

2014 ANNUAL REPORT

FIRST VIRGINIA COMMUNITY BANK

FVCbank
Success has a bank.

February 20, 2015

To Our Shareholders:

We ended 2014 with our strongest financial performance in your Bank's seven-year history. The year was marked by record earnings and record loan growth, while maintaining stellar credit quality. The Bank's net income increased to $4.1 million, a $1.9 million increase, or 85.5% compared with $2.2 million in 2013. Diluted earnings per share increased to $0.79 per share, compared with $0.48 per share in 2013, highlighting the Bank's commitment to enhance shareholder value.

Our record earnings for 2014 were attributable, in large part, to our exceptional loan growth during the year. Total assets increased to $604.8 million, an increase of $98.1 million, or 19.3% from $506.7 million in 2013. Total loans increased to $509.9 million, an increase of $98.9 million or 24.1% from $411.0 million in 2013. Total deposits increased to $504.2 million, an increase of $74.2 million, or 17.3% compared with $430.0 million as of December 31, 2013.

Our robust loan growth is the result of our dedicated team of experienced bankers, our directors, and the long-term relationships with our shareholders and customers, many of whom have been significant referral sources to the Bank. We have increased our market presence and have the benefit of doing business in this vibrant market area.

Net interest income increased 23.5% year over year, as our margin improved to 3.63% compared with 3.59% for the years ended December 31, 2014 and 2013, respectively. The improved margin is the result of a declining cost of funds combined with a higher proportion of loans to earning assets. Cost of funds decreased to 0.69% from 0.75% for 2014 and 2013, respectively. FVCbank's non-interest bearing deposits totaled $105.1 million compared with $86.4 million as of December 31, 2014 and 2013, respectively. Average non-interest bearing deposits comprised 21.3% of total average deposits for 2014, compared with 20.8% for 2013. The increase in non-interest bearing deposits is due to our growing customer base and robust cash management services available to our commercial banking customers.

During 2014, we achieved improved efficiencies as we have over the past several years. Non-interest expenses increased only 8.9% to $13.3 million from $12.2 million for the years ended December 31, 2014 and 2013, respectively. The increase is, in part, attributable to a full year of our newest branch location in Springfield, Virginia, which opened in July 2013.

We have successfully deployed the capital raised in 2013 while maintaining capital ratios in excess of the "Well Capitalized" classification for regulatory reporting purposes. We will continue to maintain solid capital levels as we grow our Bank, focusing on sound credit quality. During 2014, our ratio of nonperforming loans to total assets declined to 0.26%, an improvement over the prior year ratio of 0.59%.

As we begin 2015, we are excited about our growing loan pipeline and new initiatives to enhance our full array of commercial banking products to best serve our customers. We are gratified that so many of our shareholders have selected us as their primary banking relationship, and we aspire to add more of our shareholders to our loyal customer base. As always, we are happy to meet with you and win your business.

On behalf of our employees and our Board of Directors, thank you for your support over the last several years. We look forward to a successful new year.

Best Regards,



David W. Pijor
Chairman, President and Chief Executive Officer





DIRECTORS

David W. Pijor
Chairman

L. Burwell Gunn

Scott Laughlin

Thomas L. Patterson

Devin Satz

Lawrence W. Schwartz

Sidney G. Simmonds

Daniel M. Testa

Phillip "Trey" R. Wills, III

EXECUTIVE OFFICERS

David W. Pijor
President & Chief
Executive Officer

William G. Byers
Executive Vice President
Chief Lending Officer

B. Todd Dempsey
Executive Vice President
Chief Operating Officer

Patricia A. Ferrick
Executive Vice President
Chief Financial Officer

Michael G. Nassy
Executive Vice President
Chief Credit Officer

John F. Novak
Executive Vice President
Chief Marketing Officer

REGIONAL LENDING OFFICERS

Alissa Curry Briggs
Senior Vice President
Regional Lending Executive

James C. Elliott
Senior Vice President
Regional Lending Executive

Christopher O. Turley
Senior Vice President
Regional Lending Executive

OFFICERS

Michelle L. Buckles
Senior Vice President
Compliance

James D. Holter
Senior Vice President
Information Technology

Terry R. Frey
Senior Vice President
Loan Administration

Michael Y. Huang
Senior Vice President
Finance

Jacqueline S. Marbell-Edson
Senior Vice President
Loan Administration

Farideh Mullafiroze
Senior Vice President
Business Development

Todd E. Lattimer
Senior Vice President
Lending

Timothy J. Lueking
Senior Vice President
Lending

Edward W. Lull, Jr.
Senior Vice President
Lending

Joshua F. Steele
Senior Vice President
Lending

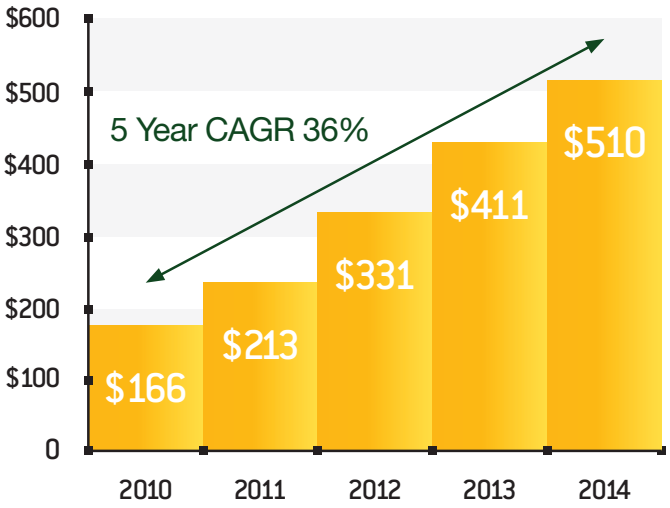
Brian R. Tower
Senior Vice President
Lending

Huong K. Van
Senior Vice President
Lending

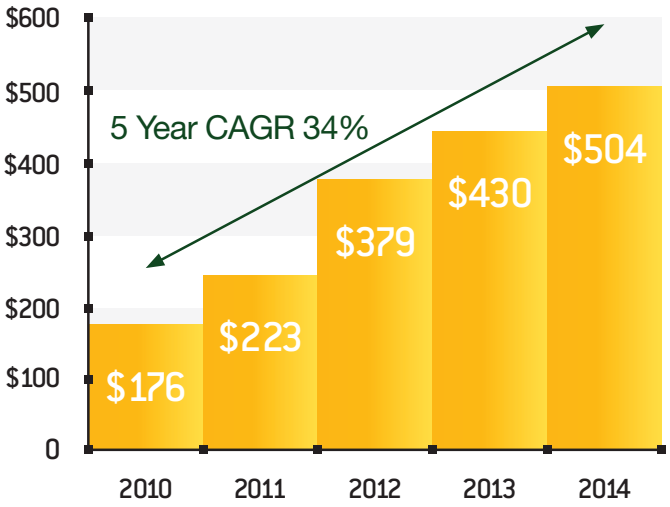
Steffany R. Watson
Senior Vice President
Cash Management

LOAN AND DEPOSIT GROWTH

Gross Loans
(mm)



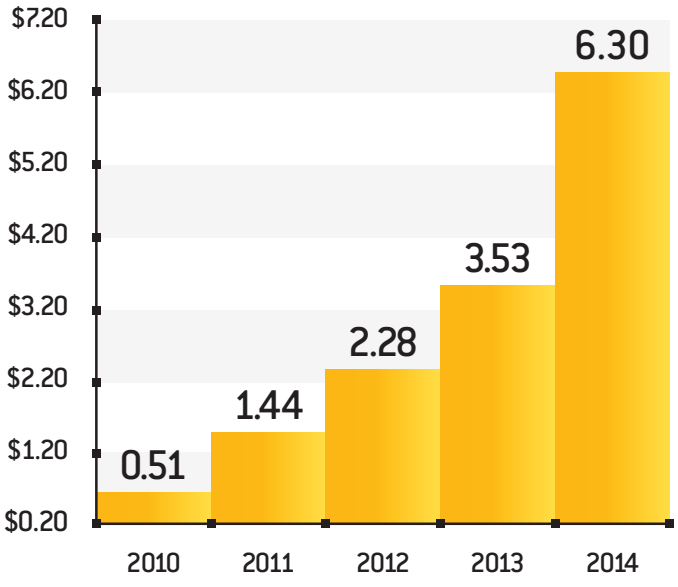
Total Deposits
(mm)



INCREASING PROFITABILITY

Net Income Before Tax
(mm)

Since inception, FVCbank's management team has strategically, but methodically grown its franchise and leveraged its infrastructure, resulting in increasing profitability to its shareholders.



SELECTED FINANCIAL DATA

FOR THE YEAR ENDED DECEMBER 31, (UNAUDITED)

(dollars in thousands, except per share data)	2014	2013	2012	2011	2010
SELECTED BALANCES					
Total assets	$604,756	$506,717	$422,761	$261,037	$207,348
Total deposits	504,220	429,990	378,702	223,369	176,328
Total loans	509,938	411,040	331,428	213,361	165,627
Other borrowings	32,500	14,500	2,500	2,500	5,000
Allowance for loan losses	(5,565)	(4,792)	(3,757)	(2,754)	(2,105)
Total shareholders' equity	66,815	60,903	39,143	33,785	25,010
SUMMARY RESULTS OF OPERATIONS					
Interest income	$22,473	$18,491	$15,095	$12,169	$8,802
Interest expense	3,288	2,960	2,515	2,293	1,919
Net interest income	19,185	15,531	12,580	9,875	6,883
Provision for loan losses	886	803	1,227	649	940
Net interest income after provision for loan losses	18,299	14,728	11,353	9,226	5,943
Noninterest income	1,313	1,025	1,098	469	560
Noninterest expense	13,317	12,228	10,168	8,253	5,996
Income before taxes	6,295	3,525	2,283	1,442	507
Income tax expense (benefit)	2,162	1,297	805	(558)	(302)
Net income	4,133	2,228	1,478	2,000	809
PER SHARE DATA					
Net income, basic	$0.80	$0.49	$0.44	$0.71	$0.33
Net income, diluted	$0.79	$0.48	$0.43	$0.70	$0.33
Book value	$12.87	$11.76	$11.03	$10.32	$8.91
Tangible book value	$12.84	$11.73	$10.97	$10.32	$8.91
Shares outstanding	5,190,498	5,176,732	3,548,796	3,272,381	2,806,396
SIGNIFICANT RATIOS					
Net interest margin	3.63%	3.59%	4.09%	4.15%	4.15%
Efficiency ratio	65.21%	74.78%	74.46%	79.76%	83.18%
Return on average assets	0.76%	0.50%	0.47%	0.81%	0.48%
Return on average equity	6.45%	4.21%	4.11%	7.51%	3.96%
Total capital (to risk weighted assets)	13.62%	15.89%	12.29%	14.27%	14.18%
Tier 1 capital (to risk weighted assets)	12.53%	14.71%	11.13%	13.14%	13.07%
Tier 1 (to average assets)	10.96%	12.58%	9.16%	12.44%	12.43%
ASSET QUALITY					
Nonperforming assets and loans 90+ past due	$1,601	$2,988	$4,623	$5,902	$4,227
Nonperforming assets and loans 90+ past due to total assets	0.26%	0.59%	1.09%	2.26%	2.04%
Allowance for loan losses to loans	1.09%	1.17%	1.13%	1.29%	1.27%
Allowance for loan losses to nonperforming assets	347.51%	160.37%	81.27%	46.67%	49.81%
Net (recovery) charge-offs	$113	$(231)	$225	$-	$717
Net (recovery) charge-offs to average loans	0.03%	-0.06%	0.07%	0.00%	0.54%

FIRST VIRGINIA COMMUNITY BANK

Fairfax, Virginia

FINANCIAL REPORT

December 31, 2014

FVCbank
Success has a bank.

CONTENTS PAGE

INDEPENDENT AUDITOR'S REPORT 1

FINANCIAL STATEMENTS

Balance sheets 2
Statements of income 3
Statements of comprehensive income 4
Statements of cash flows 5
Statements of changes in stockholders' equity 6
Notes to financial statements 6-31

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
First Virginia Community Bank
Fairfax, Virginia

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of First Virginia Community Bank which comprise the balance sheets as of December 31, 2014 and 2013, and the related statements of income, 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.

AUDITOR'S 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 audit to obtain reasonable assurance about whether the financial statements are free from 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 auditor's 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 auditor considers 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 First Virginia Community Bank 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.

Yount, Hyde & Barbour, P.C.

Winchester, Virginia
March 12, 2015

BALANCE SHEETS

DECEMBER 31, 2014 AND 2013

ASSETS	2014	2013
Cash and due from banks	$ 5,066,808	$ $8,015,485
Federal funds sold	13,895	- -
Interest-bearing deposits at other financial institutions	10,915,209	24,684,805
Securities available for sale, at fair market value	62,697,398	56,890,092
Restricted stock, at cost	3,887,250	2,941,750
Loans, net of allowance for loan losses of $5,564,669 for 2014 and $4,791,716 for 2013	504,372,951	406,248,010
Premises and equipment, net	1,744,607	2,011,397
Accrued interest receivable	1,576,142	1,299,866
Prepaid expenses	738,804	617,972
Deferred tax asset, net	3,210,400	3,599,482
Core deposit intangible	159,800	180,200
Bank owned life Insurance (BOLI)	10,199,352	- -
Other assets	173,226	227,522
Total assets	$ 604,755,842	$ $506,716,581

LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits:		
Noninterest-bearing	$ 105,126,136	$ 86,397,604
Interest-bearing checking, savings and money market	200,354,779	149,992,643
Time deposits	198,739,453	193,599,259
Total deposits	$ 504,220,368	$ 429,989,506
Federal funds purchased	$ - -	$ 3,000,000
FHLB advances	32,500,000	11,500,000
Accrued interest payable	153,062	197,795
Accrued expenses and other liabilities	1,067,479	1,125,806
Total liabilities	$ 537,940,909	$ 445,813,107
Stockholders' Equity		
Preferred stock		
$5 par value, authorized 1,000,000 shares; no shares issued and and outstanding in 2014 and 2013	$ - -	$ - -
Common stock		
$5 par value, authorized 10,000,000 shares; 5,190,498 and 5,176,732 shares issued and outstanding in 2014 and 2013, respectively	25,952,490	25,883,660
Additional paid-in capital	35,753,197	35,175,736
Retained earnings	5,512,885	1,379,397
Accumulated other comprehensive (loss), net	(403,639)	(1,535,319)
Total stockholders' equity	$66,814,933	$60,903,474
Total liabilities and stockholders' equity	$604,755,842	$506,716,581

See Notes to Financial Statements.

STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
INTEREST AND DIVIDEND INCOME		
Interest and fees on loans	$ 21,197,541	$ 17,571,807
Interest and dividends on securities available for sale	1,074,950	726,713
Dividends on restricted stock	142,476	95,270
Interest on deposits at other financial institutions	2,173	1,173
Interest on federal funds sold	55,747	95,680
Total interest and dividend income	$ 22,472,887	$ 18,490,643
INTEREST EXPENSE		
Interest on deposits	$ 3,247,751	$ 2,929,289
Interest on federal funds purchased	319	24
Interest on short-term debt	7,456	- -
Interest on long-term debt	32,248	30,843
Total interest expense	$ 3,287,774	$ 2,960,156
NET INTEREST INCOME	$ 19,185,113	$ 15,530,487
Provision for loan losses	885,685	803,373
Net interest income after provision for loan losses	$ 18,299,428	$ 14,727,114
NONINTEREST INCOME		
Service charges on deposit accounts	$ 651,919	$ 607,907
Gains on sale of securities available for sale	77,222	203,982
Gains on sale of loans	196,114	- -
BOLI income	199,351	- -
Other fee income	188,259	213,582
Total noninterest income	$ 1,312,865	$ 1,025,471
NONINTEREST EXPENSES		
Salaries and employee benefits	$ 7,830,511	$ 7,279,274
Occupancy and equipment expense	1,939,042	1,915,587
Data processing and network administration	841,498	772,718
State franchise taxes	628,121	262,518
FDIC insurance	319,182	331,446
Audit, legal and consulting fees	287,939	180,447
Marketing, business development and advertising	238,527	282,865
Director fees	228,636	148,760
Postage, courier and telephone	206,469	187,117
Internet banking	117,105	85,153
Printing and supplies	109,828	112,654
Dues, memberships & publications	94,214	57,667
State assessments	78,859	76,194
Bank insurance	77,756	62,506
Bank charges	70,058	107,378
Loan related expenses	38,356	87,137
Core deposit intangible amortization	20,400	20,400
Other operating expenses	189,891	257,809
Total noninterest expenses	$ 13,316,392	$ 12,227,630
Net income before income tax expense	$ 6,295,901	$ 3,524,955
Income tax expense	2,162,413	1,297,129
Net income	$ 4,133,488	$ 2,227,826
Earnings per share, basic	$ 0.80	$ 0.49
Earnings per share, diluted	$ 0.79	$ 0.48

See Notes to Financial Statements.

STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
NET INCOME	$ 4,133,488	$ 2,227,826
Other comprehensive income (loss):		
Unrealized gain (loss) on securities available for sale, net of tax $609,242 and $(864,376), respectively	1,182,647	(1,677,906)
Reclassification adjustment for gains realized in income, net of tax $26,255 and $69,354, respectively	(50,967)	(134,628)
Total other comprehensive income (loss)	$ 1,131,680	$ (1,812,534)
Total comprehensive income	$ 5,265,168	$ 415,292

See Notes to Financial Statements.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Reconciliation of net income to net cash provided by operating activities:		
Net income	$ 4,133,488	$ 2,227,826
Depreciation	535,251	502,390
Provision for loan losses	885,685	803,373
Net amortization of premium of securities	142,717	302,497
Net amortization (accretion) of deferreds and purchase premiums	471,834	(692,764)
Stock-based compensation expense	481,000	359,520
BOLI income	(199,351)	- -
Realized gains on securities sales	(77,222)	(203,982)
Realized gains on loan sales	(196,114)	- -
Deferred income tax (benefit)	(193,905)	(106,141)
Core deposits intangible amortization	20,400	20,400
Changes in assets and liabilities:		
(Increase) decrease in accrued interest receivable, prepaid expenses and other assets	(342,812)	228,280
(Decrease) in accrued interest payable, accrued expenses and other liabilities	(103,060)	(1,092,472)
Net cash provided by operating activities	$ 5,557,911	$ 2,348,927
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of certificates of deposits	$ - -	$ (250,000)
Maturities of certificates of deposits purchased for investment	750,000	- -
Decrease (increase) in interest-bearing deposits at other financial institutions	13,769,596	(23,997,456)
Purchases of securities available for sale	(29,757,681)	(47,782,722)
Proceeds from sales of securities available for sale	15,663,566	11,633,352
Proceeds from maturities and calls of securities available for sale	3,419,655	2,260,870
Proceeds from prepayments of securities available for sale	5,766,326	3,281,963
Net (purchase) of restricted stock	(945,500)	(1,172,700)
Net (increase) in loans	(99,296,346)	(78,918,371)
Proceeds from recovery of charged off loans	10,000	231,181
Purchases of BOLI	(10,000,001)	- -
(Purchases) of premises and equipment	(268,461)	(576,693)
Net cash (used in) investing activities	$ (100,888,846)	$ (135,290,576)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in noninterest-bearing, interest-bearing checking, savings, and money market deposits	$ 69,090,668	$ 26,211,949
Net increase in time deposits	5,140,194	25,075,408
(Decrease) increase in federal funds purchased	(3,000,000)	3,000,000
Increase in short-term debt	21,000,000	9,000,000
Common stock issuance, net of offering costs	165,291	20,985,727
Net cash provided by financing activities	$ 92,396,153	$ 84,273,084
Net (decrease) increase in cash and cash equivalents	$ (2,934,782)	$ (48,668,565)
Cash and cash equivalents, beginning of year	8,015,485	56,684,050
Cash and cash equivalents, end of year	$ 5,080,703	$ 8,015,485
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash payments for interest	$ 3,332,507	$ 3,066,139
Cash payments for income taxes	$ 2,331,000	$ 2,033,000
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING ACTIVITY		
Unrealized gains (losses) on securities available for sale	$ 1,714,667	$ (2,746,264)

See Notes to Financial Statements.

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	SHARES	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS (DEFICIT)	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	TOTAL
BALANCE AT DECEMBER 31, 2012	3,548,796	$ 17,743,980	$ 21,970,169	$ (848,429)	$ 277,215	$ 39,142,935
Net income	- -	- -	- -	2,227,826	- -	2,227,826
Other comprehensive loss	- -	- -	- -	- -	(1,812,534)	(1,812,534)
Common stock issuance, net of offering costs	1,622,936	8,114,680	12,821,047	- -	- -	20,935,727
Common stock issuance in options exercised	5,000	25,000	25,000	- -	- -	50,000
Stock-based compensation expense, net of tax benefit of $51,375	- -	- -	359,520	- -	- -	359,520
BALANCE AT DECEMBER 31, 2013	5,176,732	$ 25,883,660	$ 35,175,736	$ 1,379,397	$ (1,535,319)	$ 60,903,474
Net income	- -	- -	- -	4,133,488	- -	4,133,488
Other comprehensive income	- -	- -	- -	- -	1,131,680	1,131,680
Common stock issuance in options exercised	13,766	68,830	96,461	- -	- -	165,291
Stock-based compensation expense, net of tax benefit of $65,387	- -	- -	481,000	- -	- -	481,000
BALANCE AT DECEMBER 31, 2014	5,190,498	$ 25,952,490	$ 35,753,197	$ 5,512,885	$ (403,639)	$ 66,814,933

See Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

NOTE 1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION

First Virginia Community Bank (the Bank) was organized under the laws of the Commonwealth of Virginia to engage in a general banking business serving the community in and around Fairfax, Virginia. The Bank commenced regular operations on November 27, 2007 and is a member of the Federal Reserve System and the Federal Deposit Insurance Corporation. It is subject to the regulations of the Federal Reserve System and the State Corporation Commission of Virginia. Consequently, it undergoes periodic examinations by these regulatory authorities.

On February 28, 2013, the shareholders approved an amendment to the Bank's Articles of Incorporation to increase the number of authorized shares of common stock to 10,000,000 and to authorize a class of 1,000,000 shares of undesignated preferred stock.

In a common stock offering ending on May 31, 2013, the Bank sold a total of 1,622,936 shares at $13.50 per share to existing and new shareholders generating total proceeds of $20,935,727, net of stock issuance costs.

SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the Bank are in accordance with accounting principles generally accepted in the United States of America and conform to general practices within the banking industry. The more significant of these policies are summarized below.

CASH AND CASH EQUIVALENTS

For purposes of the statements of cash flows, cash and cash equivalents include cash on hand, amounts due from banks and federal funds sold. Generally, federal funds are purchased and sold for one day periods.

SECURITIES

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. Securities not classified as held to maturity, 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. The Bank classifies all securities as available for sale. Restricted stock, such as Federal Reserve Bank stock, Federal Home Loan Bank (FHLB) stock and Community Bankers' Bank stock, is 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 available for sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (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) whether the Bank intends to sell the security, whether it is more likely than not that the Bank will be required to sell the security before recovery of its amortized costs basis and whether the Bank expects to recover the security's entire cost basis. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

LOANS

The Bank grants commercial, commercial real estate and consumer loans to its customers. A substantial portion of the loan portfolio includes commercial loans throughout the greater Washington, D.C. metropolitan area, initially focusing on the counties of Arlington, Fairfax, Loudoun and Prince William, Virginia. The ability of the Bank's debtors to honor their contracts is dependent upon the real estate and general economic conditions in this area.

The recorded investment in loans that management has the intent and ability to hold represents the customers unpaid principal balances, net of partial charge-offs. Interest income is accrued on the unpaid principal balance. Loan origination and commitment fees and certain direct costs are deferred and the net amount is amortized as an adjustment of the related loans' yield. The Bank is amortizing these amounts over the loans' contractual lives.

Past due status is monitored based on customers' contractual payment status for all loans. The accrual of interest on mortgage and commercial loans is discontinued at the time the loan becomes 90 days delinquent unless the credit is well-secured and in process of collection. Non-performing loans are placed either in nonaccrual status pending further collection efforts or charged off if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income. The interest on loans in nonaccrual status is accounted for on the 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.

In connection with the acquisition, loans were acquired and recorded at fair value, reflecting the present value of the amounts expected to be collected. Income recognition of these premiums and credit discounts is reflected as an adjustment of the related loans' yield over the loans contractual lives.

TROUBLED DEBT RESTRUCTURINGS

In situations where, for economic or legal reasons related to a borrower's financial condition, the Bank may grant a concession to the borrower that it would not otherwise consider, the related loan is classified as a troubled debt restructuring (TDR). The Bank strives to identify borrowers in financial difficulty early and work with them to modify their loan to more affordable terms before their loan reaches nonaccrual status. These modified terms may include rate reductions, principal forgiveness, payment forbearance and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. In cases where borrowers are granted new terms that provide for a reduction of either interest or principal, the Bank measures any impairment on the restructuring as noted above for impaired loans.

ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses is a valuation allowance for probable incurred credit losses. 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. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged off. Charge-offs of loans are made by portfolio segment at the time that the collection of the full principal, in management's judgment, is doubtful. This methodology for determining charge-offs is consistently applied to each segment.

The allowance consists of specific, general and unallocated reserves. Specific reserves relate to loans that are individually classified as impaired. A loan is impaired when, based on current information and events, it is probable that the Bank will be unable to collect all amounts due according to the contractual terms of the loan agreement. Measurement of impairment is based on the expected future

cash flows of an impaired loan, which are to be discounted at the loan's effective interest rate, or measured by reference to an observable market value, if one exists, or the fair value of the collateral for a collateral-dependent loan. The Bank selects the measurement method on a loan-by-loan basis except that collateral-dependent loans for which foreclosure is probable are measured at the fair value of the collateral.

Larger balance, non-homogeneous loans are individually evaluated for possible impairment. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Smaller balance, homogeneous loans are collectively evaluated for impairment.

The Bank recognizes interest income on impaired loans based on its existing methods of recognizing interest income on nonaccrual loans. Loans, for which the terms have been modified resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired with measurement of impairment based on expected future cash flows discounted using the loan's effective rate immediately prior to the restructuring.

General reserves cover non-impaired loans and are based on peer group historical loss rates for each portfolio segment, adjusted for the effects of qualitative or environmental factors that are likely to cause estimated credit losses as of the evaluation date to differ from the portfolio segment's historical loss experience. Qualitative factors include consideration of the following: changes in lending policies and procedures; changes in economic conditions; changes in the nature and volume of the portfolio; changes in the experience, ability and depth of lending management and other relevant staff; changes in the volume and severity of past due, nonaccrual and other adversely graded loans; changes in the loan review system; changes in the value of the underlying collateral for collateral-dependent loans; concentrations of credit and the effect of other external factors such as competition and legal and regulatory requirements.

The unallocated component of the allowance is maintained to cover uncertainties that could affect management's estimate of losses inherent in the loan portfolio. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used for estimating the specific and general losses in the loan portfolio.

Portfolio segments identified by the Bank include commercial real estate, commercial and industrial, commercial construction, consumer residential, consumer nonresidential and consumer construction. Relevant risk characteristics for these portfolio segments generally include debt service coverage, loan-to-value ratios and financial performance on non-consumer loans and credit scores, debt-to income, collateral type and loan-to-value ratios for consumer loans. The Bank uses the same segments and classes for analyzing adequacy of general allowances.

PREMISES AND EQUIPMENT

Leasehold improvements, computer software, furniture, fixtures and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the assets' estimated useful lives or life of lease. Estimated useful lives are 10 years for leasehold improvements and 3 to 7 years for computer software, furniture, fixtures and equipment.

INTANGIBLE ASSETS

The Bank's intangible assets were acquired in the acquisition of 1st Commonwealth. ASC 350, Intangibles-Goodwill and Other (ASC 350), prescribes accounting for intangible assets subsequent to initial recognition. Acquired intangible assets (such as core deposit intangibles) are separately recognized if the benefit of the assets can be sold, transferred, licensed, rented, or exchanged, and amortized over their useful lives. Intangible assets related to acquisition are amortized. The core deposit intangible asset, based on an independent valuation, is being amortized over its estimated life of 10 years.

FORECLOSED PROPERTIES

Assets acquired through, or in lieu of, loan foreclosure are held for sale. At the time of acquisition, these properties are recorded at fair value less estimated selling costs, with any write down charged to the allowance for loan losses. Subsequent to foreclosure, valuations of the assets are periodically performed by management. Adjustments are made for subsequent decline in the fair market value of the assets less selling costs. Revenue and expenses from operations and valuation changes are included in net expenses from foreclosed assets. The Bank had no foreclosed assets during the years ended December 31, 2014 and 2013.

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 surrendered when (1) the assets have been isolated from the Bank – put presumptively beyond reach of the transferor and its creditors, even in bankruptcy or other receivership, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

USE OF ESTIMATES

In preparing 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 balance sheet and reported amounts of revenue 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, the valuation of deferred tax assets, and the fair value of financial instruments.

INCOME TAXES

Deferred taxes are provided on a liability method whereby deferred tax assets and liabilities are recognized for deductible temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management's judgment. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

ADVERTISING COSTS

The Bank follows the policy of charging all of advertising to expense as incurred.

COMPREHENSIVE INCOME

Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains (losses) on securities available for sale, which are also recognized as separate components of equity. Items reclassified out of accumulated other comprehensive income to net income relate solely to realized gains (losses) on sales of securities available for sale and appear under the caption "Gains on sale of securities available for sales" in the Bank's statements of income.

FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in Note 14. Fair value estimates involve uncertainties and matters of significant judgment. Changes in assumptions or in market conditions could significantly affect the estimates.

STOCK COMPENSATION PLANS

Authoritative accounting guidance requires that the compensation cost relating to share-based payment transactions be recognized in the financial statements. That cost is measured based on the fair value of the equity or liability instruments issued. The guidance covers a wide range of share-based compensation arrangements including stock options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans. The guidance requires entities to measure the cost of employee services

recognized in exchange for stock options based on the grant-date fair value of the award, and to recognize the cost over the period the employee is required to provide services for the award. The Bank uses the Black-Scholes option-pricing model to meet the fair value objective as outlined in the accounting literature.

EARNINGS PER SHARE

Basic earnings per share represent income available to common shareholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflect additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Bank consist solely of outstanding stock options, and are determined using the treasury method.

RECENT ACCOUNTING PRONOUNCEMENTS

In January 2014, the FASB issued ASU 2014-04, "Receivables—Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure (a consensus of the FASB Emerging Issues Task Force)." The amendments in this ASU clarify that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendments require interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. The amendments in this ASU are effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. The adoption of the new guidance did not have a material impact on the Bank's financial statements.

In April 2014, the FASB issued ASU 2014-08, "Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity." The amendments in this ASU change the criteria for reporting discontinued operations while enhancing disclosures in this area. Under the new guidance, only disposals representing a strategic shift in operations should be presented as discontinued operations. Those strategic shifts should have a major effect on the organization's operations and financial results and include disposals of a major geographic area, a major line of business, or a major equity method investment. The new guidance requires expanded disclosures about discontinued operations that will provide financial statement users with more information about the assets, liabilities, income, and expenses of discontinued operations. Additionally, the new guidance requires disclosure of the pre-tax income attributable to a disposal of a significant part of an organization that does not qualify for discontinued operations reporting. The amendments in the ASU are effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. Early adoption is permitted. The Bank does not expect the adoption of ASU 2014-08 to have a material impact on its financial statements.

In June 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers: Topic 606." This ASU applies to any entity using U.S. GAAP that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards. The guidance supersedes the revenue recognition requirements in Topic 605, "Revenue Recognition, most industry-specific guidance, and some cost guidance included in Subtopic 605-35, "Revenue Recognition—Construction-Type and Production-Type Contracts." The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To be in alignment with the core principle, an entity must apply a five step process including: identification of the contract(s) with a customer, identification of performance obligations in the contract(s), determination of the transaction price, allocation of the transaction price to the performance obligations, and recognition of revenue when (or as) the entity satisfies a performance obligation. Additionally, the existing requirements for the recognition of a gain or loss on the transfer of nonfinancial assets that are not in a contract with a customer have also been amended to be consistent with the guidance on recognition and measurement. The amendments in this ASU are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early adoption is not permitted. The Bank is currently assessing the impact that ASU 2014-09 will have on its financial statements.

In June 2014, the FASB issued ASU No. 2014-11, "Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures." This ASU aligns the accounting for repurchase-to-maturity transactions and repurchase

agreements executed as a repurchase financing with the accounting for other typical repurchase agreements. The new guidance eliminates sale accounting for repurchase-to-maturity transactions and supersedes the guidance under which a transfer of a financial asset and a contemporaneous repurchase financing could be accounted for on a combined basis as a forward agreement. The amendments in the ASU also require a new disclosure for transactions economically similar to repurchase agreements in which the transferor retains substantially all of the exposure to the economic return on the transferred financial assets throughout the term of the transaction. Additional disclosures will be required for the nature of collateral pledged in repurchase agreements and similar transactions accounted for as secured borrowings. The amendments in this ASU are effective for the first interim or annual period beginning after December 15, 2014; however, the disclosure for transactions accounted for as secured borrowings is required to be presented for annual periods beginning after December 15, 2014, and interim periods beginning after March 15, 2015. Early adoption is not permitted. The Bank is currently assessing the impact that ASU 2014-11 will have on its financial statements.

In June 2014, the FASB issued ASU No. 2014-12, "Compensation – Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period." The new guidance applies to reporting entities that grant employees share-based payments in which the terms of the award allow a performance target to be achieved after the requisite service period. The amendments in the ASU require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. Existing guidance in "Compensation – Stock Compensation (Topic 718)," should be applied to account for these types of awards. The amendments in this ASU are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Early adoption is permitted and reporting entities may choose to apply the amendments in the ASU either on a prospective or retrospective basis. The Bank does not expect the adoption of ASU 2014-12 to have a material impact on its financial statements.

In August 2014, the FASB issued ASU No. 2014-14, "Receivables – Troubled Debt Restructurings by Creditors (Subtopic 310-40): Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure." The amendments in this ASU apply to creditors that hold government-guaranteed mortgage loans and are intended to eliminate the diversity in practice related to the classification of these guaranteed loans upon foreclosure. The new guidance stipulates that a mortgage loan be derecognized and a separate other receivable be recognized upon foreclosure if (1) the loan has a government guarantee that is not separable from the loan prior to foreclosure, (2) at the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under that claim, and (3) at the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed. Upon foreclosure, the other receivable should be measured on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. The amendments in this ASU are effective for annual periods and interim periods within those annual periods beginning after December 15, 2014. Entities may adopt the amendments on a prospective basis or modified retrospective basis as of the beginning of the annual period of adoption; however, the entity must apply the same method of transition as elected under ASU 2014-04. Early adoption is permitted provided the entity has already adopted ASU 2014-04. The adoption of the new guidance did not have a material impact on the Bank's financial statements.

In August 2014, the FASB issued ASU No. 2014-15, "Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern." This update is intended to provide guidance about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. Management is required under the new guidance to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date the financial statements are issued when preparing financial statements for each interim and annual reporting period. If conditions or events are identified, the ASU specifies the process that must be followed by management and also clarifies the timing and content of going concern footnote disclosures in order to reduce diversity in practice. The amendments in this ASU are effective for annual periods and interim periods within those annual periods beginning after December 15, 2016. Early adoption is permitted. The Bank does not expect the adoption of ASU 2014-15 to have a material impact on its financial statements.

In January 2015, the FASB issued ASU No. 2015-01, "Income Statement—Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items." The amendments in this ASU eliminate from U.S. GAAP the concept of extraordinary items. Subtopic 225-20, Income Statement - Extraordinary and Unusual Items, required that an entity separately classify, present, and disclose extraordinary events and transactions. Presently, an event or transaction is presumed to be an ordinary and usual activity of the reporting entity unless evidence clearly supports its classification as an extraordinary item. If an event or transaction meets the criteria for extraordinary classification, an entity is required to segregate the extraordinary item from the results of ordinary operations and show the item separately in the income statement, net of tax, after income from continuing operations. The entity also is required to disclose applicable income taxes and either present or disclose earnings-per-share data applicable to the extraordinary item. The amendments in this ASU are effective for fiscal years, and interim periods within those fiscal

years, beginning after December 15, 2015. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. The Bank does not expect the adoption of ASU 2015-01 to have a material impact on its financial statements.

RECLASSIFICATIONS

Certain prior year amounts have been reclassified to conform to the current year's method of presentation. None of these reclassifications were significant.

NOTE 2. RESTRICTIONS ON CASH AND AMOUNTS DUE FROM BANKS

The Bank is required to maintain average balances on hand or with the Federal Reserve Bank. At December 31, 2014 and 2013, these reserve balances amounted to $0 and $6,945,000, respectively.

NOTE 3. SECURITIES

Amortized cost and fair values of securities available for sale as of December 31, 2014 and 2013, are as follows:

2014	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED (LOSSES)	FAIR VALUE
Securities of U.S. government and federal agencies	$ 4,239,131	$ 346	$ (71,752)	$ 4,167,725
Securities of state and local municipalities	1,321,954	- -	(32,129)	1,289,825
Certificates of deposit	2,235,000	10,238	(687)	2,244,551
SBA pass-through securities	446,151	- -	(17,069)	429,082
Mortgage-backed securities	25,067,769	143,487	(188,672)	25,022,584
Collateralized mortgage obligations	29,998,968	54,723	(510,060)	29,543,631
Total	$ 63,308,973	$ 208,794	$ (820,369)	$ 62,697,398

2013	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED (LOSSES)	FAIR VALUE
Securities of U.S. government and federal agencies	$ 10,289,130	$ 58	$ (287,054)	$ 10,002,134
Securities of state and local municipalities	2,553,671	191	(79,744)	2,474,118
Certificates of deposit	2,235,000	15,966	(2,893)	2,248,073
SBA pass-through securities	489,529	- -	(35,499)	454,030
Mortgage-backed securities	12,501,492	9,801	(364,041)	12,147,252
Collateralized mortgage obligations	28,647,510	8,483	(1,576,268)	27,079,725
Corporate securities	2,500,000	- -	(15,240)	2,484,760
Total	$ 59,216,332	$ 34,499	$ (2,360,739)	$ 56,890,092

At December 31, 2014 and 2013, securities with a market value of $987,971 and $0 were pledged to secure borrowings at the Federal Reserve Bank.

At December 31, 2014 and 2013, securities with a market value of $13,427,812 and $6,522,641 were pledged to secure borrowings at the Federal Home Loan Bank of Atlanta.

At December 31, 2014 and 2013, securities with a market value of $20,622,479 and $15,230,669 were pledged to secure public deposits with the Treasury Board of Virginia at the Community Bankers' Bank.

There are no held to maturity securities at December 31, 2014 and 2013.

The following table shows estimated fair value and gross unrealized losses, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2014 and 2013, respectively. The reference point for determining when securities are in an unrealized loss position is month-end. Therefore, it is possible that a security's market value exceeded its amortized cost on other days during the past twelve-month period. Available for sale securities that have been in a continuous unrealized loss position are as follows:

AT DECEMBER 31, 2014	LESS THAN 12 MONTHS		12 MONTHS OR LONGER		TOTAL	
	FAIR VALUE	UNREALIZED LOSSES	FAIR VALUE	UNREALIZED LOSSES	FAIR VALUE	UNREALIZED LOSSES
Securities of U.S. government and federal agencies	$ - -	$ - -	$ 3,667,379	$ (71,752)	$ 3,667,379	$ (71,752)
Securities of state and local municipalities	807,525	(14,429)	482,300	(17,700)	1,289,825	(32,129)
Certificates of deposit	244,313	(687)	- -	- -	244,313	(687)
SBA pass-through securities	- -	- -	429,082	(17,069)	429,082	(17,069)
Mortgage-backed securities	6,056,708	(24,442)	5,741,066	(164,230)	11,797,774	(188,672)
Collateralized mortgage obligations	9,013,341	(78,180)	14,939,826	(431,880)	23,953,167	(510,060)
Total	$ 16,121,887	$ (117,738)	$ 25,259,653	$ (702,631)	$ 41,381,540	$ (820,369)

AT DECEMBER 31, 2013	LESS THAN 12 MONTHS		12 MONTHS OR LONGER		TOTAL	
	FAIR VALUE	UNREALIZED LOSSES	FAIR VALUE	UNREALIZED LOSSES	FAIR VALUE	UNREALIZED LOSSES
Securities of U.S. government and federal agencies	$ 7,753,657	$ (235,473)	$ 1,748,419	$ (51,581)	$ 9,502,076	$ (287,054)
Securities of state and local municipalities	1,721,215	(79,744)	- -	- -	1,721,215	(79,744)
Certificates of deposit	242,107	(2,893)	- -	- -	242,107	(2,893)
SBA pass-through securities	- -	- -	454,030	(35,499)	454,030	(35,499)
Mortgage-backed securities	4,491,852	(162,612)	3,296,428	(201,429)	7,788,280	(364,041)
Collateralized mortgage obligations	24,414,851	(1,446,109)	1,696,210	(130,159)	26,111,061	(1,576,268)
Corporate securities	2,484,760	(15,240)	- -	- -	2,484,760	(15,240)
Total	$ 41,108,442	$ (1,942,071)	$ 7,195,087	$ (418,668)	$ 48,303,529	$ (2,360,739)

Securities of U.S. government and federal agencies: The unrealized losses were caused by interest rate increases. The contractual terms of these investments do not permit the issuer to settle the securities at a price less than the amortized cost basis of the investments. Because the Bank does not intend to sell the investments and it is not more likely than not that the Bank will be required to sell the investments before recovery of their amortized cost basis, which may be maturity, the Bank does not consider those investments to be other-than-temporarily impaired at December 31, 2014.

Securities of state and local municipalities: The unrealized losses on the investments in securities of state and local municipalities were caused by interest rate increases. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost basis of the investments. Because the Bank does not intend to sell the investments and it is not more likely than not that the Bank will be required to sell the investments before recovery of their amortized cost basis, which may be maturity, the Bank does not consider those investments to be other-than-temporarily impaired at December 31, 2014.

Certificates of deposit: The unrealized losses on the Bank's investment in fully-insured certificates of deposits were caused by interest rate increases. Because the Bank does not intend to sell the investments and it is not more likely than not that the Bank will be required to sell the investments before recovery of their amortized cost basis, which may be maturity, the Bank does not consider those investments to be other-than-temporarily impaired at December 31, 2014.

SBA pass-through securities: The unrealized losses on the Bank's investment in SBA pass-through securities were caused by interest rate increases. Repayment of the principal on those investments is guaranteed by an agency of the U.S. Government. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost basis of the Bank's investments. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Bank does not intend to sell the investments and it is not more likely than not that the Bank will be required to sell the investments before recovery of their amortized cost basis, which may be maturity, the Bank does not consider those investments to be other-than-temporarily impaired at December 31, 2014.

Mortgage-backed securities: The unrealized losses on the Bank's investment in mortgage-backed securities were caused by interest rate increases. The contractual cash flows of those investments are guaranteed by an agency of the U.S. Government. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost basis of the Bank's investments. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Bank does not intend to sell the investments and it is not more likely than not that the Bank will be required to sell the investments before recovery of their amortized cost basis, which may be maturity, the Bank does not consider those investments to be other-than-temporarily impaired at December 31, 2014.

Collateralized mortgage obligations (CMOs): The unrealized loss associated with CMOs was caused by interest rate increases. The contractual cash flows of these investments are guaranteed by an agency of the U.S. Government. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost basis of the Bank's investments. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Bank does not intend to sell the investments and it is not more likely than not that the Bank will be required to sell the investments before recovery of their amortized cost basis, which may be maturity, the Bank does not consider those investments to be other-than-temporarily impaired at December 31, 2014.

The amortized cost and fair value of securities available for sale as of December 31, 2014, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations without penalties.

	AMORTIZED COST	FAIR VALUE
Less than 1 year	$ 1,000,000	$ 1,003,761
After 1 year through 5 years	5,474,131	5,403,400
After 5 years through 10 years	500,000	487,415
After 10 years	821,954	807,525
	7,796,085	7,702,101
SBA pass-through securities	446,151	429,082
Mortgage-backed securities	25,067,769	25,022,584
Collateralized mortgage obligations	29,998,968	29,543,631
Total	$ 63,308,973	$ 62,697,398

For the years ended December 31, 2014 and 2013, proceeds from maturities, calls and principal repayments of securities were $9,185,981 and $5,542,833, respectively. During 2014 and 2013, proceeds from sales of securities available for sale amounted to $15,663,566 and $11,633,352; gross realized gains were $126,670 and $206,438 and gross realized losses were $49,448 and $2,456, respectively.

NOTE 4. LOANS AND ALLOWANCE FOR LOAN LOSSES

A summary of loan balances by type follows:

	2014	2013
Commercial real estate	$ 325,040,726	$ 273,252,038
Commercial and industrial	82,373,936	64,639,393
Commercial construction	24,160,267	7,921,095
Consumer residential	66,227,782	59,521,226
Consumer nonresidential	11,615,337	4,446,468
Consumer construction	- -	268,100
	$ 509,418,048	$ 410,048,320
Less:		
Allowance for loan losses	5,564,669	4,791,716
Unearned income and unamortized premiums	(519,572)	(991,406)
Loans, net	$ 504,372,951	$ 406,248,010

An analysis of the allowance for loan losses for the years ended December 31, 2014 and 2013 follows:

	Commercial Real Estate	Commercial and Industrial	Commercial Construction	Consumer Residential	Consumer Nonresidential	Consumer Construction	Unallocated	Total
2014 ALLOWANCE FOR CREDIT LOSSES:								
Beginning Balance	$ 3,725,137	$ 786,921	$ 78,143	$ 177,212	$ 9,134	$ 2,996	$ 12,173	$ 4,791,716
Charge-offs	(112,625)	- -	- -	- -	(10,107)	- -	- -	(122,732)
Recoveries	10,000	- -	- -	- -	- -	- -	- -	10,000
Provision	98,822	489,435	155,608	27,578	67,177	(2,996)	50,061	885,685
Ending Balance	$ 3,721,334	$ 1,276,356	$ 233,751	$ 204,790	$ 66,204	$ - -	$ 62,234	$ 5,564,669
2013 ALLOWANCE FOR CREDIT LOSSES:								
Beginning Balance	$ 2,459,956	$ 1,089,378	$ 22,317	$ 170,964	$ 14,547	$ - -	$ - -	$ 3,757,162
Charge-offs	- -	- -	- -	- -	- -	- -	- -	- -
Recoveries	231,181	- -	- -	- -	- -	- -	- -	231,181
Provision	1,034,000	(302,457)	55,826	6,248	(5,413)	2,996	12,173	803,373
Ending Balance	$ 3,725,137	$ 786,921	$ 78,143	$ 177,212	$ 9,134	$ 2,996	12,173	$ 4,791,716

The following table presents the recorded investment in loans and impairment method as of December 31, 2014 and 2013 by portfolio segment:

FOR THE YEAR ENDED DECEMBER 31, 2014

	Commercial Real Estate	Commercial and Industrial	Commercial Construction	Consumer Residential	Consumer Nonresidential	Consumer Construction	Unallocated	Total
ALLOWANCE FOR CREDIT LOSSES:								
Ending Balance:								
Individually evaluated for impairment	$ 281,120	$ 474,993	$ - -	$ - -	$ - -	$ - -	$ - -	$ 756,113
Collectively evaluated for impairment	3,440,214	801,363	233,751	204,790	66,204	- -	62,234	4,808,556
	$ 3,721,334	$ 1,276,356	$ 233,751	$ 204,790	$ 66,204	$ - -	$ 62,234	$ 5,564,669
FINANCING RECEIVABLES:								
Ending Balance:								
Individually evaluated for impairment	$ 3,318,469	$ 2,606,878	$ - -	$ 121,805	$ - -	$ - -	$ - -	$ 6,047,152
Collectively evaluated for impairment	321,722,257	79,767,058	24,160,267	66,105,977	11,615,337	- -	- -	503,370,896
	$ 325,040,726	$ 82,373,936	$ 24,160,267	$ 66,227,782	$ 11,615,337	$ - -	$ - -	$ 509,418,048

FOR THE YEAR ENDED DECEMBER 31, 2013

	Commercial Real Estate	Commercial and Industrial	Commercial Construction	Consumer Residential	Consumer Nonresidential	Consumer Construction	Unallocated	Total
ALLOWANCE FOR CREDIT LOSSES:								
Ending Balance:								
Individually evaluated for impairment	$ 409,859	$ 89,911	$ - -	$ - -	$ - -	$ - -	$ - -	$ $499,770
Collectively evaluated for impairment	3,315,278	697,010	78,143	177,212	9,134	2,996	12,173	4,291,946
	$ 3,725,137	$ 786,921	$ 78,143	$ 177,212	$ 9,134	$ 2,996	$ 12,173	$ 4,791,716
FINANCING RECEIVABLES:								
Ending Balance:								
Individually evaluated for impairment	$ 2,978,494	$ 3,552,655	$ - -	$ - -	$ - -	$ - -	$ - -	$ 6,531,149
Collectively evaluated for impairment	270,273,544	61,086,738	7,921,095	59,921,226	4,446,468	268,100	- -	403,917,171
	$ 273,252,038	$ 64,639,393	$ 7,921,095	$ 59,921,226	$ 4,446,468	$ 268,100	$ - -	$ 410,448,320

Impaired loans by class as of December 31, 2014 and 2013 are summarized as follows:

FOR THE YEAR ENDED DECEMBER 31, 2014

	RECORDED INVESTMENT	UNPAID PRINCIPAL BALANCE	RELATED ALLOWANCE	AVERAGE RECORDED INVESTMENT	INTEREST INCOME RECOGNIZED
WITH AN ALLOWANCE RECORDED:					
Commercial real estate	$ 770,365	$ 803,708	$ 281,120	$ 818,694	$ 26,617
Commercial and industrial	473,839	474,992	474,993	487,896	19,525
Commercial construction	- -	- -	- -	- -	- -
Consumer residential	- -	- -	- -	- -	- -
Consumer nonresidential	- -	- -	- -	- -	- -
Consumer construction	- -	- -	- -	- -	- -
	$ 1,244,204	$ 1,278,700	$ 756,113	$ 1,306,590	$ 46,142
WITH NO RELATED ALLOWANCE:					
Commercial real estate	$ 2,548,104	$ 2,553,086	$ - -	$ 2,568,511	$ 133,485
Commercial and industrial	2,133,039	2,179,073	- -	2,438,442	96,112
Commercial construction	- -	- -	- -	- -	- -
Consumer residential	121,805	121,805	- -	122,835	6,710
Consumer nonresidential	- -	- -	- -	- -	- -
Consumer construction	- -	- -	- -	- -	- -
	$ 4,802,948	$ 4,853,964	$ - -	$ 5,129,788	$ 236,307

FOR THE YEAR ENDED DECEMBER 31, 2013

	RECORDED INVESTMENT	UNPAID PRINCIPAL BALANCE	RELATED ALLOWANCE	AVERAGE RECORDED INVESTMENT	INTEREST INCOME RECOGNIZED
WITH AN ALLOWANCE RECORDED:					
Commercial real estate	$ 934,753	$ 957,047	$ 409,859	$ 965,313	$ 57,921
Commercial and industrial	354,765	362,603	89,911	426,537	19,000
Commercial construction	- -	- -	- -	- -	- -
Consumer residential	- -	- -	- -	- -	- -
Consumer nonresidential	- -	- -	- -	- -	- -
Consumer construction	- -	- -	- -	- -	- -
	$ 1,289,518	$ 1,319,650	$ 499,770	$ 1,391,850	$ 76,921
WITH NO RELATED ALLOWANCE:					
Commercial real estate	$ 2,043,741	$ 2,043,741	$ - -	$ 2,173,999	$ 76,359
Commercial and industrial	3,197,890	3,203,089	- -	4,318,928	159,048
Commercial construction	- -	- -	- -	- -	- -
Consumer residential	- -	- -	- -	- -	- -
Consumer nonresidential	- -	- -	- -	- -	- -
Consumer construction	- -	- -	- -	- -	- -
	$ 5,241,631	$ 5,246,830	$ - -	$ 6,492,927	$ 235,407

No additional funds are committed to be advanced in connection with the impaired loans. There were no nonaccrual loans excluded from the impaired loan disclosure.

The Bank 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, collateral adequacy, credit documentation, and current economic trends, among other factors. The Bank analyzes loans individually by classifying the loans as to credit risk. This analysis typically includes larger, non-homogeneous loans such as commercial real estate and commercial and industrial loans. This analysis is performed on an ongoing basis as new information is obtained. The Bank uses the following definitions for risk ratings:

PASS – Loans listed as pass include larger non-homogeneous loans not meeting the risk rating definitions below and smaller, homogeneous loans not assessed on an individual basis.

SPECIAL MENTION – Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

SUBSTANDARD – Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the enhanced possibility that the institution will sustain some loss if the deficiencies are not corrected.

DOUBTFUL – Loans classified as doubtful include those loans which have all the weaknesses inherent in those classified Substandard with the added characteristic that the weaknesses make collection or liquidation in full, based on currently known facts, conditions and values, improbable.

LOSS – Loans classified as loss include those loans which are considered uncollectible and of such little value that their continuance as loans is not warranted. Even though partial recovery may be achieved in the future, it is neither practical nor desirable to defer writing off these loans.

Based on the most recent analysis performed, the risk category of loans by class of loans was as follows as of December 31, 2014 and 2013:

AS OF DECEMBER 31, 2014

	COMMERCIAL REAL ESTATE	COMMERCIAL AND INDUSTRIAL	COMMERCIAL CONSTRUCTION	CONSUMER RESIDENTIAL	CONSUMER NONRESIDENTIAL	CONSUMER CONSTRUCTION	TOTAL
GRADE:							
Pass	$ 317,316,585	$ 77,206,789	$ 24,160,267	$ 66,105,977	$ 11,615,337	$ - -	$ 496,404,955
Special mention	4,405,672	2,560,269	- -	- -	- -	- -	6,965,941
Substandard	3,318,469	2,606,878	- -	121,805	- -	- -	6,047,152
Doubtful	- -	- -	- -	- -	- -	- -	- -
Loss	- -	- -	- -	- -	- -	- -	- -
Total	$ 325,040,726	$ 82,373,936	$ 24,160,267	$ 66,227,782	$ 11,615,337	$ - -	$ 509,418,048

AS OF DECEMBER 31, 2013

	COMMERCIAL REAL ESTATE	COMMERCIAL AND INDUSTRIAL	COMMERCIAL CONSTRUCTION	CONSUMER RESIDENTIAL	CONSUMER NONRESIDENTIAL	CONSUMER CONSTRUCTION	TOTAL
GRADE:							
Pass	$ 267,781,821	$ 58,642,370	$ 7,921,095	$ 59,521,226	$ 4,446,468	$ 268,100	$ 398,581,080
Special mention	2,491,723	2,444,368	- -	- -	- -	- -	4,936,091
Substandard	2,978,494	3,552,655	- -	- -	- -	- -	6,531,149
Doubtful	- -	- -	- -	- -	- -	- -	- -
Loss	- -	- -	- -	- -	- -	- -	- -
Total	$ 273,252,038	$ 64,639,393	$ 7,921,095	$ 59,521,226	$ 4,446,468	$ 268,100	$ 410,048,320

Past due and nonaccrual loans presented by loan class were as follows as of December 31, 2014 and 2013:

AS OF DECEMBER 31, 2014

	30-59 DAYS PAST DUE	60-89 DAYS PAST DUE	90 DAYS OR MORE PAST DUE	TOTAL PAST DUE	CURRENT	TOTAL LOANS	90 DAYS PAST DUE AND STILL ACCRUING	NONACCRUALS
Commercial real estate	$ 106,645	$ 190,942	$ - -	$ 297,587	$ 324,743,139	$ 325,040,726	$ - -	$ 266,852
Commercial and industrial	- -	232,514	922,684	1,155,198	81,218,738	82,373,936	40,447	1,172,285
Commercial construction	- -	- -	- -	- -	24,160,267	24,160,267	- -	- -
Consumer residential	- -	99,647	121,805	221,452	66,006,330	66,227,782	- -	121,805
Consumer nonresidential	2,030	2,726	- -	4,756	11,610,581	11,615,337	- -	- -
Consumer construction	- -	- -	- -	- -	- -	- -	- -	- -
Total	$ $108,675	$ 525,829	$ $1,044,489	$ $1,678,993	$ 507,739,055	$ 509,418,048	$ $40,447	$ $1,560,942

AS OF DECEMBER 31, 2013

	30-59 DAYS PAST DUE	60-89 DAYS PAST DUE	90 DAYS OR MORE PAST DUE	TOTAL PAST DUE	CURRENT	TOTAL LOANS	90 DAYS PAST DUE AND STILL ACCRUING	NONACCRUALS
Commercial real estate	$ 78,714	$ - -	$ 1,022,661	$ 1,101,375	$ 272,150,663	$ 273,252,038	$ - -	$ 1,241,305
Commercial and industrial	1,013,926	- -	1,336,741	2,350,667	62,288,726	64,639,393	859,609	886,619
Commercial construction	- -	- -	- -	- -	7,921,095	7,921,095	- -	- -
Consumer residential	2,093,458	- -	- -	2,093,458	57,427,768	59,521,226	- -	- -
Consumer nonresidential	7,130	- -	- -	7,130	4,439,338	4,446,468	- -	- -
Consumer construction	- -	- -	- -	- -	268,100	268,100	- -	- -
Total	$ 3,193,228	$ - -	$ 2,359,402	$ 5,552,630	$ 404,495,690	$ 410,048,320	$ 859,609	$ 2,127,924

There were overdrafts of $1,218,892 and $417,854 at December 31, 2014 and 2013 which have been reclassified from deposits to loans. At December 31, 2014 and 2013, loans with a carrying value of $34,979,641 and $36,201,602 were pledged to the Federal Home Loan Bank of Atlanta.

During the year ended December 31, 2014, there was one troubled debt restructuring that subsequently defaulted for $10,107 in the consumer nonresidential loan category. There was no debt restructuring that subsequently defaulted for the year ended December 31, 2013. A summary of activity in troubled debt restructurings presented by loan class follows for the year ended December 31, 2014:

FOR THE YEAR ENDED DECEMBER 31, 2014

TROUBLED DEBT RESTRUCTURINGS	NUMBER OF CONTRACTS	PRE-MODIFICATION OUTSTANDING RECORDED INVESTMENT	POST-MODIFICATION OUTSTANDING RECORDED INVESTMENT
Commercial real estate	1	$ $77,977	$ 75,951
Commercial and industrial	1	293,259	293,163
Commercial construction		- -	- -
Consumer residential		- -	- -
Consumer nonresidential	1	10,230	10,107
Consumer construction		- -	- -
Total		$ $381,466	$ 379,221

The concessions made in troubled debt restructurings were extensions of the maturity dates or reductions in the stated interest rate for the remaining original life of the debt.

There were no new troubled debt restructurings for the year ended December 31, 2013.

NOTE 5. PREMISES AND EQUIPMENT

A summary of the cost and accumulated depreciation of premises and equipment follows:

	2014	2013
Leasehold improvements	$ $2,323,813	$ 2,228,906
Furniture, fixtures and equipment	2,553,972	2,429,395
Computer software	209,939	160,962
	$ $5,087,724	$ 4,819,263
Less: accumulated depreciation	3,343,117	2,807,866
	$ $1,744,607	$ 2,011,397

For the years ended December 31, 2014 and 2013, depreciation expense was $535,251 and $502,390, respectively.

As of December 31, 2014, the Bank has a non-cancellable lease agreement for the operating headquarters. The lease states that if the Bank holds possession of the premises after the expiration date, the Bank shall become a tenant on a month-to-month basis. The monthly rental payment shall continue as provided unless notice is given. The lease expires December 31, 2017.

In January 2008, the Bank entered into a non-cancellable lease agreement to operate a branch in Manassas, Virginia. The lease expires December 31, 2017. The lease contains an option to extend for two five-year periods.

In December 2010, the Bank entered into a five-year lease agreement to operate a branch in Reston, Virginia. The lease, which is cancellable with penalty, expires December 31, 2020. The lease contains an option to extend for two five-year periods.

As a result of the acquisition in October 2012, the Bank assumed the remaining term of a non-cancellable 10-year lease agreement to operate a branch in Arlington, Virginia. The lease expires on July 31, 2018. The lease contains an option to extend for two five-year periods. As part of the acquisition accounting, the Bank recorded a liability for the terms of the lease relative to the market terms at the time of the acquisition. The liability is accreted against rent expense over the remaining lease term.

In May 2013, the Bank entered into a 10-year lease agreement to operate a branch in Springfield, Virginia. The lease, which is cancellable with penalty, expires August 31, 2023. The lease contains an option to extend for two five-year periods.

Total rent expense for the years ended December 31, 2014 and 2013 amounted to $983,007 and $986,004, respectively.

The minimum base rent for the remainder of the leases are as follows:

2015	$	1,146,910
2016		1,097,737
2017		999,694
2018		256,935
2019		89,762
thereafter		350,465
	$	3,941,503

NOTE 6. TIME DEPOSITS

Remaining maturities on certificates of deposit are as follows:

2015	$	106,512,574
2016		52,015,108
2017		30,497,988
2018		4,666,660
2019		5,047,123
	$	198,739,453

Total time deposits greater than $250,000 were $52,459,472 and $51,265,438 at December 31, 2014 and 2013, respectively.

NOTE 7. DEPOSIT CONCENTRATIONS

At December 31, 2014 and 2013, the Bank had one and two customer relationships, respectively, whose related balance on deposit exceeded 5% of outstanding deposits. These customer relationships comprised 10% of outstanding deposits at December 31, 2014 and 6% and 8% of outstanding deposits at December 31, 2013.

Brokered deposits totaled $76,972,714 and $52,094,344 at December 31, 2014 and 2013, respectively.

NOTE 8. FEDERAL HOME LOAN BANK (FHLB) ADVANCES AND OTHER BORROWINGS

FHLB advances at December 31, 2014 consist of the following:

		AMOUNT		WEIGHTED AVERAGE RATE
DAILY RATE ADVANCES MATURING:				
2015	$	$30,000,000	$	0.36%
FIXED RATE ADVANCES MATURING:				
2017		2,500,000		1.33%
Total FHLB advances	$	$32,500,000	$	0.43%

At December 31, 2014, advances are collateralized by securities with a market value of $13,427,812, 1-4 family residential loans with a book value of $4,248,505, home equity lines of credit with a book value of $1,035,987 and commercial real estate loans with book value of $29,695,149. The remaining lendable collateral value at December 31, 2014 totaled $4,185,118.

The Bank has unsecured lines of credit with correspondent banks totaling $22,000,000 and $12,000,000 at December 31, 2014 and 2013, available for overnight borrowing. $0 and $3,000,000 were drawn on the lines at December 31, 2014 and 2013, respectively.

NOTE 9. RELATED PARTY TRANSACTIONS

Officers, directors and their affiliates had borrowings of $1,162,160 and $2,898,990 at December 31, 2014 and 2013 with the Bank. During the years ended December 31, 2014 and 2013, total principal additions were $247,146 and $110,449 and total principal payments were $1,983,976 and $829,541, respectively.

Related party deposits amounted to $27,887,131 and $32,794,383 at December 31, 2014 and 2013, respectively.

NOTE 10. INCOME TAXES

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2014 and 2013 are presented below:

	2014	2013
DEFERRED TAX ASSETS:		
Allowance for loan losses	$ 1,804,757	$ 1,517,031
Net operating loss carry forward	503,251	531,471
Bank premises and equipment and deferred rent	362,015	307,618
Unrealized loss on securities available for sale	207,935	790,922
Directors - nonqualified stock options	181,843	113,012
Organizational and start-up expenses	140,274	157,993
Acquisition accounting adjustments	119,927	- -
Non-accrual loan interest	18,196	372,405
	$ 3,338,198	$ 3,790,452
DEFERRED TAX LIABILITIES:		
Acquisition accounting adjustments	$ - -	$ (52,075)
Deferred loan fees	(127,798)	(138,895)
	$ (127,798)	$ (190,970)
Net Deferred Tax Assets	$ 3,210,400	$ 3,599,482

As part of the 2012 acquisition, the Bank acquired approximately $1.7 million of unused net operating carryforwards. The Bank may utilize the carryforwards, subject to certain limitations, through 2032. The income tax expense (benefit) credited to operations for the years ended December 31, 2014 and 2013 consists of the following:

	2014	2013
Current tax expense	$ $2,356,318	$ 1,403,270
Deferred tax benefit	(193,905)	(106,141)
	$ $2,162,413	$ 1,297,129

Income tax expense (benefit) differed from amounts computed by applying the U.S. federal income tax rate of 34% to income, excluding bargain purchase gain, before income tax expense as a result of the following:

	2014	2013
Computed "expected" tax expense	$ $2,140,606	$ 1,198,485
Increase (decrease) in income taxes resulting from:		
Non-deductible expense	105,468	76,048
Tax free income	(67,779)	- -
Other	(15,882)	22,596
	$ 2,162,413	$ 1,297,129

The Bank files income tax returns in the U.S. federal jurisdiction. With few exceptions, the Bank is no longer subject to U.S. federal examination by tax authorities for years prior to 2011.

NOTE 11. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

The Bank is party to credit-related 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. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet.

The Bank's exposure to credit loss is represented by the contractual amount of these commitments. The Bank follows the same credit policies in making commitments as it does for on-balance sheet instruments.

At December 31, 2014 and 2013, the following financial instruments were outstanding which contract amounts represent credit risk:

	2014	2013
Commitments to grant loans	$ $23,978,293	$ $15,689,370
Unused commitments to fund loans and lines of credit	96,679,991	74,088,865
Commercial and standby letters of credit	974,762	2,184,774

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. The commitments for equity lines of credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Bank, is based on management's credit evaluation of the customer.

Unfunded commitments under commercial lines of credit, revolving credit lines and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines of credit usually do not contain a specified maturity date and may not be drawn upon to the total extent to which the Bank is committed. The amount of collateral obtained, if it is deemed necessary by the Bank, is based on management's credit evaluation of the customer.

Commercial and standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those letters of credit are primarily issued to support public and private borrowing arrangements. Essentially all letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank generally holds collateral supporting those commitments, if deemed necessary.

The Bank maintains its cash accounts with the Federal Reserve and correspondent banks. The total amount of cash on deposit in correspondent banks exceeding the federally insured limits was $75,924 and $173,528 at December 31, 2014 and 2013, respectively.

NOTE 12. MINIMUM REGULATORY CAPITAL REQUIREMENTS

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, 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, financial institutions must meet specific capital guidelines that involve quantitative measures of assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. A financial institution's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require financial institutions to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2014 and 2013, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2014, the most recent notification from the Federal Reserve Bank categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Bank must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table.

Federal and state banking regulations place certain restrictions on dividends paid by the Bank. The total amount of dividends which may be paid at any date is generally limited to retained earnings of the Bank.

The Bank's actual capital amounts and ratios are also presented in the table.

	ACTUAL		MINIMUM CAPITAL REQUIREMENT		WELL CAPITALIZED UNDER PROMPT CORRECTIVE ACTION PROVISIONS	
	AMOUNT	RATIO	AMOUNT	RATIO	AMOUNT	RATIO
As of December 31, 2014:			**(Amounts in Thousands)**			
Total Risk Based Capital (to Risk Weighted Assets)	$ 69,622	13.62%	$ 40,884	8.00%	$ 51,105	10.00%
Tier 1 Capital (to Risk Weighted Assets)	$ 64,057	12.53%	$ 20,442	4.00%	$ 30,663	6.00%
Tier 1 Capital (to Average Assets)	$ 64,057	10.96%	$ 23,381	4.00%	$ 29,226	5.00%
As of December 31, 2013:						
Total Risk Based Capital (to Risk Weighted Assets)	$ $64,530	15.89%	$ 32,496	8.00%	$ 40,620	10.00%
Tier 1 Capital (to Risk Weighted Assets)	$ $59,737	14.71%	$ 16,248	4.00%	$ 24,372	6.00%
Tier 1 Capital (to Average Assets)	$ $59,737	12.58%	$ 18,989	4.00%	$ 23,736	5.00%

NOTE 13. STOCK-BASED COMPENSATION PLAN

The Bank's 2008 Stock Option Plan (the Plan), which is shareholder-approved, was adopted to advance the interests of the Bank by providing selected key employees of the Bank, their affiliates, and directors with the opportunity to acquire shares of common stock. The Plan granted options to purchase 3,000 shares of common stock to each of the 21 organizing shareholders of the Bank, who had funds at risk during the Bank's organizational period and assumed the financial risk that the Bank would not open. These shares immediately vested upon grant.

The maximum number of shares with respect to which awards may be made is 745,000 shares of common stock, subject to adjustment for certain corporate events. On June 26, 2014, the shareholders approved an amendment to the Amended and Restated 2008 Stock Plan to increase the number of shares authorized for issuance under the Plan by 350,000 shares. Option awards are generally granted with an exercise price equal to the market price of the Bank's stock at the date of grant, generally vest annually over three years of continuous service and have ten year contractual terms. At December 31, 2014, 146,882 shares were available to grant under the Plan.

The fair value of each option award is estimated on the date of grant using a Black-Scholes option-pricing model for determining fair value. The model employs the following assumptions:

- Dividend yield – calculated as the ratio of historical dividends paid per share of common stock to the stock price on the date of grant;
- Expected life (term of options) – based on the average contractual life and vesting schedule for the respective options;
- Expected volatility – based on the monthly historical volatility of the stock price of similar banks over the expected life of the options;
- Risk-free interest rate – based upon the U.S. Treasury bill rate in effect at date of grant for bonds with a maturity equal to the expected life of the options.

	2014	2013
Dividend yield	- -	- -
Expected life (in years)	6.4-6.6	6.5
Expected volatility	15% - 25%	15%
Risk-free interest rate	2.02%	0.80%-1.11%

A summary of option activity under the Plan as of December 31, 2014, and changes during the year then ended is presented below:

OPTIONS	SHARES	WEIGHTED-AVERAGE EXERCISE PRICE	WEIGHTED-AVERAGE REMAINING CONTRACTUAL TERM	AGGREGATE INTRINSIC VALUE (1)
Outstanding at January 1, 2014	708,268	$ 12.56	7.39	$ 804,874
Granted	219,250	13.61		
Exercised	(13,766)	12.01		
Forfeited or expired	(68,384)	11.81		
Outstanding at December 31, 2014	845,368	$ 12.91	7.27	$ 2,140,469
Exercisable at December 31, 2014	438,969	$ 12.15	5.92	$ 1,445,280

(1) The aggregate intrinsic value of stock options represents the total pre-tax intrinsic value (the amount by which the current market value of the underlying stock exceeds the exercise price of the option) that would have been received by the option holders had all option holders exercised their options on December 31, 2014. This amount changes based on changes in the market value of the Bank's stock.

The weighted average grant date fair value of options granted during the years ended December 31, 2014 and 2013 was $4.07 and $2.57, respectively.

The compensation cost that has been charged to income for the plan was $418,000 and $308,145 for 2014 and 2013, respectively. As of December 31, 2014, there was unamortized compensation expense of $903,627 that will be amortized over 30 months. Tax benefits recognized for qualified stock options during 2014 and 2013 totaled $65,387 and $51,375.

NOTE 14. FAIR VALUE MEASUREMENTS

Determination of Fair Value

The Bank uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with *Fair Value Measurements and Disclosures* topic of FASB ASC, the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Bank's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

The fair value guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

Fair Value Hierarchy

In accordance with this guidance, the Bank groups its financial assets and financial liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

Level 1 – Valuation is based on quoted prices in active markets for identical assets and liabilities.

Level 2 – Valuation is based on observable inputs including quoted prices in active markets for similar assets and liabilities, quoted prices for identical or similar assets and liabilities in less active markets, and model-based valuation techniques for which significant assumptions can be derived primarily from or corroborated by observable data in the market.

Level 3 – Valuation is based on model-based techniques that use one or more significant inputs or assumptions that are unobservable in the market.

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).

The following table presents the balances of financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2014 and 2013:

FAIR VALUE MEASUREMENTS AT DECEMBER 31, 2014 USING

DESCRIPTION	BALANCE AS OF DECEMBER 31, 2014	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
ASSETS				
Securities of U.S. government and federal agencies	$ 4,167,725	$ - -	$ 4,167,725	$ - -
Securities of state and local municipalities	1,289,825	- -	1,289,825	- -
Certificates of deposit	2,244,551	- -	2,244,551	- -
SBA pass-through securities	429,082	- -	429,082	- -
Mortgage-backed securities	25,022,584	- -	25,022,584	- -
Collateralized mortgage obligations	29,543,631	- -	29,543,631	- -
Total Available-for-Sale Securities	$ 62,697,398	$ - -	$ 62,697,398	$ - -

FAIR VALUE MEASUREMENTS AT DECEMBER 31, 2013 USING

DESCRIPTION	BALANCE AS OF DECEMBER 31, 2013	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
ASSETS				
Securities of U.S. government and federal agencies	$ 10,002,134	$ - -	$ 10,002,134	$ - -
Securities of state and local municipalities	2,474,118	- -	2,474,118	- -
Certificates of deposit	2,248,073	- -	2,248,073	- -
SBA pass-through securities	454,030	- -	454,030	- -
Mortgage-backed securities	12,147,252	- -	12,147,252	- -
Collateralized mortgage obligations	27,079,725	- -	27,079,725	- -
Corporate securities	2,484,760	- -	2,484,760	- -
Total Available-for-Sale Securities	$ 56,890,092	$ - -	$ 56,890,092	$ - -

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 a 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, has the value derived by discounting comparable sales due to lack of similar properties, or is discounted by the Bank due to marketability, 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's 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 (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 loan losses on the Statements of Income.

The following table summarizes the Bank's assets that were measured at fair value on a nonrecurring basis during the period:

	FAIR VALUE MEASUREMENTS AT DECEMBER 31, 2014 USING			
DESCRIPTION	BALANCE AS OF DECEMBER 31, 2014	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
ASSETS				
Impaired Loans, net of valuation allowance	$ 488,091	$ - -	$ - -	$ 488,091

	FAIR VALUE MEASUREMENTS AT DECEMBER 31, 2013 USING			
DESCRIPTION	BALANCE AS OF DECEMBER 31, 2013	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
ASSETS				
Impaired Loans, net of valuation allowance	$ 789,748	$ - -	$ - -	$ 789,748

The following table displays quantitative information about Level 3 Fair Value Measurements for December 31, 2014 and 2013:

QUANTITATIVE INFORMATION ABOUT LEVEL 3 FAIR VALUE MEASUREMENTS FOR DECEMBER 31, 2014

ASSETS	FAIR VALUE	VALUATION TECHNIQUE(S)	UNOBSERVABLE INPUT	RANGE
Impaired Loans	$ 130,016	Business asset value	Liquidation costs	20%-75%
	$ 358,075	Discounted appraised value	Market discount Selling liquidation expenses	7% 20%

QUANTITATIVE INFORMATION ABOUT LEVEL 3 FAIR VALUE MEASUREMENTS FOR DECEMBER 31, 2013

ASSETS	FAIR VALUE	VALUATION TECHNIQUE(S)	UNOBSERVABLE INPUT	RANGE
Impaired Loans	$ $538,153	Business asset value	Liquidation costs	20%-50%
	$ $251,595	Discounted appraised value	Market discount Selling liquidation expenses	7% 20%

The fair value of a financial instrument is the current amount that would be exchanged between willing parties, other than in a forced liquidation. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Bank's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. The aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Bank.

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 and Federal Funds Sold

The carrying amounts of cash and due from banks and federal funds sold approximate their fair value.

Securities Available for Sale

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 or third party vendor pricing models.

Interest-Bearing Deposits at Other Financial Institutions

The carrying amounts of interest-bearing deposits at other financial institutions 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.

Restricted Stock

The carrying amount of Federal Reserve Bank stock, Federal Home Loan Bank stock and Community Bankers' Bank Stock approximates fair value based on redemption provisions.

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 a 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 flow analyses or underlying collateral values, where applicable.

Bank Owned Life Insurance

Bank owned life insurance represents insurance policies on senior officers of the Bank. The cash values of the policies are estimated using information provided by insurance carriers. These policies are carried at their cash surrender values, which approximates fair values.

Accrued Interest

The carrying amount of accrued interest approximates fair value.

Deposits

The carrying amounts of deposit liabilities payable on demand, consisting of NOW accounts, 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.

Federal Funds Purchased

The carrying amount of federal funds purchased approximates fair value.

FHLB Advances

The fair value of FHLB advances is estimated based on discounted cash flow analysis using the remaining maturity of the underlying accounts and interest rates currently offered of advance 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.

			FAIR VALUE MEASUREMENTS AS OF DECEMBER 31, 2014 USING		
	CARRYING AMOUNT	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
FINANCIAL ASSETS:				
Cash and due from banks	$ 5,066,808	$ 5,066,808	$ - -	$ - -
Fed funds sold	13,895	13,895	- -	- -
Interest-bearing deposits at other institutions	10,915,209	10,915,209	- -	- -
Securities available for sale	62,697,398	- -	62,697,398	- -
Restricted stock	3,887,250	- -	3,887,250	- -
Loans, net	504,372,951	- -	- -	507,417,000
Bank owned life insurance	10,199,352	- -	10,199,352	- -
Accrued interest receivable	1,576,142	- -	1,576,142	- -
FINANCIAL LIABILITIES:				
Checking, savings and money market accounts	$ 305,480,915	$ - -	$ 305,480,915	$ - -
Time deposits	198,739,453	- -	199,457,000	- -
FHLB advances	32,500,000	- -	32,520,000	- -
Accrued interest payable	153,062	- -	153,062	- -

			FAIR VALUE MEASUREMENTS AS OF DECEMBER 31, 2013 USING		
	CARRYING AMOUNT	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
FINANCIAL ASSETS:				
Cash and due from banks	$ 32,005,862	$ 32,005,862	$ - -	$ - -
Fed funds sold	6,000	6,000	- -	- -
Interest-bearing deposits at other institutions	688,428	688,428	- -	- -
Securities available for sale	56,890,092	- -	56,890,092	- -
Restricted stock	2,941,750	- -	2,941,750	- -
Loans, net	406,248,010	- -	- -	406,421,000
Accrued interest receivable	1,299,866	- -	1,299,866	- -
FINANCIAL LIABILITIES:				
Checking, savings and money market accounts	$ 236,390,247	$ - -	$236,390,247	$ - -
Time deposits	193,599,259	- -	195,546,000	- -
Federal funds purchased	3,000,000	- -	3,000,000	- -
FHLB advances	11,500,000	- -	11,531,000	- -
Accrued interest payable	197,795	- -	197,795	- -

NOTE 15. EARNINGS PER SHARE

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

The following shows the weighted average number of shares used in computing earnings per share and the effect of weighted average number of shares of dilutive potential common stock. Dilutive potential common stock has no effect on income available to common shareholders. There were 329,450 and 393,715 shares, respectively, excluded from 2014 and 2013 the calculation because their effects were anti-dilutive.

	2014	2013
Net income	$ 4,133,488	$ 2,227,826
Weighted average number of shares	5,184,481	4,552,455
Options effect of dilutive securities	80,481	57,258
Weighted average diluted shares	5,264,962	4,609,713
Basic EPS	$ 0.80	$ 0.49
Diluted EPS	$ 0.79	$ 0.48

NOTE 16. SUBSEQUENT EVENTS

In preparing the financial statements, the Bank has evaluated events and transactions for potential recognition or disclosure through March 12, 2015, the date the financial statements were available to be issued.

Corporate Office and Fairfax Branch
11325 Random Hills Road
Fairfax, VA 22030
Phone: 703.436.3800

Arlington Branch
2500 Wilson Boulevard
Suite 100
Arlington, VA 22201
Phone: 703.387.5050

Manassas Branch
7900 Sudley Road
Manassas, VA 20109
Phone: 703.656.7300

Reston Branch
11260 Roger Bacon Drive
Suite 101
Reston, VA 20190
Phone: 703.436.3880

Springfield Branch
6975 Springfield Boulevard
Springfield, VA 22150
Phone: 703.672.2590

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