Virginia Community Capital, Incorporated

Annual Report

December 31, 2010
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Independent Auditor’s Report

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

We have audited the consolidated statements of financial position of Virginia Community Capital, Inc. and its subsidiary as of December 31, 2010 and 2009 and the related consolidated statements of activities and consolidated cash flows for the years then ended. These financial statements are the responsibility of the Organization’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Virginia Community Capital, Inc. and its subsidiary as of December 31, 2010 and 2009, and the changes in net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Elliot Davis, LLC

Galax, Virginia
March 24, 2011
## Consolidated Statements of Financial Position

**December 31, 2010 and 2009**

### Assets

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and due from banks</td>
<td>$109,995</td>
<td>$363,817</td>
</tr>
<tr>
<td>Interest-bearing deposits</td>
<td>6,830,516</td>
<td>3,154,463</td>
</tr>
<tr>
<td>Federal funds sold</td>
<td>2,437,000</td>
<td>1,677,000</td>
</tr>
<tr>
<td>Certificates of deposit</td>
<td>13,885,675</td>
<td>12,898,402</td>
</tr>
<tr>
<td>Investment securities available for sale</td>
<td>3,753,677</td>
<td>1,417,516</td>
</tr>
<tr>
<td>Investment securities held to maturity (fair value approximates $1,954,080 at December 31, 2009)</td>
<td>-</td>
<td>2,000,000</td>
</tr>
<tr>
<td>Restricted equity securities</td>
<td>320,850</td>
<td>263,300</td>
</tr>
<tr>
<td>Loans, net of allowance for loan losses of $795,736 and $424,148 at December 31, 2010 and 2009, respectively</td>
<td>42,403,185</td>
<td>21,847,166</td>
</tr>
<tr>
<td>Grants receivable</td>
<td>337,571</td>
<td>688,856</td>
</tr>
<tr>
<td>Accrued interest receivable</td>
<td>221,186</td>
<td>119,220</td>
</tr>
<tr>
<td>Premises and equipment</td>
<td>92,859</td>
<td>83,496</td>
</tr>
<tr>
<td>Other assets</td>
<td>285,787</td>
<td>415,220</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>$70,678,301</td>
<td>$44,928,456</td>
</tr>
</tbody>
</table>

### Liabilities

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Noninterest-bearing deposits</td>
<td>$581,557</td>
<td>$252,679</td>
</tr>
<tr>
<td>Interest-bearing deposits</td>
<td>38,693,787</td>
<td>16,750,275</td>
</tr>
<tr>
<td>Total deposits</td>
<td>39,275,344</td>
<td>17,002,954</td>
</tr>
<tr>
<td>Borrowings</td>
<td>10,114,403</td>
<td>7,899,667</td>
</tr>
<tr>
<td>Secured borrowings</td>
<td>1,354,064</td>
<td>-</td>
</tr>
<tr>
<td>Deferred revenue</td>
<td>337,571</td>
<td>688,856</td>
</tr>
<tr>
<td>Accrued interest payable</td>
<td>33,373</td>
<td>14,838</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>231,820</td>
<td>122,983</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>51,346,575</td>
<td>25,729,298</td>
</tr>
</tbody>
</table>

### Net Assets

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unrestricted</td>
<td>19,431,575</td>
<td>19,153,156</td>
</tr>
<tr>
<td>Accumulated other comprehensive income (loss)</td>
<td>(155,026)</td>
<td>(7,239)</td>
</tr>
<tr>
<td>Total consolidated net assets before noncontrolling interest in subsidiary</td>
<td>19,276,549</td>
<td>19,145,917</td>
</tr>
<tr>
<td>Noncontrolling interest in subsidiary</td>
<td>55,177</td>
<td>53,241</td>
</tr>
<tr>
<td><strong>Total net assets</strong></td>
<td>19,331,726</td>
<td>19,199,158</td>
</tr>
<tr>
<td><strong>Total liabilities and net assets</strong></td>
<td>$70,678,301</td>
<td>$44,928,456</td>
</tr>
</tbody>
</table>

*See Notes to Consolidated Financial Statements*
Consolidated Statements of Activities
For the years ended December 31, 2010 and 2009

<table>
<thead>
<tr>
<th>December 31, 2010</th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue and Support</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grants and contract income</td>
<td>$ 733,775</td>
<td>$ 378,786</td>
<td>$ 1,112,561</td>
</tr>
<tr>
<td>Interest and fees on loans</td>
<td>2,063,677</td>
<td>-</td>
<td>2,063,677</td>
</tr>
<tr>
<td>Interest income</td>
<td>479,967</td>
<td>-</td>
<td>479,967</td>
</tr>
<tr>
<td>Realized gains on sales of securities</td>
<td>47,596</td>
<td>-</td>
<td>47,596</td>
</tr>
<tr>
<td>Miscellaneous income</td>
<td>102,979</td>
<td>-</td>
<td>102,979</td>
</tr>
<tr>
<td>Net assets released from restrictions</td>
<td>378,786</td>
<td>(378,786)</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total revenue and support</strong></td>
<td>3,806,780</td>
<td>-</td>
<td>3,806,780</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Expenses</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Program Services</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries and wages</td>
<td>437,714</td>
<td>-</td>
<td>437,714</td>
</tr>
<tr>
<td>Payroll taxes</td>
<td>54,236</td>
<td>-</td>
<td>54,236</td>
</tr>
<tr>
<td>Employee benefits</td>
<td>67,753</td>
<td>-</td>
<td>67,753</td>
</tr>
<tr>
<td>Program services</td>
<td>258,378</td>
<td>-</td>
<td>258,378</td>
</tr>
<tr>
<td>Office expense</td>
<td>105,555</td>
<td>-</td>
<td>105,555</td>
</tr>
<tr>
<td>Professional fees</td>
<td>302,135</td>
<td>-</td>
<td>302,135</td>
</tr>
<tr>
<td>Depreciation expense</td>
<td>64,333</td>
<td>-</td>
<td>64,333</td>
</tr>
<tr>
<td>Interest expense</td>
<td>816,208</td>
<td>-</td>
<td>816,208</td>
</tr>
<tr>
<td>Provision for loan losses</td>
<td>366,788</td>
<td>-</td>
<td>366,788</td>
</tr>
<tr>
<td>Other expenses</td>
<td>178,472</td>
<td>-</td>
<td>178,472</td>
</tr>
<tr>
<td><strong>Total program services expenses</strong></td>
<td>2,651,572</td>
<td>-</td>
<td>2,651,572</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Management and General</strong></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries and wages</td>
<td>318,530</td>
<td>-</td>
<td>318,530</td>
</tr>
<tr>
<td>Payroll taxes</td>
<td>39,468</td>
<td>-</td>
<td>39,468</td>
</tr>
<tr>
<td>Employee benefits</td>
<td>49,304</td>
<td>-</td>
<td>49,304</td>
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<tr>
<td>Office and administrative expenses</td>
<td>35,185</td>
<td>-</td>
<td>35,185</td>
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<tr>
<td>Professional fees</td>
<td>100,712</td>
<td>-</td>
<td>100,712</td>
</tr>
<tr>
<td>Depreciation expense</td>
<td>21,444</td>
<td>-</td>
<td>21,444</td>
</tr>
<tr>
<td>Other expenses</td>
<td>59,491</td>
<td>-</td>
<td>59,491</td>
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<tr>
<td><strong>Total management and general expenses</strong></td>
<td>624,134</td>
<td>-</td>
<td>624,134</td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td>3,275,706</td>
<td>-</td>
<td>3,275,706</td>
</tr>
</tbody>
</table>

| Change in net assets/net income before provision for income taxes | 531,074 | - | 531,074 |
| Provision for income tax expense | 250,718 | - | 250,718 |
| Change in net assets/net income | 280,356 | - | 280,356 |
| Change in accumulated other comprehensive income (loss) | (147,787) | - | (147,787) |
| Change in net assets/net income and accumulated other comprehensive income (loss) | 132,569 | - | 132,569 |
| Change in net assets/net income attributable to noncontrolling interest | (1,937) | - | (1,937) |
| Change in net assets/net income attributable to Virginia Community Capital, Inc. | 130,632 | - | 130,632 |
| Net assets beginning of year | 19,145,917 | - | 19,145,917 |
| Net assets end of year | $ 19,276,549 | - | $ 19,276,549 |

See Notes to Consolidated Financial Statements
## Consolidated Statements of Activities

*For the years ended December 31, 2010 and 2009*

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2009</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Unrestricted</td>
<td>Temporarily Restricted</td>
<td>Total</td>
<td></td>
</tr>
<tr>
<td><strong>Revenue and Support</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grants and contract income</td>
<td>$223,739</td>
<td>$187,144</td>
<td>$410,883</td>
<td></td>
</tr>
<tr>
<td>Interest and fees on loans</td>
<td>932,682</td>
<td></td>
<td>932,682</td>
<td></td>
</tr>
<tr>
<td>Interest income</td>
<td>447,275</td>
<td></td>
<td>447,275</td>
<td></td>
</tr>
<tr>
<td>Miscellaneous income</td>
<td>15,031</td>
<td></td>
<td>15,031</td>
<td></td>
</tr>
<tr>
<td>Net assets released from restrictions</td>
<td>187,144</td>
<td>-</td>
<td>(187,144)</td>
<td></td>
</tr>
<tr>
<td><strong>Total revenue and support</strong></td>
<td>1,805,871</td>
<td>-</td>
<td>1,805,871</td>
<td></td>
</tr>
<tr>
<td><strong>Expenses</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Program Services</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries and wages</td>
<td>337,699</td>
<td>-</td>
<td>337,699</td>
<td></td>
</tr>
<tr>
<td>Payroll taxes</td>
<td>34,343</td>
<td>-</td>
<td>34,343</td>
<td></td>
</tr>
<tr>
<td>Employee benefits</td>
<td>45,330</td>
<td>-</td>
<td>45,330</td>
<td></td>
</tr>
<tr>
<td>Program services</td>
<td>315,767</td>
<td>-</td>
<td>315,767</td>
<td></td>
</tr>
<tr>
<td>Office expense</td>
<td>97,011</td>
<td></td>
<td>97,011</td>
<td></td>
</tr>
<tr>
<td>Professional fees</td>
<td>174,929</td>
<td>-</td>
<td>174,929</td>
<td></td>
</tr>
<tr>
<td>Depreciation expense</td>
<td>65,855</td>
<td>-</td>
<td>65,855</td>
<td></td>
</tr>
<tr>
<td>Interest expense</td>
<td>253,549</td>
<td>-</td>
<td>253,549</td>
<td></td>
</tr>
<tr>
<td>Recovery of loan losses</td>
<td>(198,711)</td>
<td>-</td>
<td>(198,711)</td>
<td></td>
</tr>
<tr>
<td>Other expenses</td>
<td>230,735</td>
<td>-</td>
<td>230,735</td>
<td></td>
</tr>
<tr>
<td><strong>Total program services expenses</strong></td>
<td>1,356,507</td>
<td>-</td>
<td>1,356,507</td>
<td></td>
</tr>
<tr>
<td><strong>Management and General</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries and wages</td>
<td>245,748</td>
<td>-</td>
<td>245,748</td>
<td></td>
</tr>
<tr>
<td>Payroll taxes</td>
<td>24,992</td>
<td>-</td>
<td>24,992</td>
<td></td>
</tr>
<tr>
<td>Employee benefits</td>
<td>32,988</td>
<td>-</td>
<td>32,988</td>
<td></td>
</tr>
<tr>
<td>Office and administrative expenses</td>
<td>32,337</td>
<td>-</td>
<td>32,337</td>
<td></td>
</tr>
<tr>
<td>Professional fees</td>
<td>58,310</td>
<td>-</td>
<td>58,310</td>
<td></td>
</tr>
<tr>
<td>Depreciation expense</td>
<td>21,952</td>
<td>-</td>
<td>21,952</td>
<td></td>
</tr>
<tr>
<td>Other expenses</td>
<td>76,911</td>
<td>-</td>
<td>76,911</td>
<td></td>
</tr>
<tr>
<td><strong>Total management and general expenses</strong></td>
<td>493,238</td>
<td>-</td>
<td>493,238</td>
<td></td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td>1,849,745</td>
<td>-</td>
<td>1,849,745</td>
<td></td>
</tr>
</tbody>
</table>

Change in net assets/net income before provision for income tax benefit

<p>| | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Provision for income tax benefit</strong></td>
<td>256,335</td>
<td>-</td>
<td>256,335</td>
</tr>
<tr>
<td><strong>Change in net assets/net income</strong></td>
<td>212,461</td>
<td>-</td>
<td>212,461</td>
</tr>
<tr>
<td><strong>Change in accumulated other comprehensive income (loss)</strong></td>
<td>(14,599)</td>
<td>-</td>
<td>(14,599)</td>
</tr>
<tr>
<td><strong>Change in net assets/net income and accumulated other comprehensive income (loss)</strong></td>
<td>197,862</td>
<td>-</td>
<td>197,862</td>
</tr>
<tr>
<td><strong>Change in net assets/net income attributable to noncontrolling interest</strong></td>
<td>885</td>
<td>-</td>
<td>885</td>
</tr>
<tr>
<td><strong>Change in net assets/net income attributable to Virginia Community Capital, Inc.</strong></td>
<td>198,747</td>
<td>-</td>
<td>198,747</td>
</tr>
<tr>
<td><strong>Net assets beginning of year</strong></td>
<td>18,947,170</td>
<td>-</td>
<td>18,947,170</td>
</tr>
<tr>
<td><strong>Net assets end of year</strong></td>
<td>$19,145,917</td>
<td>-</td>
<td>$19,145,917</td>
</tr>
</tbody>
</table>

See Notes to Consolidated Financial Statements
Consolidated Statements of Cash Flows
For the year ended December 31, 2010 and 2009

<table>
<thead>
<tr>
<th>Cash flows from operating activities</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change in net assets</td>
<td>$280,356</td>
<td>$212,461</td>
</tr>
<tr>
<td>Adjustments to reconcile change in net assets to net cash (used in) provided by operations:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>85,777</td>
<td>87,807</td>
</tr>
<tr>
<td>Provision for (recovery of) loan losses</td>
<td>366,788</td>
<td>(198,711)</td>
</tr>
<tr>
<td>Net realized (gains) losses on sales of securities</td>
<td>(47,596)</td>
<td>-</td>
</tr>
<tr>
<td>Loss on disposal of premises and equipment</td>
<td>622</td>
<td>-</td>
</tr>
<tr>
<td>Accretion of discount on securities, net of amortization of premiums</td>
<td>(4,339)</td>
<td>(5)</td>
</tr>
<tr>
<td>Noncash grants received</td>
<td>-</td>
<td>10,000</td>
</tr>
<tr>
<td>Changes in assets and liabilities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accrued income</td>
<td>(101,966)</td>
<td>(2,821)</td>
</tr>
<tr>
<td>Grants receivable</td>
<td>351,285</td>
<td>(72,856)</td>
</tr>
<tr>
<td>Other assets</td>
<td>94,606</td>
<td>(341,307)</td>
</tr>
<tr>
<td>Accrued interest payable</td>
<td>18,535</td>
<td>9,963</td>
</tr>
<tr>
<td>Deferred revenue</td>
<td>(351,285)</td>
<td>62,856</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>108,536</td>
<td>41,738</td>
</tr>
<tr>
<td>Net cash (used in) provided by operating activities</td>
<td>801,319</td>
<td>(190,875)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cash flows from investing activities</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net (increase) decrease in federal funds sold</td>
<td>(760,000)</td>
<td>4,440,000</td>
</tr>
<tr>
<td>Net (increase) decrease in interest-bearing deposits</td>
<td>(3,676,053)</td>
<td>(727,466)</td>
</tr>
<tr>
<td>Net (increase) decrease in certificates of deposit</td>
<td>(987,273)</td>
<td>(500,000)</td>
</tr>
<tr>
<td>Purchases of securities available for sale</td>
<td>(15,668,415)</td>
<td>(1,424,750)</td>
</tr>
<tr>
<td>Proceeds from sales of securities available for sale</td>
<td>6,986,402</td>
<td>1,499,500</td>
</tr>
<tr>
<td>Proceeds from maturities, calls, and principal paydowns of securities available for sale</td>
<td>6,250,000</td>
<td>500,500</td>
</tr>
<tr>
<td>Purchases of securities held to maturity</td>
<td>-</td>
<td>(8,449,379)</td>
</tr>
<tr>
<td>Proceeds from maturities, calls and principal paydowns of securities held to maturity</td>
<td>2,000,000</td>
<td>-</td>
</tr>
<tr>
<td>Purchases of restricted equity securities</td>
<td>(57,550)</td>
<td>(61,200)</td>
</tr>
<tr>
<td>Redemption of restricted equity securities</td>
<td>-</td>
<td>9,400</td>
</tr>
<tr>
<td>Net increase in loans</td>
<td>(20,922,807)</td>
<td>(7,108,480)</td>
</tr>
<tr>
<td>Purchase of premises and equipment</td>
<td>(66,375)</td>
<td>(63,166)</td>
</tr>
<tr>
<td>Proceeds of premises and equipment</td>
<td>440</td>
<td>-</td>
</tr>
<tr>
<td>Net cash used in investing activities</td>
<td>(26,901,631)</td>
<td>(11,885,041)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cash flows from financing activities</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net increase in deposits</td>
<td>22,272,690</td>
<td>12,604,300</td>
</tr>
<tr>
<td>Net increase (decrease) in borrowings</td>
<td>2,214,736</td>
<td>(2,100,000)</td>
</tr>
<tr>
<td>Net increase in secured borrowings</td>
<td>1,354,064</td>
<td>-</td>
</tr>
<tr>
<td>Proceeds from sale of capital stock</td>
<td>5,000</td>
<td>5,000</td>
</tr>
<tr>
<td>Net cash provided by financing activities</td>
<td>25,846,490</td>
<td>10,509,300</td>
</tr>
<tr>
<td>Net increase (decrease) in cash and cash equivalents</td>
<td>(253,822)</td>
<td>(1,566,616)</td>
</tr>
</tbody>
</table>

| Cash and cash equivalents, beginning | 363,817  |
| Cash and cash equivalents, ending    | $109,995  $363,817 |

Supplemental disclosure of cash flow information
| Interest paid | $797,272  $243,586 |
| Income taxes paid | $250,719  | -        |
Notes to Financial Statements

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

Nature of Business

Virginia Community Capital Inc., (the Organization) is a non-profit, non-stock entity dedicated to revitalizing communities, facilitating the creation of jobs, and increasing the amount of affordable housing throughout Virginia. Its mission is to create an innovative financing system that offers financial products designed to increase economic diversity, development and sustainability in economically depressed communities.

The Organization formed a subsidiary for-profit community development bank, Community Capital Bank of Virginia (the Bank). The Organization funded the subsidiary with a purchase of its common stock in the amount of $7,000,000 on December 31, 2007. The Bank received regulatory approval and opened for business on August 20, 2008. As a state chartered, Federal Reserve member bank, the Bank is subject to regulation by the Virginia Bureau of Financial Institutions and the Federal Deposit Insurance Corporation. This regulated banking entity operates under the same mission guidelines as the Organization. The Bank’s eleven member Board of Directors purchased common stock in the Bank at $5,000 each as mandated by State Law, thus establishing a noncontrolling interest in the Bank.

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

Critical Accounting Policies

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

Principles of Consolidation

The consolidated financial statements include the accounts of the Organization and its subsidiary. All significant intercompany balances and transactions have been eliminated in consolidation. The Organization consolidates subsidiaries in which it holds, directly or indirectly, more than 50 percent of the voting rights or where it exercises control. Entities where the Organization holds 20 percent to 50 percent of the voting rights, or has the ability to exercise significant influence, or both, are accounted for under the equity method.

Use of Estimates

In preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated statements of financial position and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses and the valuation of deferred tax assets.

Basis of Accounting

The financial statements are prepared using the accrual basis of accounting. Under this basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.
Financial Statement Presentation

Net assets, revenues and expenses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

- **Unrestricted** – All resources over which the governing board has discretionary control. The board of the Organization may elect to designate such resources for specific purposes. This designation may be removed at the board’s discretion.

- **Temporarily Restricted** – Resources accumulated through donations or grants for specific operating or capital purposes. Such resources will become unrestricted when the requirements of the donor or grantee have been satisfied through expenditures for the specified purpose or program or through the passage of time.

- **Permanently Restricted** – Net assets subject to donor-imposed stipulations that are to be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on related investments for general or specific purposes. There were no permanently restricted net assets at December 31, 2010 or 2009.

Reclassification

Certain amounts in the 2009 consolidated financial statements have been reclassified to conform to the 2010 presentation.

Cash and Cash Equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents are defined as those amounts included in the consolidated statements of financial position caption “cash and due from banks.”

Interest Bearing Deposits with Banks

Interest bearing deposits with banks include savings and money market accounts with correspondents with no stated maturity.

Certificates of Deposits

Non-negotiable investments in FDIC-insured certificates of deposit with other financial institutions.

Securities

Certain debt securities that management has the positive intent and ability to hold to maturity are classified as “held to maturity” and recorded at amortized cost. Trading securities are recorded at fair value with changes in fair value included in earnings. Securities not classified as held to maturity or trading, including equity securities with readily determinable fair values, are classified as “available for sale” and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income. Restricted equity securities consist of stock in the Federal Reserve Bank and Community Banker’s Bank and are carried at cost.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value of held to maturity and available for sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In determining whether other-than-temporary impairment exists, management considers many factors, including (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Organization to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.
Notes to Financial Statements

Note 1. Organization and Summary of Significant Accounting Policies, continued

**Loans Receivable**

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

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

**Allowance for Loan Losses**

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

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as impaired. For such loans an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-impaired loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating losses in the portfolio.

A loan is considered impaired when, based on current information and events, it is probable that the Organization will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status and other circumstances impacting the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.
Notes to Financial Statements

Note 1. Organization and Summary of Significant Accounting Policies, continued

Premises and Equipment

Organization premises, furniture and equipment, and leasehold improvements are carried at cost, less accumulated depreciation and amortization computed by the straight-line method over the following estimated useful lives:

<table>
<thead>
<tr>
<th></th>
<th>Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buildings and improvements</td>
<td>3-20</td>
</tr>
<tr>
<td>Furniture and equipment</td>
<td>3-10</td>
</tr>
<tr>
<td>Vehicle</td>
<td>4-10</td>
</tr>
</tbody>
</table>

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Organization, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of the right) to pledge or exchange the transferred assets, and (3) the Organization does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Income Taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Bank, however, is a taxable entity, and will be subject to federal income taxes when it begins to generate income, and has exhausted any net operating loss carryforwards.

Provision for income taxes is based on amounts reported in the statement of operations (after exclusion of non-taxable income such as interest on state and municipal securities) and consists of taxes currently due plus deferred taxes on temporary differences in the recognition of income and expenses for tax and financial statement purposes. Deferred tax assets and liabilities are included in the financial statements at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

Deferred income tax liabilities relating to unrealized gains, or the deferred tax asset in the case of unrealized loss on investment securities available for sale is recorded in other liabilities, assets, or other assets when applicable. Such unrealized gains or loss is recorded as an adjustment to equity in the financial statements as a component of accumulated other comprehensive income (loss) and not included in income until realized.

A valuation allowance is provided for any deferred tax asset for which the ultimate realization is uncertain.

Revenue Recognition

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

Note 2. Restrictions on Cash and Amounts Due From Banks

The Bank is required to maintain average balances on hand or with certain correspondents. At December 31, 2009, and December 31, 2010 these reserve balances amounted to $300,000 and $75,000, respectively.
Note 3. Investments

Investments have been classified in the consolidated statements of financial position according to management’s intent. The carrying amount of securities and their approximate fair values at December 31 are:

<table>
<thead>
<tr>
<th>Available for Sale</th>
<th>Amortized Cost</th>
<th>Unrealized Gains</th>
<th>Unrealized Losses</th>
<th>Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2010</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. Government treasuries</td>
<td>$ 3,500,000</td>
<td>-</td>
<td>$ 182,658</td>
<td>$ 3,317,342</td>
</tr>
<tr>
<td>Obligations of states and political</td>
<td>96,319</td>
<td>-</td>
<td>6,259</td>
<td>90,060</td>
</tr>
<tr>
<td>subdivisions</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. Government sponsored entities</td>
<td>350,000</td>
<td>-</td>
<td>3,725</td>
<td>346,275</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$ 3,946,319</td>
<td>$ -</td>
<td>$ 192,642</td>
<td>$ 3,753,677</td>
</tr>
<tr>
<td><strong>2009</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>U.S. Government sponsored entities</td>
<td>$ 1,424,755</td>
<td>-</td>
<td>$ 7,239</td>
<td>$ 1,417,516</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Held to Maturity</th>
<th>Amortized Cost</th>
<th>Unrealized Gains</th>
<th>Unrealized Losses</th>
<th>Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2010</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corporate bonds</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
</tr>
<tr>
<td><strong>2009</strong></td>
<td>$ 2,000,000</td>
<td>$ -</td>
<td>$ 45,920</td>
<td>$ 1,954,080</td>
</tr>
</tbody>
</table>

Securities with an amortized cost of $365,292 and $1,361,402 were pledged or otherwise restricted at December 31, 2010 and 2009, respectively.

In 2010, the Organization had realized gains of $47,596 on sales of securities. These gains are included as miscellaneous income/(loss) on the consolidated statements of activity. There were no realized gains or losses on the sales of securities in 2009.

The scheduled maturities of securities at December 31, 2010 are as follows:

<table>
<thead>
<tr>
<th>Due</th>
<th>Amortized Cost</th>
<th>Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011-2014</td>
<td>$ -</td>
<td>$ -</td>
</tr>
<tr>
<td>2015 and beyond</td>
<td>3,946,319</td>
<td>3,753,677</td>
</tr>
</tbody>
</table>

As of December 31, 2010, the Organization had no securities with unrealized loss positions where such positions had existed for 12 months or more, consecutively.
Note 3. Investments, continued

The following table details unrealized losses and related fair values in the Organization’s available-for-sale investment securities portfolios. This information is aggregated by the length of time that individual securities have been in a continuous unrealized loss position as of December 31, 2010.

<table>
<thead>
<tr>
<th>Less Than 12 Months</th>
<th>12 Months or Greater</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Fair Value</td>
<td>Unrealized Losses</td>
</tr>
</tbody>
</table>

**2010**

<p>| | | | | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Government sponsored entities</td>
<td>346,275</td>
<td>3,725</td>
<td>-</td>
<td>-</td>
<td>346,275</td>
<td>3,725</td>
</tr>
<tr>
<td>Obligations of states and political subdivisions</td>
<td>90,060</td>
<td>6,259</td>
<td>-</td>
<td>-</td>
<td>90,060</td>
<td>6,259</td>
</tr>
<tr>
<td><strong>Total temporarily impaired securities</strong></td>
<td><strong>$3,753,677</strong></td>
<td><strong>$ 192,642</strong></td>
<td>-</td>
<td>-</td>
<td><strong>$3,753,677</strong></td>
<td><strong>$ 192,642</strong></td>
</tr>
</tbody>
</table>

**2009**

<p>| | | | | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Municipal securities</td>
<td>$1,417,516</td>
<td>$ 7,239</td>
<td>-</td>
<td>-</td>
<td>$1,417,516</td>
<td>$ 7,239</td>
</tr>
<tr>
<td><strong>Total temporarily impaired securities</strong></td>
<td><strong>$1,417,516</strong></td>
<td><strong>$ 7,239</strong></td>
<td>-</td>
<td>-</td>
<td><strong>$1,417,516</strong></td>
<td><strong>$ 7,239</strong></td>
</tr>
</tbody>
</table>

Restricted equity securities consist of investments in common stock of the Federal Reserve Bank of Richmond and investments in common stock of Community Bankers Bank. The Federal Reserve Bank of Richmond requires banks to purchase stock as a condition for membership in the Federal Reserve System.

Note 4. Loans Receivable

The major components of loans in the consolidated statements of financial position at December 31, 2010 and 2009 are as follows:

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real estate loans</td>
<td>$ 35,509,205</td>
<td>$ 18,974,634</td>
</tr>
<tr>
<td>Commercial and industrial loans</td>
<td>7,366,188</td>
<td>3,301,997</td>
</tr>
<tr>
<td>Municipal loans</td>
<td>290,000</td>
<td>-</td>
</tr>
<tr>
<td>Net deferred loan (fees) cost</td>
<td>33,528</td>
<td>(5,317)</td>
</tr>
<tr>
<td><strong>Allowance for loan losses</strong></td>
<td><strong>43,198,921</strong></td>
<td><strong>22,271,314</strong></td>
</tr>
<tr>
<td>Loans, net of allowance</td>
<td>(795,736)</td>
<td>(424,148)</td>
</tr>
<tr>
<td><strong>Loans, net of allowance</strong></td>
<td><strong>$ 42,403,185</strong></td>
<td><strong>$ 21,847,166</strong></td>
</tr>
</tbody>
</table>

Loans with balances of $6,198,697 and $4,109,989 were pledged at December 31, 2010 and 2009, respectively.

Note 5. Allowance for Loan Losses

An analysis of the allowance for loan losses is as follows:

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance at beginning of period</td>
<td>$ 424,148</td>
<td>$ 660,956</td>
</tr>
<tr>
<td>(Recovery of) provision for loan losses</td>
<td>366,788</td>
<td>(198,711)</td>
</tr>
<tr>
<td>Charge-offs</td>
<td>-</td>
<td>(48,227)</td>
</tr>
<tr>
<td>Recoveries</td>
<td>4,800</td>
<td>10,130</td>
</tr>
<tr>
<td><strong>Balance at end of period</strong></td>
<td><strong>$ 795,736</strong></td>
<td><strong>$ 424,148</strong></td>
</tr>
</tbody>
</table>
Notes to Financial Statements

Note 5. Allowance for Loan Losses, continued

The following is a summary of information pertaining to impaired and nonaccrual loans:

<table>
<thead>
<tr>
<th></th>
<th>December 31,</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2010</td>
<td>2009</td>
<td></td>
</tr>
<tr>
<td>Impaired loans without a valuation allowance</td>
<td>$252,928</td>
<td>$293,915</td>
<td></td>
</tr>
<tr>
<td>Impaired loans with a valuation allowance</td>
<td>$387,029</td>
<td>$553,093</td>
<td></td>
</tr>
<tr>
<td>Total impaired loans</td>
<td>$639,957</td>
<td>$847,008</td>
<td></td>
</tr>
<tr>
<td>Valuation allowance related to impaired loans</td>
<td>$244,012</td>
<td>$209,120</td>
<td></td>
</tr>
<tr>
<td>Total nonaccrual loans</td>
<td>$ -</td>
<td>$ -</td>
<td></td>
</tr>
<tr>
<td>Total loans past due ninety days or more and still accruing</td>
<td>$ -</td>
<td>$ -</td>
<td></td>
</tr>
<tr>
<td>Average investment in impaired loans</td>
<td>$599,935</td>
<td>$646,045</td>
<td></td>
</tr>
<tr>
<td>Interest income recognized on impaired loans</td>
<td>$66,688</td>
<td>$64,066</td>
<td></td>
</tr>
<tr>
<td>Interest income recognized on a cash basis on impaired loans</td>
<td>$64,721</td>
<td>$55,611</td>
<td></td>
</tr>
</tbody>
</table>

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

Note 6. Grants Awards

During the year, the Organization has been awarded contracts totaling $337,571 for which they have not incurred any reimbursable expenses at December 31, 2010. These amounts will be recorded as revenue in future periods in which the grant requirements are met.

Grants awards consist of the following:

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mary Babcock Reynolds Foundation</td>
<td>$22,500</td>
<td>-</td>
</tr>
<tr>
<td>Department of Health and Human Services</td>
<td>315,071</td>
<td>688,856</td>
</tr>
<tr>
<td>Total</td>
<td>$337,571</td>
<td>688,856</td>
</tr>
</tbody>
</table>

Grant receivable has also been presented as deferred revenue on the consolidated statements of financial position.

Note 7. Premises and Equipment

Components of Premises and Equipment

Components of premises and equipment and total accumulated depreciation at December 31, 2010 and 2009 are as follows:

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Furniture and equipment</td>
<td>$222,081</td>
<td>185,479</td>
</tr>
<tr>
<td>Leasehold improvements</td>
<td>33,904</td>
<td>33,904</td>
</tr>
<tr>
<td>Vehicle</td>
<td>38,414</td>
<td>14,862</td>
</tr>
<tr>
<td>Property and equipment, total</td>
<td>294,399</td>
<td>234,245</td>
</tr>
<tr>
<td>Less accumulated depreciation</td>
<td>201,540</td>
<td>150,749</td>
</tr>
<tr>
<td>Property and equipment, net of depreciation</td>
<td>$92,859</td>
<td>$83,496</td>
</tr>
</tbody>
</table>

Depreciation and amortization expense for the years ending December 31, 2010 and 2009 was $85,777 and $87,807, respectively.
Note 7. Premises and Equipment, continued

Leases

The Organization leases office space in Richmond and Christiansburg, Virginia. The leases in Richmond and Christiansburg expire December 31, 2011 and February 28, 2012, respectively. Future lease payments are as follows:

<table>
<thead>
<tr>
<th></th>
<th>Richmond Office</th>
<th>Christiansburg Office</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>$ 40,244</td>
<td>$ 49,282</td>
<td>$ 89,526</td>
</tr>
<tr>
<td>2012</td>
<td>-</td>
<td>8,254</td>
<td>8,254</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 40,244</strong></td>
<td><strong>$ 57,536</strong></td>
<td><strong>$ 97,780</strong></td>
</tr>
</tbody>
</table>

Rent expense for the years ended December 31, 2010 and 2009 was $88,796 and $86,760, respectively.

Note 8. Deposits

The major components of deposits in the consolidated statements of financial position at December 31, 2010 and 2009 are as follows:

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Noninterest-bearing demand</td>
<td>$ 581,857</td>
<td>$ 252,679</td>
</tr>
<tr>
<td>Interest-bearing demand</td>
<td>2,499,661</td>
<td>1,295,420</td>
</tr>
<tr>
<td>Time deposits</td>
<td>36,194,126</td>
<td>15,454,855</td>
</tr>
<tr>
<td><strong>Total deposits</strong></td>
<td>$ 39,275,644</td>
<td>$ 17,002,954</td>
</tr>
</tbody>
</table>

The aggregate amount of time deposits in denomination of $100,000 or more at December 31, 2010 and 2009 was $19,336,172 and $10,223,472, respectively.

At December 31, 2010, the scheduled maturities of time deposits are as follows:

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>$ 14,799,813</td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td>8,999,328</td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>2,607,288</td>
<td></td>
</tr>
<tr>
<td>2014</td>
<td>506,433</td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td>7,581,086</td>
<td></td>
</tr>
<tr>
<td>Thereafter</td>
<td>1,700,178</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 36,194,126</strong></td>
<td></td>
</tr>
</tbody>
</table>

Note 9. Borrowings

Borrowings at December 31, 2010 consist of the following:

<table>
<thead>
<tr>
<th></th>
<th>Rate</th>
<th>Maturity</th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>SunTrust</td>
<td>3.00%</td>
<td>04/19/2010</td>
<td>$ -</td>
<td>$ 1,499,667</td>
</tr>
<tr>
<td>BB&amp;T</td>
<td>4.25%</td>
<td>06/10/2010</td>
<td>-</td>
<td>500,000</td>
</tr>
<tr>
<td>City First Bank</td>
<td>3.75%</td>
<td>12/30/2012</td>
<td>-</td>
<td>100,000</td>
</tr>
<tr>
<td>Wachovia</td>
<td>2.00%</td>
<td>01/01/2013</td>
<td>1,000,000</td>
<td>1,000,000</td>
</tr>
<tr>
<td>Wachovia</td>
<td>3.98%</td>
<td>03/23/2013</td>
<td>2,499,403</td>
<td>1,300,000</td>
</tr>
<tr>
<td>Calvert Foundation</td>
<td>4.50%</td>
<td>03/05/2014</td>
<td>1,000,000</td>
<td>-</td>
</tr>
<tr>
<td>Communities at Work Fund</td>
<td>4.30%</td>
<td>10/07/2015</td>
<td>200,000</td>
<td>-</td>
</tr>
<tr>
<td>Community Development Capital Initiative</td>
<td>2.00%</td>
<td>09/23/2018</td>
<td>1,915,000</td>
<td>-</td>
</tr>
<tr>
<td>Bank of America</td>
<td>4.00%</td>
<td>06/26/2018</td>
<td>3,500,000</td>
<td>3,500,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td>$10,114,403</td>
<td>$7,899,677</td>
</tr>
</tbody>
</table>
Notes to Financial Statements

Note 9. Borrowings, continued

At December 31, 2010, the Organization had unused Federal Fund lines of Credit of $2,500,000, and other various unused commitments of $8,800,000 with rates ranging from 3.75% to 4.30%.

Note 10. Fair Value of Financial Instruments

Fair Value Hierarchy

There are three levels of inputs in the fair value hierarchy that may be used to measure fair value. Financial instruments are considered Level 1 when valuation can be based on quoted prices in active markets for identical assets or liabilities. Level 2 financial instruments are valued using quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or models using inputs that are observable or can be corroborated by observable market data of substantially the full term of the assets or liabilities. Financial instruments are considered Level 3 when their values are determined using pricing models, discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable and when determination of the fair value requires significant management judgment or estimation.

Financial Instruments Measured at Fair Value

The following sections provide a description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the fair value hierarchy:

Securities: Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities would include highly liquid government bonds, mortgage products and exchange traded equities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flow. Level 2 securities would include U.S. agency securities, mortgage-backed agency securities, obligations of states and political subdivisions and certain corporate, asset backed and other securities. In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy.

Impaired Loans: Where impairment of a loan is based on a loan’s observable market price or the fair value of the collateral of a collateral-dependent loan. Fair value of the loan's collateral, when the loan is dependent on collateral, is determined by appraisals or independent valuation which is then adjusted for the cost related to liquidation of the collateral.

Foreclosed Properties: Foreclosed assets are adjusted to fair value upon transfer of the loans to other real estate owned. Real estate acquired in settlement of loans is recorded initially at estimated fair value of the property less estimated selling costs at the date of foreclosure. The initial recorded value may be subsequently reduced by additional allowances, which are charged to earnings if the estimated fair value of the property less estimated selling costs declines below the initial recorded value. Fair value is based upon independent market prices, appraised values of the collateral or management’s estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price or a current appraised value, the Bank records the foreclosed asset as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Bank records the foreclosed asset as nonrecurring Level 3.
Note 10. Fair Value of Financial Instruments, continued

Recurring Fair Value

The table below presents the recorded amount of assets and liabilities measured at fair value on a recurring basis.

<table>
<thead>
<tr>
<th>December 31, 2010</th>
<th>Total</th>
<th>Level 1</th>
<th>Level 2</th>
<th>Level 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment securities available-for-sale</td>
<td>$3,753,677</td>
<td>$ -</td>
<td>$3,753,677</td>
<td>$ -</td>
</tr>
<tr>
<td>Total assets measured at fair value</td>
<td>$3,753,677</td>
<td>$ -</td>
<td>$3,753,677</td>
<td>$ -</td>
</tr>
<tr>
<td>Total liabilities measured at fair value</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>December 31, 2009</th>
<th>Total</th>
<th>Level 1</th>
<th>Level 2</th>
<th>Level 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment securities available-for-sale</td>
<td>$1,417,516</td>
<td>$ -</td>
<td>$1,417,516</td>
<td>$ -</td>
</tr>
<tr>
<td>Total assets measured at fair value</td>
<td>$1,417,516</td>
<td>$ -</td>
<td>$1,417,516</td>
<td>$ -</td>
</tr>
<tr>
<td>Total liabilities measured at fair value</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
</tr>
</tbody>
</table>

Non-recurring Fair Value

The table below presents the recorded amount of assets and liabilities measured at fair value on a non-recurring basis.

<table>
<thead>
<tr>
<th>December 31, 2010</th>
<th>Total</th>
<th>Level 1</th>
<th>Level 2</th>
<th>Level 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Impaired loans</td>
<td>$395,945</td>
<td>$ -</td>
<td>$395,945</td>
<td>$ -</td>
</tr>
<tr>
<td>Total assets measured at fair value</td>
<td>$395,945</td>
<td>$ -</td>
<td>$395,945</td>
<td>$ -</td>
</tr>
<tr>
<td>Total liabilities measured at fair value</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>December 31, 2009</th>
<th>Total</th>
<th>Level 1</th>
<th>Level 2</th>
<th>Level 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Impaired loans</td>
<td>$343,973</td>
<td>$ -</td>
<td>$343,973</td>
<td>$ -</td>
</tr>
<tr>
<td>Total assets measured at fair value</td>
<td>$343,973</td>
<td>$ -</td>
<td>$343,973</td>
<td>$ -</td>
</tr>
<tr>
<td>Total liabilities measured at fair value</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
</tr>
</tbody>
</table>

Note. 11 Benefit Plans

The Organization introduced a profit sharing plan (the Plan) in 2008 pursuant to Section 401(k) of the Internal Revenue Code (the Code). Any employee who has at least 3 months of service is eligible to participate in the Plan.

Participants may contribute a percentage of compensation, subject to a maximum allowed under the Code. In addition, the Organization makes certain matching contributions and may make additional contributions at the discretion of the Board of Directors. The Organization’s expenses relating to the Plan for the years ended December 31, 2010 and 2009 amounted to $37,583 and $25,105, respectively.
Note 12. Income Taxes

*Current and Deferred Income Tax Components*

The components of income tax expense (benefit), all federal, for the period ended December 31, 2010 and 2009 is as follows:

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current</td>
<td>$80,856</td>
<td>$</td>
</tr>
<tr>
<td>Deferred expense (benefit)</td>
<td>169,862</td>
<td>(180,076)</td>
</tr>
<tr>
<td>Deferred tax asset valuation allowance change</td>
<td>-</td>
<td>(76,218)</td>
</tr>
<tr>
<td><strong>Income tax expense (benefit)</strong></td>
<td><strong>$250,718</strong></td>
<td><strong>$(256,294)</strong></td>
</tr>
</tbody>
</table>

*Deferred Income Tax Analysis*

The significant components of net deferred tax assets at December 31, 2010 and 2009 are summarized as follows:

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deferred tax assets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Allowance for loan losses</td>
<td>$140,012</td>
<td>$27,705</td>
</tr>
<tr>
<td>Net operating losses</td>
<td>-</td>
<td>162,171</td>
</tr>
<tr>
<td>Pre-opening expenses</td>
<td>38,578</td>
<td>41,644</td>
</tr>
<tr>
<td>Depreciation</td>
<td>1,864</td>
<td>-</td>
</tr>
<tr>
<td>Unrealized losses on securities available for sale</td>
<td>37,616</td>
<td>-</td>
</tr>
<tr>
<td>Other</td>
<td>-</td>
<td>31,775</td>
</tr>
<tr>
<td><strong>Deferred tax asset</strong></td>
<td><strong>218,070</strong></td>
<td><strong>263,295</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deferred tax liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deferred loan costs</td>
<td>87,120</td>
<td>-</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>6,902</td>
<td>5,563</td>
</tr>
<tr>
<td>Depreciation</td>
<td>-</td>
<td>1,438</td>
</tr>
<tr>
<td>Deferred tax liability</td>
<td>94,022</td>
<td>7,001</td>
</tr>
<tr>
<td>Deferred tax asset valuation allowance</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Net deferred tax asset</strong></td>
<td><strong>$124,048</strong></td>
<td><strong>$256,294</strong></td>
</tr>
</tbody>
</table>

Note 13. Commitments and Contingencies

*Litigation*

In the normal course of business the Organization may be involved in various legal proceedings. The Organization was not involved in any litigation during the years ended December 31, 2010 and 2009.

*Financial Instruments with Off-Balance Sheet Risk*

The Organization is party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, credit risk in excess of the amount recognized in the consolidated statements of financial position.

The Organization’s exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Organization uses the same credit policies in making commitments and conditional obligations as for on-balance sheet instruments.
Note 13. Commitments and Contingencies, continued

Financial Instruments with Off-Balance Sheet Risk, continued

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

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commitments to grant loans</td>
<td>$ 17,961</td>
<td>$ 12,036</td>
</tr>
<tr>
<td>Unfunded commitments under lines of credit</td>
<td>16,658</td>
<td>2,739</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 34,619</strong></td>
<td><strong>$ 14,775</strong></td>
</tr>
</tbody>
</table>

The Organization has made certain loans that included pass-through grant subsidies to the borrowers. If these loans cease to qualify for their intended use during their expected terms, the grants are to be repaid to the Organization and become the property of the Organization. Any amounts recovered under these provisions are to be reported by the Organization as grant income in the period received. No provision has been made in the financial records for this contingent receivable due to the uncertain nature of timing and amount of any receipts.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Organization evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Organization upon extension of credit, is based on management’s credit evaluation of the party. Collateral held varies, but may include accounts receivable, inventory, property and equipment, residential real estate and income-producing commercial properties.

Standby letters of credit are conditional financial commitments issued by the Organization to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Collateral held varies as specified above and is required in instances which the Organization deems necessary.

Concentrations of Credit Risk

All of the Organization’s loans and commitments to extend credit have been granted to businesses throughout the Commonwealth of Virginia. The concentrations of credit by type of loan are set forth in Note 5. The Organization’s focus is toward commercial and small business transactions, and accordingly, it does not have a material number of credits to any single borrower or group of related borrowers.

Note 14. Transactions with Related Parties

The Organization has entered into transactions with its directors, significant shareholders and their affiliates (related parties). Such transactions were made in ordinary course of business on substantially the same terms and conditions, including interest rates, as those prevailing at the same time for comparable transactions with other customers, and did not, in the opinion of management, involve more than normal credit risk or present other unfavorable features. The Organization had no extensions of credit to related parties at December 31, 2010 or 2009.

Deposits from related parties held by the Bank at December 31, 2010 and 2009 amounted to $125,528 and $142,528, respectively.
Note 15. Minimum Regulatory Capital Requirements

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2009, that the Bank meets all capital adequacy requirements to which it is subject. Below is a summary of the Bank’s capital ratios for December 31, 2010 and December 31, 2009.

As of December 31, 2010, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum total risk-based, Tier I risk-based and Tier I leverage ratios as set forth in the following table. There are no conditions or events since the notification that management believes have changed the Bank’s category. (Dollars in thousands)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>December 31, 2010</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Capital</td>
<td>$ 9,146</td>
<td>30.3%</td>
<td>$ 2,418</td>
<td>8.0%</td>
<td>$ 3,023</td>
<td>10.0%</td>
</tr>
<tr>
<td>(to Risk-Weighted Assets)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tier I Capital</td>
<td>$ 8,926</td>
<td>29.5%</td>
<td>$ 1,209</td>
<td>4.0%</td>
<td>$ 1,814</td>
<td>6.0%</td>
</tr>
<tr>
<td>(to Risk-Weighted Assets)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tier I Capital</td>
<td>$ 8,926</td>
<td>19.4%</td>
<td>$ 1,844</td>
<td>4.0%</td>
<td>$ 2,305</td>
<td>5.0%</td>
</tr>
<tr>
<td>(to Average Assets)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>December 31, 2009</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Capital</td>
<td>$ 6,566</td>
<td>28.9%</td>
<td>$ 1,560</td>
<td>8.0%</td>
<td>$ 1,949</td>
<td>10.0%</td>
</tr>
<tr>
<td>(to Risk-Weighted Assets)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tier I Capital</td>
<td>$ 6,460</td>
<td>33.1%</td>
<td>$ 780</td>
<td>4.0%</td>
<td>$ 1,170</td>
<td>6.0%</td>
</tr>
<tr>
<td>(to Risk-Weighted Assets)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tier I Capital</td>
<td>$ 6,460</td>
<td>33.7%</td>
<td>$ 780</td>
<td>4.0%</td>
<td>$ 975</td>
<td>5.0%</td>
</tr>
<tr>
<td>(to Average Assets)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note 16. Subsequent Events

These financial statements have not been updated for subsequent events occurring after March 24, 2011 which is the date these financial statements were available to be issued.
Note 17. Parent Company Financial Information

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

**Statements of Financial Position**  
**December 31, 2010 and 2009**

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and due from banks</td>
<td>$ 402,486</td>
<td>$ 1,184,381</td>
</tr>
<tr>
<td>Interest-bearing deposits</td>
<td>1,322,523</td>
<td>906,192</td>
</tr>
<tr>
<td>Certificates of deposit</td>
<td>1,219,945</td>
<td>2,603,402</td>
</tr>
<tr>
<td>Investment securities available for sale</td>
<td>1,767,993</td>
<td>-</td>
</tr>
<tr>
<td>Investment securities held to maturity (fair value approximates $1,954,080 at December 31, 2009)</td>
<td>-</td>
<td>2,000,000</td>
</tr>
<tr>
<td>Loans, net of allowance for loan losses of $338,414 and $318,183 at December 31, 2010 and 2009, respectively</td>
<td>15,591,017</td>
<td>13,521,360</td>
</tr>
<tr>
<td>Accrued interest receivable</td>
<td>77,525</td>
<td>58,169</td>
</tr>
<tr>
<td>Premises and equipment</td>
<td>45,449</td>
<td>40,008</td>
</tr>
<tr>
<td>Grants receivable</td>
<td>337,571</td>
<td>688,856</td>
</tr>
<tr>
<td>Investment in subsidiary</td>
<td>8,976,727</td>
<td>6,709,856</td>
</tr>
<tr>
<td>Other assets</td>
<td>97,069</td>
<td>163,742</td>
</tr>
<tr>
<td>Total assets</td>
<td>$ 29,838,305</td>
<td>$ 27,875,966</td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Borrowings</td>
<td>$ 10,114,403</td>
<td>$ 7,899,667</td>
</tr>
<tr>
<td>Deferred revenue</td>
<td>337,571</td>
<td>688,856</td>
</tr>
<tr>
<td>Accrued interest payable</td>
<td>4,637</td>
<td>430</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>49,967</td>
<td>87,726</td>
</tr>
<tr>
<td>Total liabilities</td>
<td>10,506,578</td>
<td>8,676,679</td>
</tr>
<tr>
<td><strong>Net Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Temporarily restricted</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Unrestricted</td>
<td>19,431,575</td>
<td>19,153,285</td>
</tr>
<tr>
<td>Accumulated other comprehensive income (loss)</td>
<td>(155,026)</td>
<td>(7,239)</td>
</tr>
<tr>
<td>Total net assets of Virginia Community Capital, Inc.</td>
<td>19,276,549</td>
<td>19,146,046</td>
</tr>
<tr>
<td>Equity in noncontrolling interest</td>
<td>55,178</td>
<td>53,241</td>
</tr>
<tr>
<td>Total net assets</td>
<td>19,331,727</td>
<td>19,199,287</td>
</tr>
<tr>
<td>Total liabilities and net assets</td>
<td>$ 29,838,305</td>
<td>$ 27,875,966</td>
</tr>
</tbody>
</table>
Note 17. Parent Company Financial Information, continued

**Statements of Activities**
For the year ended December 31, 2010

<table>
<thead>
<tr>
<th>Revenue and Support</th>
<th>December 31, 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Unrestricted</td>
</tr>
<tr>
<td>Grants and contract income</td>
<td>$ 133,775</td>
</tr>
<tr>
<td>Interest and fees on loans</td>
<td>834,429</td>
</tr>
<tr>
<td>Interest income</td>
<td>118,021</td>
</tr>
<tr>
<td>Realized gain on sale of securities</td>
<td>20,398</td>
</tr>
<tr>
<td>Miscellaneous income</td>
<td>93,111</td>
</tr>
<tr>
<td>Net assets released from restrictions</td>
<td>378,786</td>
</tr>
<tr>
<td>Total revenue and support</td>
<td>1,578,520</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Expenses</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Program Services</td>
<td></td>
</tr>
<tr>
<td>Salaries and wages</td>
<td>309,876</td>
</tr>
<tr>
<td>Payroll taxes</td>
<td>30,149</td>
</tr>
<tr>
<td>Employee benefits</td>
<td>37,999</td>
</tr>
<tr>
<td>Program services</td>
<td>107,068</td>
</tr>
<tr>
<td>Office expense</td>
<td>50,873</td>
</tr>
<tr>
<td>Professional fees</td>
<td>242,886</td>
</tr>
<tr>
<td>Depreciation expense</td>
<td>34,840</td>
</tr>
<tr>
<td>Interest expense</td>
<td>329,726</td>
</tr>
<tr>
<td>Provision for loan losses</td>
<td>15,431</td>
</tr>
<tr>
<td>Other expenses</td>
<td>65,603</td>
</tr>
<tr>
<td>Total program services expenses</td>
<td>1,224,451</td>
</tr>
</tbody>
</table>

| Management and General                      |                |
| Salaries and wages                          | 225,500        |
| Payroll taxes                               | 21,940         |
| Employee benefits                           | 27,652         |
| Office and administrative expenses          | 16,958         |
| Professional fees                           | 80,962         |
| Depreciation expense                        | 11,613         |
| Other expenses                              | 21,868         |
| Total management and general expenses       | 406,493        |
| Total expenses                              | 1,630,944      |

| Change in net assets/net income             |                |
| Change in accumulated other comprehensive income (loss) | (52,424) | - | (52,424) |
| Change in equity from undistributed income of subsidiary | 332,651 | - | 332,651 |
| Change in net assets/net income and accumulated other comprehensive income (loss) | 132,440 | - | 132,440 |
| Change in net assets/net income attributable to noncontrolling interest | (1,937) | - | (1,937) |
| Change in net assets/net income attributable to Virginia Community Capital, Inc. | 130,503 | - | 130,503 |
| Net assets beginning of year                | 19,146,046     |
| Net assets end of year                      | $ 19,276,549   |
|                                          | $ -            | $ 19,276,549 |
### Notes to Financial Statements

**Note 17. Parent Company Financial Information, continued**

*Statements of Activities, continued*

*For the year ended December 31, 2009*

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2009</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Unrestricted</td>
</tr>
<tr>
<td><strong>Revenue and Support</strong></td>
<td></td>
</tr>
<tr>
<td>Grants and contract income</td>
<td>$170,000</td>
</tr>
<tr>
<td>Interest and fees on loans</td>
<td>$604,232</td>
</tr>
<tr>
<td>Interest income</td>
<td>$257,217</td>
</tr>
<tr>
<td>Miscellaneous income</td>
<td>$14,974</td>
</tr>
<tr>
<td>Net assets released from restrictions</td>
<td>$187,144</td>
</tr>
<tr>
<td><strong>Total revenue and support</strong></td>
<td>$1,233,567</td>
</tr>
<tr>
<td><strong>Expenses</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Program Services</strong></td>
<td></td>
</tr>
<tr>
<td>Salaries and wages</td>
<td>$180,458</td>
</tr>
<tr>
<td>Payroll taxes</td>
<td>$17,062</td>
</tr>
<tr>
<td>Employee benefits</td>
<td>$22,661</td>
</tr>
<tr>
<td>Program services</td>
<td>$222,087</td>
</tr>
<tr>
<td>Office expense</td>
<td>$47,490</td>
</tr>
<tr>
<td>Professional fees</td>
<td>$117,701</td>
</tr>
<tr>
<td>Depreciation expense</td>
<td>$35,418</td>
</tr>
<tr>
<td>Interest expense</td>
<td>$253,545</td>
</tr>
<tr>
<td>Recovery of loan losses</td>
<td>($261,644)</td>
</tr>
<tr>
<td>Other expenses</td>
<td>$35,184</td>
</tr>
<tr>
<td><strong>Total program services expenses</strong></td>
<td>$669,962</td>
</tr>
<tr>
<td><strong>Management and General</strong></td>
<td></td>
</tr>
<tr>
<td>Salaries and wages</td>
<td>$131,322</td>
</tr>
<tr>
<td>Payroll taxes</td>
<td>$12,416</td>
</tr>
<tr>
<td>Employee benefits</td>
<td>$16,490</td>
</tr>
<tr>
<td>Office and administrative expenses</td>
<td>$15,830</td>
</tr>
<tr>
<td>Professional fees</td>
<td>$39,234</td>
</tr>
<tr>
<td>Depreciation expense</td>
<td>$11,806</td>
</tr>
<tr>
<td>Other expenses</td>
<td>$10,844</td>
</tr>
<tr>
<td><strong>Total management and general expenses</strong></td>
<td>$237,942</td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td>$907,904</td>
</tr>
<tr>
<td>Change in net assets/net income</td>
<td>$325,663</td>
</tr>
<tr>
<td>Change in accumulated other comprehensive income (loss)</td>
<td>$(14,599)</td>
</tr>
<tr>
<td>Change in equity from undistributed income of subsidiary</td>
<td>$(113,073)</td>
</tr>
<tr>
<td>Change in net assets/net income and accumulated other comprehensive income (loss)</td>
<td>$197,991</td>
</tr>
<tr>
<td>Change in net assets/net income attributable to noncontrolling interest</td>
<td>$885</td>
</tr>
<tr>
<td>Change in net assets/net income attributable to Virginia Community Capital, Inc.</td>
<td>$198,876</td>
</tr>
<tr>
<td>Net assets beginning of year</td>
<td>$18,947,170</td>
</tr>
<tr>
<td>Net assets end of year</td>
<td>$19,146,046</td>
</tr>
</tbody>
</table>
Note 17. Parent Company Financial Information, continued

**Statements of Cash Flows**
*For the years ended December 31, 2010 and 2009*

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash flows from operating activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Change in net assets</td>
<td>$ (52,424)</td>
<td>$ 325,663</td>
</tr>
<tr>
<td>Adjustments to reconcile change in net assets to net cash provided by operations:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>46,453</td>
<td>47,224</td>
</tr>
<tr>
<td>Provision for (recovery of) loan losses</td>
<td>15,431</td>
<td>(261,644)</td>
</tr>
<tr>
<td>Realized gains on sales of securities</td>
<td>(20,398)</td>
<td>-</td>
</tr>
<tr>
<td>Accretion of discount on securities, net of amortization of premiums</td>
<td>(4,085)</td>
<td>-</td>
</tr>
<tr>
<td>Loss on disposal of premises and equipment</td>
<td>311</td>
<td>-</td>
</tr>
<tr>
<td>Noncash grants received</td>
<td>-</td>
<td>10,000</td>
</tr>
<tr>
<td>Changes in assets and liabilities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accrued income</td>
<td>(19,356)</td>
<td>10,104</td>
</tr>
<tr>
<td>Grants receivable</td>
<td>351,285</td>
<td>(72,856)</td>
</tr>
<tr>
<td>Other assets</td>
<td>47,435</td>
<td>81,853</td>
</tr>
<tr>
<td>Accrued interest payable</td>
<td>4,207</td>
<td>(2,769)</td>
</tr>
<tr>
<td>Deferred revenue</td>
<td>(351,285)</td>
<td>62,856</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>(37,759)</td>
<td>6,481</td>
</tr>
<tr>
<td>Net cash (used in) provided by operating activities</td>
<td>(20,185)</td>
<td>206,912</td>
</tr>
<tr>
<td><strong>Cash flows from investing activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net (increase) decrease in interest-bearing deposits</td>
<td>(416,331)</td>
<td>(555,075)</td>
</tr>
<tr>
<td>Net (increase) decrease in certificates of deposit</td>
<td>1,385,457</td>
<td>(2,103,402)</td>
</tr>
<tr>
<td>Purchases of securities available for sale</td>
<td>(6,170,915)</td>
<td>-</td>
</tr>
<tr>
<td>Proceeds from sales of available for sale securities</td>
<td>3,020,398</td>
<td>-</td>
</tr>
<tr>
<td>Proceeds from calls and maturities of available for sale securities</td>
<td>1,325,000</td>
<td>-</td>
</tr>
<tr>
<td>Purchases and proceeds from maturities, calls and principal paydowns of securities held to maturity</td>
<td>2,000,000</td>
<td>3,984,424</td>
</tr>
<tr>
<td>Capital downstreamed to subsidiary bank</td>
<td>(2,000,000)</td>
<td>-</td>
</tr>
<tr>
<td>Net change in investment with subsidiary</td>
<td>-</td>
<td>(113,073)</td>
</tr>
<tr>
<td>Net increase in loans</td>
<td>(2,085,088)</td>
<td>(1,535,296)</td>
</tr>
<tr>
<td>Purchases of premises and equipment</td>
<td>(33,187)</td>
<td>(31,947)</td>
</tr>
<tr>
<td>Disposals of premises and equipment</td>
<td>220</td>
<td>-</td>
</tr>
<tr>
<td>Net cash (used in) provided by investing activities</td>
<td>(2,976,446)</td>
<td>(354,369)</td>
</tr>
<tr>
<td><strong>Cash flows from financing activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net increase (decrease) in borrowings</td>
<td>2,214,736</td>
<td>(2,100,000)</td>
</tr>
<tr>
<td>Net cash (used in) provided by financing activities</td>
<td>2,214,736</td>
<td>(2,100,000)</td>
</tr>
<tr>
<td>Net increase (decrease) in cash and cash equivalents</td>
<td>(781,895)</td>
<td>(2,247,457)</td>
</tr>
<tr>
<td><strong>Cash and cash equivalents, beginning</strong></td>
<td>1,184,381</td>
<td>3,431,838</td>
</tr>
<tr>
<td><strong>Cash and cash equivalents, ending</strong></td>
<td>$ 402,486</td>
<td>$ 1,184,381</td>
</tr>
</tbody>
</table>

**Supplemental disclosure of cash flow information**

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest paid</td>
<td>$ 325,519</td>
<td>$ 256,314</td>
</tr>
<tr>
<td>Income taxes paid</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>
Note 18. Subsidiary Bank Financial Information

Financial information of Community Capital Bank of Virginia as of, and for the years ended December 31, 2010 and 2009 are as follows:

**Balance Sheets**
*December 31, 2010 and 2009*

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and due from banks</td>
<td>$102,227</td>
<td>$329,759</td>
</tr>
<tr>
<td>Interest-bearing deposits</td>
<td>5,560,344</td>
<td>2,250,221</td>
</tr>
<tr>
<td>Federal funds sold</td>
<td>2,437,000</td>
<td>1,677,000</td>
</tr>
<tr>
<td>Investment securities available for sale</td>
<td>1,985,684</td>
<td>1,417,516</td>
</tr>
<tr>
<td>Certificates of deposit</td>
<td>12,665,729</td>
<td>10,295,000</td>
</tr>
<tr>
<td>Restricted equity securities</td>
<td>320,850</td>
<td>263,300</td>
</tr>
<tr>
<td>Loans, net of allowance for loan losses of $457,322 and $105,965 at December 31, 2010 and 2009, respectively</td>
<td>26,812,169</td>
<td>8,325,806</td>
</tr>
<tr>
<td>Accrued interest receivable</td>
<td>143,661</td>
<td>61,052</td>
</tr>
<tr>
<td>Premises and equipment</td>
<td>47,410</td>
<td>43,489</td>
</tr>
<tr>
<td>Other assets</td>
<td>188,719</td>
<td>327,647</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td><strong>$50,263,793</strong></td>
<td><strong>$24,990,790</strong></td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Noninterest-bearing deposits</td>
<td>$976,275</td>
<td>$1,403,003</td>
</tr>
<tr>
<td>Interest-bearing deposits</td>
<td>$38,746,139</td>
<td>$16,752,225</td>
</tr>
<tr>
<td>Total deposits</td>
<td>39,722,414</td>
<td>18,155,228</td>
</tr>
<tr>
<td>Secured borrowings</td>
<td>1,354,064</td>
<td>-</td>
</tr>
<tr>
<td>Accrued interest payable</td>
<td>28,736</td>
<td>14,407</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>181,852</td>
<td>111,299</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td><strong>41,287,066</strong></td>
<td><strong>18,280,934</strong></td>
</tr>
<tr>
<td>Commitments and contingencies</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Shareholders’ equity</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Preferred stock, 1,000,000 shares authorized; no shares issued and outstanding</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Common stock, $2,500 par value, 10,000,000 shares authorized; 1,834 and 1,411 shares issued and outstanding for 2010 and 2009</td>
<td>4,584,725</td>
<td>3,527,600</td>
</tr>
<tr>
<td>Additional paid in capital</td>
<td>4,470,275</td>
<td>3,527,400</td>
</tr>
<tr>
<td>Retained deficit</td>
<td>(5,254)</td>
<td>(337,905)</td>
</tr>
<tr>
<td>Accumulated other comprehensive income (loss)</td>
<td>(73,019)</td>
<td>(7,239)</td>
</tr>
<tr>
<td><strong>Total shareholder’s equity</strong></td>
<td><strong>8,976,727</strong></td>
<td><strong>6,709,856</strong></td>
</tr>
<tr>
<td><strong>Total liabilities and shareholder’s equity</strong></td>
<td><strong>$50,263,793</strong></td>
<td><strong>$24,990,790</strong></td>
</tr>
</tbody>
</table>
**Notes to Financial Statements**

**Note 18. Subsidiary Bank Financial Information, continued**

*Statements of Operations*

*For the years ended December 31, 2010 and 2009*

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Interest and dividend income</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loans and fees on loans</td>
<td>$1,229,248</td>
<td>$328,451</td>
</tr>
<tr>
<td>Federal funds sold</td>
<td>3,899</td>
<td>5,304</td>
</tr>
<tr>
<td>Investment securities-taxable</td>
<td>59,443</td>
<td>37,297</td>
</tr>
<tr>
<td>Investment securities-nontaxable</td>
<td>5,233</td>
<td>-</td>
</tr>
<tr>
<td>Deposits with other banks</td>
<td>293,772</td>
<td>149,407</td>
</tr>
<tr>
<td><strong>Total interest and dividend income</strong></td>
<td>$1,591,595</td>
<td>$520,459</td>
</tr>
</tbody>
</table>

| **Interest expense** |            |            |
| Deposits            | 486,482    | 150,045    |
| Federal funds purchased | -          | 4          |
| **Total interest expense** | 486,482    | 150,049    |
| Net interest income  | 1,105,113  | 370,410    |

| **Provision for loan losses** |            |            |
| Net interest income after provision for loan losses | 351,357     | 62,933     |

| **Noninterest income** |            |            |
| Gains from sale of securities | 27,198     | -          |
| Bank enterprise award        | 600,000    | -          |
| Other noninterest income    | 9,867      | 53,796     |
| **Total noninterest income** | 637,065    | 53,796     |

| **Noninterest expense** |            |            |
| Salaries and employee benefits | 313,888    | 340,690    |
| Occupancy and equipment      | 99,837     | 96,449     |
| Data processing              | 53,530     | 44,600     |
| Advertising and marketing    | 26,672     | 14,333     |
| Audit                         | 23,646     | 26,542     |
| Legal                         | 7,184      | 6,252      |
| Consulting                   | 48,170     | 43,510     |
| FDIC insurance               | 53,890     | 11,465     |
| Franchise tax expense        | 88,712     | 65,468     |
| Other expenses               | 91,923     | 81,331     |
| **Total noninterest expense** | 807,452    | 730,640    |
| Net income (loss) before income tax expense (benefit) | 583,369    | (369,367)  |
| Income tax expense (benefit) | 250,718    | (256,294)  |
| **Net income (loss)**        | $332,651   | $(113,073)|

| **Basic income (loss) per share** | $190.29 | $(80.14) |
| **Weighted average shares outstanding** | 1,748   | 1,411   |
### Notes to Financial Statements

**Note 18. Subsidiary Bank Financial Information, continued**

**Statements of Changes in Shareholders’ Equity**  
*For the years ended December 31, 2010 and 2009*

<table>
<thead>
<tr>
<th>Shares</th>
<th>Common Stock</th>
<th>Additional Pain In Capital</th>
<th>Retained Earnings (Deficit)</th>
<th>Accumulated Other Comprehensive Income (Loss)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1,410</td>
<td>$3,525,000</td>
<td>$3,525,000</td>
<td>$ (231,845)</td>
<td>$ 7,360</td>
<td>$ 6,825,515</td>
</tr>
</tbody>
</table>

**Balance, December 31, 2008**

**Comprehensive income (loss)**

- Net income (loss) -  -  -  -  (113,073)  -  (113,073)
- Net change in unrealized gain on investment securities available for sale -  -  -  -  (14,599)  (14,599)

**Total comprehensive income (loss)**

- Sale of common stock to minority investor 1  2,600  2,400  -  -  5,000
- Adjustment for immaterial difference from prior year audit 7,013  -  -  -  7,013

**Balance, December 31, 2009**

1,411  3,527,600  3,527,400  (337,905)  (7,239)  6,709,856

**Comprehensive income (loss)**

- Net income (loss) -  -  -  -  332,651  -  332,651
- Change in unrealized loss on investment securities available for sale, net of income taxes -  -  -  -  (65,780)  (65,780)

**Total comprehensive income (loss)**

- Sale of common stock to holding company 423  1,057,125  942,875  -  -  2,000,000

**Balance, December 31, 2010**

1,834  $4,584,725  $4,470,275  $(5,254)  $(73,019)  $(8,976,727)
### Notes to Financial Statements

#### Note 18. Subsidiary Bank Financial Information, continued

**Statement of Cash Flows**  
*For the years ended December 31, 2010 and 2009*

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cash flows from operating activities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net income (loss)</td>
<td>$ 332,651</td>
<td>$(113,073)</td>
</tr>
<tr>
<td>Adjustments to reconcile net loss to net cash used by operations:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>39,324</td>
<td>40,583</td>
</tr>
<tr>
<td>Deferred income tax expense (benefit)</td>
<td>51,243</td>
<td>62,933</td>
</tr>
<tr>
<td>Provision for loan losses</td>
<td>351,357</td>
<td>(256,294)</td>
</tr>
<tr>
<td>Net realized gain on securities</td>
<td>(27,198)</td>
<td>-</td>
</tr>
<tr>
<td>Accretion of discount on securities, net of amortization of premiums</td>
<td>(254)</td>
<td>(5)</td>
</tr>
<tr>
<td>Loss on disposal of premises and equipment</td>
<td>311</td>
<td>-</td>
</tr>
<tr>
<td>Changes in assets and liabilities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accrued income</td>
<td>(82,609)</td>
<td>(12,925)</td>
</tr>
<tr>
<td>Other assets</td>
<td>77,096</td>
<td>(70,285)</td>
</tr>
<tr>
<td>Accrued interest payable</td>
<td>14,329</td>
<td>12,731</td>
</tr>
<tr>
<td>Other liabilities</td>
<td>70,553</td>
<td>54,205</td>
</tr>
<tr>
<td>Net cash (used in) provided by operating activities</td>
<td><strong>826,803</strong></td>
<td><strong>(282,130)</strong></td>
</tr>
</tbody>
</table>

| **Cash flows from investing activities** |          |          |
| Net (increase) decrease in federal funds sold | (760,000) | 4,440,000 |
| Net increase in interest-bearing deposits | (3,310,123) | (724,341) |
| Net (increase) decrease in certificates of deposits | (2,370,729) | (10,295,000) |
| Purchases of securities available for sale | (9,497,500) | (1,424,750) |
| Proceeds from maturities and calls of securities available for sale | 4,925,000 | 2,000,000 |
| Proceeds from sales of available for sale securities | 3,966,004 | - |
| Purchases of restricted equity securities | (57,550) | (61,200) |
| Redemption of restricted equity securities | - | 9,400 |
| Net increase in loans | (18,837,720) | (5,573,185) |
| Purchases/disposal of premises and equipment | (33,187) | (19,208) |
| Disposals of premises and equipment | 220 | - |
| Net cash used in investing activities | (25,975,585) | (11,648,284) |

| **Cash flows from financing activities** |          |          |
| Net increase in deposits | 21,567,186 | 11,867,219 |
| Net increase in secured borrowings | 1,354,064 | - |
| Proceeds from sale of common stock | 2,000,000 | 5,000 |
| Net cash provided by financing activities | 24,921,250 | 11,872,219 |
| Net decrease in cash and cash equivalents | (227,532) | (58,195) |

| Cash and cash equivalents, beginning | 329,759 | 387,954 |
| Cash and cash equivalents, ending | **$ 102,227** | **$ 329,759** |

**Supplemental disclosure of cash flow information**

| Interest paid | $ 472,153 | $ 137,318 |
| Taxes paid | - | - |