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FR Y-6
OMB Number 7100-0297
Approval expires December 31, 2015
Page 1 of 2

Board of Governors of the Federal Reserve System

FRB RICHMOND

Annual Report of Holding Companies—FR Y-6

Report at the close of business as of the end of fiscal year

This Report is required by law: Section 5(c)(1)(A) of the Bank Holding Company Act (12 U.S.C. § 1844 (c)(1)(A)); Section 8(a) of the International Banking Act (12 U.S.C. § 3106(a)); Sections 11(a)(1), 25 and 25A of the Federal Reserve Act (12 U.S.C. §§ 248(a)(1), 602, and 611a); Section 211.13(c) of Regulation K (12 C.F.R. § 211.13(c)); and Section 225.5(b) of Regulation Y (12 C.F.R. § 225.5(b)) and section 10(c)(2)(H) of the Home Owners' Loan Act. Return to the appropriate Federal Reserve Bank the original and the number of copies specified.

This report form is to be filed by all top-tier bank holding companies and top-tier savings and loan holding companies organized under U.S. law, and by any foreign banking organization that does not meet the requirements of and is not treated as a qualifying foreign banking organization under Section 211.23 of Regulation K (12 C.F.R. § 211.23). (See page one of the general instructions for more detail of who must file.) The Federal Reserve may not conduct or sponsor, and an organization (or a person) is not required to respond to, an information collection unless it displays a currently valid OMB control number.

NOTE: The *Annual Report of Holding Companies* must be signed by one director of the top-tier holding company. This individual should also be a senior official of the top-tier holding company. In the event that the top-tier holding company does not have an individual who is a senior official and is also a director, the chairman of the board must sign the report.

I, John E. Stringer, President/CEO
Name of the Holding Company Director and Official

Title of the Holding Company Director and Official

attest that the *Annual Report of Holding Companies* (including the supporting attachments) for this report date has been prepared in conformance with the instructions issued by the Federal Reserve System and are true and correct to the best of my knowledge and belief.

With respect to information regarding individuals contained in this report, the Reporter certifies that it has the authority to provide this information to the Federal Reserve. The Reporter also certifies that it has the authority, on behalf of each individual, to consent or object to public release of information regarding that individual. The Federal Reserve may assume, in the absence of a request for confidential treatment submitted in accordance with the Board's "Rules Regarding Availability of Information," 12 C.F.R. Part 261, that the Reporter and individual consent to public release of all details in the report concerning that individual.

John E. Stringer, Pres/CEO
Signature of Holding Company Director and Official

3/23/15
Date of Signature

For holding companies not registered with the SEC–
Indicate status of Annual Report to Shareholders:

- ☐ is included with the FR Y-6 report
- ☐ will be sent under separate cover
- ☐ is not prepared

For Federal Reserve Bank Use Only

RSSD ID 1132391
C.I.

Date of Report (top-tier holding company's fiscal year-end):

December 31, 2014
Month / Day / Year

n/a
Reporter's Legal Entity Identifier (LEI) (20-Character LEI Code)

Reporter's Name, Street, and Mailing Address

Southwest Virginia Bankshares, Inc.
Legal Title of Holding Company

102 West Main St/P O Box 1067
(Mailing Address of the Holding Company) Street / P.O. Box

Marion, VA		24354
City	State	Zip Code

Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Chris Snodgrass	VP/CFO
Name	Title

276-783-3116
Area Code / Phone Number / Extension

276-782-9136
Area Code / FAX Number

chriss@bomva.com
E-mail Address

www.bankofmarionva.com
Address (URL) for the Holding Company's web page

Does the reporter request confidential treatment for any portion of this submission?

☐ Yes Please identify the report items to which this request applies:

☐ In accordance with the instructions on pages GEN-2 and 3, a letter justifying the request is being provided.

☐ The information for which confidential treatment is sought is being submitted separately labeled "Confidential."

☒ No

DECEMBER 31, 2014

SOUTHWEST VIRGINIA BANKSHARES, INC.
MARION, VA
INCORPORATED IN VIRGINIA
ORGANIZATION CHART Y-6

SOUTHWEST VIRGINIA BANKSHARES, INC.
MARION, VA
INCORPORATED IN VIRGINIA

(100% Ownership)

THE BANK OF MARION
MARION, VA
INCORPORATED IN VIRGINIA

Results: A list of branches for your depository institution: BANK OF MARION, THE (ID_RSSD: 858528).
This depository institution is held by SOUTHWEST VIRGINIA BANKSHARES, INC. (1132391) of MARION, VA.
The data are as of 12/31/2014. Data reflects information that was received and processed through 01/07/2015.

Reconciliation and Verification Steps

1. In the **Data Action** column of each branch row, enter one or more of the actions specified below.
2. If required, enter the date in the **Effective Date** column.

Actions

OK: If the branch information is correct, enter 'OK' in the **Data Action** column.
Change: If the branch information is incorrect or incomplete, revise the data, enter 'Change' in the **Data Action** column and the date when this information first became valid in the **Effective Date** column.
Close: If a branch listed was sold or closed, enter 'Close' in the **Data Action** column and the sale or closure date in the **Effective Date** column.
Delete: If a branch listed was never owned by this depository institution, enter 'Delete' in the **Data Action** column.
Add: If a reportable branch is missing, insert a row, add the branch data, and enter 'Add' in the **Data Action** column and the opening or acquisition date in the **Effective Date** column.

If printing this list, you may need to adjust your page setup in MS Excel. Try using landscape orientation, page scaling, and/or legal sized paper.

Submission Procedure

When you are finished, send a saved copy to your FRB contact. See the detailed instructions on this site for more information.
If you are e-mailing this to your FRB contact, put your institution name, city and state in the subject line of the e-mail.

Note:
To satisfy the **FR Y-10 reporting requirements**, you must also submit FR Y-10 Domestic Branch Schedules for each branch with a **Data Action** of Change, Close, Delete, or Add.
The FR Y-10 report may be submitted in a hardcopy format or via the FR Y-10 Online application - https://y10online.federalreserve.gov.

* FDIC UNINUM, Office Number, and ID_RSSD columns are for reference only. Verification of these values is not required.

Data Action	Effective Date	Branch Service Type	Branch ID_RSSD*	Popular Name	Street Address	City	State	Zip Code	County	Country	FDIC UNINUM*	Office Number*	Head Office	Head Office ID_RSSD*	Comments
OK		Full Service (Head Office)	858528	BANK OF MARION, THE	102 WEST MAIN STREET	MARION	VA	24354	SMYTH	UNITED STATES	6107	0	BANK OF MARION, THE	858528	
OK		Full Service	3373200	TRI-CITY COMMUNITY BANK-BRANCH OF THE BANK OF MARION	2867 BOONES CREEK ROAD	JOHNSON CITY	TN	37615	WASHINGTON	UNITED STATES	453297	13	BANK OF MARION, THE	858528	
OK		Full Service	3818877	BANK OF ABINGDON, THE-BRANCH OF THE BANK OF MARION	201 VALLEY STREET NE	ABINGDON	VA	24210	WASHINGTON	UNITED STATES	493354	14	BANK OF MARION, THE	858528	
OK		Full Service	3819043	BRISTOL BRANCH	2975 LEE HIGHWAY (HWY 11)	BRISTOL	VA	24202	BRISTOL CITY	UNITED STATES	493355	15	BANK OF MARION, THE	858528	
OK		Full Service	1364839	BANK OF CHILHOWIE, THE-BRANCH OF THE BANK OF MARION	1155 EAST LEE HIGHWAY	CHILHOWIE	VA	24319	SMYTH	UNITED STATES	220291	3	BANK OF MARION, THE	858528	
OK		Full Service	3260579	BANK OF DAMASCUS, THE-BRANCH OF THE BANK OF MARION	744 NORTH BEAVER DAM AVENUE SUITE A	DAMASCUS	VA	24236	WASHINGTON	UNITED STATES	430178	12	BANK OF MARION, THE	858528	
OK		Full Service	982227	SCOTT COUNTY GATE CITY, THE-BRANCH OF THE BANK OF MARION	181 EAST JACKSON ST	GATE CITY	VA	24251	SCOTT	UNITED STATES	249253	9	BANK OF MARION, THE	858528	
OK		Full Service	1848188	BANK OF GLADE SPRING, THE-BRANCH OF THE BANK OF MARION	656 SOUTH MONTE VISTA DRIVE	GLADE SPRING	VA	24340	WASHINGTON	UNITED STATES	220292	4	BANK OF MARION, THE	858528	
OK		Full Service	605722	BANK OF HONAKER, THE-BRANCH OF THE BANK OF MARION	36 LIBRARY DRIVE	HONAKER	VA	24260	RUSSELL	UNITED STATES	225096	7	BANK OF MARION, THE	858528	
OK		Full Service	884929	ROYAL OAK BRANCH-BRANCH OF THE BANK OF MARION	1600 N. MAIN STREET	MARION	VA	24354	SMYTH	UNITED STATES	220289	1	BANK OF MARION, THE	858528	
OK		Full Service	759223	WASHINGTON AVENUE BRANCH-BRANCH OF THE BANK OF MARION	1026 SOUTH MAIN STREET	MARION	VA	24354	SMYTH	UNITED STATES	220290	2	BANK OF MARION, THE	858528	
OK		Full Service	2935487	FORT CHISWELL BRANCH-BRANCH OF THE BANK OF MARION	787 FORT CHISWELL ROAD, SUITE 7	MAX MEADOWS	VA	24360	WYTHE	UNITED STATES	362143	10	BANK OF MARION, THE	858528	
OK		Full Service	2373221	BANK OF RURAL RETREAT, THE-BRANCH OF THE BANK OF MARION	512 NORTH MAIN STREET	RURAL RETREAT	VA	24368	WYTHE	UNITED STATES	220293	5	BANK OF MARION, THE	858528	
OK		Full Service	2760474	BANK OF SALTVILLE, THE-BRANCH OF THE BANK OF MARION	101 BANK ST	SALTVILLE	VA	24370	SMYTH	UNITED STATES	220294	6	BANK OF MARION, THE	858528	
OK		Full Service	603924	BANK OF SCOTT COUNTY, THE - WEBER CITY-BRANCH OF THE BANK OF MARION	2768 US HIGHWAY 23 NORTH	WEBER CITY	VA	24290	SCOTT	UNITED STATES	13493	8	BANK OF MARION, THE	858528	

Shareholders of record as of December 31, 2014 and DURING the year that directly or indirectly own, control or hold with power to vote five percent or more of any class of voting securities of Southwest Virginia Bankshares, Inc.

SHAREHOLDER	ADDRESS	#OF SHARES OWNED	PERCENTAGE
NONE			

Southwest Virginia Bankshares, Inc.
Directors and Officers
December 31, 2014
FR Y 6
Report Item # 4

(1) Names & Address (City, State, Country)	(2) Principal Occupation if other than with Bank Holding Company	(3)(a) Title & Position with Bank Holding Co.	(3)(b) Title & Position with Subsidiaries (include names of subsidiaries)	(3)c Title & Position with Other Businesses (include names of other businesses)	(4)(a) Percentage of Voting Shares in Bank Holding Company	Notes	(4)(b) Percentage of Voting Shares in Subsidiaries (include names of subsidiaries)	(4)c List names of (includes partnerships) if 25% or more of voting securities are held (List names of companies and percentage of voting securities held)	Shares
John E. Stringer	N/A	Director &	Director &	N/A	0.4691	*Owned jointly with Cynthia H. Stringer (wife)	N/A	N/A	4625
Marion, VA USA		President/CEO	President/CEO		0.1056	*Primevest Financial Services FBO			1042
			The Bank of Marion			John E. Stringer			
Estelle C Johnson	Retired Educator	Director	Director	N/A	0.0202		NA	NA	200
Bluefield VA USA			The Bank of Marion						
E C Johnson Revocable					0.3168				3124
Declaration of Trust									
Don Taylor	Retired Businessman	Director	Director	Board of Director - H.S. Williams Co., Inc	0.0253		N/A	H.S. Williams Co., Inc. - 33.33%	250
Marion, VA USA			The Bank of Marion	Partner - Cregger & Taylor	0.5122	*Owned by Don and Barbara Taylor		Cregger & Taylor - 50%	5050
Everettee Umbarger	Dairy Farmer	Director	Director	President - Laurel Spring Dairy Inc.	0.1716		N/A	Laurel Springs Dairy - 52%	1692
Marion, VA USA			The Bank of Marion	Vice-president - Laurel Springs Cattle Co., Inc.					
Thomas E. Copenhaver	Radio Broadcasting	Secretary	Director	President - Laura Copenhaver Industries	0.3682		N/A	Laura Copenhaver Industries - 100%	3630
Marion, VA USA	Tower Ownership		The Bank of Marion	Owner - TECO Broadcasting				T.E.C.O. Broadcasting - 100%	
				Owner - TEC2 Broadcasting				T.E.C.2 Broadcasting - 100%	
Cameron L. Wolfe, Jr.	Architect	Director	Director	Owner- Cameron L Wolfe Jr Architect	0.0835		N/A	None	824
Marion, VA USA			The Bank of Marion		1.4637	*Camern L. Wolfe & Nancy D. Wolfe			14430
					0.1684	*Owned by Cameron L. Wolfe, Jr. or Caitlin Taylor			1661
						Wolfe (grandchild) or Cameron Tyler Wolfe			
					0.0647	*Camern L. Wolfe & Cameron Jay Wolfe (son)			638
Perry D. Mowbray, Jr.	Retired Orthodontist	Director	Director	P D Mowbray Jr DDS LTD-President	0.1567		N/A		1545
Marion, VA USA			The Bank of Marion			*Owned by Perry D. Mowbray, Jr. DDS, LTD		P D Mowbray Jr DDS LTD - 100.00	
					3.3911	Employees Profit Sharing Plan			33432
								Littrell & Mowbrary - 50%	
Charles C. Clark, Jr.	Farmer	Director	Director	Owner - C.C. Clark, Jr. Farms	0.8666		N/A		8544
Saltville, VA USA			The Bank of Marion		0.0802	*Owned by Charles Champ Clark III (son) &			791
						Jane P Clark (wife) Custodian		C.C. Clark, Jr. Farms - 100%	
David F. Bear, Jr.	Retired Businessman	Director	Director	Retired	0.2551		N/A	None	2515
Rural Retreat, VA USA			The Bank of Marion						
Bob Shults	C.P.A.	Director	Director	President - Shults, Kiser & Associates, P.C.	0.1572		N/A	Shults, Kiser & Associates, P.C. - 60%	1550
Marion, VA USA			The Bank of Marion	President - Katherine Burke Corporation					
Joseph S Tate	Retired Judge	Director	Director	Retired	0.1127	Joseph S Tate/Jerilyn B Tate	NA	N/A	1112
Marion VA USA			Bank of Marion						

SOUTHWEST VIRGINIA BANKSHARES, INC.
AND ITS WHOLLY-OWNED SUBSIDIARY,
THE BANK OF MARION

Marion, Virginia

CONSOLIDATED FINANCIAL REPORT

December 31, 2014

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DENT K. BURK ASSOCIATES, P.C.
Certified Public Accountants

BRISTOL, VIRGINIA
KINGSPORT, TENNESSEE
JOHNSON CITY, TENNESSEE
GRUNDY, VIRGINIA

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders
Southwest Virginia Bankshares, Inc. and its
wholly-owned subsidiary, The Bank
of Marion

We have audited the accompanying consolidated financial statements of Southwest Virginia Bankshares, Inc., and its wholly-owned subsidiary, The Bank of Marion, which comprise the consolidated balance sheets as of December 31, 2014 and 2013, and the related consolidated 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 consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Southwest Virginia Bankshares, Inc., and its wholly-owned subsidiary, The Bank of Marion, as of December 31, 2014 and 2013, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Dent K. Burk Associates, P.C.
Certified Public Accountants

Kingsport, Tennessee
March 20, 2015

SOUTHWEST VIRGINIA BANKSHARES, INC.
AND ITS WHOLLY-OWNED SUBSIDIARY,
THE BANK OF MARION
Marion, Virginia
CONSOLIDATED BALANCE SHEETS
December 31, 2014 and 2013

ASSETS	2014	2013
Cash and due from banks	$ 7,186,531	$ 7,607,763
Federal funds sold	141,273	1,782,688
Cash and cash equivalents	7,327,804	9,390,451
Investment securities:		
Available-for-sale, at fair value	105,433,396	92,394,399
Equity investments, at cost	1,029,250	1,127,650
Interest-bearing time deposits in banks	26,001,998	38,484,998
Loans, net	196,977,316	190,901,084
Foreclosed assets	1,825,761	1,875,334
Premises and equipment, net	4,767,859	4,711,975
Accrued interest receivable	1,978,047	1,941,753
Accrued income tax benefit	-	61,846
Deferred income tax benefit	1,398,355	2,384,166
Bank owned life insurance	9,158,961	8,822,336
Other assets	207,198	209,911
Total assets	$356,105,945	$352,305,903

LIABILITIES AND STOCKHOLDERS' EQUITY	2014	2013
LIABILITIES		
Deposits:		
Interest bearing	$243,202,027	$243,236,368
Noninterest bearing	54,534,918	51,899,343
Total deposits	297,736,945	295,135,711
Federal funds purchased	2,869,000	5,000,000
Advances from the Federal Home Loan Bank	12,050,000	12,050,000
Accrued income tax liability	436,378	-
Accrued interest and other liabilities	2,442,467	2,317,097
Total liabilities	315,534,790	314,502,808
STOCKHOLDERS' EQUITY		
Common stock, par value $5 per share; 2,000,000 shares authorized; 985,854 and 1,003,579 outstanding, net of 214,146 and 196,421 treasury shares at par in 2014 and 2013, respectively	4,929,270	5,017,895
Surplus	1,234,440	1,234,440
Retained earnings	33,837,055	32,510,102
Accumulated other comprehensive income (loss)		
Net unrealized gains (losses) on securities	570,390	(959,342)
Total stockholders' equity	40,571,155	37,803,095
Total liabilities and stockholders' equity	$356,105,945	$352,305,903

See Notes to Consolidated Financial Statements.

SOUTHWEST VIRGINIA BANKSHARES, INC.
AND ITS WHOLLY-OWNED SUBSIDIARY,
THE BANK OF MARION
Marion, Virginia
CONSOLIDATED STATEMENTS OF INCOME
Years Ended December 31, 2014 and 2013

	2014	2013
Interest income:		
Interest and fees on loans	$10,493,411	$10,909,086
Interest on investment securities:		
U.S. Treasuries	54,899	45,375
U.S. Government agencies	1,199,808	907,002
States and political subdivisions	586,990	532,776
Mortgage-backed securities	222,986	57,342
Corporate bonds	105,047	118,465
Time deposits with other banks	497,950	626,905
Other	1,297	3,493
Interest on federal funds sold	334	487
Total interest income	13,162,722	13,200,931
Interest expense:		
Interest on deposits	1,362,971	1,705,215
Interest on federal funds purchased and other short-term borrowings	35,146	7,283
Interest on FHLB advances	24,116	25,180
Total interest expense	1,422,233	1,737,678
Net interest income	11,740,489	11,463,253
Provision for loan losses	855,000	475,000
Net interest income, after provision for loan losses	10,885,489	10,988,253
Noninterest income:		
Service charges on deposit accounts	592,722	604,348
Net nonsufficient fund income	1,519,748	1,039,836
Other service charges and fees	133,108	134,321
Income from bank owned life insurance	294,173	363,675
Net gains on sale of securities available for sale	291,024	140,208
Securities sales	148,540	210,704
Other	128,983	87,837
Total noninterest income	3,108,298	2,580,929
Noninterest expense:		
Salaries and wages	4,259,810	4,215,697
Pensions and other employee benefits	1,256,095	1,197,214
Occupancy expenses	559,016	563,088
Equipment depreciation and maintenance	892,736	928,605
Advertising and marketing	390,229	167,595
Amortization of intangible asset	-	217,208
Director fees	248,210	216,029
Other taxes	321,248	334,677
Other operating expenses	2,091,041	2,075,409
Total noninterest expense	10,018,385	9,915,522
Income before income taxes	3,975,402	3,653,660
Income tax	1,097,786	971,931
Net income	$ 2,877,616	$ 2,681,729

See Notes to Consolidated Financial Statements.

SOUTHWEST VIRGINIA BANKSHARES, INC.
AND ITS WHOLLY-OWNED SUBSIDIARY,
THE BANK OF MARION
Marion, Virginia
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years Ended December 31, 2014 and 2013

	2014	2013
NET INCOME	$2,877,616	$ 2,681,729
OTHER COMPREHENSIVE INCOME (LOSS), BEFORE TAX:		
Unrealized holding gains (losses) arising during the period for securities available-for-sale	2,608,800	(2,797,539)
Reclassification adjustment for gains included in net income.	(291,024)	(140,208)
OTHER COMPREHENSIVE INCOME (LOSS), BEFORE TAX .	2,317,776	(2,937,747)
INCOME TAX BENEFIT (EXPENSE) RELATED TO ITEMS OF OTHER COMPREHENSIVE INCOME	(788,044)	998,834
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX .	1,529,732	(1,938,913)
COMPREHENSIVE INCOME	$4,407,348	$ 742,816

See Notes to Consolidated Financial Statements.

SOUTHWEST VIRGINIA BANKSHARES, INC.
AND ITS WHOLLY-OWNED SUBSIDIARY,
THE BANK OF MARION
Marion, Virginia
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Years Ended December 31, 2014 and 2013

	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance at December 31, 2012	5,115,480	1,234,440	31,315,018	979,571	38,644,509
Net income	-	-	2,681,729	-	2,681,729
Other comprehensive loss, net of tax	-	-	-	(1,938,913)	(1,938,913)
Purchase of treasury shares of Southwest Virginia Bankshares, Inc. (19,517 shares)	(97,585)	-	(780,680)	-	(878,265)
Cash dividends declared ($0.70 per common share)	-	-	(705,965)	-	(705,965)
Balance, December 31, 2013	5,017,895	1,234,440	32,510,102	(959,342)	37,803,095
Net income	-	-	2,877,616	-	2,877,616
Other comprehensive income, net of tax	-	-	-	1,529,732	1,529,732
Purchase of treasury shares of Southwest Virginia Bankshares, Inc. (17,725 shares)	(88,625)	-	(709,000)	-	(797,625)
Cash dividends declared ($0.85 per common share)	-	-	(841,663)	-	(841,663)
Balance, December 31, 2014	$4,929,270	$1,234,440	$33,837,055	$ 570,390	$40,571,155

See Notes to Consolidated Financial Statements.

SOUTHWEST VIRGINIA BANKSHARES, INC.
AND ITS WHOLLY-OWNED SUBSIDIARY,
THE BANK OF MARION
Marion, Virginia
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2014 and 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$2,877,616	$2,681,729
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	303,114	360,351
Amortization of intangible	-	217,208
Writedown of foreclosed assets	-	55,000
Gain on sale of foreclosed assets	(65,907)	(11,952)
Net amortization of securities	1,020,977	982,560
Realized gain on sale of securities	(291,024)	(140,208)
Provision for loan losses	855,000	475,000
(Increase) decrease in cash value of life insurance	(336,625)	351,612
Deferred income tax expense	197,768	509,505
(Increase) decrease in:		
Income tax receivable	61,846	9,820
Accrued interest receivable	(36,294)	(192,381)
Other assets	2,713	695,424
Increase (decrease) in:		
Accrued interest and other liabilities	561,748	33,775
Net cash provided by operating activities	5,150,932	6,027,443
CASH FLOWS FROM INVESTING ACTIVITIES:		
Activity in available-for-sale securities:		
Sales	5,701,373	16,282,048
Maturities, prepayments, and rates	3,304,200	5,362,122
Purchases	(20,456,748)	(44,044,145)
Decrease in interest-bearing time deposits in other banks	12,483,000	7,944,000
(Increase) decrease in Federal Home Loan Bank stock	98,400	(94,600)
Loan originations and principal collections, net	(6,931,232)	4,065,097
Acquisitions of foreclosed assets	(286,427)	(1,519,500)
Proceeds from sales of foreclosed assets	401,907	131,952
Additions to premises and equipment	(358,998)	(235,831)
Net cash used by investing activities	(6,044,525)	(12,108,857)

See Notes to Consolidated Financial Statements.

SOUTHWEST VIRGINIA BANKSHARES, INC.
AND ITS WHOLLY-OWNED SUBSIDIARY,
THE BANK OF MARION
Marion, Virginia
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2014 and 2013

	2014	2013
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase (decrease) in deposits	$ 2,601,234	$ (2,593,281)
Purchase of Southwest Virginia Bankshares, Inc. treasury stock	(797,625)	(878,265)
Dividends paid	(841,663)	(705,966)
Advances from Federal Home Loan Bank	120,500,000	78,500,000
Payments on advances from Federal Home Loan Bank	(120,500,000)	(74,000,000)
Increase (decrease) in federal funds purchased	(2,131,000)	5,000,000
Net cash provided (used) by financing activities	(1,169,054)	5,322,488
Decrease in cash and due from banks	(2,062,647)	(758,926)
CASH AND CASH EQUIVALENTS:		
Beginning	9,390,451	10,149,377
Ending	$ 7,327,804	$ 9,390,451
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash payments for:		
Interest	$ 1,430,675	$ 1,767,067
Income taxes	$ 401,794	$ 452,606
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING ACTIVITIES:		
Total increase (decrease) in unrealized gain on securities available for sale	$ 2,317,776	$ (2,937,747)

See Notes to Consolidated Financial Statements.

Note 1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of Southwest Virginia Bankshares, Inc. (the Company) and its wholly-owned subsidiary, The Bank of Marion (the Bank), conform to accounting principles generally accepted in the United States of America and accepted accounting and reporting practices within the banking industry. The significant accounting policies are summarized as follows:

Date of Management's Review of Subsequent Events:

Management has evaluated subsequent events through March 20, 2015, the date which the financial statements were available to be issued.

Nature of Operations:

Southwest Virginia Bankshares, Inc. is a bank holding company whose principal activity is the ownership and management of its wholly-owned subsidiary, The Bank of Marion.

The Bank provides a variety of financial services through their locations within its primary lending area in Southwest Virginia and East Tennessee. The Bank's primary source of revenue is from real estate and consumer loans within the Bank's primary market.

Principles of Consolidation:

The consolidated statements include the accounts of Southwest Virginia Bankshares, Inc. and its wholly-owned subsidiary, The Bank of Marion. All significant intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates:

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for losses on loans, the valuation of foreclosed real estate, the valuation of deferred tax assets, other-than-temporary impairments of securities, and the fair value of financial instruments. In connection with the determination of the estimated losses on loans and foreclosed real estate, management obtains independent appraisals for significant collateral. A majority of the Bank's loan portfolio consists of

Note 1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates: (continued)

single-family residential loans in the Southwest Virginia and East Tennessee area and a portion of the debtors' ability to honor their contracts is dependent upon the local economic condition of the primary lending area, particularly in the agricultural and manufacturing sectors. Accordingly, the ultimate collectibility of a substantial portion of the Bank's loan portfolio and the recovery of a substantial portion of the carrying amount of foreclosed real estate, if any, are susceptible to changes in local market conditions.

While management uses available information to recognize losses on loans and foreclosed real estate, further reductions in the carrying amounts of loans and foreclosed assets may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the estimated losses on loans and foreclosed real estate. Such agencies may require the Bank to recognize additional losses based on their judgments about information available to them at the time of their examination. Because of these factors, it is reasonably possible that the estimated losses on loans and foreclosed real estate may change materially in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

Cash and Cash Equivalents:

For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash and balances due from banks, cash items in process of clearing, and federal funds sold, all of which mature within ninety days.

Trust Assets:

Assets of the trust department, other than trust cash on deposit at the Bank, are not included in these financial statements because they are not assets of the Bank.

Investment Securities:

The Bank's investments in securities are classified and accounted for as follows:

Held-to-Maturity: Government and government agency bonds, notes, and certificates which the Bank has the positive intent and ability to hold to maturity are reported at cost, adjusted for amortization of premiums and accretion of discounts which are recognized in interest income using the interest method over the period to maturity.

Note 1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment Securities (continued):

Available-for Sale: Government and government agency bonds, notes, and certificates are classified available-for-sale when the Bank anticipates that the securities could be sold in response to rate changes, prepayment risk, liquidity, availability of and the yield on alternative investments and other market and economic factors. Securities available-for-sale are carried at fair value with unrealized gains and losses reported in other comprehensive income. Realized gains (losses) on securities available-for-sale are included in noninterest income and, when applicable, are reported as a reclassification adjustment, net of tax, in other comprehensive income. Gains and losses on sales of securities are determined on the specific-identification method.

Declines in the fair value of individual held-to-maturity and available-for-sale securities below their cost that are other than temporary, result in write-downs of the individual securities to their fair value. The related write-downs are included in earnings as realized losses. 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) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Loans:

The Bank's primary market is Southwest Virginia and East Tennessee. The Bank grants commercial, consumer, and real estate loans to its customers, most of whom are located within the Bank's primary market. Although the Bank has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent upon the Bank's primary market economic conditions, particularly in the real estate sector. The concentration of credit in the regional economy is taken into consideration by management in determining the allowance for loan losses.

Loans are either secured or unsecured based on the type of loan and the financial condition of the borrower. The loans are generally expected to be repaid from cash flow or proceeds from the sale of selected assets of the borrower; however, the Bank is exposed to risk of loss on any or all loans due to the borrower's difficulties, which can arise from any number of factors including problems within the respective industry or economic conditions within the Bank's primary market.

Note 1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans (continued):

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding unpaid principal balances, less the allowance for loan losses and net deferred loan fees and unearned discounts. Interest income is accrued on the unpaid principal balance. Unearned discounts on installment loans are recognized as income over the term of the loans using a method that approximates the interest method.

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

The accrual of interest on loans of $25,000 or more is discontinued at the time the loan is ninety days past due unless the credit is well-secured and in process of collection. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

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

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.

Note 1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan Losses (continued):

The allowance consists of specific, general, and unallocated components. The specific component relates to loans that are classified as doubtful, substandard, or special mention. For such loans that are also classified as impaired, 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-classified 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 specific and general losses in the portfolio.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and 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.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual consumer and residential loans for impairment disclosures, unless such loans are the subject of a restructuring agreement.

Off-Balance Sheet Credit Related Financial Instruments:

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

Note 1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Premises and Equipment:

Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed principally by the straight-line method on rates calculated to amortize the properties within their estimated useful lives ranging from three to forty years. Maintenance and repairs are expensed as incurred while major additions and improvements are capitalized. Gains and losses on dispositions are included in current operations:

	Years
Buildings and improvements	5-40
Furniture, equipment, and software	3-10

Foreclosed Assets:

Foreclosed assets consist of other real estate owned (OREO). OREO represents real estate properties acquired through or in lieu of loan foreclosure. OREO is held for sale and is initially recorded at the fair value less estimated selling cost at the date of foreclosure. Any write-down based on the asset's fair value at the time of transfer to OREO is charged to the allowance for loan losses. Property is evaluated regularly to ensure the recorded amount is supported by its current fair value, with charges to operations, if necessary, to reduce the carrying value of a property to the lower of its cost or fair value less cost to sell. Costs of significant property improvements are capitalized; whereas, costs relating to holding property are expensed.

Intangible Asset:

An intangible asset originated as a result of the difference of the carrying values of the assets and liabilities acquired in the acquisition of the three branch banks from First Citizens Bank & Trust Company. The intangible asset was amortized over 180 months. See Note 9.

Advertising Costs:

Advertising costs are expensed in the period incurred.

Note 1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences:

Compensated absences for sick day and personal time have not been accrued since they cannot be reasonably estimated. The Bank's policy is to recognize these costs when actually paid.

Retirement Plan:

The Bank provides for its employees a defined contribution pension plan. Plan costs are discussed in Note 15.

Income Taxes:

Income taxes are provided for the tax effects of the transactions reported in the financial statements and consist of taxes currently due plus deferred taxes.

Current income tax reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to taxable income or loss. Deferred taxes relate primarily to differences between the basis of the allowance for loan losses, available-for-sale securities, accumulated depreciation, and accrued employee benefits. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are settled. Deferred tax assets and liabilities are reflected at income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. The Bank recognizes deferred tax assets and liabilities if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination.

The Company files consolidated income tax returns with its wholly owned subsidiary, The Bank of Marion. The Bank follows the statutory requirements for its income tax accounting and generally avoids risks associated with potentially problematic tax positions that may be challenged upon examination. The Bank's policy is to recognize interest and penalties on income taxes in other noninterest expenses. The Bank remains subject to examination for income tax returns for the years ending after December 31, 2010.

Comprehensive Income (Loss):

Comprehensive income (loss) consists of the total of all components of comprehensive income (loss) including net income (loss). Other comprehensive income (loss) refers to

Note 1. NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Comprehensive Income (Loss): (Continued)

revenues, expenses, gains, and losses under U.S. generally accepted accounting principles that are included in comprehensive income (loss) but excluded from net income (loss). Currently, the Bank's other comprehensive income (loss) consists of unrealized gains and losses on securities available for sale, net of deferred tax expense (benefit).

As shown on the consolidated statement of comprehensive income for the years ended December 31, 2014 and 2013, the Bank reclassified approximately $192,076 and $92,537 of net gains, net of tax of $98,948 and $47,671, out of other comprehensive income into net gains on sale of securities available for sale.

Reclassifications:

Certain prior year amounts have been reclassified to conform with present year presentations.

Recent Accounting Pronouncements:

In February 2013, the FASB issued Accounting Standards Update 2013-02, "Comprehensive Income (Topic 220): *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*" which provides disclosure guidance on amounts reclassified out of AOCI by component. The standard requires that companies present either in a single note or parenthetically on the face of the financial statements, the effect of significant amounts reclassified from each component of accumulated other comprehensive income based on its source and the income statement line items affected by the reclassification. The adoption of ASU 2013-02 did not have any impact on our financial position or results of operations but has impacted our financial statement disclosure.

The Company has determined that all other recently issued accounting pronouncements will not have a material impact on its consolidated financial statements or do not apply to its operations.

Note 2. RESTRICTIONS ON CASH AND DUE FROM BANKS

Under agreements with correspondent banks, the Bank maintains deposit balances with the correspondents to cover various bank processing charges. In addition, the Bank must maintain average reserve balances related to customers' deposit balances as required by the Federal Reserve. As of December 31, 2014, approximately $2,763,857 of the cash and

Note 2. RESTRICTIONS ON CASH AND DUE FROM BANKS (Continued)

due from bank's balance represents the deposits maintained with the correspondent banks including $250,000 representing the minimum balance required by the Community Bankers Bank of Virginia.

Note 3. INVESTMENT SECURITIES

Debt and equity securities have been classified in the consolidated balance sheet according to management's intent. The amortized cost of securities and their approximate fair values are as follows:

	December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-Sale:				
U.S. Government agencies.	$ 64,563,423	$ 819,774	$ (75,346)	$ 65,307,851
U.S. Treasuries..........	4,988,045	-	(100,545)	4,887,500
Corporations............	4,479,747	113,867	(440,254)	4,153,360
States and political sub-divisions	19,136,553	523,196	(70,396)	19,589,353
Mortgage backed securities .	11,401,398	130,409	(36,478)	11,495,329
Asset backed securities	1	-	-	1
Agency preferred stock	2	-	-	2
Total available-for-sale	$104,569,169	$1,587,246	$(723,019)	$105,433,396

	December 31, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-Sale:				
U.S. Government agencies .	$57,915,319	$681,294	$ (755,620)	$57,840,993
U.S. Treasuries..........	4,985,646	-	(220,021)	4,765,625
Corporations...........	4,488,851	31,926	(600,497)	3,920,280
States and political sub-divisions	18,434,547	113,438	(581,685)	17,966,300
Mortgage backed securities .	8,023,581	3,862	(126,245)	7,901,198
Asset backed securities	1	-	-	1
Agency preferred stock	2	-	-	2
Total available-for-sale	$93,847,947	$830,520	$(2,284,068)	$92,394,399

Note 3. INVESTMENT SECURITIES (Continued)

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

	Available-for-Sale	
	Amortized Cost	Fair Value
Amounts maturing in:		
One year or less	$ 10,866,542	$ 10,834,909
After one year through five years	43,134,806	43,648,352
After five years through ten years	34,738,584	35,227,111
After ten years	4,427,839	4,227,695
Mortgage backed securities	11,401,398	11,495,329
Total available-for-sale	$104,569,169	$105,433,396

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

Management determines whether it intends to sell or if it is more likely than not that it will be required to sell impaired securities. This determination considers current and forecasted liquidity requirements, regulatory and capital requirements and securities portfolio management. For all impaired securities for which there was no intent or expected requirement to sell, the evaluation considers all available evidence to assess whether it is likely the amortized cost value will be recovered. The Bank conducts a regular assessment of its debt securities with unrealized losses to determine whether securities have other-than-temporary impairment considering, among other factors, the nature of the securities, credit rating or financial condition of the issuer, the extent and duration of the unrealized loss, expected cash flows of underlying collateral, market conditions and whether the Bank intends to sell or more likely than not the Bank will be required to sell the debt securities.

Information pertaining to securities with gross unrealized losses as of December 31, 2014 and 2013, aggregated by investment category and length of time that individual securities have been in a continuous loss position is shown in the table below. Unrealized losses on these securities are not considered to be credit-related. The Bank has not made a decision to sell debt securities with unrealized losses and believes it is more likely than not, that it would not be required to sell such securities before recovery of its amortized cost.

SOUTHWEST VIRGINIA BANKSHARES, INC.
AND ITS WHOLLY-OWNED SUBSIDIARY,
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Marion, Virginia
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 3. INVESTMENT SECURITIES (Continued)

	December 31, 2014					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. Government agencies...........	$5,346,594	$ (5,918)	$ 3,918,705	$ (69,428)	$ 9,265,299	$ (75,346)
U.S. Treasuries......	-	-	4,887,500	(100,545)	4,887,500	(100,545)
Corporations........	-	-	2,545,052	(440,254)	2,545,052	(440,254)
State and political sub-divisions......	1,942,997	(12,085)	2,772,605	(58,311)	4,715,602	(70,396)
Mortgage backed securities.........	1,431,756	(11,076)	1,123,769	(25,402)	2,555,525	(36,478)
Total..........	$8,721,347	$(29,079)	$15,247,631	$(693,940)	$23,968,978	$(723,019)

	December 31, 2013					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. Government agencies...........	$29,625,783	$ (755,620)	$ -	$ -	$29,625,783	$ (755,620)
U.S. Treasuries......	4,765,625	(220,021)	-	-	4,765,625	(220,021)
Corporations........	-	-	2,396,296	(600,497)	2,396,296	(600,497)
State and political sub-divisions......	9,662,210	(383,414)	1,951,516	(198,271)	11,613,726	(581,685)
Mortgage backed securities.........	6,608,359	(126,245)	-	-	6,608,359	(126,245)
Total.........	$50,661,977	$(1,485,300)	$4,347,812	$(798,768)	$55,009,789	$(2,284,068)

As of December 31, 2014, the thirty-five securities with unrealized loss have depreciated 3% from the Bank's amortized cost basis. Twelve securities have unrealized losses less than twelve months old, and twenty-three securities have unrealized losses greater than twelve months old. As of December 31, 2013, the seventy-four securities with unrealized loss have depreciated 3.99% from the Bank's amortized cost basis. Sixty-five securities have unrealized losses less than twelve months old, and nine securities have unrealized losses greater than twelve months old.

Note 3. INVESTMENT SECURITIES (Continued)

The following is a tabular rollforward of the amount of credit-related other-than-temporary impairment (OTTI) recognized in earnings:

	December 31	
	2014	2013
Balance at beginning of period . . .	$1,303,791	$1,339,181
Additions for credit-related OTTI not previously recognized	-	-
Reductions for securities sold during the period (realized). . . .	(30,300)	(35,390)
Balance at the end of the period . .	$1,273,491	$1,303,791

During 2014, sales, calls, and maturities of securities available for sale with total proceeds of $8,003,856 resulted in gross realized gains of $297,306 and realized losses of $6,282. During 2013, sales, calls, and maturities of securities available for sale with total proceeds of $17,648,100 resulted in gross realized gains of $289,867 and gross realized losses of $149,659.

Securities with a carrying value of $49,870,000 and $49,170,000 were pledged at December 31, 2014 and 2013, respectively, to secure certain deposits and for other purposes as required or permitted by law.

Equity Investments, at cost:

The Bank is required to hold a minimum number of shares of stock in the Federal Home Loan Bank (FHLB) and the Federal Reserve Bank (FRB). These are considered restricted investments and are carried at cost on the balance sheet. Additional restricted investments the Bank is required to maintain and also carried at cost include Community Bankers Bank stock. The carrying amount of the restricted investments, at cost, are as follows:

	December 31	
	2014	2013
Federal Home Loan Bank	$ 859,500	$ 957,900
Federal Reserve Bank	45,000	45,000
Community Bankers Bank	124,750	124,750
	$1,029,250	$1,127,650

Note 4. LOANS AND ALLOWANCE FOR LOAN LOSSES

The Bank provides real estate, commercial, and consumer lending services to individuals and businesses primarily in Southwest Virginia and East Tennessee. The Bank's loan portfolio consists of the following as of December 31, 2014 and 2013:

	December 31	
	2014	2013
Real estate loans:		
Residential 1-4 family	$100,078,958	$ 94,657,315
Nonresidential & multifamily	72,174,080	72,624,329
Construction and development	1,533,367	1,496,880
	173,786,405	168,778,524
Commercial loans	14,797,975	12,180,975
Consumer loans	11,814,152	12,860,324
Total loans	200,398,532	193,819,823
Less: Allowance for loan losses	(3,386,794)	(2,903,045)
Less: Allowance for overdraft losses	(34,422)	(15,694)
Loans, net	$196,977,316	$190,901,084

The Bank's consumer loans include $274,556 and $297,882 in overdrafts as of December 31, 2014 and 2013, respectively.

Loans are presented at the net of any unamortized deferred loan fees and origination costs. The following table shows the amount of deferred loan fees and costs as of December 31, 2014 and 2013:

	December 31	
	2014	2013
Deferred loan fees:		
Residential 1-4 family	$(32,334)	$(46,966)
Consumer	(351)	(488)
	(32,685)	(47,454)
Deferred loan costs:		
Residential 1-4 family	70,299	64,217
Consumer	69,391	69,721
	139,690	133,938
Net deferred loan fees and costs	$107,005	$ 86,484

Note 4. LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

Impaired Loans

Loan impairment and any valuation allowances are determined under the provisions established by Accounting Standards Codification Topic 310, *Receivables*. Impaired loans without a valuation allowance represent loans for which management believes that the discounted cash flows, collateral value or observable market price of the impaired loan is higher than the carrying value of the loan. As of December 31, 2014, two of the impaired notes without a valuation allowance, with a combined balance of $5,540,552, are guaranteed by the United States Department of Agriculture in the amount of $4,034,009.

The following table presents impaired loans individually evaluated by class of loans as of December 31, 2014 and 2013:

	December 31, 2014				
	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Recorded Investment	Interest Income Recognized
Without a specific valuation allowance	$ 718,266	$ 718,266	$ -	$ 718,266	$ 30,784
Residential 1-4 family	4,081,922	4,081,922	-	4,108,860	111,686
Nonresidential & multifamily .	-	-	-	-	-
Construction and development.	-	-	-	-	-
Commercial	-	-	-	-	-
Consumer and other	-	-	-	-	-
With a specific valuation allowance					
Residential 1-4 family	-	-	-	-	-
Nonresidential & multifamily .	3,457,731	3,457,731	1,650,665	3,452,871	108,590
Construction and development.	-	-	-	-	-
Commercial	-	-	-	-	-
Consumer and other	-	-	-	-	-
Total impaired loans, individually evaluated	$8,257,919	$8,257,919	$1,650,665	$8,279,997	$251,060

Note 4. LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

Impaired Loans (Continued)

	December 31, 2013				
	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Recorded Investment	Interest Income Recognized
Without a specific valuation allowance					
Residential 1-4 family	$ 198,927	$ 198,927	$ -	$ 199,562	$ 10,976
Nonresidential & multifamily .	5,041,502	5,041,502	-	5,012,647	237,638
Construction and development	-	-	-	-	-
Commercial	-	-	-	-	-
Consumer and other	-	-	-	-	-
With a specific valuation allowance					
Residential 1-4 family	-	-	-	-	-
Nonresidential & multifamily .	4,123,471	4,123,471	823,200	4,795,636	266,792
Construction and development	-	-	-	-	-
Commercial	-	-	-	-	-
Consumer and other	-	-	-	-	-
Total impaired loans, individually evaluated	$9,363,900	$9,363,900	$823,200	$10,007,845	$515,406

Allowance For Loan Loss:

The following table outlines the changes in the allowance for loan losses by portfolio, the allowances for loans individually and collectively evaluated for impairment, and the year end balance of the loans individually and collectively evaluated for impairment as of December 31, 2014 and 2013:

SOUTHWEST VIRGINIA BANKSHARES, INC.
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THE BANK OF MARION
Marion, Virginia
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

Allowance For Loan Loss: (Continued)

	Year Ended December 31, 2014						
	Residential 1-4 Family	Nonresidential and Multifamily	Construction and Development	Commercial	Consumer	Unallocated	Total
Beginning balance	$ 505,810	$ 1,410,183	$ 118,235	$ 73,731	$ 300,665	$ 494,421	$ 2,903,045
Charge-offs	(150,204)	-	-	-	(271,924)	-	(422,128)
Recoveries	2,808	-		3,742	44,327	-	50,877
Provision	194,790	735,106	(10,213)	1,530	195,097	(261,310)	855,000
Ending balance	$ 553,204	$ 2,145,289	$ 108,022	$ 79,003	$ 268,165	$ 233,111	$ 3,386,794
Specific reserve - impaired loans (Individually evaluated for impairment)	$ -	$ 1,650,665	$ -	$ -	$ -	$ -	$ 1,650,665
General reserves (Collectively evaluated impairment)	$ 553,204	$ 494,624	$ 108,022	$ 79,003	$ 268,165	$ 233,111	$ 1,736,129
Total loans: Ending balance	$100,078,958	$72,174,080	$1,533,367	$14,797,975	$11,814,152	N/A	$200,398,532
Loans: individually evaluated for impairment	$ 718,266	$ 7,539,653	$ -	$ -	$ -	N/A	$ 8,257,919
Loans: collectively evaluated for impairment	$ 99,360,692	$64,634,427	$1,533,367	$14,797,975	$11,814,152	N/A	$192,140,613

	Year Ended December 31, 2013						
	Residential 1-4 Family	Nonresidential and Multifamily	Construction and Development	Commercial	Consumer	Unallocated	Total
Beginning balance	$ 729,701	$ 1,702,060	$ 120,745	$ 84,080	$ 307,884	$584,155	$ 3,528,625
Charge-offs	(67,773)	(1,178,346)	-	-	(209,591)	-	(1,455,710)
Recoveries	2,755	231,020	-	57,802	63,553	-	355,130
Provision	(158,873)	655,449	(2,510)	(68,151)	138,819	(89,734)	475,000
Ending balance	$ 505,810	$ 1,410,183	$ 118,235	$ 73,731	$ 300,665	$494,421	$ 2,903,045
Specific reserve - impaired loans (Individually evaluated for impairment)	$ -	$ 823,200	$ -	$ -	$ -	$ -	$ 823,200
General reserves (Collectively evaluated impairment)	$ 505,810	$ 586,983	$ 118,235	$ 73,731	$ 300,665	$494,421	$ 2,079,845
Total loans: Ending balance	$94,657,315	$72,624,329	$1,496,880	$12,180,975	$12,860,324	N/A	$193,819,823
Loans: individually evaluated for impairment	$ 198,927	$ 9,164,973	$ -	$ -	$ -	N/A	$ 9,363,900
Loans: collectively evaluated for impairment	$94,458,388	$63,459,356	$1,496,880	$12,180,975	$12,860,324	N/A	$184,455,923

Note 4. LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

Credit quality indicators:

The Bank utilizes five classifications to rate loans: pass, special mention, substandard, doubtful, and loss. "Pass assets" have at least a reasonable credit risk. "Special mention assets" are those assets with a higher risk than normal with a potential weakness that need management attention; however, the concerns have not yet warranted a reclassification to substandard. "Substandard assets" have unsatisfactory characteristics that cause a more than acceptable level of risk and have one or more well-defined weaknesses that could jeopardize the repayment of the debt. "Doubtful assets" contain weaknesses that collection or liquidation in full is questionable. Doubtful loans are normally placed on the non-accrual list, regardless of past due status. "Loss assets" are considered uncollectible and of such little value that their continuance as an active bank asset is not warranted. The Bank does not rate every loan. For those loans not rated, they have been classified as performing or nonperforming. A nonperforming loan is one that is 90 or greater days past due.

The following tables outline the category of the loans that receive a risk rating and the status of the loans that are not rated as of December 31, 2014 and 2013:

	Rated Loans December 31, 2014					
	Residential 1-4 Family	Nonresidential and Multifamily	Construction and Development	Commercial	Consumer and Other	Total
Pass	$17,119,070	$60,329,911	$1,171,647	$14,336,018	$274,063	$ 93,230,709
Special Mention	-	-	-	-	-	-
Substandard	274,927	11,497,662	-	-	-	11,772,589
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total	$17,393,997	$71,827,573	$1,171,647	$14,336,018	$274,063	$105,003,298

	Non-Rated Loans December 31, 2014					
	Residential 1-4 Family	Nonresidential and Multifamily	Construction and Development	Commercial	Consumer and Other	Total
Performing	$82,165,622	$346,507	$361,720	$461,957	$11,539,963	$94,875,769
Nonperforming	519,339	-	-	-	126	519,465
Total	$82,684,961	$346,507	$361,720	$461,957	$11,540,089	$95,395,234

Note 4. LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

Credit quality indicators: (continued)

	Rated Loans December 31, 2013					
	Residential 1-4 Family	Nonresidential and Multifamily	Construction and Development	Commercial	Consumer and Other	Total
Pass	$15,803,269	$59,102,863	$1,284,684	$10,042,633	$323,866	$86,557,315
Special Mention	-	3,105,183	-	-	-	3,105,183
Substandard	198,927	9,983,500	-	-	-	10,182,427
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total	$16,002,196	$72,191,546	$1,284,684	$10,042,633	$323,866	$99,844,925

	Non-Rated Loans December 31, 2013					
	Residential 1-4 Family	Nonresidential and Multifamily	Construction and Development	Commercial	Consumer and Other	Total
Performing	$78,470,074	$432,783	$212,196	$2,138,342	$12,536,332	$93,789,727
Nonperforming	185,045	-	-	-	126	185,171
Total	$78,655,119	$432,783	$212,196	$2,138,342	$12,536,458	$93,974,898

Past Due Loans

The following tables present an aged analysis of past due loans and loans on nonaccrual status by loan type as of December 31, 2014 and 2013:

	December 31, 2014					
	Residential 1-4 Family	Nonresidential and Multifamily	Construction and Development	Commercial	Consumer and Other	Total
1-29 Days past due	$ 13,807,007	$ 7,440,987	$ 76,756	$ 2,585,915	$ 962,852	$ 24,873,517
30-59 Days past due	1,758,875	686,675	-	3,255	388,917	2,837,722
60-89 Days past due	1,527,684	-	-	7,690	78,596	1,613,970
≥90 Days past due	937,166	2,219,531	-	-	25,885	3,182,582
Total past due	18,030,732	10,347,193	76,756	2,596,860	1,456,250	32,507,791
Current	82,048,226	61,826,887	1,456,611	12,201,115	10,357,902	167,890,741
Total loans receivable	$100,078,958	$72,174,080	$1,533,367	$14,797,795	$11,814,152	$200,398,532
Recorded investment ≥90 days and still accruing	$ 417,827	$ 187,627	$ -	$ -	$ 25,759	$ 631,213
Nonaccrual loans	$ 519,339	$ 4,307,877	$ -	$ -	$ 126	$ 4,827,342

Note 4. LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

Past Due Loans (Continued)

	December 31, 2013					
	Residential 1-4 Family	Nonresidential and Multifamily	Construction and Development	Commercial	Consumer and Other	Total
1-29 Days past due . . .	$11,982,164	$11,969,156	$ 75,879	$ 1,440,419	$ 1,222,141	$ 26,689,759
30-59 Days past due . .	2,249,104	708,646	-	44,241	261,850	3,263,841
60-89 Days past due . .	1,330,812	132,644	-	-	69,778	1,533,234
≥90 Days past due. . .	1,237,050	225,986	-	-	19,410	1,482,446
Total past due	16,799,130	13,036,432	75,879	1,484,660	1,573,179	32,969,280
Current	77,858,185	59,587,897	1,421,001	10,696,315	11,287,145	160,850,543
Total loans receivable.	$94,657,315	$72,624,329	$1,496,880	$12,180,975	$12,860,324	$193,819,823
Recorded investment ≥90 days and still accruing	$ 1,052,005	$ 225,986	$ -	$ -	$ 19,284	$ 1,297,275
Nonaccrual loans	$ 185,045	$ 2,347,524	$ -	$ -	$ 126	$ 2,532,695

Generally, the accrual of income is discontinued when the full collection of principal or interest is in doubt or when the payment of principal or interest has become contractually 90 days past due unless the obligation is both well secured and in the process of collection. Interest income that would have accrued on these nonaccrual loans if they were on a current basis was approximately $264,763 and $187,126 in 2014 and 2013, respectively.

Interest income on non-accrual loans, which is recorded only when received, amounted to approximately $1,484 and $1,372 in 2014 and 2013, respectively.

Troubled Debt Restructuring:

A modification of a loan constitutes a troubled debt restructuring ("TDR") when a borrower is experiencing financial difficulty and the modification constitutes a concession. By granting the concession, the Bank expects to increase the probability of collection by more than would be expected by not granting the concession. The Bank's determination of whether a modification is a TDR considers the facts and circumstances surrounding each respective modification.

Note 4. LOANS AND ALLOWANCE FOR LOAN LOSSES (Continued)

Troubled Debt Restructuring (continued)

There were no loans modified as a troubled debt restructuring during the years ended December 31, 2014 and 2013.

Note 5. PREMISES AND EQUIPMENT

The major classes of bank premises and equipment and the total accumulated depreciation are as follows:

	December 31, 2014	December 31, 2013
Land	$ 1,246,253	$ 1,246,253
Bank buildings and vaults	12,270,565	11,929,067
Leasehold improvements	111,203	111,203
	13,628,021	13,286,523
Less accumulated depreciation	(8,860,162)	(8,574,548)
	$ 4,767,859	$ 4,711,975

Depreciation and amortization expense of premises and equipment for 2014 and 2013 was $303,114 and $360,351, respectively.

Note 6. FORECLOSED ASSETS

The balances of real estate acquired through or in lieu of foreclosure are reported separately in foreclosed assets on the consolidated balance sheet. The balances of the foreclosed assets were $1,825,761 and $1,875,334 as of December 31, 2014 and 2013, respectively. The amount of impairment losses recognized in other noninterest income from writing down the assets to fair value for 2014 and 2013 was $0 and $55,000, respectively.

Note 7. LEASE AGREEMENTS

The Bank leases four of its office facilities. Minimum annual rental commitments under these leases are as follows:

Year Ending December 31:

2015	$50,775
2016	47,175
2017	29,175
2018	24,313

Note 7. LEASE AGREEMENTS (Continued)

The Bank has renewal options to renew these leases at the end of the lease terms.

Total rent expense under the operating leases was $84,696 and $81,335 for the year ended December 31, 2014 and 2013, respectively.

Note 8. DEPOSITS

The composition of deposits is as follows:

	December 31, 2014	December 31, 2013
Demand	$137,650,648	$128,189,093
Savings	53,924,836	52,773,696
Time certificates, $100,000 or more	44,787,237	48,558,649
Other time certificates	61,374,224	65,614,273
	$297,736,945	$295,135,711

As of December 31, 2014, the scheduled maturities of time deposits are as follows:

2015	$ 43,407,266
2016	24,944,124
2017	15,490,949
2018	11,258,335
Thereafter	11,060,787
	$106,161,461

Note 9. BRANCH ACQUISITIONS

During 1998, the Bank acquired certain assets and assumed certain liabilities of three branch bank facilities from First Citizens Bank & Trust Company. These branches are located in the communities of Gate City and Weber City in Scott County, Virginia and in Honaker, located in Russell County, Virginia.

In connection with the acquisition, the Bank assumed approximately $55,700,000 in deposits and purchased loans of approximately $700,000 and related branch assets of approximately $400,000. Additionally, the Bank paid a premium on deposits of $5,269,617 which was amortized over a 180-month period and with accumulated amortization of $5,269,617 as of December 31, 2013.

Note 10. ADVANCES FROM THE FEDERAL HOME LOAN BANK

The Bank has agreements with the Federal Home Loan Bank of Atlanta (FHLB) that are collateralized by all of the Bank's stock in the FHLB and by all of the Bank's loans secured by first mortgages on 1-4 family residential properties. As of December 31, 2014, the lendable collateral value of the loans was $28,774,465.

Under the agreements, the Bank had an additional $16,724,465 available to borrow as of December 31, 2014.

As of December 31, 2014 and 2013, FHLB advances consist of the following:

	Interest Rate	Advance Date	Maturity Date	December 31, 2014	December 31, 2013
Short term FRC advance	0.18%	October 3, 2013	January 3, 2014		$ 3,000,000
Short term FRC advance	0.21%	October 8, 2013	January 8, 2014		1,000,000
Short term FRC advance	0.18%	December 2, 2013	January 3, 2014		2,000,000
Short term FRC advance	0.18%	December 3, 2013	January 6, 2014		2,000,000
Short term FRC advance	0.18%	December 16, 2013	January 16, 2014		1,050,000
Short term FRC advance	0.17%	December 26, 2013	January 28, 2014		3,000,000
Short term FRC advance	0.19%	October 9, 2014	January 8, 2015	$ 3,000,000	-
Short term FRC advance	0.18%	October 14, 2014	January 13, 2015	1,000,000	-
Short term FRC advance	0.19%	October 10, 2014	January 14, 2015	2,000,000	-
Short term FRC advance	0.20%	October 15, 2014	January 15, 2015	2,000,000	-
Short term FRC advance	0.20%	October 16, 2014	January 16, 2015	1,050,000	-
Short term FRC advance	0.23%	December 19, 2014	January 21, 2015	3,000,000	-
Total				$12,050,000	$12,050,000

Scheduled maturities of the Federal Home Loan Bank advances are as follows:

2015 .... $12,050,000

Note 11. INCOME TAX MATTERS

The Company files a consolidated federal income tax return with its subsidiary. The consolidated provision for income taxes as of December 31, 2014 and 2013 consists of the following:

	2014	2013
Current tax expense (benefit)	$ 900,018	$462,426
Deferred tax expense (benefit)	197,768	509,505
Total income tax expense (benefit)	$1,097,786	$971,931

The provision for federal income taxes differs from that computed by applying federal statutory rates to income (loss) before federal income tax expense, as indicated in the following analysis:

	2014	2013
Expected tax provision (benefit) at a 34% rate	$1,351,637	$1,242,244
Effect of tax exempt income	(271,134)	(263,861)
Other	17,283	(6,452)
	$1,097,786	$ 971,931

The net deferred tax assets (liabilities) consist of the following components as of December 31, 2014 and 2013:

	December 31	
	2014	2013
Deferred tax assets:		
Alternative minimum tax credits	$ -	$ 290,908
Allowance for loan losses	829,062	663,280
Deferred compensation	572,481	554,532
Non-accrual interest income	162,818	129,703
Other than temporary impairment of assets held	432,956	470,468
Unrealized loss on securities available for sale	-	494,207
	1,997,317	2,603,098

SOUTHWEST VIRGINIA BANKSHARES, INC.
AND ITS WHOLLY-OWNED SUBSIDIARY,
THE BANK OF MARION
Marion, Virginia
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 11. INCOME TAX MATTERS (Continued)

	December 31	
	2014	2013
Deferred tax liabilities:		
Premises and equipment....................	222,143	161,090
Accretion on investment securities.............	46,581	28,557
Deferred loan cost	36,401	29,285
Unrealized gain on securities available for sale...	293,837	-
	598,962	218,932
Net deferred tax benefit	$1,398,355	$2,384,166

During the year ended December 31, 2014, the Bank did not have a valuation allowance. Realization of deferred tax benefits is dependent upon sufficient future taxable income during the period that deductible temporary differences and carryforwards are expected to be available to reduce taxable income.

The Bank recognizes interest and penalties as expense when it occurs. The Bank incurred penalties of $2,348 and $0 for the years ending December 31, 2014 and 2013, respectively.

The Bank had federal alternative minimum tax credits available for future years totaling approximately $290,908 as of December 31, 2013. These credits were fully used up as of December 31, 2014 and there are no credits left to carry forward to future years.

The Bank of Marion, a wholly owned subsidiary of the Company, is exempt from state income taxes in Virginia as are all other banks in the State. Instead, banks are assessed a franchise tax based on an adjusted capital calculation. The Bank franchise tax expense was approximately $282,134 and $291,079 for the years ended December 31, 2014 and 2013, respectively. The Bank includes such accrued payable in other liabilities and the expense is included in noninterest expense as other taxes.

Note 12. MINIMUM REGULATORY CAPITAL REQUIREMENTS

The Company (on a consolidated basis) and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank and the consolidated financial statements. Under regulatory capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines involving quantitative measures of the Bank's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The

Note 12. MINIMUM REGULATORY CAPITAL REQUIREMENTS (Continued)

capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

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

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

The Company's and the Bank's actual and required capital amounts and ratios as of December 31, 2014 and 2013 are as follows (dollars in thousands):

	Actual		Minimum To Be Adequately Capitalized Under Prompt Corrective Action Provisions		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2014 :						
Total Risk-Based Capital to Risk Weighted Assets:						
Consolidated	$41,987	21.39%	$15,703	8.0%	N/A	N/A
Bank of Marion	$41,868	21.33%	$15,703	8.0%	$19,629	10.0%
Tier 1 Capital to Risk Weighted Assets:						
Consolidated	$39,521	20.13%	$ 7,852	4.0%	N/A	N/A
Bank of Marion	$39,402	20.07%	$ 7,852	4.0%	$11,777	6.0%
Tier 1 Capital to Adjusted Total Assets:						
Consolidated	$39,521	11.15%	$14,175	4.0%	N/A	N/A
Bank of Marion	$39,402	11.13%	$14,165	4.0%	$17,706	5.0%

Note 12. MINIMUM REGULATORY CAPITAL REQUIREMENTS (Continued)

	Actual		Minimum To Be Adequately Capitalized Under Prompt Corrective Action Provisions		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2013:						
Total Risk-Based Capital to Risk Weighted Assets:						
Consolidated	$40,543	21.04%	$15,419	8.0%	N/A	N/A
Bank of Marion	$40,134	20.82%	$15,419	8.0%	$19,273	10.0%
Tier 1 Capital to Risk Weighted Assets:						
Consolidated	$38,128	19.78%	$7,709	4.0%	N/A	N/A
Bank of Marion	$37,719	19.57%	$7,709	4.0%	$11,564	6.0%
Tier 1 Capital to Adjusted Total Assets:						
Consolidated	$38,128	10.88%	$14,012	4.0%	N/A	N/A
Bank of Marion	$37,719	10.78%	$14,000	4.0%	$17,500	5.0%

Note 13. DIVIDEND PAYMENTS AND REGULATORY REQUIREMENTS

The payment of dividends by the Company depends to a great extent on the ability of the Bank to pay dividends to the Holding Company. The Bank, as a Virginia banking corporation, may pay dividends only out of its retained earnings. The payment of dividends by any bank is dependent upon its earnings and financial condition and subject to the statutory power of certain federal and state regulatory agencies to act to prevent what they deem unsafe or unsound banking practices. Moreover, the Federal Reserve Board, the Comptroller of the Currency and the FDIC have issued policy statements which provide that bank holding companies and insured depository institutions generally should only pay dividends out of current operating earnings. The approval of the regulatory agency is required if the dividends declared in any year exceed net income for that year combined with the retained net income of the two preceding years. The payment of dividends by the Bank may also be affected or limited by other factors, such as the requirement to maintain adequate capital above regulatory guidelines.

During 2014, the Bank declared dividends of $2,350,000 and paid $1,350,000 to the Company. The regulatory dividend limit from the Bank to the Company for 2014 was $4,626,930. As of December 31, 2014, there was $2,276,930 of retained earnings available by the Bank for future dividend declaration without prior regulatory approval. During 2014, the Company declared and issued $841,663 in dividends to the shareholders.

Note 14. TREASURY STOCK

During 2013, the Board of Directors as part of a Treasury Stock repurchase plan, authorized the Company to repurchase up to $1,000,000 of common stock during 2014, with no more than 1,000 shares being purchased from any one shareholder. The Company repurchased 17,725 shares at an aggregate cost of $797,625 and was recorded as a reduction to common stock of $88,625 and retained earnings of $709,000. As of December 31, 2014, the Company holds 214,146 shares of treasury stock at a par value of $1,070,730.

Note 15. RETIREMENT PLAN

The Bank has elected to provide a defined contribution 401(k) plan for substantially all employees with six months prior service. Participants may contribute up to 15% of compensation per year. The Bank matches 100% of each participant's contribution into the plan annually (an amount not to exceed 4% of the participant's compensation). Costs totaled $109,000 and $110,291 for the years ended December 31, 2014 and 2013, respectively.

Note 16. OTHER COMPENSATION PLANS

The Bank adopted deferred compensation agreements with some of the Bank's board of directors. Under the terms of the agreements, compensation which those directors would have received for services for various periods of time was deferred until a certain age as determined by the contract. At that time, the directors began receiving monthly payments which were guaranteed either for ten or fifteen years, payable to the director, his estate, or his designated beneficiary.

The funds necessary to guarantee these payments are being provided for by the purchase of life insurance policies on the life of each director. The Bank is the owner and beneficiary of each life insurance policy. During the year ended December 31, 2014 and 2013, $78,210 and $49,229 were charged to expense under these plans, respectively.

The Bank provides a non-qualified long-term incentive plan for some executive officers of the Bank. Under the terms of the plan, these officers are awarded shares of phantom stock. Increases or decreases in the book value of the phantom shares are accumulated into an account and paid out to participants upon retirement. The Bank also provides an intermediate incentive plan whereby some officers are granted phantom shares of stock over five years, each payable in cash at the end of a five-year vesting period.

Under these plans, $114,000 and $111,642 was charged to expense for the years ended 2014 and 2013, respectively.

Note 17. BANK OWNED LIFE INSURANCE

The Bank is the owner and beneficiary of life insurance policies on bank officers and members of the Board of Directors. The cash surrender value of these policies was approximately $9,158,961 and $8,822,336 as of December 31, 2014 and December 31, 2013, respectively.

Note 18. COMMITMENTS AND CONTINGENCIES

Financial Instruments with Off-Balance-Sheet Risk:

The Bank 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, elements of credit risk in excess of the amount recognized in the balance sheets.

The Bank'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 Bank uses the same credit policies in making commitments and conditional obligations as they do for on-balance-sheet instruments. A summary of the Bank's commitments as of December 31, 2014, is as follows:

Commitments to extend credit	$38,880,413
Standby letters of credit	$ 310,588

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. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the party. Collateral held varies, but may include accounts receivable, crops, livestock, inventory, property and equipment, residential real estate and income-producing commercial properties.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. 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 Bank deems necessary.

Note 18. COMMITMENTS AND CONTINGENCIES (Continued)

Concentrations of Credit Risk:

All the Bank's loans, commitments to extend credit, and standby letters of credit have been granted to customers in the Bank's market area. The concentrations of credit by type of loan are set forth in Note 4. The distribution of commitments to extend credit approximates the distribution of loans outstanding. Standby letters of credit were granted primarily to commercial borrowers. Although the Bank has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent upon the manufacturing and agriculture economic sectors.

The Bank's cash balances are partially insured by the Federal Deposit Insurance Corporation (FDIC). The FDIC provides a standard maximum deposit insurance (SMDI) amount of $250,000 at each separate financial institution. As of December 31, 2014, the Bank has approximately $721 in excess of the SMDI. Of the Bank's cash balances, $141,273 are in federal funds sold to SunTrust Bank. The federal funds sold to SunTrust Bank are not guaranteed by the FDIC.

Purchase Commitment:

A sales contract was executed November 26, 2014 with the City of Bristol, Virginia to purchase land for the expansion of the Bristol branch for $400,025. Settlement was to occur within thirty days, but as of December 31, 2014, the sale had not been settled. The sale was subsequently settled on February 2, 2015.

Legal Contingencies:

In the normal course of business, the Bank is involved in various legal proceedings. In the opinion of management, any liability resulting from such proceedings would not have a material adverse effect on the Bank's financial statements.

Note 19. FAIR VALUES OF FINANCIAL STATEMENTS

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 the *Fair Value Measurements and Disclosures* topic of FASB ASC 820, 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

Note 19. FAIR VALUES OF FINANCIAL STATEMENTS (Continued)

Determination of Fair Value (Continued)

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 techniques or other valuation models or processes that use primarily market-based or independently-sourced market data, including interest rate yield curves, option volatilities and third party information. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. Furthermore, while the Bank believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies, or assumptions, to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date, and may not be realized in an immediate settlement of the instrument.

The recent 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, a reasonable point within the range, is most representative of fair value under current market conditions. ASC 820 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts may not necessarily represent the underlying fair value of the Bank.

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 or liabilities that the Bank has the ability to access at the measurement date. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Note 19. FAIR VALUES OF FINANCIAL STATEMENTS (Continued)

Fair Value Hierarchy (Continued)

- Level 2 – Valuation is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

- Level 3 – Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.

A financial instruments categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Fair Value of Financial Instruments Measured on a Recurring Basis

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2014 are as follows:

	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Available-for-sale securities				
U.S. government agencies	$ 65,307,851	$4,556,913	$60,750,938	$ -
U.S. Treasuries	4,887,500	-	4,887,500	-
Corporations	4,153,360	-	4,153,360	-
States and political subdivisions	19,589,353	394,727	19,194,626	-
Mortgage backed securities	11,495,329	562,192	10,933,137	-
Asset backed securities	1	-	1	-
Agency preferred stock	2	-	2	-
Total assets at fair value	$105,433,396	$5,513,832	$99,919,564	$ -

Note 19. FAIR VALUES OF FINANCIAL STATEMENTS (Continued)

Fair Value of Financial Instruments Measured on a Nonrecurring Basis

Assets and liabilities measured at fair value on a nonrecurring basis as of December 31, 2014 are as follows:

	Total	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Impaired loans	$ 8,257,919	$ -	$ -	$ 8,257,919
Foreclosed assets	1,825,761	-	-	1,825,761
Total assets at fair value	$10,083,680	$ -	$ -	$10,083,680

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

	2014		2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets:				
Cash and cash equivalents	$ 7,327,804	$ 7,327,804	$ 9,390,451	$ 9,390,451
Interest-bearing deposits in banks	26,001,998	26,159,396	38,484,998	38,645,496
Securities available for sale	105,433,396	105,433,396	92,394,399	92,394,399
Loans, net	196,977,316	198,012,886	190,901,084	192,282,729
Accrued interest receivable	1,978,047	1,978,047	1,941,753	1,941,753
Bank owned life insurance	9,158,961	9,158,961	8,822,336	8,822,336
Financial Liabilities:				
Deposits	297,736,945	296,775,569	295,135,711	294,969,439
Accrued interest payable	60,379	60,379	68,798	68,798
Federal Home Loan Bank Advances	12,050,000	12,050,000	12,050,000	12,050,000
Federal funds purchased	2,869,000	2,869,000	5,000,000	5,000,000
Off-Balance Sheet Credit Related				
Commitments to extend credit	-	38,880,413	-	43,626,178
Standby letters of credit	-	310,588	-	374,800

The following methods and assumptions were used by the Bank in estimating fair value disclosures for financial instruments, along with a description of the valuation methodologies used for those instruments measured at fair value.

Cash and Cash Equivalents

The carrying amounts of cash and short-term instruments approximate fair values.

Note 19. FAIR VALUES OF FINANCIAL STATEMENTS (Continued)

Interest-Bearing Deposits in Banks

The carrying amounts of interest-bearing deposits maturing within ninety days approximate their fair values. Fair values of other interest-bearing deposits are estimated using discounted cash flow analyses based on current rates for similar types of deposits.

Securities

The Bank obtains fair value measurement from an independent pricing service. Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 Securities include highly liquid government securities and certain other products. If quoted market prices are not available, then fair value is estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows and are included in Level 2 of the valuation hierarchy. The Bank's securities generally fall within the Level 2 category. 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.

It is not practical to estimate the fair value of the Federal Home Loan Bank (FHLB), Federal Reserve Bank (FRB), and Community Banker's Bank (CBB) stock, as the only market for these investments is the issuer. These investments are reported in the consolidated financial statements at their carrying value.

Loans Receivable

For variable-rate loans that re-price frequently and with no significant change in credit risk, fair values are based on carrying values. Fair values for certain mortgage loans (e.g., 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 other loans (e.g., commercial real estate and investment property mortgage loans, commercial and industrial loans) are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality.

Impaired Loans

The Bank does not record loans at fair value on a recurring basis. However, from time to time, a loan is considered impaired and an allowance for loan losses is established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is

Note 19. FAIR VALUES OF FINANCIAL STATEMENTS (Continued)

Impaired Loans (Continued)

identified as individually impaired, management measures impairment in accordance with ASC Topic 310, *Receivables* (ASC 310). The fair value of impaired loans is estimated using several methods including collateral value, observable market value, and discounted cash flows.

Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. As of December 31, 2014, substantially all of the total impaired loans were evaluated (or impaired loans were primarily evaluated) based on the fair value of collateral. In accordance with ASC 310, impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. When the fair value of the collateral is based on the observable market price or a current appraised value, the Bank records the impaired loan 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 impaired loan as nonrecurring Level 3.

Other Assets

Included in other assets are certain assets carried at fair value, including foreclosed properties. The carrying amount of foreclosed properties is based on information obtained from in-house real estate evaluations. The Bank reflects these assets within Level 3 of the hierarchy.

Deposit Liabilities

The fair values disclosed for demand deposits (e.g., interest and non-interest checking, passbook savings, and certain types of money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). The carrying amounts of variable-rate, fixed-term money market accounts and certificates of deposit approximate their fair values at the reporting date. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

Note 19. FAIR VALUES OF FINANCIAL STATEMENTS (Continued)

Short-term Borrowings

The carrying amounts of federal funds purchased, borrowings under repurchase agreements, and other short-term borrowings maturing within ninety days approximate their fair values. Fair values of other short-term borrowings are estimated using discounted cash flow analyses based on the Bank's current incremental borrowing rates for similar types of borrowing arrangements.

Long-Term Borrowings

The fair values of the Bank's long-term borrowings are estimated using discounted cash flow analyses based on the Bank's current incremental borrowing rates for similar types of borrowing arrangements.

Accrued Interest

The carrying amounts of accrued interest approximate fair value.

Off-Balance Sheet Credit-Related Instruments

Fair values for off-balance-sheet, credit-related financial instruments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing.

Note 20. TRANSACTIONS WITH RELATED PARTIES

The Bank has had, and may be expected to have in the future, banking transactions in the ordinary course of business with directors, principal officers, their immediate families and affiliated companies in which they are principal stockholders (commonly referred to as related parties), all of which have been, in the opinion of management, on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with others.

The Bank has entered into transactions with certain directors, executive officers, stockholders, and their affiliates. Such transactions were made in the ordinary course of business on substantially the same terms and conditions, including interest rates and collateral, as those prevailing at the same time for comparable transactions with other customers and did not, in the opinion of management, involve more than normal credit risk or present other unfavorable features. The aggregate amount of loans to such related parties