In the ordinary course of business, the Bank has entered into commitments to extend credit, including commitments under credit card arrangements, commercial letters of credit, and standby letters of credit. Such financial instruments are recorded when they are funded.

Subsequent Events

The date to which events occurring after December 31, 2014, the date of the most recent balance sheet, have been evaluated for possible adjustment to the financial statements or disclosure is March 23, 2015, which is the date on which the financial statements were available to be issued.

2. RESTRICTION OF CASH AND DUE FROM BANKS

The Bank is required to maintain reserve funds in cash or on deposit with the Federal Reserve. The required reserve at December 31, 2014 and 2013 was $759,000 and $727,000, respectively.

3. SECURITIES AVAILABLE-FOR-SALE AND HELD-TO-MATURITY

The amortized cost and fair values of securities as shown in the balance sheets of the Bank are as follows:

	Amortized Costs	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2014				
Available-for-sale				
U.S. Government and agency securities	$ 3,999,064	$ -	$ (59,877)	$ 3,939,187
Corporate securities	1,061,234	-	(8,697)	1,052,537
Mortgage backed securities	16,635,961	56,926	(87,564)	16,605,323
SBA loan pools	5,781,598	15,530	(99,222)	5,697,906
Total Available-for-sale	27,477,857	72,456	(255,360)	27,294,953
Held-to-maturity				
Mortgage backed securities	5,610	36	-	5,646
Total Investment Securities	$ 27,483,467	$ 72,492	$ (255,360)	$ 27,300,599

3. **SECURITIES AVAILABLE-FOR-SALE AND HELD-TO-MATURITY** (continued)

December 31, 2013	Amortized Costs	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale				
U.S. Government and agency securities	$ 5,498,891	$ 496	$ (188,447)	$ 5,310,940
Corporate securities	2,024,844	41,361	(23,202)	2,043,003
Mortgage backed securities	10,196,736	50,840	(246,124)	10,001,452
Municipal securities	529,176	239	-	529,415
SBA loan pools	6,135,083	-	(279,674)	5,855,409
Total Available-for-sale	24,384,730	92,936	(737,447)	23,740,219
Held-to-maturity				
Mortgage backed securities	44,679	868	-	45,547
Total Investment Securities	$ 24,429,409	$ 93,804	$ (737,447)	$ 23,785,766

The amortized cost and estimated fair value of debt securities at December 31, 2014, by contractual maturity, are as follows:

	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Amounts maturing in:				
1 year or less	$ -	$ -	$ -	$ -
After 1 year - 5 years	3,562,213	3,509,186	-	-
After 5 years - 10 years	1,498,085	1,482,538	-	-
After 10 years	5,781,598	5,697,906	-	-
	10,841,896	10,689,630	-	-
Mortgage backed securities	16,635,961	16,605,323	5,610	5,646
	$ 27,477,857	$ 27,294,953	$ 5,610	$ 5,646

Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

At December 31, 2014 and 2013, U.S. Government and agency securities and mortgage backed securities with a carrying value of $14,653,130 and $14,009,759, respectively, were pledged to secure public deposits and for other purposes required or permitted by law.

3. **SECURITIES AVAILABLE-FOR-SALE AND HELD-TO-MATURITY** (continued)

Information pertaining to securities with gross unrealized losses at December 31, 2014, aggregated by investment category and length of time that individual securities have been in a continuous loss position, is as follows:

	Less Than Twelve Months		Over Twelve Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
Available-for-sale				
Corporate securities	$ 1,123	$ 497,899	$ 7,574	$ 554,639
Mortgage backed securities	$ 50,407	$ 5,570,098	$ 37,157	$ 2,349,066
US Treasury obligations	$ -	$ -	$ 59,877	$ 3,939,186
SBA loan pools	$ 910	$ 1,144,161	$ 98,312	$ 3,400,742
Held-to-maturity				
Mortgage backed securities	$ -	$ -	$ -	$ -

Management evaluates securities for other-than-temporary impairment on at least a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (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 Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

At December 31, 2014, eight debt securities with an unrealized loss for less than one year and twelve debt securities with an unrealized loss for greater than one year depreciated less than one and two percent, respectively, from the Bank amortized cost basis. Eighteen of the securities are secured by Federal agency mortgage backed securities or U.S. Treasury obligations and direct obligations of U.S. Government agencies. Two of the securities are corporate bonds. These unrealized losses relate principally to current interest rates for similar types of securities. In analyzing an issuer's financial condition, management considers whether the securities are issued by the Federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition. As management has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available-for-sale, management feels that the unrealized losses on the securities are not deemed to be other-than-temporary.

4. LOANS RECEIVABLE

Loans receivable include the following:

	2014	2013
Commercial	$ 49,266,330	$ 49,599,356
Consumer and other	8,159,864	8,182,910
Real estate	222,251,579	162,801,191
Subtotal	279,677,773	220,583,457
Deferred loan fees	(688,187)	(418,573)
Totals	$ 278,989,586	$ 220,164,884

Commercial and industrial loans: The commercial lending portfolio consists primarily of commercial and industrial loans for the financing of accounts receivable, property, plant and equipment. Commercial loans typically are made on the basis of the borrower's ability to repay the loan from the cash flow from its business and are secured by business assets, such as commercial real estate, accounts receivable, equipment and inventory, the values of which may fluctuate over time and generally cannot be appraised with as much precision as residential real estate. To manage these risks, the Bank's policy is to secure commercial loans originated with both the assets of the business, which are subject to the risks described above, and other additional collateral and guarantees that may be available.

Real estate - commercial loans: Commercial real estate loans are primarily secured by various types of commercial real estate, including office, retail, warehouse, industrial and other non-residential types of properties and are made to the owners and/or occupiers of such property. The repayment of loans secured by income-producing properties is typically dependent upon the successful operation of a business or real estate project, and thus may be subject to adverse conditions in the commercial real estate market or in the general economy. The Bank generally requires personal guarantees or endorsements with respect to these loans and loan-to-value ratios for commercial real estate loans, which generally do not exceed 80 percent.

Real estate - residential and home equity loans: This portfolio consists of residential first and second mortgage loans, residential construction loans and home equity lines of credit and term loans secured primarily by the residences of borrowers. Residential mortgage loans and home equity lines of credit secured by owner-occupied property generally are made with a loan-to-value ratio of up to 80 percent.

4. **LOANS RECEIVABLE** (continued)

An analysis of the allowance for possible loan losses based on type or loan segment, which identifies certain loans that are evaluated for individual or collective impairment, as of December 31 is as follows:

	Commercial and Industrial	Real Estate - Commercial	Real Estate - Construction	Real Estate - Residential	Consumer	Total
2014						
Allowance for Possible Loan Losses:						
Beginning balance	$ 449,602	$ 1,282,986	$ 480,842	$ 275,925	$ 98,008	$ 2,587,363
Charge-offs	(336,027)	(97,248)	-	-	(29,758)	(463,033)
Recoveries	75,000	-	-	-	477	75,477
Provision	142,503	141,211	231,015	(60,029)	31,300	486,000
Ending balance	$ 331,078	$ 1,326,949	$ 711,857	$ 215,896	$ 100,027	$ 2,685,807
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	331,078	1,326,949	711,857	215,896	100,027	2,685,807
Loans Receivable:						
Ending balance	$ 49,266,330	$ 124,993,736	$ 36,247,806	$ 61,010,037	$ 8,159,864	$ 279,677,773
Individually evaluated for impairment	$ -	$ 566,562	$ 393,529	$ 264,640	$ -	$ 1,224,731
Collectively evaluated for impairment	49,266,330	124,427,174	35,854,277	60,745,397	8,159,864	278,453,042
2013						
Allowance for Possible Loan Losses:						
Beginning balance	$ 380,032	$ 1,221,293	$ 316,118	$ 270,641	$ 48,738	$ 2,236,822
Charge-offs	-	-	-	(42,215)	(9,744)	(51,959)
Recoveries	-	-	105,000	-	-	105,000
Provision	69,570	61,693	59,724	47,499	59,014	297,500
Ending balance	$ 449,602	$ 1,282,986	$ 480,842	$ 275,925	$ 98,008	$ 2,587,363
Individually evaluated for impairment	$ 100,923	$ 185,672	$ -	$ -	$ 31,346	$ 317,941
Collectively evaluated for impairment	348,679	1,097,314	480,842	275,925	66,662	2,269,422
Loans Receivable:						
Ending balance	$ 49,599,356	$ 101,628,392	$ 17,528,755	$ 43,644,044	$ 8,182,910	$ 220,583,457
Individually evaluated for impairment	$ 471,163	$ 1,631,300	$ 693,529	$ -	$ 31,346	$ 2,827,338
Collectively evaluated for impairment	49,128,193	99,997,092	16,835,226	43,644,044	8,151,564	217,756,119

4. LOANS RECEIVABLE (continued)

An analysis of non-accrual and past due loans is as follows at December 31:

	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Financing Receivables	Nonaccrual Loans
2014							
Commercial - non-real estate							
Commercial and industrial	$ -	$ -	$ -	$ -	$ 49,266,330	$ 49,266,330	$ -
Commercial - real estate							
Owner occupied	-	-	-	-	54,173,344	54,173,344	-
Non-owner occupied	-	-	-	-	70,820,392	70,820,392	-
Construction							
Residential	-	-	-	-	15,989,057	15,989,057	393,529
Commercial	-	-	-	-	20,258,749	20,258,749	-
Consumer - non-real estate							
Automobile	-	-	-	-	233,693	233,693	-
Other	-	-		-	7,926,171	7,926,171	-
Residential							
First trusts	-	-	-	-	49,950,577	49,950,577	-
Equity lines	-	60,000	-	60,000	10,999,460	11,059,460	-
Total	$ -	$ 60,000	$ -	$ 60,000	$ 279,617,773	$ 279,677,773	$ 393,529
2013							
Commercial - non-real estate							
Commercial and industrial	$ -	$ -	$ -	$ -	$ 49,599,356	$ 49,599,356	$ 471,163
Commercial - real estate							
Owner occupied	-	-	-	-	41,969,695	41,969,695	-
Non-owner occupied	-	-	-	-	59,658,697	59,658,697	-
Construction							
Residential	-	-	-	-	15,730,226	15,730,226	693,529
Commercial	-	-	-	-	1,798,529	1,798,529	-
Consumer - non-real estate							
Automobile	-	-	-	-	135,100	135,100	2,420
Other	-	-	28,926	28,926	8,018,884	8,047,810	28,926
Residential							
First trusts	-	-	-	-	32,321,997	32,321,997	-
Equity lines	-	-	-	-	11,322,047	11,322,047	-
Total	$ -	$ -	$ 28,926	$ 28,926	$ 220,554,531	$ 220,583,457	$ 1,196,038

4. **LOANS RECEIVABLE** (continued)

An analysis of impaired loans based on loan segment is as follows at December 31:

	Recorded Investment	Unpaid Principal Balance	Related Allowance for Loan Losses	Average Recorded Investment	Interest Income Recognized
2014					
With no related allowance recorded:					
Construction					
Residential	$ 393,529	$ 393,529	$ -	$ 560,132	$ -
Commercial - real estate					
Non-owner occupied	566,562	566,562	-	1,827,791	101,703
Residential real estate	264,640	264,640	-	271,251	15,295
Total:					
Residential construction	393,529	393,529	-	560,132	-
Commercial - real estate	566,562	566,562	-	1,827,791	101,703
Residential real estate	264,640	264,640	-	271,251	15,295
2013					
With no related allowance recorded:					
Construction					
Residential	$ 693,529	$ 693,529	$ -	$ 1,017,775	$ -
With an allowance recorded:					
Commercial - non-real estate					
Commercial and industrial	471,163	471,163	100,923	480,365	-
Commercial - real estate					
Non-owner occupied	1,631,300	1,631,300	185,672	1,631,300	82,698
Consumer	31,346	31,346	31,346	34,381	1,696
Total:					
Commercial - non-real estate	471,163	471,163	100,923	480,365	-
Residential construction	693,529	693,529	-	1,017,775	-
Commercial - real estate	1,631,300	1,631,300	185,672	1,631,300	82,698
Consumer	31,346	31,346	31,346	34,381	1,696

No additional funds are committed to be advanced in connection with the impaired loans.

One of the most significant factors in assessing the Bank's loan portfolio is the risk rating. The Bank uses the following risk ratings to manage the credit quality of its loan portfolio: pass, special mention, substandard, doubtful and loss. Special mention loans are those loans that have potential weakness that deserves management's close attention. These loans have potential weaknesses that may result in deterioration of the repayment prospects for the loan or the Bank's credit position at some future date. Substandard loans are inadequately protected by current sound worth, paying capacity of the borrower, or pledged collateral. Doubtful loans have all the inherent weaknesses in the substandard classification and collection or liquidation in full is highly questionable. Loss loans are considered uncollectible and of such little value that continuance as an active asset is not warranted. All other loans not rated are considered to have a pass rating.

4. **LOANS RECEIVABLE** (continued)

An analysis of the credit quality indicators is as follows at December 31:

	Pass	Special Mention	Substandard	Doubtful	Loss
2014					
Commercial - non-real estate					
Commercial and industrial	$ 48,943,957	$ 157,486	$ 164,887	$ -	$ -
Commercial - real estate					
Owner occupied	52,926,770	1,246,574	-	-	-
Non-owner occupied	70,648,324	-	172,068	-	-
Construction					
Residential	15,595,529	-	393,529	-	-
Commercial	20,258,748	-	-	-	-
Consumer - non-real estate					
Automobile	233,693	-	-	-	-
Other	7,926,171	-	-	-	-
Residential					
First trusts	49,651,751	238,828	-	-	-
Equity lines	9,018,520	1,770,886	330,052	-	-
Total	$ 275,203,463	$ 3,413,774	$ 1,060,536	$ -	$ -
2013					
Commercial - non-real estate					
Commercial and industrial	$ 48,824,848	$ 303,345	$ 471,163	$ -	$ -
Commercial - real estate					
Owner occupied	37,739,935	3,552,783	676,977	-	-
Non-owner occupied	54,761,163	3,266,234	1,631,300	-	-
Construction					
Residential	15,036,698	-	693,529	-	-
Commercial	1,798,528	-	-	-	-
Consumer - non-real estate					
Automobile	132,680	-	2,420	-	-
Other	8,018,884	-	28,926	-	-
Residential					
First trusts	32,198,604	123,393	-	-	-
Equity lines	10,484,005	838,042	-	-	-
Total	$ 208,995,345	$ 8,083,797	$ 3,504,315	$ -	$ -

A loan modification is classified as a troubled debt restructuring (TDR) if both of the following exist: 1) the borrower is experiencing financial difficulty, and 2) the Bank has granted a concession to the borrower. The assessment of whether the above conditions exist is subjective and requires management's judgment. TDRs are typically modified through reductions in interest rates, reduction in payments, changing the payment terms or through extensions in term maturity.

There were no loans modified as TDRs for the years ended December 31, 2014 and 2013.

4. **LOANS RECEIVABLE** (continued)

The Bank has entered into transactions with certain directors, executive officers, significant stockholders and their affiliates. Such transactions were made in the ordinary course of business on substantially the same terms and conditions, including interest rates and collateral, 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 aggregate amount of loans outstanding to such related parties was $2,665,314 and $3,145,213 at December 31, 2014 and 2013, respectively. New loans made to such related parties, including loans held by new directors, amounted to $313,463 and $531,351, and payments amounted to $793,362 and $414,615 at December 31, 2014 and 2013, respectively.

5. **BANK PREMISES AND EQUIPMENT**

Bank premises and equipment include the following:

	2014	2013
Furniture and equipment	$ 1,379,335	$ 1,056,741
Leasehold improvements	485,762	133,489
Software	238,382	207,061
Total Cost	2,103,479	1,397,291
Less accumulated depreciation	(1,272,709)	(1,104,914)
Net Bank Premises and Equipment	$ 830,770	$ 292,377

Depreciation and amortization of bank premises and equipment charged to expense amounted to $167,795 and $91,530 in 2014 and 2013, respectively.

6. **DEPOSITS**

Time deposits in denominations of $100,000 or more totaled $146,683,907 and $115,552,642 at December 31, 2014 and 2013, respectively.

The following are time deposits maturing in years ending December 31:

2015	$ 110,295,979
2016	53,467,488
2017	3,661,704
2018	18,543,346
2019 and thereafter	5,691,621
Total	$ 191,660,138

The Bank held related party deposits of approximately $10,943,000 and $8,156,000 at December 31, 2014 and 2013, respectively.

7. **BORROWINGS**

At December 31, 2014 and 2013, the Bank had $2,100,000 available under a line of credit Fed Funds facility to be used for temporary, short-term needs with borrowings not to exceed seven consecutive business days. There were no borrowings on this line at December 31, 2014 and 2013.

7. **BORROWINGS** (continued)

At December 31, 2014 and 2013, the Bank had an additional $2,000,000 available under a line of credit Fed Funds facility to be used for temporary, short-term needs with borrowings not to exceed 30 consecutive calendar days. There were no borrowings on this line at December 31, 2014 and 2013.

At December 31, 2014 and 2013, the Bank also had $6,000,000 available under a line of credit Fed Funds facility to be used for overnight cash settlements. The borrowings are secured by $300,000 held in a cash and correspondent account that is recorded as cash and due from banks on the balance sheet. There were no borrowings on this line at December 31, 2014 and 2013.

8. **INCOME TAXES**

Significant components of deferred income tax assets and liabilities are as follows at December 31:

Deferred Source	2014	2013
Loans and loan loss reserve	$ 1,305,000	$ 1,322,000
Unearned loan fees and costs, net	234,000	142,000
Depreciation	(219,000)	(62,000)
Gross deferred tax assets	1,320,000	1,402,000
Valuation allowance	-	(543,000)
Net deferred tax assets	$ 1,320,000	$ 859,000

The provision for income taxes consists of the following at December 31:

	2014	2013
Current tax expense	$ 461,000	$ 541,000
Deferred tax expense (benefit)	82,000	(86,000)
Change in valuation allowance	(543,000)	(455,000)
	$ -	$ -

The following is a reconciliation of the Federal statutory income tax rate to the effective tax rate as a percent of pre-tax income for the years ended December 31:

	2014	2013
Federal statutory rate	34%	34%
Permanent differences	-	-
Change in valuation allowance	(34)	(34)
Effective tax rate	0%	0%

9. CAPITAL REQUIREMENTS

The Bank is subject to various regulatory capital requirements administered by Federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification under the prompt corrective action guidelines are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of total risk-based capital and Tier 1 capital to risk-weighted assets (as defined in the regulations), and Tier 1 capital to adjusted total assets (as defined). Management believes, as of December 31, 2014, that the Bank meets all the capital adequacy requirements to which it is subject.

As of December 31, 2014, the Bank was categorized as well capitalized under the regulatory framework for prompt corrective action. To remain categorized as well capitalized, the Bank will have to maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as disclosed in the following table. There are no conditions or events since the most recent notification that management believes have changed the Bank's prompt corrective action category.

9. **CAPITAL REQUIREMENTS** (continued)

The Bank's actual capital amounts and ratios as of December 31, 2014 and 2013 are as follows:

	Actual		For Capital Adequacy Purposes		Minimum to be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2014						
Total Capital (to Risk Weighted Assets)	$ 29,769,220	10.95%	$ 21,749,040	8.00%	$ 27,186,300	10.00%
Tier 1 Capital (to Risk Weighted Assets)	$ 29,828,107	10.97%	$ 10,874,520	4.00%	$ 16,311,780	6.00%
Tier 1 Capital (to Average Assets)	$ 29,828,107	10.02%	$ 11,911,117	4.00%	$ 14,888,897	5.00%
December 31, 2013						
Total Capital (to Risk Weighted Assets)	$ 26,118,725	11.91%	$ 17,540,800	8.00%	$ 21,926,000	10.00%
Tier 1 Capital (to Risk Weighted Assets)	$ 26,477,656	12.08%	$ 8,770,400	4.00%	$ 13,155,600	6.00%
Tier 1 Capital (to Average Assets)	$ 26,477,656	10.48%	$ 10,102,931	4.00%	$ 12,628,664	5.00%

10. **STOCK OPTION PLAN**

In 2007, the Bank established the 2007 stock option and equity plan (the Plan) for executives, other employees, officers, directors and consultants. Shares under the Plan may be granted at not less than 100 percent of the fair market value at the grant date. The authorized and granted options under the Plan are as follows at December 31, 2014:

	Authorized	Granted	Vested
2007 Plan	633,600	530,033	409,555

The stock options shall not be exercisable more than ten years after the date such option is granted. Shares typically vest over periods ranging from one to four years. At December 31, 2014, there was approximately $58,000 in unrecognized compensation expense related to non-vested share-based compensation. At December 31, 2013, there was approximately $8,000 in unrecognized compensation expense related to non-vested share-based compensation, which was all recognized in 2014 due to materiality.

10. **STOCK OPTION PLAN** (continued)

Amounts and the number of options have been retrospectively adjusted for the six-for-five stock splits that were effective on February 16, 2012 and August 13, 2013 and the eleven-for-ten stock split that was effective on April 1, 2014. The Bank canceled and reissued stock options granted in 2007.

The following summarizes the option activity under the Plan:

	Number of Shares	Option Price Per Share	Weighted Average Exercise Price
Outstanding, December 31, 2012	493,979	$ 6.38	$ 6.38
Grants	-	-	-
Exercised	(31,680)	5.92	5.92
Canceled or expired	(3,697)	6.41	6.41
Outstanding, December 31, 2013	458,602	6.50	6.50
Grants	96,275	8.99	8.99
Exercised	(23,260)	6.03	6.03
Canceled or expired	(1,584)	6.27	6.27
Outstanding, December 31, 2014	530,033	$ 7.24	$ 7.24

The weighted average fair value of options granted during the year ended December 31, 2014 was $8.99. The weighted average remaining contractual life of options outstanding as of December 31, 2014 is 7.17 years.

Stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense on a straight-line basis over the requisite service period, which is the vesting period. The Bank uses the Black-Scholes option pricing model to determine the fair value of stock options. The fair value of the stock based payment awards is affected by the price of the stock and a number of financial assumptions and variables. These variables include the risk-free interest rate, expected dividend rate, expected stock price volatility and the expected life of the options. The following assumptions were used: a risk-free interest rate of 3.25 percent, an estimated dividend yield of zero percent, an expected holding period of 10 years and volatility of 5.00 percent.

The expected volatility is based on the historical volatility of peer institutions. The risk-free interest rate is the implied yield available on U.S. Treasury bonds with a remaining term equal to the expected term of the options granted. The expected life is based on the average of the contracted life and vesting schedule for the options granted. The dividend yield assumption is based on expected dividend payouts.

For the year ended December 31, 2014, the Bank recognized approximately $8,000 in stock-based compensation expense. For the year ended December 31, 2013, the Bank did not recognize stock-based compensation expense.

11. **OPERATING LEASES**

In December 2010, the Bank exercised its second five-year option for the branch facility located at 502 Maple Avenue in Vienna, Virginia. The agreement provides for a term of five years ending December 2015. The total base annual lease payments for the second year of the extension are $66,774, increasing a maximum of five percent per annum thereafter. The lease agreement includes approximately 1,862 square feet on the ground floor for the branch facility. The lease agreement includes additional rent payments based on a pro rata portion of annual taxes and common area maintenance charges.

11. **OPERATING LEASES** (continued)

In July 2011, the Bank renewed its lease for its loan operations on the second floor at 10555 Main Street in Fairfax, Virginia. The agreement provided for an initial lease term of five years commencing August 1, 2011 and ending July 31, 2016. Total base annual lease payments are $148,764 for the first year, increasing three percent per annum thereafter. In December 2014, the Bank entered into an updated agreement amending the lease to end on December 31, 2015. The lease agreement is for 6,072 square feet. The agreement includes additional rent payments based on a pro rata portion of annual taxes, common area maintenance charges, and utilities.

In October 2004, the Bank entered into a lease for its headquarters and an additional branch facility at 10555 Main Street in Fairfax, Virginia. The agreement provides for an initial lease term of ten years commencing January 1, 2005 and ending December 31, 2014. In December 2014, the Bank entered into an updated agreement that separated the headquarters and branch space. The headquarters space for 6,002 square feet was extended for an additional year ending December 31, 2015. Total base annual lease payments under the one-year extension are $225,855 for both the headquarters and branch space. The agreement includes additional rent payments based on a pro rata portion of annual taxes, common area maintenance charges, and utilities.

The updated lease agreement for the branch is for an initial lease term of ten years commencing January 1, 2016 and ending December 31, 2025. Total base annual lease payments are $125,895 for the first year, increasing 3 percent per annum thereafter. The agreement includes additional rent payments based on a pro rata portion of annual taxes, common area maintenance charges, and utilities. The Bank has the right to renew the branch lease for two periods of five additional years as provided for in the lease.

In November 2013, the Bank entered into a lease for an additional branch facility at 11700 Plaza America Drive in Reston, Virginia. The agreement provides for an initial lease term of 10 years commencing May 1, 2014 and ending April 30, 2024 with the option to extend the term for two additional periods of five years each. Total base annual lease payments are $80,576 for the first year, increasing 1.0275 percent per annum thereafter. The lease agreement is for 2,518 square feet. The agreement includes additional rent payments based on a pro rata portion of annual taxes, common area maintenance charges, and utilities.

The following are the future minimum lease payments at December 31, 2014:

Years ending December 31:	
2015	$ 552,739
2016	207,857
2017	212,476
2018	217,217
2019	222,083
Thereafter	1,292,825
	$ 2,705,197

Rent expense amounted to $530,626 and $460,684 for the years ended December 31, 2014 and 2013, respectively.

12. FAIR VALUE MEASUREMENTS

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurements and Disclosures*, provides a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. Fair value focuses on the price that would be received to sell the asset or paid to transfer the liability regardless of whether an observable liquid market price existed (an exit price).

The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described below:

Level 1 – inputs to the valuation methodology are based upon unadjusted quoted prices for identical assets or liabilities in active markets that the Bank has the ability to access.

Level 2 – inputs to the valuation methodology include: quotes prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement. Level 3 assets and liabilities measured at fair value are based on one or more of three valuation techniques (market, cost, or income approach). The market approach evaluates prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. The cost approach evaluates the amount that would be required to replace the service capacity of an asset (i.e., replacement cost). The income approach uses techniques that convert future amounts to a single present amount based on market expectations (including present value techniques, option-pricing models, and lattice models).

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

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

Securities available-for-sale: Securities available-for-sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted market prices, when available (Level 1). If quoted market prices are not available, fair values are measured utilizing independent valuation techniques of identical or similar securities for which significant assumptions are derived primarily from or corroborated by observable market data. Third party vendors compile prices from various sources and may determine the fair value of identical or similar securities by using pricing models that considers observable market data (Level 2).

12. **FAIR VALUE MEASUREMENTS** (continued)

The following table presents the balances of financial assets and liabilities measured at fair value on a recurring basis as of December 31:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2014				
Available-for-sale securities	$ 27,294,953	$ -	$ 27,294,953	$ -
December 31, 2013				
Available-for-sale securities	$ 23,740,219	$ -	$ 23,740,219	$ -

Certain financial assets are measured at fair value on a nonrecurring basis in accordance with GAAP. Adjustments to the fair value of these assets usually result from the application of lower-of-cost-or-market accounting or write-downs of individual assets.

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

Impaired loans: Loans are designated as impaired when, in the judgment of management based on current information and events, it is probable that all amounts due according to the contractual terms of the loan agreement will not be collected. The measurement of loss associated with impaired loans can be based on either the observable market price of the loan or the fair value of the collateral. Fair value is measured based on the value of the collateral securing the loans. Collateral may be in the form of real estate or business assets, including equipment, inventory and accounts receivable. The vast majority of the collateral is real estate. The value of real estate collateral is determined utilizing an income or market valuation approach based on an appraisal conducted by an independent, licensed appraiser outside of the Bank using observable market data (Level 2). However, if the collateral is a house or building in the process of construction, or if an appraisal of the real estate property is over two years old, then the fair value is considered Level 3. 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 receivable collateral are based on financial statement balances or aging reports (Level 3). Impaired loans allocated to the allowance for loan losses are measured at fair value on a nonrecurring basis. Any fair value adjustments are recorded in the period incurred as provision for possible loan losses on the statements of operations.

12. **FAIR VALUE MEASUREMENTS** (continued)

The following table summarizes the Bank's financial assets that were measured at fair value on a nonrecurring basis as of December 31:

	Fair Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2014				
Impaired loans	$ 1,224,731	$ -	$ 1,224,731	$ -
December 31, 2013				
Impaired loans	$ 2,827,338	$ -	$ 2,509,397	$ 317,941

The following methods and assumptions were used by the Bank in estimating fair values of financial instruments as disclosed herein:

Cash and due from banks: The carrying amounts of cash and due from banks approximate their fair value.

Interest bearing deposits with banks: The carrying amounts of interest bearing deposits with banks payable on demand, consisting of money market deposits, approximate fair value. Fair value of fixed-rate certificates of deposit is estimated based on discounted cash flow analyses using the remaining maturity of the underlying accounts and interest rates currently offered on certificates of deposit with similar original maturities.

Securities available-for-sale and held-to-maturity: Fair values for securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

Loans held for sale: The carrying amount is the lower of aggregate cost or fair value. The estimated fair value is dependent upon the terms of the outstanding loan purchase commitments as well as movement in market interest rates.

Loans receivable: For variable-rate loans that reprice frequently and have no significant change in credit risk, fair values are based on carrying values. Fair values for certain mortgage loans (for example, one to four family residential), credit card loans and other consumer loans are based on quoted market prices of similar loans sold in conjunction with securitization transactions, adjusted for differences in loan characteristics. Fair values for business real estate and business loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Fair values for impaired loans are estimated using discounted cash flows analyses or underlying collateral values, where applicable.

Accrued interest: The carrying amounts of accrued interest approximate fair value.

12. **FAIR VALUE MEASUREMENTS** (continued)

Deposits: The carrying amounts of deposit liabilities payable on demand, consisting of money market deposits and saving deposits, approximate fair value. Fair value of fixed-rate certificates of deposit is estimated based on discounted cash flow analyses using the remaining maturity of the underlying accounts and interest rates currently offered on certificates of deposit with similar original maturities.

Off-balance sheet financial instruments: At December 31, 2014 and 2013, the fair values of loan commitments and standby letters of credit are immaterial. Therefore, they have not been included in the following table.

The estimated fair values of the Bank's financial instruments are as follows at December 31:

	2014		2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash and due from banks	$ 4,917,099	$ 4,917,099	$ 8,171,071	$ 8,171,071
Interest bearing deposits with banks	1,024,155	1,024,155	1,020,078	1,020,078
Federal funds sold	24,837,000	24,837,000	16,817,000	16,817,000
Securities available-for-sale	27,294,953	27,294,953	23,740,219	23,740,219
Securities held-to-maturity	5,610	5,646	44,679	45,547
Loans held for sale	649,975	649,975	768,900	768,900
Loans receivable, net	276,303,779	275,320,723	217,577,521	217,816,123
Accrued interest receivable	864,224	864,224	697,326	697,326
Bank-owned life insurance	2,160,567	2,160,567	2,101,603	2,101,603
Total Financial Assets	$ 338,057,362	$ 337,074,342	$ 270,938,397	$ 271,177,867
Financial liabilities				
Non-interest bearing deposits	$ 51,431,344	$ 51,431,344	$ 39,085,418	$ 39,085,418
Interest bearing deposits	65,959,271	65,959,271	47,370,151	47,370,151
Savings deposits	2,637,231	2,637,231	3,704,290	3,704,290
Time deposits	191,660,138	191,945,611	156,993,688	155,359,016
Accrued interest payable	92,304	92,304	77,310	77,310
Total Financial Liabilities	$ 311,780,288	$ 312,065,761	$ 247,230,857	$ 245,596,185

13. **FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK**

In the normal course of business, the Bank has outstanding commitments and contingent liabilities, such as commitments to extend credit and standby letters of credit, which are not included in the accompanying financial statements. The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit and standby letters of credit is represented by the contractual or notional amount of those instruments. The Bank uses the same credit policies in making such commitments as it does for instruments that are included in the balance sheets.

13. **FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK** (continued)

Financial instruments whose contract amount represents credit risk were approximately as follows:

	2014	2013
Commitments to extend credit	$ 107,464,000	$ 89,741,000
Standby letters of credit	$ 1,001,000	$ 757,000

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

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Standby letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank's policy for obtaining collateral, and the nature of such collateral, is essentially the same as that involved in making commitments to extend credit.

The Bank has not been required to perform on any financial guarantees during the past two years. The Bank has not incurred any losses on its commitments in either 2014 or 2013.

14. **RESTRICTION ON DIVIDENDS**

The Bank is subject to certain restrictions on the amount of dividends that it may pay without prior regulatory approval. At December 31, 2014 and 2013, capital was not available for payment of dividends.

15. **DEFERRED BENEFITS**

Effective July 1, 2002, the Bank adopted a contributory 401(k) savings plan covering substantially all employees, which allows eligible employees to contribute up to 25 percent of their compensation. The Board of Directors may elect to approve to match a portion of each employee's contribution. The Bank elected to make a discretionary contribution of $140,700 and $110,400 for the years ended December 31, 2014 and 2013, respectively.

The Bank adopted deferred compensation plans for its directors, effective December 31, 2012, and its executives, effective February 1, 2013. Under the directors' plan, a director may elect to defer all or a portion of any director-related fees, including fees for serving on board committees. Under the executives' plan, certain employees may defer all or a portion of their compensation, including any bonus compensation.

16. **LEGAL CONTINGENCIES**

Various legal claims can arise from time to time in the normal course of business which, in the opinion of management, will have no material effect on the Bank's financial statements.