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FRB RICHMOND

Board of Governors of the Federal Reserve System

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)); sections 8(a) and 13(a) of the International Banking Act (12 U.S.C. §§ 3106(a) and 3108(a)); sections 11(a)(1), 25, and 25A of the Federal Reserve Act (12 U.S.C. §§ 248(a)(1), 602, and 611a); and sections 113, 165, 312, 618, and 809 of the Dodd-Frank Act (12 U.S.C. §§ 5361, 5365, 5412, 1850a(c)(1), and 5468(b)(1)). 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, top-tier savings and loan holding companies, and U.S. intermediate 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. If the holding company is an ESOP/ESOT formed as a corporation or is an LLC, see the General Instructions for the authorized individual who must sign the report.

I, Jane Henderson
Name of the Holding Company Director and Official

President and CEO
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.

Jane N. Henderson
Signature of Holding Company Director and Official

Date of Signature

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

- [x] 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 ____
C.I. ____

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

December 31, 2017
Month / Day / Year

N/A
Reporter's Legal Entity Identifier (LEI) (20-Character LEI Code)

Reporter's Name, Street, and Mailing Address

Virginia Community Capital, Inc.
Legal Title of Holding Company

110 Pepper Ferry Road NW
(Mailing Address of the Holding Company) Street / P.O. Box

Christiansburg	VA	24073
City	State	Zip Code

Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Clyde A.Cornett, Jr.	CFO
Name	Title

540-260-3503
Area Code / Phone Number / Extension

540-260-3164
Area Code / FAX Number

ccornett@vccva.org
E-mail Address

vacommunitycapital.org
Address (URL) for the Holding Company's web page

Is confidential treatment requested for any portion of this report submission? .... 0=No 1=Yes **0**

In accordance with the General Instructions for this report (check only one),

1. a letter justifying this request is being provided along with the report .... ☐
2. a letter justifying this request has been provided separately ... ☐

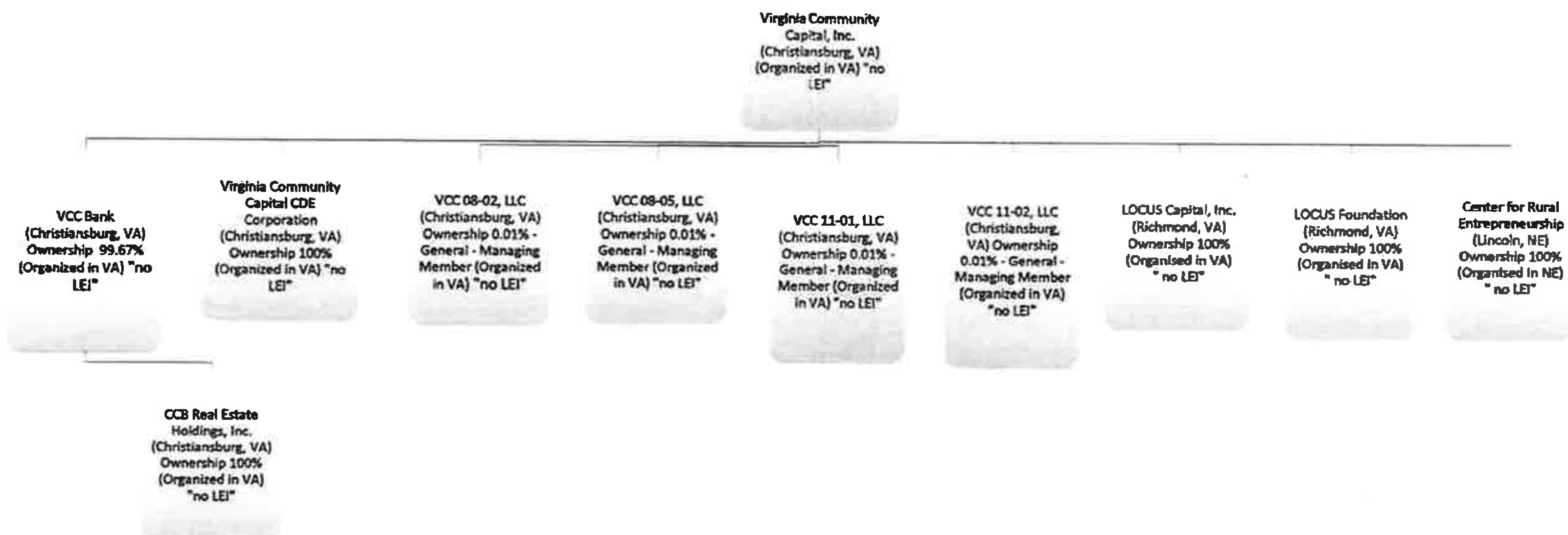
NOTE: Information for which confidential treatment is being requested must be provided separately and labeled as "confidential."

Form FR Y-6
Virginia Community Capital, Inc.
Christiansburg, Virginia 24073
Fiscal Year Ending December 31, 2017

Report Item:

1. The organization's audited financial statements for the period ending December 31, 2017 will be sent under separate cover.

2a. Organizational Chart



2b. Domestic branch listing attached.

Form FR Y-6
Virginia Community Capital, Inc.
Fiscal Year Ending December 31, 2017

Report Item 3: Security Holders
(1)(a)(b)(c) and (2)(a)(b)(c)

Current securities holders with ownership, control or holdings of 5% or more with power to vote as of fiscal year ending 12-31-17.			Securities holders not listed in 3(1)(a) through 3(1)(c) that had ownership, control or holdings of 5% or more with power to vote during the fiscal year ending 12-31-17.		
(1)(a) Name, City, State, Country	(1)(b) Country or Citizenship or Incorporation	(1)(c) Number and Percentages of Each Class of Voting Securities	(2)(a) Name, City, State, Country	(2)(b) Country or Citizenship or Incorporation	(2)(c) Number and Percentages of Each Class of Voting Securities
Virginia Community Capital is a non-stock, not-for-profit, community development financial institution (CDFI), bank holding company. There are no shareholders.					

Report Item 4: Insiders
(1),(2) (3)(a)(b)(c) and (4)(a)(b)(c)

(1) Name, City, State, Country	(2) Principal Occupation if other than with Bank Holding Company	(3)(a) Title & Position with Bank Holding Company	(3)(b) Title & Position with Subsidiaries (include names of subsidiaries	(3)(c) Title & Position with Other Businesses (including names of other businesses)	(4)(a) Percentage of Voting Shares in Bank Holding Company	(4)(b) Percentage of Voting Shares in Subsidiaries (include names of subsidiaries)	(4)(c) List names of other companies (includes partnerships) if 25% or more of voting securities are held (List names of companies and percentage of voting securities held)
James Harkness, Jr. Roanoke, VA (USA)	Retired	Director	Director: VCC Bank LOCUS Capital Inc. LOCUS Foundation Center for Rural Entrepreneurship	Retired	n/a	0.06% VCC Bank	None
William Shelton Richmond, VA (USA)	Retired	Director	Director VCC Bank	Commissioner Virginia Housing Development Authority	n/a	0.06% VCC Bank	None
Alvin Smuzynski Fairfax Station, VA (USA)	Retired	Director	Director VCC Bank	Retired Advisory Committee Member - Northern Virginia Affordable Housing Alliance	n/a	0.06% VCC Bank	None
Charlie H. Mills, III Potomac Falls, VA (USA)	CEO of Salera Employee Benefits Solutions CEO of Salera Capital Management	Director	Director: VCC Bank LOCUS Capital Inc. LOCUS Foundation Center for Rural Entrepreneurship	CEO of Salera Employee Benefits Solutions, LLC	n/a	0.06% VCC Bank	Salera Employee Benefits Solutions, LLC 45% Salera Capital Management 100%
Mary Dwyer Pembroke Great Falls, VA (USA)	Federal Lobbyist and Attorney Discover Financial Services	Director	N/A	Director & Senior Counsel Discover Financial Services	n/a	0.06% VCC Bank	None
Robert H. Gilliam, Jr Lynch Station, VA (USA)	Retired	Director	Director VCC Bank	Retired Director - Centra Foundation - Lynchburg Director - Powell Foundation Altavista/Lynch Station	n/a	0.06% VCC Bank	None
Cathy Dolan Wynnewood, PA (USA)	Retired	Director	Director VCC Bank	Retired Board Member-Enterprise Community Loan Fund National	n/a	0.06% VCC Bank	

This depository institution is held by VIRGINIA COMMUNITY CAPITAL, INC. (3628535) of CHRISTIANSBURG, VA.
The data are as of 12/31/2017. Data reflects information that was received and processed through 01/04/2018.

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)	3626858	VCC BANK	110 PEPPERS FERRY ROAD NW	CHRISTIANSBURG	VA	24073	MONTGOMERY	UNITED STATES	Not Required	Not Required	VCC BANK	3626858	
OK		Full Service	4390240	RICHMOND BRANCH	7814 CAROUSEL LANE	RICHMOND	VA	23294	HENRICO	UNITED STATES	Not Required	Not Required	VCC BANK	3626858	

Virginia Community Capital, Incorporated

VCC
Virginia Community Capital
Let's do more, together.

Annual Report

December 31, 2017 and 2016

elliott davis

Independent Auditor's Report

To the Board of Directors
Virginia Community Capital, Inc.
Richmond, Virginia

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Virginia Community Capital, Inc. and its subsidiaries (the "Organization"), which comprise the consolidated statements of financial position as of December 31, 2017 and 2016, the related consolidated statements of activities, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Virginia Community Capital, Inc. and its subsidiaries as of December 31, 2017 and 2016, and the results of its activities and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Elliott Davis, PLLC

Raleigh, North Carolina
April 2, 2018

5410 Trinity Road Suite 320, Raleigh, NC 27607
Phone: 919.783.7073 Fax: 919.783.7138 www.elliottdavis.com

Consolidated Statements of Activities

For the year ended December 31, 2017

	December 31, 2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and Support				
Grant income	$ 2,645,450	$ 2,400,000	$ -	$ 5,045,450
Interest and fees on loans	7,115,658	-	-	7,115,658
Other interest income	581,671	-	-	581,671
Miscellaneous income	666,876	-	-	666,876
Project revenues	577,378	-	-	577,378
Gain on sale of SBA loans	305,671	-	-	305,671
Net assets released from restrictions	481,592	(481,592)	-	-
Total revenue and support	12,374,296	1,918,408	-	14,292,704
Expenses				
Program Services				
Salaries and wages	2,624,587	-	-	2,624,587
Payroll taxes	199,073	-	-	199,073
Employee benefits	328,049	-	-	328,049
Program services	1,620,079	-	-	1,620,079
Office expense	263,180	-	-	263,180
Professional fees	592,105	-	-	592,105
Depreciation expense	205,097	-	-	205,097
Interest expense	2,104,207	-	-	2,104,207
Provision for loan losses	1,248,876	-	-	1,248,876
Other expenses	536,326	-	-	536,326
Total program services expenses	9,721,579	-	-	9,721,579
Management and General				
Salaries and wages	1,714,819	-	-	1,714,819
Payroll taxes	130,165	-	-	130,165
Employee benefits	210,764	-	-	210,764
Office and administrative expenses	163,655	-	-	163,655
Professional fees	223,318	-	-	223,318
Depreciation expense	134,868	-	-	134,868
Other expenses	367,066	-	-	367,066
Total management and general expenses	2,944,655	-	-	2,944,655
Total expenses	12,666,234	-	-	12,666,234
Gain on absorption of non-profit subsidiary	381,287	-	-	381,287
Change in net assets/net income before provision for income taxes	89,349	1,918,408	-	2,007,757
Provision for income tax expense	433,026	-	-	433,026
Change in net assets/net income	(343,677)	1,918,408	-	1,574,731
Change in accumulated other comprehensive loss, net of tax	110,824	-	-	110,824
Reclassification of net assets due to tax rate change	29,667	-	-	29,667
Change in net assets/net income and accumulated other comprehensive loss	(203,186)	1,918,408	-	1,715,222
Dividends paid on subsidiary's preferred stock	(127,000)	-	-	(127,000)
Change in net assets/net income before noncontrolling interest in subsidiary	(330,186)	1,918,408	-	1,588,222
Net assets before noncontrolling interest in subsidiary beginning of year	22,206,037	541,592	1,991,575	24,739,204
Net assets before noncontrolling interest in subsidiary end of year	$ 21,875,851	$ 2,460,000	$ 1,991,575	$ 26,327,426

See Notes to Consolidated Financial Statements

Consolidated Statements of Cash Flows

For the years ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities		
Change in net assets	$ 1,574,731	$ 1,003,081
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	339,965	254,262
Provision for loan losses	1,248,876	1,846,029
Net loss on sale of other real estate owned	116,801	40,522
Gain on sale of SBA loans	(305,671)	(121,345)
Net amortization (accretion) on investment securities	80,445	(177,909)
Gain on bank owned life insurance	(64,888)	-
Changes in assets and liabilities:		
Accrued interest receivable	(202,195)	(126,724)
Cash funded loan loss reserve	(22,750)	(314,231)
Grants receivable	(420,503)	181,170
Other assets	1,132,926	(1,617,641)
Noncontrolling interest in subsidiary	(47,234)	2,172
Accrued interest payable	74,641	51,386
Deferred revenue	1,504,296	1,210,422
Other liabilities	968,000	223,636
Net cash provided by operating activities	5,977,440	2,454,830
Cash flows from investing activities		
Net (increase) decrease in certificates of deposit	(2,756,508)	2,310,182
Purchases of securities available for sale	(3,252,785)	(8,662,614)
Purchases of securities held to maturity	-	(1,795,000)
Proceeds from maturities of securities available for sale	722,982	-
Proceeds from investment paydowns	2,186,168	810,307
Gain on absorption of non-profit subsidiary	(381,287)	-
Cash from absorption of non-profit subsidiary	487,183	-
(Purchase) redemption of restricted equity securities	(365,900)	25,600
Proceeds from sale of other real estate owned	1,031,865	216,007
Proceeds from sale of SBA loans	3,602,749	1,323,428
Net increase in loans	(43,041,586)	(23,361,222)
Purchase of bank owned life insurance	(2,500,000)	-
Net purchases of premises and equipment	(1,525,586)	(217,362)
Net cash used in investing activities	(45,792,705)	(29,664,905)
Cash flows from financing activities		
Net increase in deposits	22,314,529	22,168,054
Net increase (decrease) in unsecured borrowings	5,769,777	(1,389,425)
Net increase (decrease) in secured borrowings	6,666,667	(4,000,000)
Dividends paid on subsidiary preferred stock	(127,000)	(126,667)
Proceeds from the sale of preferred stock of the subsidiary	-	2,000,000
Net cash provided by financing activities	34,623,973	18,651,962
Net decrease in cash and cash equivalents	(5,191,292)	(8,243,882)
Cash and cash equivalents, beginning	8,134,832	16,378,714
Cash and cash equivalents, ending	$ 2,943,540	$ 8,134,832
Supplemental disclosure of cash flow information		
Interest paid	$ 2,029,566	$ 1,597,926
Income taxes paid	$ 237,407	$ 263,891
Supplemental disclosure of noncash investing and financing activities		
Transfer of foreclosed properties	$ 1,978,498	$ -
Transfer of building	$ 2,700,000	$ -

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

Use of Estimates

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

Basis of Accounting

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

Financial Statement Presentation

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

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

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

Permanently Restricted – Net assets subject to donor-imposed stipulations that are to be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on related investments for general or specific purposes.

Reclassification

Certain amounts in the 2016 consolidated financial statements have been reclassified to conform to the 2017 presentation.

Cash and Cash Equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents are defined as those amounts included in the consolidated statements of financial position captions "cash and due from banks," "interest-bearing deposits," and "federal funds sold."

Interest-Bearing Deposits with Banks

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

Certificates of Deposit

Certificates of deposit consist primarily of FDIC-insured non-negotiable deposits in other financial institutions.

Investment Securities

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

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value of held to maturity and available for sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In determining whether other-than-temporary impairment exists, many factors, including (1) the length of time and the extent to which the fair value has been less than

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

Grants Receivable and Revenue Recognition

Grants receivable and related deferred revenue are recorded at the time of notification from a grantor. Grants are classified in one of three categories, permanently restricted, temporarily restricted and unrestricted. Classification is determined based on the designation by the grantor for the use of funds. Grant revenue is recognized when earned by the Organization through performance as specified in each grant award.

Project Revenues

Project revenues are unrestricted and are recognized as income as contract work is completed.

Premises and Equipment

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

	Years
Buildings and improvements	3-40
Furniture and equipment	3-10
Vehicle	4-7

Functional Allocation of Expenses

Functional expenses are allocated between the Organization based on factors such volume, usage, or time, depending on the individual functional expense.

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

Transfers of Financial Assets

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

Secured Borrowings

The Bank has a facility with the Federal Home Loan Bank of Atlanta. This provides secured funding to help manage liquidity, interest rate risk and daily funding needs. The Bank had $6,666,667 and $0 borrowed against this facility at December 31, 2017 and December 31, 2016, respectively, secured by investment securities.

The Organization has two additional credit facilities it classifies as secured. Bank of America requires the Organization to maintain and pledge a depository account at Bank of America in an amount of $350,000 or more. The Organization's borrowing from the United States Department of Agriculture ("USDA") requires that all loans funded with these proceeds are pledged to the USDA.

Income Taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Bank, however, is a taxable entity, and is subject to federal income taxes and Virginia Franchise Taxes. LOCUS Capital is also subject to state and federal income taxes.

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

Deferred income tax liabilities relating to unrealized gains, or the deferred tax asset in the case of unrealized loss on investment securities available for sale is recorded in other liabilities or other assets when applicable. Such unrealized gains

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

Recent Accounting Pronouncements, continued

We expect to adopt the guidance using the modified retrospective method and practical expedients for transition. The practical expedients allow us to largely account for our existing leases consistent with current guidance except for the incremental balance sheet recognition for lessees. We have started an initial evaluation of our leasing contracts and activities. We have also started developing our methodology to estimate the right-of use assets and lease liabilities, which is based on the present value of lease payments (the December 31, 2017 future minimum lease payments were $2.16 million). We do not expect a material change to the timing of expense recognition, but we are early in the implementation process and will continue to evaluate the impact. We are evaluating our existing disclosures and may need to provide additional information as a result of adoption of the ASU.

In March 2016, the FASB amended the Revenue from Contracts with Customers topic of the Accounting Standards Codification to clarify the implementation guidance on principal versus agent considerations and address how an entity should assess whether it is the principal or the agent in contracts that include three or more parties. The amendments will be effective for the Organization annual periods beginning after December 15, 2018, and interim periods within annual reporting periods beginning after December 15, 2019. The Organization does not expect these amendments to have a material effect on its financial statements.

In April 2016, the FASB amended the Revenue from Contracts with Customers topic of the Accounting Standards Codification to clarify guidance related to identifying performance obligations and accounting for licenses of intellectual property. The amendments will be effective for the Organization for annual periods beginning after December 15, 2018, and interim periods within annual reporting periods beginning after December 15, 2019. The Organization does not expect these amendments to have a material effect on its financial statements.

In May 2016, the FASB amended the Revenue from Contracts with Customers topic of the Accounting Standards Codification to clarify guidance related to collectability, noncash consideration, presentation of sales tax, and transition. The amendments will be effective for the Organization for annual periods beginning after December 15, 2018, and interim periods within annual reporting periods beginning after December 15, 2019. The Organization does not expect these amendments to have a material effect on its financial statements.

In June 2016, the FASB issued guidance to change the accounting for credit losses and modify the impairment model for certain debt securities. The amendments will be effective for the Company for annual periods beginning after December 15, 2020, and interim periods within annual reporting periods beginning after December 15, 2021. Early adoption is permitted for all organizations for periods beginning after December 15, 2018.

The Organization will apply the amendments to the Accounting Standards Update ("ASU") through a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption. While early adoption is permitted beginning in first quarter 2019, we do not expect to elect that option. The Organization is evaluating the impact of the ASU on our consolidated financial statements. The Organization has not formed an expectation of what, if any impact the implementation of the ASU would have on the recorded allowance for loan losses given the change to estimated losses over the contractual life of the loans adjusted for expected prepayments. In addition to our allowance for loan losses, we will also record an allowance for credit losses on debt securities instead of applying the impairment model currently utilized. The amount of the adjustments will be impacted by each portfolio's composition and credit quality at the adoption date as well as economic conditions and forecasts at that time.

In August 2016, the FASB issued guidance to make targeted improvements to the not-for-profit financial reporting model, including changes in how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. The amendments will be effective for the Organization for fiscal years beginning after December 15, 2017 and interim periods within fiscal years beginning after December 15, 2018. The Organization is currently evaluating the effect that implementation of the new standard will have on its financial position, results of operations, and cash flows.

In October 2016, the FASB amended the Income Taxes topic of the Accounting Standards Codification to modify the accounting for intra-entity transfers of assets other than inventory. The amendments will be effective for the Organization for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted. The Organization does not expect these amendments to have a material effect on its financial statements.

Note 4. Investments

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

2017	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available for sale				
U.S. Government sponsored entities	$ 4,588,994	$ -	$ (10,811)	$ 4,578,183
Obligations of states and political subdivisions	3,510,949	5,935	(157,006)	3,359,878
Collateralized mortgage obligations	1,368,948	-	(37,968)	1,330,980
Mortgage backed securities	2,601,420	9,944	(32,926)	2,578,438
Total	$ 12,070,311	$ 15,879	$ (238,711)	$ 11,847,479
Held to maturity				
Obligations of states and political subdivisions	$ 3,001,690	$ 43,496	$ (74,910)	$ 2,970,276
2016				
Available for sale				
U.S. Government sponsored entities	$ 1,453,720	$ -	$ (8,946)	$ 1,444,774
Obligations of states and political subdivisions	3,766,603	9,169	(342,479)	3,433,293
Collateralized mortgage obligations	1,613,736	-	(53,254)	1,560,482
Mortgage backed securities	4,027,667	7,898	(47,353)	3,988,212
Total	$ 10,861,726	$ 17,067	$ (452,032)	$ 10,426,761
Held to maturity				
Obligations of states and political subdivisions	$ 3,989,059	$ 68,278	$ (140,780)	$ 3,916,557

Securities with an amortized cost of $13,566,933 and $10,272,043 were pledged as collateral or otherwise restricted at December 31, 2017 and 2016, respectively. The Organization had a realized gain on the sale of a security of $2,264. The Organization had no realized gains or losses on sales of securities in 2016.

The scheduled maturities of securities at December 31, 2017 are as follows:

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
U.S. Government sponsored entities:				
Due one to five years	$ 250,610	$ 249,030	$ -	$ -
Due after five years but within ten years	3,252,645	3,243,903	-	-
Due after ten years	1,085,739	1,085,250	-	-
	$ 4,588,994	$ 4,578,183	$ -	$ -
Obligations of states and political subdivisions:				
Due in less than one year	$ 150,000	$ 150,560	$ -	$ -
Due one to five years	250,000	255,375	-	-
Due after five years but within ten years	-	-	1,238,314	1,210,999
Due after ten years	3,110,949	2,953,943	1,763,376	1,759,277
	$ 3,510,949	$ 3,359,878	$ 3,001,690	$ 2,970,276
Collateralized mortgage obligations:				
Due after ten years	$ 1,368,948	$ 1,330,980	$ -	$ -
Mortgage backed securities:				
Due after five years but within ten years	$ 579,857	$ 575,088	$ -	$ -
Due after ten years	2,021,563	2,003,350	-	-
	$ 2,601,420	$ 2,578,438	$ -	$ -
Total Securities				
Due in less than one year	$ 150,000	$ 150,560	$ -	$ -
Due one to five years	500,610	504,405	-	-
Due after five years but within ten years	3,832,502	3,818,991	1,238,314	1,210,999
Due after ten years	7,587,199	7,373,523	1,763,376	1,759,277
	$ 12,070,311	$ 11,847,479	$ 3,001,690	$ 2,970,276

Note 6. Allowance for Loan Losses

The allocation of the allowance for loan losses by loan components at December 31, 2017 was as follows:

	Commercial, Industrial and Other Loans	Commercial Real Estate-Construction	Commercial Real Estate-Other	Total
2017				
Allowance for loan losses:				
Beginning balance	$ 559,397	$ 393,471	$ 1,368,593	$ 2,321,461
Charge-offs	(312,500)	-	(576,681)	(889,181)
Recoveries	-	-	164,600	164,600
Provision	1,099,964	120,923	27,989	1,248,876
Ending balance	$ 1,346,861	$ 514,394	$ 984,501	$ 2,845,756
Ending balance:				
Individually evaluated for impairment	$ 858,252	$ -	$ 126,308	$ 984,560
Collectively evaluated for impairment	$ 488,609	$ 514,394	$ 858,193	$ 1,861,196
Loans Receivable:				
Ending balance	$ 46,133,810	$ 26,995,812	$ 93,974,790	$ 167,104,412
Ending balance:				
Individually evaluated for impairment	$ 4,418,532	$ 602,429	$ 1,741,448	$ 6,762,409
Collectively evaluated for impairment	$ 41,715,278	$ 26,393,383	$ 92,233,342	$ 160,342,003

The following table presents impaired loans by class of loans as of December 31, 2017:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
2017					
With no related allowance recorded:					
Commercial, industrial, and other loans	$ 162,500	$ 475,000	$ -	$ 162,500	$ -
Commercial real estate construction	602,429	602,429	-	375,604	33,728
Commercial real estate-other	1,435,209	1,435,209	-	565,545	48,729
	2,200,138	2,512,638	-	1,103,649	82,457
With allowance recorded:					
Commercial, industrial, and other loans	4,256,032	4,256,032	858,252	4,213,976	3,972
Commercial real estate-other	306,239	306,239	126,308	289,660	-
	4,562,271	4,562,271	984,560	4,503,636	3,972
Total					
Commercial, industrial, and other loans	4,418,532	4,731,032	858,252	4,376,476	3,972
Commercial real estate construction	602,429	602,429	-	375,604	33,728
Commercial real estate-other	1,741,448	1,741,448	126,308	855,205	48,729
	$ 6,762,409	$ 7,074,909	$ 984,560	$ 5,607,285	$ 86,429

During 2017, the Organization foreclosed on the collateral securing a previously impaired loan, attributing to the decrease in impaired and substandard loans from 2016 to 2017.

Nonperforming loans and impaired loans are defined differently. As such, some loans may be included in both categories, whereas other loans may only be included in one category. The following presents by class, an aging analysis of the recorded investment in loans.

2017	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater	Total Past Due	Current	Total Loans Receivable	Recorded Investment >90 Days Accruing
Commercial, industrial, and other loans	$ -	$ 80,008	$ 162,500	$ 242,508	$ 45,891,302	$ 46,133,810	$ -
Commercial real estate construction	-	-	-	-	26,995,812	26,995,812	-
Commercial real estate other	2,794,173	588,142	481,058	3,863,373	90,111,417	93,974,790	-
Total	$ 2,794,173	$ 668,150	$ 643,558	$ 4,105,881	$162,998,531	$167,104,412	$ -

Note 6. Allowance for Loan Losses, continued

Credit Quality Indicators:

The Organization categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The organization analyzes loans individually by classifying the loans as to credit risk. Loans graded Marginal, Special Mention, Substandard, Doubtful or Loss are reviewed at least quarterly by the Organization for further deterioration or improvement to determine appropriate classification, to determine if there is any impairment of the loan, and if impairment exists, the amount that should be reserved for anticipated losses. All other loans above $500,000 are reviewed annually to determine the appropriate loan grading. In addition, during the renewal process of any loan, as well as when a loan becomes past due, the Organization will evaluate the loan grade.

Loans graded Prime, Excellent, Good or Average are excluded from the scope of the annual review and considered "Pass Credits" until: (a) they become past due; (b) management becomes aware of a deterioration in the credit worthiness of the borrower; or (c) the customer contacts the Organization for a modification. In these circumstances, the loan is specifically evaluated for potential classification as Marginal, Special Mention, Substandard, Doubtful, Loss, or in some instances even charged-off. The Organization uses the following definitions for risk ratings:

Prime – Loans in this category are considered to be of the highest quality and carry minimal credit risk. Overall asset quality is excellent and the borrower is very liquid. Leverage is very low relative to the borrower's industry and is stable or decreasing. Cash flow is continually very high relative to all demands. Earnings are always strong and are stable or increasing even through economic swings. Multiple sources of financing/refinancing exist, including access to public markets. Loans fully secured by U.S. Government and Government Agency obligations, and deposit accounts (in our Organization) will also be rated as Prime.

Excellent – Loans in this category are considered to be of excellent quality. The borrower has very good liquidity and overall asset quality. Leverage is relatively low and is stable or declining. Margins and ratios are consistently above industry norms. Earnings are strong and stable, but the rate of growth may differ from year to year. Cash flow is more than sufficient to meet total demands. Multiple sources of financing are available.

Good - Loans in this category are of good quality. The borrower has a history of successful performance, but may be susceptible to economic changes. Asset quality and liquidity are still considered good. Overall leverage is normal for the industry in which the borrower operates and is stable. Cash flow levels may fluctuate but are sufficient to meet obligations. Margins and ratios are generally in line with or exceed industry norms. Earnings may have been inconsistent in the past, but have now stabilized and are equivalent to or better than the industry average. Other sources of financing, particularly from a number of other financial institutions, should be obtainable.

Average - Loans in this category are of average quality and risk is well within the Organization's range of acceptability. They may differ from loans rated "Good" because the borrower may be entering an expansion mode, acquiring another company, introducing new products or investing large amounts of capital in upgrading equipment or the facility. The borrower's business may be cyclical or its customer base may have concentrations. Asset quality is acceptable. Liquidity levels fluctuate and usage of short term credit may be needed on a regular basis to finance growth or fluctuations in revenues and current assets. Leverage may be slightly to moderately higher than the industry, but is stable. Cash flow may fluctuate, but is evident in sales and earnings. The long-term outlook should be favorable. Management and owners have unquestioned character, although depth of management may be an issue.

Note 6. Allowance for Loan Losses, continued

Loans by Risk Rating December 31, 2016	Commercial Industrial and Other Loans	Commercial Real Estate-Construction	Commercial Real Estate-Other	Total
Pass Credits	$ 30,560,815	$ 18,927,682	$ 71,156,827	$ 120,645,324
Marginal	151,039	1,369,938	-	1,520,977
Special Mention	475,417	-	365,516	840,933
Substandard	4,401,788	74,729	2,579,232	7,055,749
Total	$ 35,589,059	$ 20,372,349	$ 74,101,575	$ 130,062,983

Troubled Debt Restructurings

During 2017, one loan was modified through a payment deferral with principal and interest due at maturity. During 2016, one loan that was previously reported as a troubled debt restructuring was modified through a payment reduction.

Information regarding loans modified in a troubled debt restructuring for the years ended December 31, 2017 and 2016, respectively, is as follows:

	December 31, 2017			December 31, 2016		
	Number of Contracts	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment	Number of Contracts	Pre-modification Outstanding Recorded Investment	Post-modification Outstanding Recorded Investment
Commercial, industrial and other loans	1	$ 4,169,798	$ 4,169,798	1	$ 39,951	$ 39,299
Total	1	$ 4,169,798	$ 4,169,798	1	$ 39,951	$ 39,299

During 2017 and 2016, none of the loans modified were removed from troubled debt restructuring status or defaulted.

Note 7. Grants Receivable

Grants receivable consist of the following:

	December 31, 2017	December 31, 2016
Healthy Foods Financing Initiative Financial Assistance Award	$ 2,000,000	$ -
Appalachian Regional Commission Power Grants	1,640,727	-
Community Development Financial Institutions CORE Grant	916,905	-
Norfolk Community Development Block Grant	484,628	650,000
Alleghany Foundation	325,625	399,725
Miscellaneous pledges	2,500	-
Community Development Financial Institutions Capital Magnet Grant	-	3,700,000
Northern Trust Grant	-	5,000
Hopewell EDA	-	850
Total grants receivable	5,370,385	4,755,575
Unearned grants receivable	(4,315,461)	(4,121,154)
Total grants receivable, net	$ 1,054,924	$ 634,421

Note 10. Borrowings

Borrowings at December 31, 2017 and 2016, respectively, consist of the following:

Description	Rate	Maturity	2017	2016
CDFI Fund	2.25%	08/01/2017	$ -	$ 1,177,056
Bank of Botetourt	3.25%	On Demand	1,000,000	2,000,000
WoodForest Bank	2.75%	05/10/2018	125,394	174,728
PNC LOC	2.25%	06/15/2018	3,000,000	3,000,000
Local Impact Opportunity Notes (subordinated)	Various*	Various*	8,275,000	7,275,000
Capital One	2.00%	01/01/2019	746,167	-
Bon Secours Health Systems	2.25%	04/01/2019	2,050,000	1,300,000
CDFI Fund	2.00%	04/16/2019	989,450	989,450
Bank of America	3.10%	05/31/2019	1,500,000	1,500,000
BB&T	3.34%	11/07/2019	1,000,000	-
Appalachian Community Capital	2.41%	12/31/2019	3,000,000	3,000,000
Bank of America	3.10%	05/31/2020	1,500,000	1,500,000
HSBC	2.08%	10/31/2020	3,000,000	-
Jessie Ball DuPont	2.00%	07/08/2020	1,500,000	1,500,000
Wells Fargo EQ2 (subordinated)	2.00%	02/02/2021	500,000	500,000
Wells Fargo LOC	LIBOR+2.90%	03/27/2021	-	-
Federal Home Loan Bank	2.22%	12/07/2022	3,000,000	
Jessie Ball DuPont	2.00%	12/09/2023	1,500,000	-
Wells Fargo EQ2 (subordinated)	2.00%	03/20/2024	500,000	500,000
CDFI Fund	1.95%	12/30/2027	341,415	341,415
Federal Home Loan Bank Principal Reducing**	2.07%	05/31/2024	3,666,667	-
CDFI Fund	2.50%	01/31/2029	19,744	19,744
United States Department of Agriculture	1.00%	03/31/2044	2,125,000	2,125,000
			$ 39,338,837	$ 26,902,393

*Local Impact Opportunity Notes range in size from $25,000-$3,000,000, with rates of 1.50%-3.00%. The first of these notes matures on 07/29/2018, with the final note maturing on 05/05/2023.
**Principal and interest payments are due monthly in the amount of $47,619.

Performance against debt covenants is measured on a quarterly basis.

At December 31, 2017, the scheduled maturities of borrowings are as follows:

2018	$ 3,941,822
2019	11,237,046
2020	7,971,428
2021	1,296,429
2022	3,596,428
Thereafter	11,295,684
	$ 39,338,837

At December 31, 2017, the Organization had unused Federal Fund lines of credit of $2,500,000, and other various unused commitments of $1,000,000 with a rate of 3.25%. In addition, the Organization had approximately $1,954,958 in lendable collateral value pledged with the Federal Home Loan Bank of Atlanta ("FHLB") and available for use. At December 31, 2017, the Organization had $21,951,277 in loans identified and available to pledge to FHLB.

Note 11. Fair Value of Financial Instruments, continued

Other real estate owned: Other real estate owned assets are adjusted to fair value upon transfer of the loans to other real estate owned. Real estate acquired in settlement of loans is recorded initially at estimated fair value of the property less estimated selling costs at the date of foreclosure. The initial recorded value may be subsequently reduced by additional allowances, which are charged to earnings if the estimated fair value of the property less estimated selling costs declines below the initial recorded value. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral.

The table below presents the recorded amount of assets measured at fair value on a non-recurring basis. There were no liabilities measured at fair value on a non-recurring basis.

December 31, 2017	Total	Level 1	Level 2	Level 3
Impaired loans	$ 5,777,849	$ -	$ -	$ 5,777,849
Other real estate owned	1,051,593	-	-	1,051,593
Total assets measured at fair value	$ 6,829,442	$ -	$ -	$ 6,829,442
December 31, 2016				
Impaired loans	$ 6,799,824	$ -	$ -	$ 6,799,824
Other real estate owned	221,760	-	-	221,760
Total assets measured at fair value	$ 7,021,584	$ -	$ -	$ 7,021,584

The following table presents quantitative information about Level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis at December 31, 2017 and 2016, respectively.

	December 31, 2017	Valuation Techniques	Unobservable Inputs	Range (Wtd Avg)
Impaired loans:				
Commercial real estate - other	$ 1,615,140	Appraisals and/or sales of comparable properties	Management discount to reflect current market conditions and type of collateral	0.00%-6.00% (4.17%)
Commercial, industrial and other loans	3,560,280	Appraisals and/or sales of comparable properties	Management discount to reflect current market conditions and type of collateral	0.00%-50.00% (1.04%)
Commercial real estate - construction	602,429	Appraisals and/or sales of comparable properties	Management discount to reflect current market conditions	0.00%-37.50% (11.64%)
Other real estate owned:				
Commercial real estate - other	1,051,593	Appraisals and/or sales of comparable properties	Management discount to reflect current market conditions	0.00% (0.00%)

	December 31, 2016	Valuation Techniques	Unobservable Inputs	Range (Wtd Avg)
Impaired loans:				
Commercial real estate - other	$ 2,178,902	Appraisals and/or sales of comparable properties	Management discount to reflect current market conditions	0.00%-13.34% (9.61%)
Commercial, industrial and other loans	4,546,193	Appraisals and/or sales of comparable properties	Management discount to reflect current market conditions	0.00%-70.00% (25.53%)
Commercial real estate - construction	74,729	Appraisals and/or sales of comparable properties	Management discount to reflect current market conditions	13.34% (13.34%)
Other real estate owned:				
Commercial real estate - other	221,760	Appraisals and/or sales of comparable properties	Management discount to reflect current market conditions	0.00%-6.67% (0.89%)

Note 13. Income Taxes, continued

Expense Reconciliation

The Bank is subject to income taxation only at the Federal level while LOCUS Capital is subject to both State and Federal taxes. The effective tax rate differs from the statutory rate resulting from permanent adjustments and changes effected from the enactment of the Tax Cuts and Jobs Act on December 22, 2017, including the impact of a remeasurement of the deferred taxes at the rate in which the deferred taxes are expected to reverse.

A reconciliation of income tax expense computed at the statutory federal income tax rate to income tax expense included in the Consolidated Statement of Activities for the years ended December 31, 2017 and 2016 is as follows:

	2017	2016
Tax at statutory federal rate	$ 412,833	$ 263,924
Other	20,193	(49,014)
	$ 433,026	$ 214,910

Deferred Income Tax Analysis

The significant components of net deferred tax assets at December 31, 2017 and 2016 are summarized as follows:

	2017	2016
Deferred tax assets		
Allowance for loan losses	$ 288,228	$ 479,235
Other real estate owned	499	1,919
Pre-opening expenses	10,573	20,183
Unrealized losses on securities available for sale, net	47,923	149,233
Investment in Low Income Housing Tax Credits	1,598	-
Lease incentive obligation	47,641	-
Deferred tax asset	396,462	650,570
Deferred tax liabilities		
Deferred loan costs	(161,072)	(201,031)
Prepaid expenses	(12,522)	(13,205)
Depreciation	(59,685)	(64,517)
Investment in Low Income Housing Tax Credits	-	(865)
Deferred tax liability	(233,279)	(279,618)
Net deferred tax asset	$ 163,183	$ 370,952

The Bank and LOCUS Capital measure deferred tax assets and liabilities using enacted tax rates that will apply in the years in which the temporary differences are expected to be recovered or paid. Accordingly, the Bank's deferred tax assets and liabilities were remeasured to reflect the reduction in the U.S. corporate income tax rate from 34 percent to 21 percent, resulting in a $101,017 increase in income tax expense for the year ended December 31, 2017 and a corresponding $101,017 decrease in net deferred tax assets as of December 31, 2017.

The Bank and LOCUS Capital classify interest and penalties related to income tax assessments, if any, in interest expense or noninterest expense, respectively in the consolidated statements of activities. Tax years 2014 through 2017 are subject to examination by the Internal Revenue Service. The Bank has analyzed the tax positions taken or expected to be taken in its tax returns and has concluded it has no liability related to uncertain tax positions.

Note 14. Business Combinations

In January 2017, the Organization absorbed Center for Rural Entrepreneurship ("CRE"), a non-profit, non-stock Nebraska corporation with offices and staff in Nebraska and North Carolina. CRE provides contract consulting, training, research and strategic services to organizations seeking to further the advancement of entrepreneurship in rural communities. The transaction was voted on by the Board of Directors of CRE. There was no cash investment. Assets and liabilities at the time of absorption totaled $586,895 and $205,608, resulting in a gain on absorption of $381,287. This transaction was accounted for under FASB ASC Topic 805, Business Combinations, which requires use of the acquisition method of accounting. This method requires the use of fair values in determining the carrying values of the assets acquired and liabilities assumed. The Organization assessed the assets acquired and liabilities assumed for CRE, which primarily consisted of cash, other assets, deferred revenues and other liabilities. Based on the Organization's assessment, carrying value of these assets and liabilities approximates fair value. These were included

Note 17. Minimum Regulatory Capital Requirements

The Bank is subject to regulatory capital requirements administered by the federal banking agencies. Capital adequacy guidelines and prompt corrective action regulations involve quantitative measure of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet minimum capital requirements can initiate regulatory actions.

In July 2013, the FDIC and other federal banking agencies approved the final rules implementing the Basel Committee on Banking Supervision's capital guidelines for U.S. banks (commonly known as Basel III). On January 1, 2015, the Bank became subject to the Basel III Capital Rules which revises definitions of regulatory capital, the new minimum regulatory capital ratios, and various regulatory capital adjustments and deductions according to transition provision and timelines. The revised rules now require the bank to maintain (i) a minimum ratio of Common Tier 1 capital to risk-weighted assets of at least 4.5%, plus 2.5% "capital conservation buffer" conservation buffer will be phased in), (ii) minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0%, (iii) a minimum ratio of total capital to risk-weighted assets of at least 8.0%, and (iv) a minimum leverage ratio of 4.0%. A transition period for the capital conservation buffer under Basel III for all banking organizations began on January 1, 2016 and ends January 1, 2019. The conservation buffer will begin at the 0.625% level and be phased in over a four-year period (increasing on each subsequent January 1, until it reaches 2.5% on January 1, 2019). The conservation buffer at December 31, 2017 is 1.25%.

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

As of December 31, 2017, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum total risk-based, Tier I risk-based, Tier I leverage and Common equity tier I ratios as set forth in the following table. There are no conditions or events since the notification that management believes have significantly impacted the Bank's category. At December 31, 2017, management believes the Bank's Basel III capital calculations exceed requirements. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital.

Below is a summary of the Bank's capital ratios for December 31, 2017 and December 31, 2016. (Dollars in thousands)

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2017						
Total Capital						
(to Risk-Weighted Assets)	$ 24,378	16.80%	$ 11,609	8.0%	$ 14,511	10.0%
Tier I Capital						
(to Risk-Weighted Assets)	$ 16,461	11.34%	$ 8,707	6.0%	$ 11,609	8.0%
Common Equity Tier I Capital						
(to Average Assets)	$ 16,461	11.34%	$ 6,530	4.5%	$ 9,432	6.5%
Tier I Capital						
(to Average Assets)	$ 16,461	9.98%	$ 6,598	4.0%	$ 8,248	5.0%
December 31, 2016						
Total Capital						
(to Risk-Weighted Assets)	$ 21,346	18.60%	$ 8,914	8.0%	$ 11,143	10.0%
Tier I Capital						
(to Risk-Weighted Assets)	$ 13,751	11.98%	$ 6,686	6.0%	$ 8,914	8.0%
Common Equity Tier I Capital						
(to Average Assets)	$ 13,751	11.98%	$ 5,014	4.5%	$ 7,243	6.5%
Tier I Capital						
(to Average Assets)	$ 13,751	10.41%	$ 5,281	4.0%	$ 6,602	5.0%

Notes to Consolidated Financial Statements

December 31, 2017 and 2016

Note 19. Parent Company Only Financial Information, continued

Statements of Activities
For the year ended December 31, 2017

	December 31, 2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and Support				
Grants income	$ 1,733,475	$ 2,400,000	$ -	$ 4,133,475
Interest and fees on loans	1,663,281	-	-	1,663,281
Interest income	44,591	-	-	44,591
Miscellaneous income	454,945	-	-	454,945
Net assets released from restrictions	481,592	(481,592)	-	-
Total revenue and support	4,377,884	1,918,408	-	6,296,292
Expenses				
Program Services				
Salaries and wages	1,220,323	-	-	1,220,323
Payroll taxes	82,810	-	-	82,810
Employee benefits	145,401	-	-	145,401
Program services	365,078	-	-	365,078
Office expense	124,524	-	-	124,524
Professional fees	227,234	-	-	227,234
Depreciation expense	108,824	-	-	108,824
Interest expense	709,533	-	-	709,533
Provision for loan losses	740,922	-	-	740,922
Other expenses	177,577	-	-	177,577
Total program services expenses	3,902,226	-	-	3,902,226
Management and General				
Salaries and wages	806,118	-	-	806,118
Payroll taxes	54,703	-	-	54,703
Employee benefits	96,049	-	-	96,049
Office and administrative expenses	82,257	-	-	82,257
Professional fees	150,106	-	-	150,106
Depreciation expense	71,887	-	-	71,887
Other expenses	117,303	-	-	117,303
Total management and general expenses	1,378,423	-	-	1,378,423
Total expenses	5,280,649	-	-	5,280,649
Gain on absorption of non-profit subsidiary	381,287	-	-	381,287
Change in net assets/net income before undistributed income of subsidiaries	(521,478)	1,918,408	-	1,396,930
Change in equity from undistributed income of bank subsidiary	807,658	-	-	807,658
Capital downstream to non-bank subsidiary	185,000	-	-	185,000
Change in equity from undistributed loss of non-bank subsidiaries	(814,857)	-	-	(814,857)
Change in net assets/net income	(343,677)	1,918,408	-	1,574,731
Change in accumulated other comprehensive loss	110,824	-	-	110,824
Reclassification of net assets due to tax rate change	29,667	-	-	29,667
Dividends paid on subsidiary's preferred stock	(127,000)	-	-	(127,000)
Change in net assets/net income attributable to Virginia Community Capital, Inc.	(330,186)	1,918,408	-	1,588,222
Net assets beginning of year	22,206,037	541,592	1,991,575	24,739,204
Net assets end of year	$ 21,875,851	$ 2,460,000	$ 1,991,575	$ 26,327,426

Note 19. Parent Company Only Financial Information, continued

Statements of Cash Flows
For the years ended December 31, 2017 and 2016

	2017	2016
Cash flows from operating activities		
Change in net assets	$ 1,574,731	$ 1,003,081
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	180,711	130,476
Provision for loan losses	740,922	737,732
(Gain) loss on sale of other real estate owned	(225)	1,164
Net amortization of investment securities	139,071	-
Changes in assets and liabilities:		
Accrued interest receivable	(55,455)	39,190
Cash funded loan loss reserves	(22,750)	(314,231)
Grants receivable	(420,503)	181,170
Other assets	(139,049)	(9,431)
Investment in subsidiaries	(1,091,550)	(2,390,746)
Accrued interest payable	40,632	40,671
Deferred revenue	1,282,365	1,210,422
Noncontrolling interest in subsidiary	2,765	2,172
Other liabilities	372,139	96,127
Net cash provided by operating activities	2, 603,804	727,797
Cash flows from investing activities		
(Increase) decrease in certificates of deposit	(508)	3,182
Proceeds from sale of other real estate owned	5,553	5,393
Net (increase) decrease in loans	(6,285,125)	2,469,331
Cash from absorption of non-profit subsidiary	487,182	-
Gain on absorption of non-profit subsidiary	(381,287)	-
Net purchases of premises and equipment	(776,958)	(139,311)
Purchase of common stock in subsidiary bank	(2,000,000)	(2,000,000)
Purchase of preferred stock in subsidiary bank	(50,000)	-
Net cash (used in) provided by investing activities	(9,001,143)	338,595
Cash flows from financing activities		
Dividends paid on subsidiary's preferred stock	(127,000)	(126,667)
Net increase (decrease) in borrowings	5,769,777	(1,389,425)
Proceeds from the sale of preferred stock of the subsidiary	-	2,000,000
Net cash provided by financing activities	5,642,777	483,908
Net (decrease) increase in cash and cash equivalents	(754,562)	1,550,300
Cash and cash equivalents, beginning	3,737,179	2,186,879
Cash and cash equivalents, ending	$ 2,982,617	$ 3,737,179
Supplemental disclosure of cash flow information		
Interest paid	$ 668,901	$ 584,818
Supplemental disclosure of noncash investing and financing activities		
Transfer of foreclosed properties	$ 936,393	$ -
Transfer of building	$ 2,700,000	$ -

Note 20. Subsidiary Financial Information, continued

VCC Bank
Statements of Operations
For the years ended December 31, 2017 and 2016

	2017	2016
Interest and dividend income		
Loans and fees on loans	$ 5,513,211	$ 4,452,060
Federal funds sold	1,139	124
Investment securities-taxable	142,094	86,165
Investment securities-nontaxable	173,306	147,441
Deposits with other banks	224,091	191,200
Total interest and dividend income	6,053,841	4,876,990
Interest expense		
Deposits	1,340,416	974,196
Federal funds purchased	1,726	242
Secured borrowings	54,857	3,318
Subordinated debt	60,833	61,000
Total interest expense	1,457,832	1,038,756
Net interest income	4,596,009	3,838,234
Provision for loan losses	507,954	1,108,297
Net interest income after provision for loan losses	4,088,055	2,729,937
Noninterest income		
Gain on foreclosure of other real estate	57,895	-
Gain on sale of SBA loans	305,671	94,627
Bank enterprise award	227,282	265,496
Income on bank owned life insurance	64,888	-
Other noninterest income	119,780	199,306
Total noninterest income	775,516	559,429
Noninterest expense		
Salaries and employee benefits	1,867,907	1,559,369
Occupancy and equipment	345,020	266,339
Data processing	87,771	75,273
Advertising and marketing	25,758	4,674
Audit	29,111	26,390
Legal	21,479	22,257
Consulting	160,623	123,649
FDIC insurance	155,107	108,958
Franchise tax expense	211,029	137,721
Other real estate owned expense, net	329,586	44,683
Other expenses	389,496	187,730
Total noninterest expense	3,622,887	2,557,043
Net income before income tax expense	1,240,684	732,323
Income tax expense	(433,026)	(214,910)
Net income	807,658	517,413
Dividends paid to preferred shareholders	(128,000)	(126,667)
Net income available to common shareholders	$ 679,658	$ 390,746
Basic income per common share	$ 267.90	$ 174.52
Weighted average common shares outstanding	2,537	2,239

Note 20. Subsidiary Financial Information, continued

VCC Bank
Statements of Changes in Shareholders' Equity
For the years ended December 31, 2017 and 2016

	Preferred Stock	Common Stock Shares	Common Stock Amount	Additional Paid In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, January 1, 2016	$ 1,200,000	1,936	$ 4,839,725	$ 4,692,568	$ 1,828,264	$ 3,709	$ 12,564,266
Issuance of preferred stock	2,000,000	-	-	-	-	-	2,000,000
Issuance of common stock	-	400	1,000,000	1,000,000	-	-	2,000,000
Dividends paid on preferred stock	-	-	-	-	(126,667)	-	(126,667)
Net income	-	-	-	-	517,413	-	517,413
Comprehensive loss	-	-	-	-	-	(293,396)	(293,396)
Balance, December 31, 2016	$ 3,200,000	2,336	$ 5,839,725	$ 5,692,568	$ 2,219,010	$ (289,687)	$ 16,661,616
Redemption of preferred stock	(50,000)	-	-	-	-	-	(50,000)
Issuance of preferred stock	50,000	-	-	-	-	-	50,000
Issuance of common stock	-	400	1,000,000	1,000,000	-	-	2,000,000
Dividends paid on preferred stock	-	-	-	-	(128,000)	-	(128,000)
Net income	-	-	-	-	807,658	-	807,658
Adjustment from change in income tax rate	-	-	-	-	29,667	(29,667)	-
Comprehensive income	-	-	-	-	-	139,071	139,071
Balance, December 31, 2017	$ 3,200,000	2,736	$ 6,839,725	$ 6,692,568	$ 2,928,335	$ (180,283)	$ 19,480,345

Note 20. Subsidiary Financial Information, continued

Financial information of LOCUS Capital Inc. as of and for the period from May 15, 2017 to December 31, 2017:

LOCUS Capital, Inc.
Balance Sheet
December 31, 2017

		2017
Assets		
Cash and due from banks	$	164,307
Premises and equipment		6,436
Total assets	$	170,743
Liabilities		
Deferred revenue	$	190,000
Other liabilities		31,509
Total liabilities		221,509
Shareholders' equity		
Common stock, no par value, 5,000 shares authorized; 1 share issued and outstanding for 2017		-
Additional paid in capital		150,100
Retained earnings		(200,866)
Total shareholders' equity		(50,766)
Total liabilities and shareholders' equity	$	170,743

LOCUS Capital, Inc.
Statement of Operations
For the period from May 15, 2017 to December 31, 2017

		2017
Revenues		
Grant income	$	150,000
Project revenues		43,000
Total revenues		193,000
Expenses		
Salaries and employee benefits		207,421
Occupancy and equipment		6,693
Data processing		215
Advertising and marketing		26,025
Audit		10,500
Legal		38,804
Consulting		62,754
Other expenses		41,454
Total expense		393,866
Net income before income tax expense		(200,866)
Income tax expense		-
Net income available to shareholders	$	(200,866)

Note 20. Subsidiary Financial Information, continued

Financial information of LOCUS Foundation as of and for the period from May 15, 2017 to December 31, 2017:

LOCUS Foundation
Statement of Financial Position
December 31, 2017

	2017
Assets	
Cash and due from banks	$ 13,946
Premises and equipment	6,247
Total assets	$ 20,193
Liabilities	
Accounts payable	$ 121,964
Other liabilities	19,521
Total liabilities	141,485
Commitments and contingencies	
Net Assets	
Unrestricted	(121,292)
Total net assets	(121,292)
Total liabilities and net assets	$ 20,193

LOCUS Foundation
Statement of Activities
For the period from May 15, 2017 to December 31, 2017

	2017
Changes in Unrestricted Net Assets	
Management and General	
Salaries and wages	$ 165,110
Payroll taxes	9,822
Employee benefits	10,386
Office and administrative expenses	6,388
Professional fees	85,803
Depreciation expense	543
Other expenses	28,240
Total management and general expenses	306,292
Change in unrestricted net assets before capital downstream from parent	(306,292)
Capital downstream from parent	185,000
Change in unrestricted net assets	(121,292)
Net assets beginning of year	-
Net assets end of year	$ (121,292)

Note 20. Subsidiary Financial Information, continued

Financial information of Center for Rural Entrepreneurship as of, and for the year ended December 31, 2017:

Center for Rural Entrepreneurship
Statement of Financial Position
December 31, 2017

	2017
Assets	
Cash and due from banks	$ 276,053
Interest-bearing deposits	90,261
Accounts receivable	85,338
Premises and equipment	17,293
Other assets	2,987
Total assets	$ 471,932
Liabilities	
Deferred revenue	$ 40,000
Accrued expenses	21,960
Other liabilities	68,409
Total liabilities	130,369
Commitments and contingencies	
Net Assets	
Unrestricted	341,563
Total net assets	341,563
Total liabilities and net assets	$ 471,932

Note 20. Subsidiary Financial Information, continued

Center for Rural Entrepreneurship
Statement of Cash Flows
For the years ended December 31, 2017

	2017
Cash flows from operating activities	
Change in net assets	$ (39,724)
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation and amortization	3,250
Changes in assets and liabilities:	
Deferred revenue	(154,200)
Other assets	9,754
Other liabilities	78,961
Net cash used in operating activities	(101,959)
Cash flows from investing activities	
Net purchases of premises and equipment	(18,910)
Net cash received in absorption	487,183
Net cash provided by investing activities	468,273
Net increase in cash and cash equivalents	366,314
Cash and cash equivalents, beginning	-
Cash and cash equivalents, ending	$ 366,314
Supplemental disclosure of absorption	
Assets absorbed net of cash	$ 99,712
Liabilities assumed	$ 205,608
Net gain on absorption	$ 381,287

- **Recurring, High Frequency, Minimal Cost:** Lunch n' Learn, mentoring, post-work events (Space Consideration, Promotional Material Consideration, No food considerations, No Fee considerations)

- **Recurring, Medium Frequency, Min – Med Cost:** Quarterly Welcome to FRB Network/Mingle events, Sponsoring Lunch with a Leader [Limited seating], Professional Development Programming similar to What's Your Super Power (Space Consideration, Promotional Material Consideration, Food Consideration, No Fee Considerations)

- **Big Events:** Intern Networking/Career Fair, Large Event with a feature speaker, Hosting a HYPE event in August (All hands on deck, requires creative input and agreement from not just EPP but our Stakeholders as well (Generations/HR)

- **Wish List:**
    - Big one-time Evolving Professional Bank Sponsored post work Happy Hour ;
    - Team Building/Trust Training for either our Leadership Team → I've been thinking about this a lot recently as we've been growing super-fast and have a lot of moving parts in the air.
        - Part 1: Internal to FRB, coordinate with someone in HR to lead the training that isn't currently affiliated with EPP (maybe my hopeful advisory board rep Kim Range, who runs the bank's PPD program)
        - Part 2: External to FRB and self-funded Escape Room and team lunch

(Group) Recurring							
Event	Frequency	Date	Time	Location	Size	Funds	Cost
Evolving Professional Focus Lunch	Monthly	2nd Thursday	Lunch	FRB Richmond	Flexible	Personal	TBD
Evolving Professional After-Hours Networking	Monthly	4th Thursday	Post-Work	Offsite	Flexible	Personal	TBD
Engage/Lunch with a Leader	Monthly	TBD	Lunch	FRB Richmond	Restricted	???	TBD
Welcome to FRB Reception	Quarterly	TBD	Post-Work	FRB Richmond	40+ People	FRB	TBD

(Individual) Recurring							
Event	Frequency	Date	Time	Location	Size	Funds	Cost
Reverse Mentoring Program	Individual	Individual	Individual	Individual	Individual	Individual	None
"Own Your Career" Mentoring/Shadowing	Individual	Individual	Individual	Individual	Individual	Individual	None

Unique Events							
Event	Frequency	Date	Time	Location	Size	Funds	Cost
FRB Intern Expo	Once	Tuesday - 6/19/2018	9:00am - 11:30am	TBD	50+ People	FRB - HR?	?
FRB HYPE Event	Once	Wednesday - 8/15/2018	5:00pm - 7:30pm	FRB Richmond	Huge	FRB	None

Wishlist							
Event	Frequency	Date	Time	Location	Size	Funds	Cost
EPP Leadership Team - Team Building	Once	TBD	TBD	FRB	10 People	???	???
EPP Leadership Team - Team Building	Once	TBD	TBD	Offsite	10 People	Personal	TBD