UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2021 or
☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from __________ to __________

BANK OF THE JAMES FINANCIAL GROUP, INC.
(Exact Name of Registrant as Specified in Its Charter)
Commission file number 001-35402

Virginia (State or Other Jurisdiction of Incorporation or Organization)	**20-0500300** (I.R.S. Employer Identification No.)
828 Main Street, Lynchburg, VA (Address of Principal Executive Offices)	**24504** (Zip Code)

(434) 846-2000
(Issuer's telephone number, including area code)
Securities registered under Section 12(b) of the Exchange Act:

Title of Each Class	Trading Symbol(s)	Name of Exchange on Which Registered
Common Stock, $2.14 par value	BOTJ	The NASDAQ Capital Markets

Securities registered under Section 12(g) of the Exchange Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ☐ Yes ☑ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section13 or Section 15(d) of the Act. ☐ Yes ☑ No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐

Indicate by check mark whether the registrant has submitted every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). ☑ Yes ☐ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or emerging growth company. See definition of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐	Accelerated filer ☐
Non-accelerated filer ☒	Smaller reporting company ☒
	Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☐

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act). ☐ Yes ☑ No

The aggregate value of the voting common equity held by nonaffiliates as of June 30, 2021, the last business day of the registrant's most recently completed second fiscal quarter, was approximately $66,068,240 based on the price at which the common stock last traded on such day. This price reflects inter-dealer prices without retail mark up, mark down, or commissions, and may not represent actual transactions.

The number of shares outstanding of Common Stock, $2.14 par value as of March 29, 2022 was approximately 4,740,657.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the 2022 Proxy Statement to be used in conjunction with the Annual Meeting of Shareholders, scheduled to be held on May 17, 2022, are incorporated by reference into Part III of this Form 10-K

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PART I

Item 1. Business

General

Bank of the James Financial Group, Inc. (“Financial” or the “Company”) is a bank holding company with its headquarters in Lynchburg, Virginia. Financial was incorporated at the direction of Bank of the James (the “Bank” or “Bank of the James”) on October 3, 2003 to serve as a bank holding company of the Bank. Financial acquired all of the shares of the Bank in a statutory share exchange on a one-for-one basis on January 1, 2004.

The Bank is a Virginia banking corporation headquartered in Lynchburg, Virginia. The Bank was incorporated under the laws of the Commonwealth of Virginia as a state-chartered bank in 1998 and began banking operations in July 1999. The Bank was organized to engage in general retail and commercial banking business.

The Bank’s principal office is located at 828 Main Street, Lynchburg, Virginia 24504 and its telephone number is (434) 846-2000. The Bank also maintains a website at www.bankofthejames.bank.

Financial conducts three principal activities: (1) general retail and commercial banking through Bank of the James; (2) mortgage brokerage services through Bank of the James Mortgage, a division of the Bank (the “Mortgage Division”); and (3) investment advisory services through its wholly-owned subsidiary, Pettyjohn, Wood & White, Inc. (“PWW”). Because Financial acquired PWW on December 31, 2021, PWW had no effect on Financial’s net income for the periods ended December 31, 2021 and 2020.

In addition, Financial provides securities brokerage and other investment services through BOTJ Investment, a division of the Bank, and acts as an agent for insurance and annuity products through BOTJ Insurance, Inc., a wholly-owned subsidiary of the Bank. The operating results of these business operations have not had a material impact on our financial performance and are not considered principal activities of Financial at this time.

The Bank, BOTJ Insurance, BOTJ Investment Group, Inc., a non-operating subsidiary, and PWW are our only subsidiaries and primary assets.

Products and Services

Retail and Commercial Banking

The Bank currently conducts business within Virginia from 16 full-service offices, two limited service offices, and one residential mortgage loan production office. The location of and services provided by each of our facilities is described in "Item 2. Properties" below. The Bank established a mortgage loan origination division that conducts business under the name "Bank of the James Mortgage, a Division of Bank of the James." The Mortgage Division conducts business primarily from the division's main office located in the Forest branch of the Bank. In addition, the Bank expanded into Charlottesville in 2013 (opening a full-service branch in 2015), Harrisonburg in 2014 (opening a full-service branch in 2015), Appomattox in 2016 (opening a permanent full-service branch in 2017), Roanoke in 2013 (opening a full-service branch in 2017), Blacksburg in 2018 (opening a mortgage origination office), Lexington in 2019 with a full-service branch, and Rustburg in 2019 with a full-service branch.

Deposit Services. Deposits are a major source of our funding. The Bank offers a full range of deposit services that are typically available in most banks and other financial institutions including checking accounts, savings accounts and other time deposits of various types, ranging from daily money market accounts to longer-term certificates of deposit. The transaction accounts and time certificates are tailored to the Bank's market area at rates competitive to those offered in the market area. In addition, the Bank offers its customers Individual Retirement Accounts (IRAs) and Health Care Savings Accounts (HSAs). All deposit accounts are insured by the Federal Deposit Insurance Corporation (the "FDIC") up to the maximum amount allowed by law (generally, $250,000 per depositor, subject to aggregation rules). The Bank solicits such accounts from individuals, businesses, associations and organizations, and governmental authorities.

Lending Services. The Bank offers a full range of short- to medium-term commercial and consumer loans. Our primary focus is on making loans to small and medium-sized businesses and consumers in the Region 2000 (Lynchburg, Amherst, Bedford, Campbell) area, Charlottesville, Harrisonburg, Roanoke, Appomattox, and Blacksburg. In addition, we also provide a wide range of real estate finance services. Commercial loans include both secured and unsecured loans for working capital (including inventory and receivables), business expansion (including acquisition of real estate and improvements), and purchase of equipment and machinery. Consumer loans include secured and unsecured loans for financing automobiles, home improvements, education and personal investments. Additionally, the Bank originates fixed and floating-rate mortgage loans and real estate construction and acquisition loans. Where appropriate, the Bank attempts to limit interest rate risk through the use of variable interest rates and terms of less than five years.

In general, the Bank offers the following lending services in our market areas:

- *Commercial Business Lending.* We make loans to small- and medium-sized businesses for purposes such as purchases of equipment, facilities upgrades, inventory acquisition and various working capital purposes.
- *Real Estate Construction*. We make commercial and residential construction and development loans.
- *Commercial Real Estate Mortgage*. We make loans to borrowers secured by commercial real estate. In underwriting these types of loans we consider the historic and projected future cash flows of the real estate.
- *Residential Mortgage.* We originate conforming and non-conforming closed-end residential mortgages. These loans are secured by liens on 1 to 4 family properties. We typically sell the conventional mortgage loans to correspondent financial institutions.

- *Consumer*. We offer various types of secured and unsecured consumer loans, including personal loans, lines of credit, overdraft lines of credit, automobile loans, installment loans, demand loans, and home equity loans. We make consumer loans primarily for personal, family or household purposes.

We sell loan participations in the ordinary course of business when a loan originated by us exceeds our legal lending limit or we otherwise want to share risk with another bank. We also purchase loan participations from time to time from other banks in the ordinary course of business. Our loan participations are without recourse against the originating bank. Purchased loan participations are underwritten in accordance with our loan policy and represent a source of loan growth.

Other Banking Services. Other services offered by the Bank include safe deposit boxes, traveler's checks, direct deposit of payroll and social security checks, automatic drafts for various accounts, treasury management services and credit card merchant services. The Bank also is associated with a shared network of automated teller machines (ATMs) that may be used by Bank customers throughout Virginia, the United States, and internationally.

The Bank intends to introduce new products and services desired by the public and as permitted by the regulatory authorities. The Bank remains committed to meeting the challenges that require technology. The Bank provides its customers with access to the latest technological products, such as telephone banking and internet banking, including online bill pay. This service allows customers to handle routine transactions using a standard touch tone telephone, applications for mobile devices, and via the internet at the Bank's website.

Mortgage Banking. The Bank, through the Mortgage Division originates conforming and non-conforming home mortgages primarily in the Region 2000 area. Beginning in 2013 we began operating the Mortgage Division with hybrid correspondent relationships that allow the Bank to close loans in its name before an investor purchases the loan. By using the Bank's funds to close the loan (as compared to a broker relationship in which loans are funded by the purchaser of the mortgage), the Bank is able to obtain better pricing due to the slight increase in risk. Management believes that there is acceptable risk associated with this arrangement.

Investment Advisory Services. We provide investment advisory services through Financial's wholly-owned subsidiary, Pettyjohn, Wood & White, Inc. ("PWW"), a Lynchburg-based investment advisor registered with the Securities and Exchange Commission. Financial purchased the issued and outstanding shares of PWW on December 31, 2021. PWW generates revenue primarily through investment advisory fees.

Other Activities

We provide brokerage and investment services through the Bank's Investment division ("Investment Division"). The Investment Division provides securities brokerage services to Bank customers and others through an agreement with Infinex Financial Group, LLC ("Infinex"), a registered broker-dealer. Under our agreement, Infinex operates a service center at the main office located at 828 Main St, Lynchburg, Virginia. To date the operating results of the Investment Division have not had a material impact on our financial performance.

We provide insurance and annuity products through BOTJ Insurance as an agent for national insurance companies. As of the date hereof, we offer the following insurance products: life insurance, fixed annuities, and disability insurance. We began providing these services in September 2008. To date the operating results of BOTJ Insurance have not had a material impact on our financial performance.

Employees

As of March 29, 2022, we had approximately 158 employees, 153 of which are full-time and five of which are part-time. None of our employees are represented by any collective bargaining agreements, and relations with employees are considered excellent. We maintain employee benefit programs that include health insurance, a health savings account, a 401(k) plan, and an employee stock purchase plan.

Location and Market Area

The Bank's market area primarily consists of Region 2000, which encompasses the seven jurisdictions of the Town of Altavista, Amherst County, Appomattox County, the Town of Bedford, Bedford County, Campbell County, and the City of Lynchburg. Region 2000 supports a diverse, well-rounded economy. U.S. Routes 29, 60, 221, 460 and 501 and State Routes 24 and 40 all pass through the trade area and provide efficient access to other regions of the state. Regional airport service and rail service provide additional transportation channels.

Total population in the market area equals approximately 267,000. According to publically available information, the current populations of the localities in the Region 2000 market area were approximately as follows: City of Lynchburg – 82,000; Amherst County – 32,000; Appomattox County – 15,000; Bedford County (including the Town of Bedford) – 79,000; Campbell County (including the Town of Altavista) – 55,000. The area is serviced by one daily newspaper and a number of radio and television stations providing diverse media outlets. Median family income in Region 2000 has risen over the past ten years.

Region 2000 has a broad range of services, light industry, and manufacturing plants. Principal service, industrial, research and development employers include: BWX Technologies, Inc. (nuclear fuel); Framatome (nuclear services); Centra Health, Inc. (health care services); Banker Steel Company, LLC (fabricated steel); Pacific Life (life insurance and other financial products); Frito-Lay, Inc. (snack foods); Griffin Pipe Products Co. (ductile iron pipe); as well as six colleges and universities including Randolph College, Sweet Briar College, Liberty University, and the University of Lynchburg.

In recent years we have expanded into Charlottesville, Virginia (north of Region 2000), Roanoke, Virginia (west of Region 2000), Harrisonburg, Virginia (northwest of Region 2000), Appomattox (east of Region 2000), Blacksburg (southwest of Region 2000), Lexington, Virginia (northwest of Region 2000), and Rustburg, Virginia (south of Region 2000).

Even with this expansion outside of Region 2000, the Bank continues to consider its primary market to be Region 2000.

Competition

Retail and Commercial Banking

The banking business is highly competitive. We compete with other commercial banks, savings institutions, credit unions, financial technology companies, mortgage banking firms, consumer finance companies, securities brokerage firms, insurance companies, and other financial institutions operating in the Region 2000 market area and elsewhere. Many of our nonbank competitors are not subject to the same extensive federal regulations that govern federally-insured banks and state regulations governing state-chartered banks. As a result, such nonbank competitors may have advantages over the Bank in providing certain services.

Virginia law permits statewide branching by banks. Consequently, the Bank's market area is a highly competitive, highly branched banking market. Competition in the market area for loans to individuals, small businesses, and professional concerns, the Bank's target market, is keen, and pricing is important. Most of the Bank's competitors have substantially greater resources and lending limits than the Bank and offer certain services, such as extensive and established branch networks and trust services, that the Bank is not currently providing. Deposit competition is strong and comes from institutions in the market, U.S. Government securities, private issuers of debt obligations and suppliers of other investment alternatives for depositors, among other sources. As a result, the Bank has paid, and may in the future pay, above-market rates to attract deposits.

The adoption of legislation permitting nationwide interstate banking and branching and the use of financial holding companies may also increase competition in the Bank's market area. See "*Supervision and Regulation of Financial*" below.

Mortgage Banking

The Mortgage Division competes with large national and regional banks, credit unions, regional mortgage lenders and local mortgage brokers. Following the 2008 downturn in the economy and subsequent real estate turmoil, the guidelines surrounding agency business (i.e., loans sold to Fannie Mae and Freddie Mac) became much more restrictive and the associated mortgage insurance for loans above 80 percent loan-to-value has continued to tighten. These changes in the conventional market have caused a dramatic increase in government lending and state bond programs. The Mortgage Division competes by attracting the top sales people in our market, providing an operational infrastructure that manages the guideline changes efficiently and effectively, offering a product menu that is both competitive in loan parameters as well as price, and providing consistently high-quality customer service.

Although the Mortgage Division sells loans to various intermediaries, the ability of these aggregators to purchase loans would be limited if certain government-sponsored entities (e.g. Fannie Mae, Freddie Mac, etc.) cease to exist or materially limit their purchases of mortgage loans.

SUPERVISION AND REGULATION OF FINANCIAL

General

Financial, as a bank holding company, and the Bank, as a state-chartered bank, are subject to extensive federal and state laws and regulations. These laws and regulations impose specific requirements or restrictions on and provide for general regulatory oversight of virtually all aspects of our operations. The following briefly summarizes the more significant provisions of applicable federal and state laws, certain regulations and the potential impact of such provisions on Financial and the Bank. These laws and regulations are generally intended to protect depositors, not shareholders. The following summary is qualified by reference to the statutory and regulatory provisions discussed. No assurance can be given that these statutes or regulations will not change.

Changes in applicable laws or regulations may have a material effect on our business and prospects. Our operations may be affected by legislative changes and the policies of various regulatory authorities. We cannot predict the effect that fiscal or monetary policies, economic control, or new federal or state legislation may have on our business and earnings in the future.

Regulation of Financial

General. Financial is subject to the periodic reporting requirements of the Securities and Exchange Act of 1934, as amended (the "Exchange Act"), including the filing with the Securities and Exchange Commission (the "SEC") of annual, quarterly and other reports on the financial condition and performance of the organization. Financial is directly affected by the corporate responsibility and accounting reform legislation signed into law on July 30, 2002, known as the Sarbanes-Oxley Act of 2002 (the "SOx Act"), and the related rules and regulations. The SOx Act includes provisions that, among other things, require that periodic reports containing financial statements that are filed with the SEC be accompanied by chief executive officer and chief financial officer certifications as to the accuracy and compliance with law, additional disclosure requirements and corporate governance and other related rules. Although we are not required to receive an opinion from our external auditors regarding our internal controls over financial reporting under section 404 of the SOx Act because of our status as a smaller reporting company, our management's report on internal control over financial reporting is set forth in Item 9A herein. Financial has expended considerable time and money in complying with the SOx Act and expects to continue to incur additional expenses in the future.

Bank Holding Company Act. As a bank holding company registered under the Bank Holding Company Act of 1956 (the "BHCA"), Financial is subject to regulation and examination by the Board of Governors of the Federal Reserve System (the "Federal Reserve Board"). Financial is required to file with the Federal Reserve Board an annual report and such other additional information as the Federal Reserve Board may require pursuant to the BHCA.

The Federal Reserve Board requires a bank holding company to act as a source of financial and managerial strength and to take measures to preserve and protect its bank subsidiaries. Financial would be compelled by the Federal Reserve Board to invest additional capital in the event the Bank experiences either significant loan losses or rapid growth of loans or deposits.

The Federal Reserve Board has jurisdiction under the BHCA to approve any bank or non-bank acquisition, merger or consolidation proposed by a bank holding company. The BHCA, and other applicable laws and regulations, generally limit the activities of a bank holding company and its subsidiaries to that of banking, managing or controlling banks, or any other activity that is so closely related to banking or to managing or controlling banks as to be a proper incident thereto.

Pursuant to the BHCA, the FRB has the power to order any bank holding company or its subsidiaries to terminate any activity or to terminate its ownership or control of any subsidiary when the FRB has reasonable grounds to believe that continuation of such activity or ownership constitutes a serious risk to the financial soundness, safety or stability of any bank subsidiary of the bank holding company.

The FRB also has the authority to examine the Company and its subsidiaries, as well as any arrangements between the Company and its subsidiaries, with the cost of any such examinations to be borne by the Company. Banking subsidiaries of bank holding companies are also subject to certain restrictions imposed by federal law in dealings with their holding companies and other affiliates.

Gramm-Leach-Bliley Act of 1999. The Gramm-Leach-Bliley Act (the "GLB Act") which was effective March 11, 2000, permits bank holding companies to become financial holding companies and thereby affiliate with securities firms and insurance companies and engage in other activities that are financial in nature. A bank holding company may become a financial holding company by filing a declaration that the bank holding company wishes to become a financial holding company if each of its subsidiary banks (i) is well-capitalized under regulatory prompt corrective action provisions, (ii) is well managed, and (iii) has at least a satisfactory rating under the Community Reinvestment Act ("CRA"). No regulatory approval will be required for a financial holding company to acquire a company, other than a bank or savings association, engaged in activities that are financial in nature or incidental to activities that are financial in nature, as determined by the Federal Reserve Board.

The GLB Act defines "financial in nature" to include securities underwriting, dealing and market making; sponsoring mutual funds and investment companies; insurance underwriting and agency; merchant banking activities; and activities that the Board has determined to be closely related to banking. Subsidiary banks of a financial holding company must continue to be well-capitalized and well-managed in order to continue to engage in activities that are financial in nature without regulatory actions or restrictions, which could include divestiture of the financial in nature subsidiary or subsidiaries. In addition, a financial holding company or a bank may not acquire a company that is engaged in activities that are financial in nature unless each of the subsidiary banks of the financial holding company or the bank has a CRA rating of satisfactory or better.

As discussed in more detail below under "*Confidentiality and Required Disclosure of Consumer Information*," the GLB Act also imposes customer privacy requirements on financial institutions.

The cumulative effect of the GLB Act and other recent bank legislation has caused us to strengthen our staff to handle the procedures required by this additional regulation. The increased staff and operational costs have impacted our profitability. Although the above laws may have a significant impact on the banking industry by promoting, among other things, competition, it is not possible for the management of the Bank to determine, with any degree of certainty, the impact of such laws on the Bank.

Limits on the Payment of Dividends. Financial is a legal entity, separate and distinct from the Bank. Financial currently does not have any significant sources of revenue other than cash dividends paid to it by the Bank. Both Financial and the Bank are subject to laws and regulations that limit the payment of cash dividends, including requirements to maintain capital at or above regulatory minimums. As a bank that is a member of the Federal Reserve System ("state member bank"), the Bank must obtain prior written approval for any cash dividend if the total of all dividends declared in any calendar year would exceed the total of its net profits for that year combined with its retained net profits for the preceding two years.

Banking regulators have indicated that Virginia banking organizations should generally pay dividends only (1) from net undivided profits of the bank, after providing for all expenses, losses, interest and taxes accrued or due by the bank and (2) if the prospective rate of earnings retention appears consistent with the organization's capital needs, asset quality and overall financial condition. In addition, the Federal Deposit Insurance Act (FDIA) prohibits insured depository institutions such as the Bank from making capital distributions, including the payment of dividends, if, after making such distribution, the institution would become undercapitalized as defined in the statute. In addition, the Federal Reserve is authorized to determine under certain circumstances relating to the financial condition of a bank that the payment of dividends would be an unsafe and unsound practice and to prohibit payment thereof. The payment of dividends that deplete a bank's capital base could be deemed to constitute such an unsafe and unsound banking practice. The Federal Reserve has indicated that banking organizations generally pay dividends only out of current operating earnings. In addition, under Virginia law, no dividend may be declared or paid out of a Virginia bank's paid-in capital. The Bank may be prohibited under Virginia law from the payment of dividends if the Virginia Bureau of Financial Institutions determines that a limitation of dividends is in the public interest and is necessary to ensure the Bank's financial soundness, and may also permit the payment of dividends not otherwise allowed by Virginia law.

The Dodd-Frank Act

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Reform Act") was signed into law. The Dodd-Frank Reform Act represents a significant overhaul of many aspects of the regulation of the financial services industry, although many of its provisions (e.g., the interchange and trust preferred capital limitations) apply to companies that are significantly larger than Financial. The Dodd-Frank Reform Act directs applicable regulatory authorities to promulgate regulations implementing its provisions, and its effect on Financial and on the financial services industry as a whole will be clarified as those regulations are issued. Major elements of the Dodd-Frank Reform Act include:

- The Dodd-Frank Reform Act changed the assessment base for federal deposit insurance from the amount of insured deposits to consolidated assets less tangible capital, eliminated the ceiling on the size of the Deposit Insurance Fund (DIF) and increased the floor applicable to the size of the DIF. The Dodd-Frank Act also made permanent the $250,000 limit for federal deposit insurance and increased the cash limit of Securities Investor Protection Corporation protection from $100,000 to $250,000.
- The Dodd-Frank Reform Act repealed the federal prohibitions on the payment of interest on demand deposits, thereby permitting depository institutions to pay interest on business transaction and other accounts.
- The Dodd-Frank Reform Act required new disclosure relating to executive compensation and corporate governance.
- The Dodd-Frank Reform Act implemented amendments to the Truth in Lending Act aimed at improving consumer protections with respect to mortgage originations, including originator compensation, minimum repayment standards, and prepayment considerations.
- The Dodd-Frank Reform Act established the Financial Stability Oversight Council, which will be responsible for identifying and monitoring systemic risks posed by financial firms, activities, and practices.
- The Dodd-Frank Reform Act amended the Electronic Fund Transfer Act (EFTA) to, among other things, require that debit card interchange fees must be reasonable and proportional to the actual cost incurred by the issuer with respect to the transaction. In June 2011, the Federal Reserve Board adopted regulations setting the maximum permissible interchange fee as the sum of 21 cents per transaction and 5 basis points multiplied by the value of the transaction, with an additional adjustment of up to one cent per transaction if the issuer implements additional fraud-prevention standards. Although issuers that have assets of less than $10 billion are exempt from the Federal Reserve Board's regulations that set maximum interchange fees, these regulations are expected to significantly affect the interchange fees that financial institutions with less than $10 billion in assets are able to collect.
- The Dodd-Frank Reform Act eliminated (over time) the inclusion of trust preferred securities as a permitted element of Tier 1 capital.
- The Dodd-Frank Reform Act created a special regime to allow for the orderly liquidation of systemically important financial companies, including the establishment of an orderly liquidation fund.
- The Dodd-Frank Reform Act requires the development of regulations to address derivatives markets, including clearing and exchange trading requirements and a framework for regulating derivatives-market participants.
- The Dodd-Frank Reform Act enhanced supervision of credit rating agencies through the Office of Credit Ratings within the SEC.
- The Dodd-Frank Reform Act established the Consumer Financial Protection Bureau, within the Federal Reserve, to serve as a dedicated consumer-protection regulatory body. The Consumer Financial Protection Bureau is responsible for implementing, examining and enforcing compliance with federal consumer financial laws for institutions with more than $10 billion of assets and, to a lesser extent, small institutions. As a smaller institution, most consumer protection aspects of the Dodd-Frank Reform Act will continue to be overseen by the Federal Reserve.
- The Dodd-Frank Act allows banks to engage in de novo interstate branching, a practice that was previously significantly limited.

Many aspects of the Dodd-Frank Reform Act are subject to rulemaking and will take effect over several years. As a result, it is difficult to anticipate the overall impact of the act on Financial. Financial continues to evaluate the potential impact of the Dodd-Frank Reform Act.

Incentive Compensation

In June 2010, the Federal Reserve, the Office of the Comptroller of the Currency ("OCC") and the FDIC issued comprehensive final guidance on incentive compensation intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of such organizations by encouraging excessive risk-taking. The guidance, which covers all employees that have the ability to materially affect the risk profile of an organization, either individually or as part of a group, is based upon the key principles that a banking organization's incentive compensation arrangements should (i) provide incentives that do not encourage risk-taking beyond the organization's ability to effectively identify and manage risks, (ii) be compatible with effective internal controls and risk management, and (iii) be supported by strong corporate governance, including active and effective oversight by the organization's board of directors.

The Federal Reserve will review, as part of the regular, risk-focused examination process, the incentive compensation arrangements of banking organizations, such as Financial, that are not "large, complex banking organizations." These reviews will be tailored to each organization based on the scope and complexity of the organization's activities and the prevalence of incentive compensation arrangements. The findings of the supervisory initiatives will be included in reports of examination. Deficiencies will be incorporated into the organization's supervisory ratings, which can affect the organization's ability to make acquisitions and take other actions. Enforcement actions may be taken against a banking organization if its incentive compensation arrangements, or related risk-management control or governance processes, pose a risk to the organization's safety and soundness and the organization is not taking prompt and effective measures to correct the deficiencies.

The Dodd-Frank Reform Act requires the SEC and the federal bank regulatory agencies to establish joint regulations or guidelines that require financial institutions with assets of at least $1 billion to disclose the structure of their incentive compensation practices and prohibit such institutions from maintaining compensation arrangements that encourage inappropriate risk-taking by providing excessive compensation or that could lead to material financial loss to the financial institution.

The Regulatory Relief Act

The Regulatory Relief Act was enacted to modify or remove certain financial reform rules and regulations, including some of those implemented under the Dodd-Frank Act. While it maintains the majority of the regulatory structure established by the Dodd-Frank Act, the Regulatory Relief Act amends certain aspects for small depository institutions with less than $10 billion in assets, such as the Bank. Sections in the Regulatory Relief Act address access to mortgage credit; consumer access to credit; protections for veterans, consumers, and homeowners; rules for certain bank or financial holding companies; capital access; and protections for student borrowers. Financial and the Bank will focus on the implementing rules and guidance for the various provisions in each section of the Regulatory Relief Act that impact their operations and activities.

Pursuant to the Regulatory Relief Act, on September 17, 2019, the federal banking agencies adopted a final rule regarding a community bank leverage ratio. Under the final rule, which was effective on January 1, 2021, depository institutions and depository institution holding companies that have less than $10 billion in total consolidated assets and meet other qualifying criteria, including a leverage ratio (equal to Tier 1 capital divided by average total consolidated assets) of greater than 9 percent, will be eligible to opt into the community bank leverage ratio framework (qualifying community banking organizations). Qualifying community banking organizations that elect to use the community bank leverage ratio framework and that maintain a leverage ratio of greater than 9 percent will be considered to have satisfied the generally applicable risk-based and leverage capital requirements in the agencies' capital rules (generally applicable rule) and, if applicable, will be considered to have met the well-capitalized ratio requirements for purposes of section 38 of the Federal Deposit Insurance Act.

The Regulatory Relief Act also expands the universe of holding companies that are permitted to rely on the “Small Bank Holding Company and Savings and Loan Holding Company Policy Statement.” The asset size of a qualifying holding company was increased from $1 billion to $3 billion on August 30, 2018, thus excluding holding companies in this category from consolidated capital requirements. However, subsidiary depository institutions continue to be subject to minimum capital requirements.

Further, the Regulatory Relief Act decreased the burden for community banks in regards to call reports, the Volcker Rule (which generally restricts banks from engaging in certain investment activities and limits involvement with hedge funds and private equity firms), mortgage disclosures, and risk weights for some high-risk commercial real estate loans. On December 28, 2018, the federal banking agencies issued a final rule increasing the asset threshold to qualify for an 18-month examination cycle from $1 billion to $3 billion for qualifying institutions that are well capitalized, well managed and meet certain other requirements.

Any number of the provisions of the Regulatory Relief Act may have the effect of increasing our expenses, decreasing our revenues, or changing the activities in which we choose to engage. The environment in which banking organizations operate, including legislative and regulatory changes affecting capital, liquidity, supervision, permissible activities, corporate governance and compensation, changes in fiscal policy and steps to eliminate government support for banking organizations, may have long-term effects on the profitability of banking organizations that cannot now be foreseen.

It is difficult at this time to determine the direct impact of the Regulatory Relief Act on Financial or the Bank. Implementing rules and regulations are required and many have not yet been written or finalized.

Regulation of the Bank

The Bank is a Virginia chartered commercial bank and a state member bank. The Bank’s deposit accounts are insured by the Deposit Insurance Fund (“DIF”) of the FDIC up to the maximum legal limits of the FDIC and it is subject to regulation, supervision and regular examination by the Virginia Bureau of Financial Institutions and the Federal Reserve. The regulations of these various agencies govern most aspects of the Bank’s business, including required reserves against deposits, loans, investments, mergers and acquisitions, borrowings, dividends and location and number of branch offices. The laws and regulations governing the Bank generally have been promulgated to protect depositors and the deposit insurance funds, and not for the purpose of protecting shareholders.

General. As a state-chartered commercial bank, the Bank and its subsidiaries are subject to regulation, supervision and examination by the Federal Reserve and the Virginia State Corporation Commission’s Bureau of Financial Institutions (the “BFI”). As such, the Bank is subject to various statutes and regulations administered by these agencies that govern, among other things, required reserves, investments, loans, lending limits, acquisitions of fixed assets, interest rates payable on deposits, transactions among affiliates and the Bank, the payment of dividends, mergers and consolidations, and establishment of branch offices.

The earnings of the Bank are affected by general economic conditions, management policies and the legislative and governmental actions of the various regulatory authorities, including those referred to above.

FDIC Insurance Premiums. The FDIC's DIF provides insurance coverage for certain deposits, which insurance is funded through assessments on banks, like the Bank. Pursuant to the Dodd-Frank Act, the amount of deposit insurance coverage for deposits increased to $250,000 per depositor, subject to aggregation rules. Pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”), the

FDIC has established 2.0% as the designated reserve ratio (the “DRR”), that is, the ratio of the DIF to insured deposits. The Dodd-Frank Act directs the FDIC to amend its assessment regulations so that future assessments will generally be based upon a depository institution's average total consolidated assets minus the average tangible equity of the insured depository institution during the assessment period, whereas assessments were previously based on the amount of an institution's insured deposits. The minimum DIF rate has increased from 1.15% to 1.35%, and the cost of the increase will be borne by depository institutions with assets of $10 billion or more. At least semi-annually, the FDIC will update its loss and income projections for the DIF and, if needed, will increase or decrease assessment rates, following notice-and-comment rule making if required.

In 2021, the Bank expensed $548,000 in FDIC assessments which compared to $336,000 in 2020. Any increases in FDIC insurance premiums could adversely affect the Bank’s profitability.

After giving primary regulators an opportunity to first take action, FDIC may initiate an enforcement action against any depository institution it determines is engaging in unsafe or unsound actions or which is in an unsound condition, and the FDIC may terminate that institution’s deposit insurance.

Capital Requirements. On June 7, 2012, the Federal Reserve issued a series of proposed rules that would revise and strengthen its risk-based and leverage capital requirements and its method for calculating risk-weighted assets. The rules were proposed to implement the Basel III regulatory capital reforms from the Basel Committee on Banking Supervision and certain provisions of the Dodd-Frank Reform Act. On July 2, 2013, the Federal Reserve approved certain revisions to the proposals and finalized new capital requirements for banking organizations.

Effective January 1, 2015, the final rules required the Bank to comply with the following new minimum capital ratios: (i) a new common equity Tier 1 capital ratio of 4.5% of risk-weighted assets; (ii) a Tier 1 capital ratio of 6.0% of risk-weighted assets (increased from the previous requirement of 4.0%); (iii) a total capital ratio of 8.0% of risk-weighted assets (unchanged from the previous requirement); and (iv) a leverage ratio of 4.0% of total assets. These were the initial capital requirements, which were phased in over a five-year period. As fully phased in on January 1, 2019, the rules require the Bank to maintain (i) a minimum ratio of common equity Tier 1 to risk-weighted assets of at least 4.5%, plus a 2.5% “capital conservation buffer” (which is added to the 4.5% common equity Tier 1 ratio as that buffer is phased in, effectively resulting in a minimum ratio of common equity Tier 1 to risk-weighted assets of at least 7.0% upon full implementation), (ii) a minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0%, plus the capital conservation buffer (which is added to the 6.0% Tier 1 capital ratio as that buffer is phased in, effectively resulting in a minimum Tier 1 capital ratio of 8.5% upon full implementation), (iii) a minimum ratio of total capital to risk-weighted assets of at least 8.0%, plus the capital conservation buffer (which is added to the 8.0% total capital ratio as that buffer is phased in, effectively resulting in a minimum total capital ratio of 10.5% upon full implementation), and (iv) a minimum leverage ratio of 4.0%, calculated as the ratio of Tier 1 capital to average assets.

The capital conservation buffer requirement was phased in beginning January 1, 2016, at 0.625% of risk-weighted assets, increasing each year until it was fully implemented at 2.5% on January 1, 2019. The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of common equity Tier 1 to risk-weighted assets above the minimum but below the conservation buffer will face constraints on dividends, equity repurchases, and compensation based on the amount of the shortfall.

With respect to the Bank, the rules also revised the “prompt corrective action” regulations pursuant to Section 38 of the FDIA by (i) introducing a common equity Tier 1 capital ratio requirement at each level (other than critically undercapitalized), with the required ratio being 6.5% for well-capitalized status; (ii) increasing the minimum Tier 1 capital ratio requirement for each category, with the minimum ratio for well-capitalized status being 8.0% (as compared to the previous 6.0%); and (iii) eliminating the current provision that provides that a bank with a composite supervisory rating of 1 may have a 3.0% Tier 1 leverage ratio and still be well-capitalized.

The capital requirements also included changes in the risk weights of assets to better reflect credit risk and other risk exposures. These included a 150% risk weight (up from 100%) for certain high volatility commercial real estate acquisition, development and construction loans and nonresidential mortgage loans that are 90 days past due or otherwise on non-accrual status, a 20% (up from 0%) credit conversion factor for the unused portion of a commitment with an original maturity of one year or less that is not unconditionally cancellable, a 250% risk weight (up from 100%) for mortgage servicing rights and deferred tax assets that are not deducted from capital, and increased risk-weights (from 0% to up to 600%) for equity exposures.

As discussed above under "*Supervision and Regulation - The Regulatory Relief Act*," recently enacted legislation directs the federal bank regulatory agencies to develop a "Community Bank Leverage Ratio," calculated by dividing tangible equity capital by average consolidated total assets, of not less than 8% and not more than 10%. On September 17, 2019, pursuant to the Regulatory Relief Act, the federal banking agencies adopted a final rule setting a community bank leverage ratio of 9%. If a "qualified community bank," generally a depository institution or depository institution holding company with consolidated assets of less than $10 billion, has a leverage ratio which exceeds the Community Bank Leverage Ratio, then such bank will be considered to have met all generally applicable leverage and risk based capital requirements; the capital ratio requirements for "well capitalized" status under Section 38 of the FDIA, and any other leverage or capital requirements to which it is subject. In response to the COVID-19 pandemic, regulatory authorities lowered the tier 1 leverage ratio required under the community bank leverage ratio framework to 8.5% and 8.0% for 2021 and 2020, respectively. The Community Bank Leverage Ratio returned to 9% on January 1, 2022.

The asset size of a qualifying holding company was increased from $1 billion to $3 billion on August 30, 2018, thus excluding holding companies in this category from consolidated capital requirements.

Because total assets on a consolidated basis are less than $3 billion, Financial is not subject to the consolidated capital requirements imposed by the Bank Holding Company Act. Although the Company's subsidiary depository institution continues to be subject to minimum capital requirement, it is unlikely that the Company will be required to comply with the consolidated capital rules until well into the future.

Transactions with Affiliates. The Bank is subject to the provisions of Section 23A and 23B of the Federal Reserve Act and Federal Reserve Regulation W of the Federal Reserve Bank which place limits on the amount of loans or extensions of credit to affiliates (as defined in the Federal Reserve Act), investments in or certain other transactions with affiliates and on the amount of advances to third parties collateralized by the securities or obligations of affiliates. The law and regulation limit the aggregate amount of transactions with any individual affiliate to ten percent (10%) of the capital and surplus of the Bank and also limit the aggregate amount of transactions with all affiliates to twenty percent (20%) of capital and surplus. Loans and certain other extensions of credit to affiliates are required to be secured by collateral in an amount and of a type described in the regulation, and the purchase of low-quality assets from affiliates is generally prohibited. The law and Regulation W also, among other things, prohibit an institution from engaging in certain transactions with certain affiliates (as defined in the Federal Reserve Act) unless the transactions are on terms substantially the same, or at least as favorable to such institution and/or its subsidiaries, as those prevailing at the time for comparable transactions with non-affiliated entities. In the absence of comparable transactions, such transactions may only occur under terms and circumstances, including credit standards that in good faith would be offered to or would apply to non-affiliated companies.

Loans to Insiders. The Bank is subject to the restrictions contained in Section 22(h) of the Federal Reserve Act and the Federal Reserve Board's Regulation O thereunder on loans to executive officers, directors and principal stockholders. Under Section 22(h), loans to a director, an executive officer or a greater-than-10%

stockholder of a bank as well as certain affiliated interests of any of the foregoing may not exceed, together with all other outstanding loans to such person and affiliated interests, the loans-to-one-borrower limit applicable to national banks (generally 15% of the institution's unimpaired capital and surplus), and all loans to all such persons in the aggregate may not exceed the institution's unimpaired capital and unimpaired surplus. Regulation O also prohibits the making of loans in an amount greater than $25,000 or 5% of capital and surplus but in any event not over $500,000, to directors, executive officers and greater-than-10% stockholders of a bank, and their respective affiliates, unless such loans are approved in advance by a majority of the board of directors of the bank with any "interested" director not participating in the voting. Furthermore, Regulation O requires that loans to directors, executive officers and principal stockholders of a bank be made on terms substantially the same as those that are offered in comparable transactions to unrelated third parties unless the loans are made pursuant to a benefit or compensation program that is widely available to all employees of the bank and does not give preference to insiders over other employees. Regulation O also prohibits a depository institution from paying overdrafts over $1,000 of any of its executive officers or directors unless they are paid pursuant to written pre-authorized extension of credit or transfer of funds plans.

All of the Bank's loans to its and the Company's executive officers, directors and greater-than-10% stockholders, and affiliated interests of such persons, comply with the requirements of Regulation W and Section 22(h) of the Federal Reserve Act and Regulation O.

Community Reinvestment Act. The Community Reinvestment Act ("CRA") requires that, in connection with examinations of financial institutions within their respective jurisdictions, the Federal Reserve Board, the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency or the Office of Thrift Supervision shall evaluate the record of the financial institutions in meeting the credit needs of their local communities, including low and moderate income neighborhoods, consistent with the safe and sound operation of those institutions. The CRA does not establish specific lending requirements or programs for financial institutions nor does it limit an institution's discretion to develop the types of products and services that it believes are best suited to its particular community, consistent with the CRA. An institution's CRA activities are considered in, among other things, evaluating mergers, acquisitions and applications to open a branch or facility, as well as determining whether the institution will be permitted to exercise certain of the powers allowed by the GLB Act. The CRA also requires all institutions to make public disclosure of their CRA ratings. The Bank currently has a CRA rating of "satisfactory."

Safety and Soundness. The federal banking agencies have broad powers under current federal law to take prompt corrective action to resolve problems of insured depository institutions. The extent of these powers depends upon whether the institutions in question are "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized," or "critically undercapitalized," all such terms are defined under uniform regulations defining such capital levels issued by each of the federal banking agencies. An insured depository institution which is less than adequately capitalized must adopt an acceptable capital restoration plan, is subject to increased regulatory oversight and is increasingly restricted in the scope of its permissible activities. As of December 31, 2021, the Bank was considered "well-capitalized."

Regulatory Enforcement Authority. Applicable banking laws include substantial enforcement powers available to federal banking regulators. This enforcement authority includes, among other things, the ability to assess civil money penalties, to issue cease-and-desist or removal orders and to initiate injunctive actions against banking organizations and institution-affiliated parties. In general, these enforcement actions may be initiated for violations of laws and regulations and unsafe or unsound practices. Other actions or inactions, including the filing of misleading or untimely reports with regulatory authorities, may provide the basis for enforcement action.

Confidentiality and Required Disclosures of Consumer Information. The Bank is subject to various laws and regulations that address the privacy of nonpublic personal financial information of consumers. The Gramm-

Leach-Bliley Act and certain regulations issued thereunder protect against the transfer and use by financial institutions of consumer nonpublic personal information. A financial institution must provide to its customers, at the beginning of the customer relationship and annually thereafter, the institution's policies and procedures regarding the handling of customers' nonpublic personal financial information. These privacy provisions generally prohibit a financial institution from providing a customer's personal financial information to unaffiliated third parties unless the institution discloses to the customer that the information may be so provided and the customer is given the opportunity to opt out of such disclosure.

In August, 2018, the CFPB published its final rule to update Regulation P pursuant to the amended GLB Act. Under this rule, certain qualifying financial institutions are not required to provide annual privacy notices to customers. To qualify, a financial institution must not share nonpublic personal information about customers except as described in certain statutory exceptions which do not trigger a customer's statutory opt-out. In addition, the financial institution must not have changed its disclosure policies and practices from those disclosed in its most recent privacy notice. The rule sets forth timing requirements for delivery of annual privacy notices in the event that a financial institution that qualified for the annual notice exemption later changes its policies or practices in such a way that it no longer qualifies for the exemption.

The Bank is also subject to various laws and regulations that attempt to combat money laundering and terrorist financing. The Bank Secrecy Act requires all financial institutions to, among other things, create a system of controls designed to prevent money laundering and the financing of terrorism, and imposes recordkeeping and reporting requirements. The USA Patriot Act facilitates information sharing among governmental entities and financial institutions for the purpose of combating terrorism and money laundering, and requires financial institutions to establish anti-money laundering programs. The Office of Foreign Assets Control ("OFAC"), which is a division of the U.S. Department of the Treasury, is responsible for helping to ensure that United States entities do not engage in transactions with "enemies" of the United States, as defined by various Executive Orders and Acts of Congress. If the Bank finds a name of an "enemy" of the United States on any transaction, account or wire transfer that is on an OFAC list, it must freeze such account or place transferred funds into a blocked account, file a suspicious activity report with the Treasury and notify the FBI.

Mortgage Banking Regulation. The Bank's Mortgage Division is subject to the rules and regulations by the Department of Housing and Urban Development ("HUD"), the Federal Housing Administration (the "FHA"), the Department of Veteran Affairs and state regulatory authorities with respect to originating, processing, servicing and selling mortgage loans. Those rules and regulations, among other things, establish standards for loan origination, prohibit discrimination, provide for inspections and appraisals of property, require credit reports on prospective borrowers and, in some cases, restrict certain loan features, and fix maximum interest rates and fees. In addition to other federal laws, mortgage origination activities are subject to the Equal Credit Opportunity Act, Truth-in-Lending Act, Home Mortgage Disclosure Act, the Real Estate Settlement Procedures Act, and the Home Ownership Equity Protection Act, and the regulations promulgated thereunder. These laws prohibit discrimination, require the disclosure of certain basic information to mortgagors concerning credit and settlement costs, limit payment for settlement services to the reasonable value of the services rendered and require the maintenance and disclosure of information regarding the disposition of mortgage applications based on race, gender, geographical distribution and income level.

Effect of Governmental Monetary Policies

Our earnings are affected by domestic economic conditions and the monetary and fiscal policies of the United States government and its agencies. The Federal Reserve Bank's monetary policies have had, and are likely to continue to have, an important impact on the operating results of commercial banks through its power to implement national monetary policy in order, among other things, to curb inflation or combat a recession. The monetary policies of the Federal Reserve Board have major effects upon the levels of bank loans, investments and deposits through its open market operations in United States government securities and through its regulation of the discount rate on borrowings of member banks and the reserve requirements against member bank deposits. It is not possible to predict the nature or impact of future changes in monetary and fiscal policies.

Future Regulatory Uncertainty

Legislative and regulatory proposals regarding changes in banking, and the regulation of banks, federal savings institutions, and other financial institutions and bank and bank holding company powers are being considered by the executive branch of the federal government, Congress and various state governments. Certain of these proposals, if adopted, could significantly change the regulation or operations of banks and the financial services industry. New regulations and statutes are regularly proposed that contain wide-ranging proposals for altering the structures, regulations, and competitive relationships of the nation's financial institutions.

Because federal regulation of financial institutions changes regularly and is the subject of constant legislative debate, we cannot forecast how federal regulation of financial institutions may change in the future and impact our operations. The recent economic environment has required a greater degree of coordination and overlap of the duties and responsibilities of the U.S. Treasury, federal and state banking regulators and the FDIC. We fully expect that the financial institution industry will remain heavily regulated in the near future and that additional laws or regulations may be adopted further regulating specific banking practices. We cannot predict whether or in what form any proposed regulation or statute will be adopted or the extent to which our business may be affected by any new regulation or statute.

Item 1A. Risk Factors

RISK FACTORS

In addition to the other information included in this Annual Report on Form 10-K, the following risk factors should be carefully considered in connection with evaluating our business and any forward-looking statements contained herein. Our business, financial condition, results of operations and cash flows could be harmed by any of the risk factors described below, or other risks that have not been identified or which we believe are immaterial or unlikely. If one or more of these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, our business, financial condition, operating results and cash flows could be materially adversely affected.

RISKS RELATED TO OUR BUSINESS

Our profitability depends significantly on local economic conditions.

Our success depends primarily on the general economic conditions of the primary markets in Virginia in which we operate and where our loans are concentrated. Unlike nationwide banks that are more geographically diversified, the Company provides banking and financial services to customers primarily in the Lynchburg metropolitan statistical area ("MSA"). Lynchburg's MSA, which is often referred to as Region 2000, consists of approximately 2,122 square miles, and includes the City of Lynchburg and the Counties of Bedford, Campbell, Amherst and Appomattox. To a lesser extent, our lending market includes the Roanoke, Charlottesville and Harrisonburg MSAs. Our branches in localities outside of Region 2000 have a short operating history. As of December 2021, the Lynchburg MSA had an unemployment rate (seasonally adjusted) of 2.7%, as compared to a statewide average unemployment rate of 3.3%.

The local economic conditions in these areas have a significant impact on the Company's commercial and industrial, real estate and construction loans, the ability of its borrowers to repay their loans and the value of the collateral securing these loans. In addition, if the population or income growth in the Company's market areas is slower than projected, income levels, deposits and housing starts could be adversely affected and could result in a reduction of the Company's expansion, growth and profitability. If the Company's market areas experience a downturn or a recession for a prolonged period of time, the Company could experience significant increases in nonperforming loans, which could lead to operating losses, impaired liquidity and eroding capital. A significant decline in general economic conditions, caused by inflation, recession, acts of terrorism, outbreaks of hostilities or other international or domestic calamities, unemployment, monetary and fiscal policies of the federal government or other factors could impact these local economic conditions and could negatively affect the Company's financial condition, results of operations and cash flows.

***The Company's business, financial condition, liquidity and results of operations have been, and may continue to be, adversely affected by the COVID-19 pandemic*.**

The COVID-19 pandemic negatively impacted the local, state, national, and world economies. The pandemic created economic and financial disruptions that have adversely affected, and have the potential to continue to adversely affect, the Company's business, financial condition, liquidity and results of operations. The extent to which the COVID-19 pandemic will continue to negatively affect our business, financial condition, liquidity and results of operations will depend on future developments, which are highly uncertain and cannot be predicted, including the scope and duration of the pandemic, the continued effectiveness of the Company's business continuity plan, the direct and indirect impact of the pandemic on the Company's employees, customers, clients, and service providers, as well as other market participants, and actions taken by governmental authorities and other third parties in response to the pandemic.

The COVID-19 pandemic has contributed to or resulted in:

- Employment shortages and decreased consumer confidence and business generally.
- Temporary closures of many businesses and the institution of social distancing or other measurements.
- Ratings downgrades, credit deterioration and some defaults in several industries, including natural resources, hospitality, transportation and commercial real estate.
- Volatility in the rates and yields on U.S. Treasury securities.
- Unpredictable demands on capital and liquidity.
- Heightened cybersecurity, information security and operational risks as a result of work-from-home arrangements.

As a result:

- The demand for our products and services could be significantly impacted, which could decrease our net interest income and adversely affect our revenue and net income.
- We could have an increase in customer delinquencies and loan defaults, including defaults on unsecured loans, and further increases in our allowance for loan losses and foreclosures.
- The decline in rates and yields has had a negative effect on our yields on assets which has compressed our net interest margin.

Governmental authorities took unprecedented measures to provide economic assistance to individual households and businesses, stabilize the markets and support economic growth. The consequences of these measures may not be sufficient to fully mitigate the negative impact of the COVID-19 pandemic. The Company also faces an increase in governmental and regulatory scrutiny as a result of the effects of COVID-19 on market and economic conditions and actions governmental authorities take in response to those conditions.

The extent to which the COVID-19 pandemic continues to impact our business, results of operation, and financial condition, as well as our regulatory capital and liquidity ratios, will depend on future developments, which are highly uncertain and cannot be predicted, including the scope and duration of the pandemic and the actions taken by governmental authorities and other third parties in response to the pandemic.

The length of the pandemic and the long term consequences of the extraordinary measures being put in place to address it are unknown. Even after the pandemic subsides, the U.S. economy may experience a recession, and the Company anticipates the Company's businesses would be materially and adversely affected by a prolonged recession. To the extent the pandemic adversely affects the Company's business, financial condition, liquidity or results of operations, it may also have the effect of heightening many of the other risks described in the section.

A significant portion of our loan portfolio is secured by real estate, and events that negatively impact the real estate market could hurt our business.

A substantial majority of our loans have real estate as a primary or secondary component of collateral. The real estate collateral in each case provides an alternate source of repayment in the event of default by the borrower and may deteriorate in value during the time the credit is extended. Because most of our loans are concentrated in the Region 2000 area in and surrounding the City of Lynchburg, a decline in local economic conditions may have a greater effect on our earnings and capital than on the earnings and capital of larger financial institutions whose real estate loan portfolios are more geographically diverse. A weakening of the real estate market in our primary market areas could result in an increase in the number of borrowers who default on their loans and a reduction in the value of the collateral securing their loans, which in turn could have an adverse effect on our profitability and asset quality. If we are required to liquidate the collateral securing a loan to satisfy the debt during a period of reduced real estate values, our earnings and capital could be adversely affected. Additionally, acts of nature, including hurricanes, tornados, earthquakes, fires and floods, which may cause uninsured damage and other loss of value to real estate that secures these loans, may also negatively impact our financial condition.

Our loan portfolio contains a number of real estate loans with relatively large balances.

A significant portion of our total loan portfolio contains real estate loans with balances in excess of $1,000,000. The deterioration of one or a few of these loans could cause a significant increase in nonperforming loans, which could result in a net loss of earnings, an increase in the provision for loan losses and an increase in loan charge-offs, all of which could have a material adverse effect on our financial condition and results of operations.

Commercial real estate loans increase our exposure to credit risk.

A majority of our loan portfolio is secured by commercial real estate. Loans secured by commercial real estate are generally viewed as having more risk of default than loans secured by residential real estate or consumer loans because repayment of the loans often depends on the successful operation of the property, the income stream of the borrowers, the accuracy of the estimate of the property’s value at completion of construction and the estimated cost of construction. An adverse development with respect to one lending relationship can expose us to a significantly greater risk of loss as compared with a single-family residential mortgage loan because we typically have more than one loan with such borrowers. Additionally, these loans typically involve larger loan balances to single borrowers or groups of related borrowers compared with single-family residential mortgage loans. Therefore, the deterioration of one or a few of these loans could cause a significant decline in the related asset quality. These loans represent higher risk and could result in a sharp increase in loans charged-off and could require us to significantly increase our allowance for loan losses, which could have a material adverse impact on our business, financial condition, results of operations and cash flows.

A percentage of the loans in our portfolio currently include exceptions to our loan policies and supervisory guidelines.

All of the loans that we make are subject to written loan policies adopted by our board of directors and to supervisory guidelines imposed by our regulators. Our loan policies are designed to reduce the risks associated with the loans that we make by requiring our loan officers to take certain steps that vary depending on the type and amount of the loan, prior to closing a loan. These steps include, among other things, making sure the proper liens are documented and perfected on property securing a loan, and requiring proof of adequate insurance coverage on property securing loans. Loans that do not fully comply with our loan policies are known as "exceptions." We categorize exceptions as policy exceptions, financial statement exceptions and document exceptions. As a result of these exceptions, such loans may have a higher risk of loan loss than the other loans in our portfolio that fully comply with our loan policies. In addition, we may be subject to regulatory action by federal or state banking authorities if they believe the number of exceptions in our loan portfolio represents an unsafe banking practice.

As a community bank, we have different lending risks than larger banks. We provide services to individuals and small to medium-sized businesses in our local markets who may have fewer financial resources to weather a downturn in the economy.

Our ability to diversify our economic risks is limited by our own local markets and economies. We lend primarily to small to medium-sized businesses, professionals and individuals, which may expose us to greater lending risks than those of banks lending to larger, better-capitalized businesses with longer operating histories. For instance, small to medium-sized businesses frequently have smaller market share than their competition, may be more vulnerable to economic downturns, have fewer financial resources in terms of capital or borrowing capacity than larger entities, often need substantial additional capital to expand or compete and may experience significant volatility in operating results. Any one or more of these factors may impair the borrower's ability to repay a loan. In addition, the success of a small to medium-sized business often depends on the management talents and efforts of one or two persons or a small group of persons, and the death, disability or resignation of one or more of these persons could have a material adverse impact on the business and its ability to repay a loan. Economic downturns and other events that negatively impact the Company's market areas could cause the Company to incur substantial credit losses that could negatively affect the Company's results of operations and financial condition.

We depend on the accuracy and completeness of information about clients and counterparties, and our financial condition could be adversely affected if we rely on misleading information.

In deciding whether to extend credit or to enter into other transactions with clients and counterparties, we may rely on information furnished to us by or on behalf of clients and counterparties, including financial statements and other financial information, which we do not independently verify as a matter of course. We also may rely on representations of clients and counterparties as to the accuracy and completeness of that information and, with respect to financial statements, on reports of independent auditors. For example, in deciding whether to extend credit to customers, we may assume that a customer's audited financial statements conform with U.S. Generally Accepted Accounting Principles ("GAAP") and present fairly, in all material respects, the financial condition, results of operations and cash flows of the customer. Our financial condition and results of operations could be negatively impacted to the extent we rely on financial statements that do not comply with GAAP or are materially misleading.

If we suffer loan losses from a decline in credit quality, our earnings will decrease.

We could sustain losses if borrowers, guarantors or related parties fail to perform in accordance with the terms of their loans. We have adopted underwriting and credit monitoring procedures and policies, including the establishment and review of the allowance for loan losses, that we believe are appropriate to minimize this risk by assessing the likelihood of nonperformance, tracking loan performance and diversifying our credit portfolio. These policies and procedures, however, may not prevent unexpected losses that could materially adversely affect our results of operations.

These policies and procedures necessarily rely on our making various assumptions and judgments about the collectability of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of many of our loans. In determining the amount of the allowance for loan losses, we review our loans and our loss and delinquency experience, and we evaluate economic conditions. If our assumptions are incorrect, our allowance for loan losses may not be sufficient to cover probable incurred losses in our loan portfolio, resulting in additions to our allowance. Any future additions to our allowance could materially decrease our net income.

In addition, the Federal Reserve Bank of Richmond and the Virginia Bureau of Financial Institutions (the “BFI”) periodically review our allowance for loan losses and may require us to increase our provision for loan losses or recognize further loan charge-offs. Any increase in our allowance for loan losses or loan charge-offs as required by regulatory authorities might have a material adverse effect on our financial condition and results of operations.

Our allowance may not be adequate to cover actual loan losses.

A significant source of risk arises from the possibility that we could sustain losses due to loan defaults and nonperformance on loans. We maintain an allowance in accordance with GAAP to provide for such defaults and other nonperformance. As of December 31, 2021, our allowance as a percentage of total loans was 1.19% and our allowance as a percentage of nonperforming loans was 724.84%. The determination of the appropriate level of allowance is an inherently difficult process and is based on numerous assumptions. The amount of future losses is susceptible to changes in economic, operating and other conditions, including changes in interest rates, many of which are beyond our control. In addition, our underwriting policies, adherence to credit monitoring processes and risk management systems and controls may not prevent unexpected losses. Our allowance may not be adequate to cover actual loan losses. Moreover, any increase in our allowance will adversely affect our earnings by decreasing our net income.

In June 2016, the Financial Accounting Standards Board decided to change how banks estimate losses in the allowance calculation, and it issued ASU 2016-13, Financial Instruments-Credit Losses. Currently, the impairment model is based on incurred losses, and loans are recognized as impaired when there is no longer an assumption that future cash flows will be collected in full under the originally contracted terms. This model will be replaced by the new Current Expected Credit Losses (“CECL”) model that will become effective for us, as a smaller reporting company, for the first interim and annual reporting periods beginning after December 15, 2022. Under the new CECL model, we will be required to use historical information, current conditions and reasonable and supportable forecasts to estimate the expected loss over the life of the loan. The transition to the CECL model will bring with it significantly greater data requirements and changes to methodologies to accurately account for expected losses under the new parameters.

Management is currently evaluating the impact of these changes to our financial position and results of operations. The allowance is a material estimate of ours, and given the change from an incurred loss model to a methodology that considers the credit loss over the life of the loan, there is the potential for an increase in the allowance at adoption date. We anticipate a significant change in the processes and procedures to calculate the allowance, including changes in assumptions and estimates to consider expected credit losses over the life of the loan versus the current accounting practice that utilizes the incurred loss model. We expect to continue developing and implementing processes and procedures to ensure we are fully compliant with the CECL requirements at its adoption date.

The markets for our deposit and lending products and services are highly competitive, and we face substantial competition.

The banking and financial services industry is highly competitive. We compete as a financial intermediary with other commercial banks, savings banks, credit unions, finance companies, mutual funds, insurance companies and brokerage and investment banking firms soliciting business from residents of and businesses located in the Virginia localities where the Bank has a presence, surrounding areas and elsewhere. Many of these competing institutions have nationwide or regional operations and have greater resources than we have. We also face competition from local community institutions. Many of our competitors enjoy competitive advantages, including greater name recognition, financial resources, a wider geographic presence or more accessible branch office locations, the ability to offer additional services, greater marketing resources, more favorable pricing alternatives for loans and deposits and lower origination and operating costs. We are also subject to lower lending limits than our larger competitors. Our profitability depends upon our continued ability to successfully compete in our market areas. Increased deposit competition could increase our cost of funds and could adversely affect our ability to generate the funds necessary for our lending operations. If we must raise interest rates paid on deposits or lower interest rates charged on our loans, our net interest margin and profitability could be adversely affected. Competition could result in a decrease in loans we originate and could negatively affect our ability to grow and our results of operations.

Technology has lowered barriers to entry and made it possible for non-banks to offer products and services traditionally provided by banks, such as automatic transfer and automatic payment systems. Many of our competitors have fewer regulatory constraints and may have lower cost structures. Additionally, due to their size, many competitors may be able to achieve economies of scale and, as a result, may offer a broader range of products and services as well as better pricing for those products and services.

We have increased and plan to continue to increase our levels of commercial and industrial loans. We may not be successful in continuing to penetrate this market segment, which has helped to drive some of our recent earnings.

A significant percentage of our loans are commercial and industrial loans. Our portfolio of commercial and industrial loans has increased during the past year.

While we intend to originate these types of loans in a manner that is consistent with safety and soundness, these non-residential loans generally expose us to greater risk of loss than one- to four-family residential mortgage loans, as repayment of such commercial and industrial loans generally depends, in large part, on the borrower's business to cover operating expenses and debt service. In addition, these types of loans typically involve larger loan balances to single borrowers or groups of related borrowers, as compared to one- to four-family residential mortgage loans. Changes in economic conditions that are beyond our or the borrower's control could adversely affect the value of the security for the loan, including the future cash flow of the affected business. As we increase our portfolio of these loans, we may experience higher levels of non-performing assets or loan losses, or both.

Our plans for future expansion depend, in some instances, on factors beyond our control, and an unsuccessful attempt to achieve growth could have a material adverse effect on our business, financial condition, results of operations and future prospects.

We expect to continue to engage in new branch expansion in the future. We may also seek to acquire other financial institutions, or parts of those institutions, though we have no present plans in that regard. Expansion involves a number of risks, including, without limitation:

- the time and costs of evaluating new markets, hiring experienced local management and opening new offices;
- the time lags between these activities and the generation of sufficient assets and deposits to support the costs of the expansion;
- our entrance into new markets where we lack experience;
- the introduction of new products and services with which we have no prior experience into our business;
- failure to culturally integrate an acquisition target or new branches or failing to identify and select the optimal candidate for integration or expansion; and
- failure to identify and retain experienced key management members with local expertise and relationships in new markets.

We may acquire and hold other real estate owned (OREO) properties, which could lead to increased operating expenses and vulnerability to declines in the market value of real estate in our areas of operations.

From time-to-time, we foreclose upon and take title to the real estate serving as collateral for our loans as part of our business. If our OREO balance increases, management expects that our earnings will be negatively affected by various expenses associated with OREO, including personnel costs, insurance and taxes, completion and repair costs, valuation adjustments and other expenses associated with property ownership. Also, at the time that we foreclose upon a loan and take possession of a property, we estimate the value of that property using third-party appraisals and opinions and internal judgments. OREO property is valued on our books at the estimated market value of the property, less the estimated costs to sell (or “fair value”). Upon foreclosure, a charge-off to the allowance for loan losses is recorded for any excess between the value of the asset on our books over its fair value. Thereafter, we periodically reassess our judgment of fair value based on updated appraisals or other factors, including, at times, at the request of our regulators. Any declines in our estimate of fair value for OREO will result in valuation adjustments, with a corresponding expense in our consolidated statements of income that is recorded under the line item for “Other real estate expenses.” As a result, our results of operations are vulnerable to declines in the market for residential and commercial real estate in the areas in which we operate. The expenses associated with OREO and property write downs could have a material adverse effect on our results of operations and financial condition. Any increase in non-accrual loans may lead to increases in our OREO balance in the future.

Additional growth and regulatory requirements may require us to raise additional capital in the future, and capital may not be available when it is needed or may have unfavorable terms, which could adversely affect our financial condition and results of operations.

We are required by federal and state regulatory authorities to maintain adequate levels of capital to support our operations. While the boards of the Company and the Bank intend to take steps to ensure that the capital plan aligns with the Bank’s strategic plan, that all material risks to the Bank are identified and measured and that capital limits are appropriate for the institution’s risk profile, failure to successfully implement such steps could have a material adverse effect on our financial condition and results of operations. We may at some point need to raise additional capital to support our continued growth. Our ability to raise additional capital, if needed, will depend on conditions in the capital markets at that time, which are outside of our control, and on our financial performance. Accordingly, we can make no assurances of our ability to raise additional capital, if needed, on terms acceptable to us. If we cannot raise additional capital when needed, our ability to further expand our operations could be materially impaired.

Our corporate culture has contributed to our success, and if we cannot maintain this culture as we grow, we could lose the teamwork and increased productivity fostered by our culture, which could harm our business.

We believe that a critical contributor to our success has been our corporate culture, which we believe fosters teamwork and increased productivity. As our organization grows and we are required to implement more complex organizational management structures, we may find it increasingly difficult to maintain the beneficial aspects of our corporate culture. This could negatively impact our future success.

If we fail to retain our key employees, our growth and profitability could be adversely affected.

Our success is, and is expected to remain, highly dependent on our executive management team. We are especially dependent on these executives as well as other key personnel because, as a community bank, we depend on our management team's ties to the community to generate business for us, and our executives have key expertise needed to implement our business strategy. Our executive management and other key personnel have not signed non-competition covenants.

Competition for personnel is intense, and we may not be successful in attracting or retaining qualified personnel. Our failure to compete for these personnel, or the loss of the services of several of such key personnel, could adversely affect our growth strategy and seriously harm our business, results of operations and financial condition.

Severe weather, natural disasters, widespread disease or pandemics (including the COVID-19 pandemic), acts of war or terrorism or other adverse external events could significantly impact our business.

Severe weather, natural disasters, widespread disease or pandemics (including the COVID-19 pandemic), acts of war or terrorism or other adverse external events could have a significant impact on our ability to conduct business. In addition, such events could affect the stability of our deposit base, impair the ability of borrowers to repay outstanding loans, impair the value of collateral securing loans, cause significant property damage, result in loss of revenue or cause us to incur additional expenses. The occurrence of any of these events in the future could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

As a community bank, our ability to maintain our reputation is critical to the success of our business, and our failure to do so may materially adversely affect our performance.

As a community bank, our reputation is one of the most valuable components of our business. As such, we strive to conduct our business in a manner that enhances our reputation. This is done, in part, by recruiting, hiring and retaining employees who share our core values of being an integral part of the communities we serve, delivering superior service to our customers and caring about our customers and associates. Negative publicity can result from our actual or alleged conduct in any number of activities, including lending practices, corporate governance, acquisitions and actions taken or threatened by government regulators and community organizations in response to those activities. If our reputation is negatively affected by the actions of our employees or otherwise, there may be an adverse effect on our ability to keep and attract customers, and we might be exposed to litigation and regulatory action. Any of such events could harm our business, and, therefore, our operating results may be materially adversely affected. As a financial services company with a high profile in our market area, we are inherently exposed to this risk. While we take steps to minimize reputation risk in dealing with customers and other constituencies, we will continue to face additional challenges maintaining our reputation with respect to customers of the Bank in our current primary market area in Region 2000 and in establishing our reputation in new market areas.

Our decisions regarding how we manage our credit exposure may materially and adversely affect our business.

We manage our credit exposure through careful monitoring of lending relationships and loan concentrations in particular industries, and through loan approval and review procedures.

We have established an evaluation process designed to determine the adequacy of our allowance for loan losses. While this evaluation process uses historical and other objective information, the classification of loans and the establishment of loan losses is an estimate based on experience, judgment and expectations regarding our borrowers and the economies in which we and our borrowers operate, as well as the judgment of our regulators. While our board and senior management are continuing to improve the Bank's risk management framework and align the Bank's risk philosophy with its capital and strategic plans, failure to continue to improve such risk management framework could have a material adverse effect on our financial condition and results of operations. We can make no assurances that our loan loss reserves will be sufficient to absorb future loan losses or prevent a material adverse effect on our business, financial condition or results of operations.

Our profitability is vulnerable to interest rate fluctuations and changes in monetary policies.

Our profitability depends substantially upon our net interest income. Net interest income is the difference between the interest earned on interest-earning assets, such as loans and investment securities, and the interest expense paid on interest-bearing liabilities, such as NOW accounts, savings accounts, time deposits and other borrowings. Market interest rates for loans, investments and deposits are highly sensitive to many factors beyond our control. Interest rate spreads have seen a sustained period of narrowness due to many factors, such as market conditions, policies of various government and regulatory authorities and competitive pricing pressures, and we cannot predict whether these rate spreads will narrow further. This narrowing of interest rate spreads could adversely affect our financial condition and results of operations. In addition, we cannot predict whether interest rates will continue to remain at present levels. Changes in interest rates may cause significant changes, up or down, in our net interest income. Depending on our portfolio of loans and investments, our results of operations may be adversely affected by changes in interest rates.

Our financial condition and results of operations are affected by credit policies of monetary authorities, particularly the Federal Reserve Board. Actions by monetary and fiscal authorities, including the Federal Reserve Board, could have an adverse effect on our deposit levels, loan demand or business and earnings.

A failure in or breach of our operational or security systems or infrastructure, or those of our third party vendors and other service providers, including as a result of cyber-attacks, could disrupt our business, result in the disclosure or misuse of confidential or proprietary information, damage our reputation, increase our costs and cause losses.

We rely heavily on communications and information systems to conduct our business. Any failure, interruption or breach in security of these systems could result in failures or disruptions in our customer-relationship management, general ledger, deposit, loan and other systems. While we have policies and procedures designed to prevent or limit the effect of the failure, interruption or security breach of our information systems, there can be no assurance that any such failures, interruptions or security breaches will not occur; or, if they do occur, that they will be adequately addressed. The occurrence of any failures, interruptions or security breaches of our information systems could disrupt our business, increase our costs, result in the disclosure of confidential client information, damage our reputation, result in a loss of customer business, subject us to additional regulatory scrutiny or expose us to civil litigation and possible financial liability; any of which could have a material adverse effect on our financial condition and results of operations.

Our computer systems, software and networks have been and will continue to be vulnerable to unauthorized access, loss or destruction of data (including confidential client information), account takeovers, unavailability of service, computer viruses or other malicious code, cyber-attacks and other events. These threats may derive from human error, fraud or malice on the part of employees or third parties, or may result from accidental technological failure. Information security risks for financial institutions such as ours have generally increased in recent years in part because of the proliferation of new technologies, the use of the Internet and digital technologies to conduct financial transactions, and the increased sophistication and activities of organized crime, hackers, terrorists, activists and other external parties. Some of our operations rely on the secure processing, transmission and storage of confidential information in our computer systems and networks. Our business relies on our digital technologies, computer and email systems, software and networks to conduct its operations. In addition, to access our products and services, our customers may use personal smartphones, tablets, personal computers and other mobile devices that are beyond our control systems. Although we have information security procedures and controls in place, our technologies, systems, networks and our customers' devices may become the target of cyber-attacks or information security breaches that could result in the unauthorized release, gathering, monitoring, misuse, loss or destruction of our or our customers' confidential, proprietary and other information, or otherwise disrupt our or our customers' or other third parties' business operations.

Although we maintain safeguards to protect against these risks, there can be no assurance that we will not suffer losses in the future that may be material in amount or nature.

Changes in consumers' use of banks and changes in consumers' spending and saving habits could adversely affect our financial results.

Technology and other changes now allow many consumers to complete financial transactions without using banks. For example, consumers can pay bills and transfer funds directly without going through a bank. This disintermediation could result in the loss of fee income, as well as the loss of customer deposits and income generated from those deposits. In addition, changes in consumer spending and saving habits could adversely affect our operations, and we may be unable to timely develop competitive new products and services in response to these changes that are accepted by new and existing customers.

Failure to implement new technologies in our operations may adversely affect our growth or profits.

The market for financial services, including banking services and consumer finance services, is increasingly affected by advances in technology, including developments in telecommunications, data processing, computers, automation, Internet-based banking and telebanking. Our ability to compete successfully in our markets may depend on the extent to which we are able to exploit such technological changes. However, we can provide no assurance that we will be able to properly or timely anticipate or implement such technologies or properly train our staff to use such technologies. Any failure to adapt to new technologies could adversely affect our business, financial condition or operating results.

In addition, the financial services industry is undergoing rapid technological changes, with new technology-driven products and services being frequently introduced. The changes could cause our customers to use these new services and products rather than the Bank. For example, financial technology (or "fintech") companies that rely on technology to provide financial services such as peer-to-peer platforms, blockchain and other distributed ledger technologies have the potential to disrupt the financial services industry and change the way banks do business. Fintech companies are subject to limited regulation. We may not be able to effectively implement new technology-driven products and services or be successful in competing against products, which could impair our growth and profitability.

We are subject to operational risks.

The Company may also be subject to disruptions of its systems arising from events that are wholly or partially beyond our control (including, for example, computer viruses or electrical or telecommunications outages), which may give rise to losses in service to customers and to financial loss or liability. The Company is further exposed to the risk that its external vendors may be unable to fulfill their contractual obligations (or will be subject to the same risk of fraud or operational errors by their respective employees as is the Company) and to the risk that the Company's (or its vendors') business continuity and data security systems prove to be inadequate.

We are subject to liquidity risk.

Liquidity risk is the potential that we will be unable to meet our obligations as they become due, capitalize on growth opportunities as they arise or pay regular cash dividends because of an inability to liquidate assets or obtain adequate funding in a timely basis, at a reasonable cost and within acceptable risk tolerances. A failure to adequately manage our liquidity risk could adversely affect our business, financial condition or operating results, especially in the event of another financial crisis. Further, the Federal Reserve could impose additional requirements on the Company if the agency determines that our enhanced liquidity risk management practices do not adequately manage our liquidity risk.

We may lose lower-cost funding sources.

Checking, savings and money market deposit account balances and other forms of customer deposits can decrease when customers perceive alternative investments, such as the stock market, as providing a better risk/return tradeoff. If customers move money out of bank deposits and into other investments, the Bank could lose a relatively low-cost source of funds, thereby increasing its funding costs and reducing the Bank's net interest income and net income.

If we fail to maintain an effective system of internal and disclosure controls, we may not be able to accurately report our financial results or prevent or detect fraud.

Effective internal control over financial reporting and disclosure controls and procedures are necessary for us to provide reliable financial reports and effectively prevent or detect fraud and to operate successfully as a public company.

The Company faces the risk that the design of its controls and procedures, including those to mitigate the risk of fraud by employees or outsiders, may prove to be inadequate or are circumvented, thereby causing delays in detection of errors or inaccuracies in data and information. We regularly review and update the Company's internal controls, disclosure controls and procedures and corporate governance policies and procedures. Any system of controls, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Any failure or circumvention of the Company's controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on the Company's business, results of operations and financial condition.

Any failure to maintain effective controls or timely effect any necessary improvement of our internal and disclosure controls could hinder our ability to accurately report our operating results or cause us to fail to meet our reporting obligations, which could affect our ability to remain listed with The NASDAQ Capital

Market. Ineffective internal and disclosure controls could also harm our reputation, negatively impact our operating results or cause investors to lose confidence in our reported financial information, which likely would have a negative effect on the trading price of our securities.

Changes in the financial markets could impair the value of our investment portfolio.

Our investment securities portfolio is a significant component of our total earning assets. Turmoil in the financial markets could impair the market value of our investment portfolio, which could adversely affect our net income and possibly our capital.

From time to time, we hold as investments certain securities that have unrealized losses. While we currently maintain substantial liquidity which supports our intent and ability to hold these investments until they mature, or until there is a market price recovery, if we were to cease to have the ability and intent to hold these investments until maturity or if the market prices do not recover, and we were to sell these securities at a loss, it could adversely affect our net income and possibly our capital.

Our deposit insurance premiums could be substantially higher in the future, which could have a material adverse effect on our future earnings.

The FDIC insures deposits at FDIC-insured depository institutions, such as the Bank, up to applicable limits. The amount of a particular institution’s deposit insurance assessment is based on that institution’s risk classification under an FDIC risk-based assessment system. An institution’s risk classification is assigned based on its capital levels and the level of supervisory concern the institution poses to its regulators. Bank failures significantly depleted the FDIC’s Deposit Insurance Fund and reduced the ratio of reserves to insured deposits. As a result of recent economic conditions and the enactment of the Dodd-Frank Reform Act, banks are now assessed deposit insurance premiums based on the bank’s average consolidated total assets, and the FDIC has modified certain risk-based adjustments, which increase or decrease a bank’s overall assessment rate. This has resulted in increases to the deposit insurance assessment rates, and thus raised deposit premiums for many insured depository institutions. If these increases are insufficient for the Deposit Insurance Fund to meet its funding requirements, further special assessments or increases in deposit insurance premiums may be required. We are generally unable to control the amount of premiums that we are required to pay for FDIC insurance. If there are additional bank or financial institution failures, we may be required to pay even higher FDIC premiums than the recently increased levels. Any future additional assessments, increases or required prepayments in FDIC insurance premiums could reduce our profitability, may limit our ability to pursue certain business opportunities or otherwise negatively impact our operations.

Revenues and profitability from our investment advisory business may be adversely affected by any reduction in assets under management, which could reduce fees earned.

PWW, our investment advisory business derives the majority of its revenue from non-interest income, which primarily consists of investment advisory fees. Substantially all of PWW’s revenues are generated from investment management contracts with clients. Under these contracts, the investment advisory fees paid to us are typically based on the market value of assets under management. Assets under management may decline for various reasons including declines in the market value of the assets, which could be caused by price declines in the securities markets. Assets under management may also decrease due to redemptions and other withdrawals by clients or termination of contracts. This could be in response to adverse market conditions or in pursuit of other investment opportunities. If the assets under management we supervise decline and there is a related decrease in fees, it will negatively affect our results of operations.

We may not be able to attract and retain investment advisory clients.

Due to strong competition, our investment advisory business may not be able to attract and retain clients. Competition is strong because there are numerous well-established and successful investment management and wealth advisory firms including commercial banks and trust companies, investment advisory firms, mutual fund companies, stock brokerage firms, and other financial companies. Many of our competitors have greater resources than we have. Our ability to successfully attract and retain investment advisory clients is dependent upon our ability to compete with competitors' investment products, level of investment performance, client services and marketing and distribution capabilities. If we are not successful, our results of operations and financial condition may be negatively impacted.

The investment advisory industry is subject to extensive regulation, supervision and examination by regulators, and any enforcement action or adverse changes in the laws or regulations governing our business could decrease our revenues and profitability.

As an investment advisor registered with the Securities and Exchange Commission, PWW is subject to regulation by a number of regulatory agencies that are charged with safeguarding the integrity of the securities and other financial markets and with protecting the interests of customers participating in those markets. In the event of non-compliance with regulation, governmental regulators, including the SEC, and the Financial Industry Regulatory Authority, may institute administrative or judicial proceedings that may result in censure, fines, civil penalties, the issuance of cease-and-desist orders or the deregistration or suspension of the non-compliant broker-dealer or investment adviser or other adverse consequences. The imposition of any such penalties or orders could have a material adverse effect on the wealth management segment's operating results and financial condition. We may be adversely affected as a result of new or revised legislation or regulations. Regulatory changes have imposed and may continue to impose additional costs, which could adversely impact our profitability.

If we fail to retain PWW's key employees, the growth and profitability of our investment advisory business could be adversely affected.

PWW's success is, and is expected to remain, highly dependent on its executive management team as well as other key personnel because of their role in, among other things, making investment decisions for PWW clients and managing client relations. Although each of the foregoing are subject to non-compete agreements, there are no assurances that these key personnel will remain employees of PWW.

Competition for investment advisory personnel is intense, and we may not be successful in attracting or retaining qualified personnel. Our failure to compete for these personnel, or the loss of the services of several of such key personnel, could adversely affect our growth strategy and seriously harm our business, results of operations and financial condition.

REGULATORY AND LEGAL RISKS

We are subject to extensive regulation that could limit or restrict our activities and impose financial requirements or limitations on the conduct of our business, which limitations or restrictions could adversely affect our profitability.

As a bank holding company, we are primarily regulated by the Federal Reserve. The Bank is primarily regulated by the BFI and the Federal Reserve. These regulatory authorities have extensive discretion in connection with their supervisory and enforcement activities, including the imposition of restrictions on the operation of a financial institution, the classification of assets by a financial institution and the adequacy of a financial institution's allowance for loan losses. The Company periodically reviews its policies, procedures and limits, and undertakes reporting, to ensure all guidance is appropriate for the Bank's current and planned operations and aligns with regulatory expectations. In this regard, regulatory authorities may impose particular requirements on the Bank, which could have a material adverse effect on our results of operations. Any change in such regulation and regulatory oversight, whether in the form of regulatory policy, regulations or legislation, could have a material impact on us and our operations. Further, our compliance with Federal Reserve and the BFI regulations is costly. Because our business is highly regulated, the applicable laws, rules and regulations are subject to regular modification and change. Laws, rules and regulations may be adopted in the future that could make compliance more difficult or expensive or otherwise adversely affect our business, financial condition or prospects. For instance, such changes may limit our growth and restrict certain of our activities, including payment of dividends, mergers and acquisitions, investments, loans and interest rates charged, interest rates paid on deposits and locations of offices. We are also subject to capital requirements by our regulators.

The laws and regulations, including the Dodd-Frank Reform Act, applicable to the banking industry could change at any time, and these changes may adversely affect our business and profitability.

We are subject to extensive federal and state regulation. Because government regulation greatly affects the business and financial results of all commercial banks and bank holding companies, our cost of compliance could adversely affect our ability to operate profitably. The increased scope, complexity, and cost of corporate governance, reporting, and disclosure practices are proportionately higher for a company of our size and will affect our profitability more than that of some of our larger competitors. We expect to experience increasing compliance costs related to this supervision and regulation.

Also, the 2020 national election results and new administration have introduced additional uncertainty into future implementation and enforcement of the Dodd-Frank Reform Act and other financial sector regulatory requirements. Such additional regulation and supervision may increase our costs and limit our ability to pursue business opportunities. The effects of any such recently enacted, or proposed, legislation and regulatory programs on us cannot reliably be determined at this time.

The Consumer Financial Protection Bureau's (the "CFPB") "ability-to-repay" and "qualified mortgage" rules may have a negative impact on our loan origination process and foreclosure proceedings, which could adversely affect our business, operating results and financial condition.

On January 10, 2013, the CFPB issued a final rule to implement the "qualified mortgage" provisions of the Dodd-Frank Reform Act requiring mortgage lenders to consider consumers' ability to repay home loans before extending them credit. The CFPB's "qualified mortgage" rule, which became effective on January 10, 2014, describes certain minimum requirements for lenders making ability-to-repay determinations, but does not dictate that they follow particular underwriting models. Lenders will be presumed to have complied with the ability-to-repay rule if they issue "qualified mortgages," which are generally defined as mortgage loans prohibiting or limiting certain risky features. Loans that do not meet the ability-to-repay standard can be challenged in court by borrowers who default, and the absence of ability-to-repay status can be used against a lender in foreclosure proceedings. Any loans that we make outside of the "qualified mortgage" criteria could expose us to an increased risk of liability and reduce or delay our ability to foreclose upon the underlying property. Any decreases in loan origination volume or increases in compliance and foreclosure costs caused by the rule could negatively affect our business, operating results and financial condition. The CFPB also has adopted a number of additional requirements and issued additional guidance, including with respect to appraisals, escrow accounts and servicing, each of which entails increased compliance costs. In addition, the CFPB likely will continue to make rules relating to consumer protection, and it is difficult to predict which of our products and services will be subject to these rules or how these rules will be implemented.

Compliance with the Dodd-Frank Reform Act will increase our regulatory compliance burdens, and may increase our operating costs and may adversely impact our earnings or capital ratios, or both.

Signed into law on July 21, 2010, the Dodd-Frank Reform Act has represented a significant overhaul of many aspects of the regulation of the financial services industry. Among other things, the Dodd-Frank Reform Act created the CFPB, tightened capital standards, imposed clearing and margining requirements on many derivatives activities and generally increased oversight and regulation of financial institutions and financial activities.

In addition to the self-implementing provisions of the statute, the Dodd-Frank Reform Act calls for over 200 administrative rulemakings by numerous federal agencies to implement various parts of the legislation. While many rules have been finalized or issued in proposed form, additional rules have yet to be proposed. It is not possible at this time to predict when all such additional rules will be issued or finalized, and what the content of such rules will be. We will have to apply resources to ensure that we are in compliance with all applicable provisions of the Dodd-Frank Reform Act and any implementing rules, which may increase our costs of operations and adversely impact our earnings or capital, or both.

The Dodd-Frank Reform Act and any implementing rules that are ultimately issued could have adverse implications on the financial industry, the competitive environment and our ability to conduct business.

The short-term and long-term impact of regulatory capital requirements and capital rules is uncertain.

Under the capital standards, in order to be well-capitalized, the Bank is required to have a common equity to Tier 1 capital ratio of 6.5% and a Tier 1 capital ratio of 8.0%. The application of more stringent capital requirements for the Bank could, among other things, result in lower returns on invested capital, require the raising of additional capital and result in regulatory actions if we were to be unable to comply with such requirements. Furthermore, the imposition of liquidity requirements in connection with the implementation of Basel III could result in our having to lengthen the term of our funding, restructure our business models or increase our holdings of liquid assets, or all or any combination of the foregoing. Implementation of changes to asset risk weightings for risk based capital calculations, items included or deducted in calculating regulatory capital or additional capital conservation buffers, or both, could result in management modifying its business strategy, and could limit our ability to make distributions, including paying out dividends or buying back shares.

Pursuant to the Regulatory Relief Act, on September 17, 2019, the federal banking agencies adopted a final rule regarding a community bank leverage ratio. Under the final rule, which was effective on January 1, 2021, depository institutions and depository institution holding companies that have less than $10 billion in total consolidated assets and meet other qualifying criteria, including a leverage ratio (equal to tier 1 capital divided by average total consolidated assets) of greater than 9 percent, will be eligible to opt into the community bank leverage ratio framework (qualifying community banking organizations). Qualifying community banking organizations that elect to use the community bank leverage ratio framework and that maintain a leverage ratio of greater than 9 percent will be considered to have satisfied the generally applicable risk-based and leverage capital requirements in the agencies' capital rules (generally applicable rule) and, if applicable, will be considered to have met the well-capitalized ratio requirements for purposes of section 38 of the Federal Deposit Insurance Act. At this point the Bank has chosen not to opt in to the community bank leverage ratio framework.

RISKS RELATED TO OUR STOCK

Our ability to pay cash dividends is limited, and we may be unable to pay future dividends even if we desire to do so.

The Company is a legal entity, separate and distinct from the Bank. The Company currently does not have any significant sources of revenue other than cash dividends paid to it by the Bank. Both the Company and the Bank are subject to laws and regulations that limit the payment of cash dividends, including requirements to maintain capital at or above regulatory minimums. As a bank that is a member of the Federal Reserve System, the Bank must obtain prior written approval for any cash dividend if the total of all dividends declared in any calendar year would exceed the total of its net profits for that year combined with its retained net profits for the preceding two years.

Banking regulators have indicated that Virginia banking organizations should generally pay dividends only (1) from net undivided profits of the bank, after providing for all expenses, losses, interest and taxes accrued or due by the bank and (2) if the prospective rate of earnings retention appears consistent with the organization's capital needs, asset quality and overall financial condition. In addition, the FDIA prohibits insured depository institutions such as the Bank from making capital distributions, including the payment of dividends, if, after making such distribution, the institution would become undercapitalized as defined in the statute. Moreover, the Federal Reserve is authorized to determine under certain circumstances relating to the financial condition of a bank that the payment of dividends would be an unsafe and unsound practice and to prohibit payment thereof. The payment of dividends that deplete a bank's capital base could be deemed to constitute such an unsafe and unsound banking practice. The Federal Reserve has indicated that banking organizations generally pay dividends only out of current operating earnings. The Bank may be prohibited under Virginia law from the payment of dividends, including in the event the BFI determines that a limitation of dividends is in the public interest and is necessary to ensure the Bank's financial soundness.

In addition, the Bank's ability to pay dividends will be limited if the Bank does not have the capital conservation buffer required by the capital rules, which may limit the Company's ability to pay dividends to stockholders.

If the Bank is not permitted to pay cash dividends to the Company, it is unlikely that the Company would be able to pay cash dividends on our common stock. Moreover, holders of our common stock are entitled to receive dividends only when and if declared by our board of directors. Although we currently pay cash dividends on our common stock, we are not required to do so and our board of directors could reduce or eliminate the amount of our common stock dividends in the future.

A limited market exists for our common stock.

Our common stock commenced trading on The NASDAQ Capital Market on January 25, 2012, and trading volumes since that time have been relatively low as compared to other larger financial services companies. The limited trading market for our common stock may cause fluctuations in the market value of our common stock to be exaggerated, leading to price volatility in excess of that which would occur in a more active trading market. Accordingly, holders of our common stock may have difficulty selling our common stock at prices which holders find acceptable or which accurately reflect the value of the Company.

Future offerings of debt or other securities may adversely affect the market price of our stock.

In the future, we may attempt to increase our capital resources or, if our or the Bank's capital ratios fall below the required minimums, we or the Bank could be forced to raise additional capital by making additional offerings of debt or preferred equity securities, including medium-term notes, trust preferred securities, senior or subordinated notes and preferred stock. Upon liquidation, holders of any debt securities and shares of preferred stock and lenders with respect to other borrowings will receive distributions of our available assets prior to the holders of our common stock.

Our stockholders may experience dilution due to our issuance(s) of additional securities in the future.

We may in the future issue additional shares of our common stock to raise cash for operations or to fund acquisitions, to provide equity-based incentives to our management and employees, to permit our stockholders to invest cash dividends and optional cash payments in shares of our common stock or as consideration in acquisition transactions. Additional equity offerings and issuance(s) of additional shares of our common stock may dilute the holdings of our existing stockholders or reduce the market price of our common stock, or both. No assurances can be given that the Company will not issue additional securities that will have the effect of diluting the equity interest of our stockholders. Holders of our common stock are not entitled to preemptive rights or other protections against dilution.

Virginia law and the provisions of our articles of incorporation and bylaws could deter or prevent takeover attempts by a potential purchaser of our common stock that would be willing to pay holders a premium for their shares of our common stock.

Our articles of incorporation and bylaws contain provisions that may be deemed to have the effect of discouraging or delaying uninvited attempts by third parties to gain control of us. These provisions include the division of our board of directors into classes with staggered terms, the ability of our board of directors to set the price, terms and rights of, and to issue, one or more series of our preferred stock and the ability of our board of directors, in evaluating a proposed business combination or other fundamental change transaction, to consider the effect of the business combination on us and our stockholders, employees, customers and the communities which we serve. Similarly, the Virginia Stock Corporation Act contains provisions designed to protect Virginia corporations and employees from the adverse effects of hostile corporate takeovers. These provisions reduce the possibility that a third party could effect a change in control without the support of our incumbent directors. These provisions may also strengthen the position of current management by restricting the ability of stockholders to change the composition of the board of directors, to affect its policies generally and to benefit from actions which are opposed by the current board of directors.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Current Locations and Property

Depending on such factors as cost, availability, and location, we may either lease or purchase our operating facilities. The existing facilities that we have purchased typically have been former branches of other financial institutions. As of March 29, 2022, the Bank conducts its operations from 19 locations, of which we own 11 and lease 8. The following table describes the location and general character of our operating facilities:

Address	Type of Facility	Year Opened	Owned/Leased
5204 Fort Avenue Lynchburg, Virginia	Full-service branch with drive thru and ATM	2000	Owned
4698 South Amherst Highway Madison Heights, Virginia	Full-service branch with drive thru and ATM	2002	Owned

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17000 Forest Road Forest, Virginia	Full-service branch with drive thru and ATM Headquarters for Mortgage Division	2005	Owned
164 South Main Street Amherst, Virginia	Full-service branch with drive thru and ATM	2007	Owned
1405 Ole Dominion Blvd Bedford, Virginia	Full-service branch with drive thru and ATM	2008	Owned
1110 Main Street Altavista, Virginia	Full-service branch with drive thru and ATM	2009	Owned
828 Main Street Lynchburg, Virginia	Corporate Headquarters; Full-service branch with drive thru and ATM	2004	Leased (1)
4935 Boonsboro Road, Suites C and D Lynchburg, Virginia	Full-service branch with drive thru and ATM	2006	Leased (2)
501 VES Road Lynchburg, Virginia	Limited service branch	2010	Leased (3)
250 Pantops Mountain Road Charlottesville, Virginia	Limited service branch	2015	Leased (4)
1391 South High Street Harrisonburg, Virginia	Full-service branch with drive thru and ATM	2015	Owned
1745 Confederate Blvd Appomattox, Virginia	Full-service branch with drive thru and ATM	2017	Owned
225 Merchant Walk Avenue Charlottesville, Virginia	Full-service branch with drive thru and ATM	2016	Leased (5)
3562 Electric Road Roanoke, Virginia	Full-service branch with ATM	2017	Leased (6)
2001 South Main Street #107 Blacksburg, Virginia	Mortgage origination office	2018	Leased (7)
550 East Water Street Suite 100 Charlottesville, Virginia	Full-service branch with ATM	2019	Owned
2101 Electric Road Roanoke, Virginia	Full-service branch with drive thru and ATM	2019	Leased (8)
45 South Main Street Lexington, Virginia	Full-service branch with ATM	2019	Owned
13 Village Highway Rustburg, VA 24588	Full-service branch with drive thru and ATM	2019	Owned

(1) The current term of the amended and restated lease expires in four years and the Bank has three five-year renewal options (subject to the terms and conditions outlined in the lease). The Bank leases this property from Jamesview Investment, LLC, which is wholly-owned by William C. Bryant III, a member of the Board of Directors of both Financial and the Bank.

(2) The previous term expired on December 31, 2021. The Bank currently leases on a month-to-month basis.

(3) Base lease expires May 31, 2025. We have one or more renewal options that we may exercise at our discretion subject to the terms and conditions outlined in the lease.

(4) Base lease expires April 30, 2025. We have one or more renewal options that we may exercise at our discretion subject to the terms and conditions outlined in the lease.

(5) Base lease expires October 31, 2026. We have one or more renewal options that we may exercise at our discretion subject to the terms and conditions outlined in the lease.

(6) Base lease expires January 31, 2022. The Bank is currently leasing the property on a month-to-month basis and anticipates that it will extend the lease until at least January 31, 2025.

(7) Base lease expired February 28, 2021. The Bank currently leases on a month-to-month basis.

(8) Base lease expires February 28, 2024. We have one or more renewal options that we may exercise at our discretion subject to the terms and conditions outlined in the lease.

We believe that each of these operating facilities is maintained in good operating condition and is suitable for our operational needs.

Interest in Additional Properties

As discussed in "Management's Discussion and Analysis—Expansion Plans" in addition to the facilities set forth above, the Bank owns the following properties which are being held for possible expansion:

- real property located in the Timberlake Road area of Campbell County (Lynchburg), Virginia. The existing structure located on the property is not suitable for its intended use as a branch bank. Management anticipates that it will be necessary to raze the current structures and replace them with appropriate new construction.
- real property located at 4501 Boonsboro Road, Lynchburg, Virginia. The Bank purchased this property in 2021. This property was previously used by another institution as a branch bank. While the Bank does not anticipate opening a branch at this location until the fall of 2022, the Bank believes the investment needed to upfit this property will be minimal and primarily related to aesthetics due to the fact this location was a former bank branch.
- real property located at 1925 Atherholt Rd, Lynchburg, Virginia. The Bank purchased this property in 2021. The building currently houses all personnel of the Company's wholly-owned subsidiary, PWW. PWW is currently leasing the space from the Bank on a month-to-month basis. While the Bank currently does not have a timeline for a branch at this location, the space is attractive for a branch due to its close proximity to Centra's Lynchburg General Hospital. The investment needed to upfit the property will be minimal.

Management of the Bank continues to look for and evaluate additional locations for future branch growth and will consider opening an additional branch in the next 18 months if a suitable location is available on acceptable terms. The opening of all additional branches is contingent upon the receipt of regulatory approval.

We will use the internet, consistent with applicable regulatory guidelines, to augment our growth plans. We currently offer online account access, bill payment, and account management functions through our website. The Bank recently released an application that enables customers to transact banking business on smartphones and other mobile devices.

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Item 3. Legal Proceedings

There are no material pending legal proceedings to which the Company is a party or to which the property of the Company is subject.

Item 4. Mine Safety Disclosures -- Not applicable.

PART II

Item 5. Market For Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Prices and Dividends

As of January 25, 2012, the Common Stock of Financial is traded on the NASDAQ Capital Market LLC (NASDAQ) under the symbol "BOTJ." Prior to this time, the Common Stock of Financial was quoted on the Over the Counter Bulletin Board (OTCBB) under the symbol "BOJF ("BOJF.OB" on some systems) and transactions generally involved a small number of shares.

As of March 29, 2022, there were approximately 4,740,657 shares of Common Stock outstanding, which shares are held by approximately 1,500 active shareholders of record.

Dividend Policy

The Company's future dividend policy is subject to the discretion of its Board of Directors and will depend upon a number of factors, including future earnings, financial condition, liquidity and capital requirements of both the Company and the Bank, applicable governmental regulations and policies and other factors deemed relevant by its Board of Directors.

The Company is organized under the Virginia Stock Corporation Act, which prohibits the payment of a dividend if, after giving it effect, the corporation would not be able to pay its debts as they become due in the normal course of business or if the corporation's total assets would be less than the sum of its total liabilities plus the amount that would be needed, if the corporation were to be dissolved, to satisfy the preferential rights upon dissolution of any preferred shareholders.

The Company is a legal entity separate and distinct from its subsidiaries. Its ability to distribute cash dividends will depend primarily on the ability of the Bank to pay dividends to it, and the Bank is subject to laws and regulations that limit the amount of dividends that it can pay. As a state member bank, the Bank is subject to certain restrictions imposed by the reserve and capital requirements of federal and Virginia banking statutes and regulations. For a discussion of these restrictions, see "*Supervision and Regulation of Financial – Limits on the Payment of Dividends"* in Item 1 of this Report on Form 10-K.

On January 18, 2022 Financial declared a cash dividend for the fourth quarter of 2021 of $0.07 per common share. The dividend was paid on March 18, 2022 to shareholders of record at the close of business on March 4, 2022. Financial will evaluate the factors set forth above when making a determination of whether to continue to pay a cash dividend in 2022.

Share Repurchases

On January 21, 2020, Financial's board of directors adopted a stock repurchase plan that authorized the Company to repurchase up to an aggregate of 65,000 shares of its common stock. Although this plan expired in January of 2021, on January 19, 2021, the Company's board of directors approved a share repurchase program under which the Company was authorized to repurchase, from time to time as the Company deems appropriate, up to a total of 47,000 shares of the Company's common stock. Repurchases could have been made in the open market, through block trades, or otherwise, and in privately negotiated transactions.

During the quarter ended December 31, 2021, Financial repurchased no shares of common stock. The plan expired on January 19, 2022, with the Company having purchased a total of 28,900 out of 47,000 shares authorized for repurchase.

Beginning Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
October 1, 2021 through October 31, 2021	–	N/A	–	18,100
November 1, 2021 through November 30, 2021	–	N/A	–	18,100
December 1, 2021 through December 31, 2021	–	N/A	–	18,100
Total	–	N/A	–	18,100

Item 6. [Reserved]

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion is intended to assist readers in understanding and evaluating our financial condition and results of operations. You should read this discussion in conjunction with our financial statements and accompanying notes included elsewhere in this report. Bank of the James Financial Group, Inc. ("Financial") has no material operations and conducts no business other than the ownership of its operating subsidiaries, Bank of the James (and its divisions and subsidiary), and Pettyjohn, Wood & White, Inc. Because Pettyjohn, Wood & White, Inc. was acquired on December 31, 2021, Pettyjohn, Wood & White, Inc. did not impact our operating results in 2021, the discussion primarily concerns the business of the Bank. However, for ease of reading and because our financial statements are presented on a consolidated basis, references to "we," "us," or "our" refer to Financial, Bank of the James, and their divisions and subsidiaries as appropriate.

Cautionary Statement Regarding Forward-Looking Statements

This report contains statements that constitute “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and the Private Securities Litigation Reform Act of 1995. Statements made in this document and in any documents that are incorporated by reference which are not purely historical are forward-looking statements, including any statements regarding descriptions of management’s plans, objectives, or goals for future operations, products or services, and forecasts of its revenues, earnings, or other measures of performance. Forward-looking statements are based on current management expectations and, by their nature, are subject to risks and uncertainties. These statements generally may be identified by the use of words such as “believe,” “expect,” “anticipate,” “plan,” “estimate,” “should,” “will,” “intend,” or similar expressions. Shareholders should note that many factors, some of which are discussed elsewhere in this document, could affect the future financial results of Financial and could cause those results to differ materially from those expressed in forward-looking statements contained in this document. These factors, many of which are beyond Financial’s control, include, but are not necessarily limited to the following:

- the effects of the COVID-19 pandemic on the business, customers, employees and third-party service providers of Financial or any of its acquisition targets;
- operating, legal and regulatory risks, including the effects of legislative or regulatory developments affecting the financial industry generally or Financial specifically;
- government legislation and policies (including the impact of the Dodd-Frank Wall Street Reform and the Consumer Protection Act and its related regulations);
- changes to statutes, regulations, or regulatory policies or practices, including changes to address the impact of COVID-19;
- economic, market, political and competitive forces affecting Financial’s banking and other businesses;
- competition for our customers from other providers of financial services; government legislation and regulation relating to the banking industry (which changes from time to time and over which we have no control) including but not limited to the Dodd-Frank Wall Street Reform and Consumer Protection Act;
- changes in interest rates, monetary policy and general economic conditions, which may impact Financial’s net interest income;
- changes in the value of real estate securing loans made by the Bank;
- diversion of management time on pandemic-related issues;
- adoption of new accounting standards or changes in existing standards;
- compliance or operational risks related to new products, services, ventures, or lines of business, if any, that Financial may pursue or implement;
- the risk that Financial’s analysis of these risks and forces could be incorrect and/or that the strategies developed to address them could be unsuccessful;
- a potential resurgence of economic and political tensions with China, the ongoing war between Russia and Ukraine and potential expansion of combatants, and the sanctions imposed on Russia by numerous countries and private companies, all of which may have a destabilizing effect on financial markets and economic activity; and
- other risks and uncertainties set forth in this Annual Report on Form 10-K and, from time to time, in our other filing with the Securities and Exchanges Commission (“SEC”).

Other risks, uncertainties and factors could cause our actual results to differ materially from those projected in any forward-looking statements we make.

These factors should be considered in evaluating the forward-looking statements, and you should not place undue reliance on such statements. Financial specifically disclaims any obligation to update factors or to publicly announce the results of revisions to any of the forward-looking statements or comments included herein to reflect future events or developments.

IMPACT OF COVID-19

The progression of the COVID-19 pandemic in the United States has had an adverse impact on our financial condition and results of operations as of and for the year ended December 31, 2020 and to a lesser extent for the year ended December 31, 2021. Management anticipates that impact of the pandemic will continue to have potentially adverse effect on the economy, the banking industry and our Company in future periods.

Effects on Market Areas

The broad suspension of business activities in the Commonwealth initially led to an increase in the Commonwealth's and our market areas' unemployment rate. While these developments commenced late in the first quarter of 2020, the nation, the Commonwealth, and our market areas have experienced a number of COVID-19 surges, we believe the economic consequences of the pandemic are difficult to predict.

Policy and Regulatory Developments

Federal, state and local governments and regulatory authorities have enacted and issued a range of policy responses to the COVID-19 pandemic, including the following:

- The Federal Reserve decreased the range for the Federal Funds Target Rate by 0.50% on March 3, 2020, and by another 1.0% on March 16, 2020, reaching a range of 0.0 - 0.25%, where the range stayed until the Federal Reserve raised the rate on March 16, 2022.
- On March 27, 2020, President Trump signed the Coronavirus Aid, Relief and Economic Security Act, or CARES Act, which established a $2.0 trillion economic stimulus package, including cash payments to individuals, supplemental unemployment insurance benefits and a $349 billion loan program administered through the U.S. Small Business Administration (SBA), referred to as the Paycheck Protection Program, or PPP Program, which was subsequently increased by $320 billion on April 24, 2020. Under the PPP program, small businesses, sole proprietorships, independent contractors and self-employed individuals may apply for loans from existing SBA lenders and other approved regulated lenders that enroll in the program, subject to numerous limitations and eligibility criteria. The Bank participated as a lender in the PPP program. Effective August 8, 2020, banks ceased taking applications under the PPP program. In addition, the CARES Act provided financial institutions the option to temporarily suspend certain requirements under GAAP related to loan modifications and classification as troubled debt restructurings ("TDRs") for a limited period of time to account for the effects of COVID-19.
- On April 7, 2020, federal banking regulators issued a revised Interagency Statement on Loan Modifications and Reporting for Financial Institutions, which, among other things, encouraged financial institutions to work prudently with borrowers who were unable to meet their contractual payment obligations because of the effects of COVID-19, and stated that institutions generally did not need to categorize COVID-19-related modifications as TDRs, and that the agencies would not direct supervised institutions to automatically categorize all COVID-19 related loan modifications as TDRs. In addition, upon expiration of the initial loan modification period, the Bank, pursuant to the "Joint Statement on Additional Loan Accommodations Related to COVID-19" published August 3, 2020, was encouraged to continue to work with effected borrowers on additional loan modifications.

- On December 27, 2020, President Trump signed the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act (the “Economic Aid Act”) into law to provide continued assistance to individuals and businesses that have been financially impacted by the ongoing coronavirus pandemic. Section 311 of the Economic Aid Act added a new temporary provision that authorized the SBA to guarantee Paycheck Protection Program Second Draw Loans (the “PPP Second Draw Program”), under generally the same terms and conditions available under the PPP Under section 311, SBA was authorized to guarantee loans under the PPP Second Draw Program through May 31, 2021 (‘‘Second Draw PPP Loans’’) to borrowers that previously received an initial PPP loan and have used or will use the full amount of the initial PPP loan for authorized purposes on or before the expected date of disbursement of the Second Draw PPP Loan. In addition, the Economic Aid Act permitted individuals and business that did not receive an initial PPP loan to apply under the PPP Program.
- In accordance with the relief provisions of the CARES Act and the March 22, 2020 (revised April 2020) Joint Interagency Regulatory Guidance, the above modifications were not considered to be troubled debt restructurings and were excluded from the TDR discussion above. The TDR relief provisions provided for by the CARES Act were extended in December 2020 by the Consolidated Appropriations Act through the earlier of January 1, 2022 or 60 days after the national COVID-19 emergency terminates.

Effects on Our Business

The COVID-19 pandemic and the specific developments referred to above have had an impact on our business. Initially, we anticipated that the COVID-19 pandemic could have a negative impact on our financial condition, capital levels and results of operations could be significantly adversely affected. Mitigation efforts, as described in further detail below, helped offset the effects of the pandemic.

COVID-19 Crisis Management

As an essential service provider, Bank of the James has continued to provide uninterrupted service to its clients throughout the COVID-19 crisis. On March 2, 2020 the Company's Management Committee initiated plans in response to the emerging risk related to the pandemic.

From the beginning, our management of the crisis has focused on protecting the health and well-being of our employees and clients while continuing to provide our clients with full access to banking services. As the operational risk related to the COVID-19 crisis evolved, the Company took proactive measures to manage operational risk, including the following:

- The Company has implemented its Business Continuity Plan.
- All branches remained open, with routine banking services offered through online banking, drive-thru, ATMs, and limited lobby access. All branches now provide full lobby access.
- Implemented a number of actions to support a healthy workforce, including:
  - Flexible work practices such as work-from-home options, working in shifts and placing greater distances between employees;
  - Discontinuation of non-essential business travel and meetings; and
  - Use of online meeting platforms, including successfully conducting the 2021 and 2021 Annual Meeting of Shareholders in a virtual format.

We anticipate that the Company will continue to maintain these policies as long as necessary.

Overview

Financial is a bank holding company headquartered in Lynchburg, Virginia. Our primary business is retail banking which we conduct through our wholly-owned subsidiary, Bank of the James (which we refer to as the "Bank"). We conduct four other business activities: mortgage banking through the Bank's Mortgage Division (which we refer to as "Mortgage"), investment services through the Bank's Investment division (which we refer to as "Investment Division"), insurance activities through BOTJ Insurance, Inc., a subsidiary of the Bank, (which we refer to as "Insurance"), and as of December 31, 2021, investment advisory services through the Company's wholly-owned subsidiary, Pettyjohn, Wood & White, Inc., which we refer to as "PWW."

Although we intend to increase other sources of revenue, our operating results depend primarily upon the Bank's net interest income, which is determined by the difference between (i) interest and dividend income on earning assets, which consist primarily of loans, investment securities and other investments, and (ii) interest expense on interest-bearing liabilities, which consist principally of deposits and other borrowings. The Bank's net income also is affected by its provision for loan losses, as well as the level of its noninterest income, including deposit fees and service charges, gains on sales of mortgage loans, and its noninterest expenses, including salaries and employee benefits, occupancy expense, data processing expenses, miscellaneous other expenses, franchise taxes, and income taxes. We anticipate that going forward, PWW will enhance our operating results by providing additional noninterest income (generally investment advisory fees less operating expenses).

As discussed in more detail below,

- For the year ended December 31, 2021, Financial had net income of $7,589,000, an increase of $2,609,000 from net income of $4,980,000, for the year ended December 31, 2020;
- For the year ended December 31, 2021, earnings per basic and diluted common share were $1.60, as compared to earnings of $1.04 per basic and diluted common share for the year ended December 31, 2020;
- Net interest income increased to $27,079,000 for the current year from $25,146,000 for the year ended December 31, 2021;
- Noninterest income (exclusive of net gains on sales and calls of securities) increased to $11,209,000 for the year ended December 31, 2021 from $10,331,000 for the year ended December 31, 2020;
- Total assets as of December 31, 2021 were $987,634,000 compared to $851,386,000 at the end of 2020, an increase of $136,248,000 or 16.00%;
- Net loans (excluding loans held for sale), net of unearned income and the allowance for loan losses, decreased to $576,469,000 as of December 31, 2021 from $601,934,000 as of the end of December 31, 2020, a decrease of 4.23%; and
- The net interest margin decreased 18 basis points to 3.14% for 2021, compared to 3.32% for 2020.

The following table sets forth selected financial ratios:

	For the Year Ended December 31,	
	2021	**2020**
Return on average equity	11.34%	8.01%
Return on average assets	0.82%	0.62%
Dividend yield %	1.75%	1.99%
Average equity to total average assets	7.27%	7.72%

Effect of Economic Trends

A variety and wide scope of economic factors affect Financial's success and earnings. Although interest rate trends are one of the most important of these factors, Financial believes that interest rates cannot be predicted with a reasonable level of confidence and therefore does not attempt to do so with complicated economic models. Management believes that the best defense against wide swings in interest rate levels is to minimize vulnerability at all potential interest rate levels. Rather than concentrate on any one interest rate scenario, Financial prepares for the opposite as well, in order to safeguard margins against the unexpected.

Between January 2018 and December 2018, the FOMC raised rates by 25 basis points four times, at which point the target rate for federal funds ("fed funds") peaked at 2.25% to 2.50%. Beginning in July 2019, the FOMC began to decrease rates. Between July 2019 and October 2019, the FOMC decreased the target rate three times by 25 basis points.

In its December 11, 2019 statement, the FOMC stated it continues to seek to foster maximum employment and price stability. The FOMC judged that the current stance of monetary policy was appropriate to support sustained expansion of economic activity, strong labor market conditions, and inflation near the FOMC's two percent objective. However, on March 3, 2020, the FOMC lowered the target range of the fed funds rate by 50 basis points in response to concerns related to risks the coronavirus poses to economic activity. Further, in response to concerns that the coronavirus could push the U.S. economy towards a recession, on March 15, 2020, the FOMC, at an emergency meeting lowered the target range of the federal funds rate by an additional 100 basis points. At that meeting, the Federal Reserve also announced that it would buy $700 billion in Treasury and mortgage-backed securities.

As of March 20, 2020, the FOMC had set a current target rate range of 0% to 0.25%. The target rate remained unchanged for the remainder of 2020. Long term interest rates decreased in 2019 and remained relatively flat in 2021. However, as a result of COVID-19 stimulus, long term rates began to trend slightly upward in the first quarter of 2021.

In response to higher inflation and supply chain issues exacerbated by the war in Ukraine, on March 16, 2022, the FOMC increased the target rate to a range of 0.25% to 0.50%. The FOMC further indicated that it is likely to increase the target rate multiple times in 2022.

Critical Accounting Policies

Financial's financial statements are prepared in accordance with accounting principles generally accepted in the United States (GAAP). The financial information contained within our statements is, to a significant extent, based on measures of the financial effects of transactions and events that have already occurred. A variety of factors could affect the ultimate value that is obtained either when earning income, recognizing an expense, recovering an asset or relieving a liability. The Bank uses historical loss factors as one factor in determining the inherent loss that may be present in the loan portfolio. Actual losses could differ significantly from the historical factors that the Bank uses in estimating risk. In addition, GAAP itself may change from one previously acceptable method to another method. Although the economics of Financial's transactions would be the same, the timing of events that would impact the transactions could change.

The allowance for loan losses is management's estimate of the probable losses inherent in our loan portfolio. Management considers impaired loans, historical loss experience, and various qualitative factors (both internal and external) in the Company's determination of the allowances. Historical and industry trends, as well as peer comparisons are also considered in the Company's ongoing evaluation of the allowance for loan losses. The allowance is based on two basic principles of accounting: (i) ASC 450, Contingencies, which requires that losses be accrued when they are probable of occurring and are reasonably estimable and (ii) ASC 310, Receivables, which requires that losses on impaired loans be accrued based on the differences between the value of collateral, present value of future cash flows or values that are observable in the secondary market and the loan balance. Guidelines for determining allowances for loan losses are also provided in the SEC Staff Accounting Bulletin No. 102 – "Selected Loan Loss Allowance Methodology and Documentation Issues" and the Federal Financial Institutions Examination Council's interagency guidance, "Interagency Policy Statement on the Allowance for Loan and Lease Losses" (the "FFIEC Policy Statement"). See "*Management Discussion and Analysis Results of Operations – Asset Quality*" below and Note 2 of the Notes to Consolidated Financial Statements for further discussion of the allowance for loan losses.

Other real estate owned ("OREO") consists of properties acquired through foreclosure or deed in lieu of foreclosure. These properties are carried at fair value less estimated costs to sell at the date of foreclosure establishing a new cost basis. These properties are subsequently accounted for at the lower of cost or fair value less estimated costs to sell. Losses from the acquisition of property in full or partial satisfaction of loans are charged against the allowance for loan losses. Subsequent write-downs, if any, are charged against expense. Gains and losses on the sales of foreclosed properties are included in determining net income in the year of the sale. Operating costs after acquisition are expensed. The Bank had OREO totaling $761,000 and $1,105,000 as of December 31, 2021 and 2020, respectively.

Goodwill arises from business combinations and is generally determined as the excess of fair value of the consideration transferred, plus the fair value of any noncontrolling interests in the acquired entity, over the fair value of the nets assets acquired and liabilities assumed as of the acquisition date. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but tested for impairment at least annually or more frequently in events and circumstances exists that indicate that a goodwill impairment test should be performed. The initial goodwill impairment test will occur in 2022 as goodwill was the result of a transaction on December 31, 2021. The Company has selected September 1 of each year as the date to perform the annual impairment test. Intangible assets with definite useful lives are amortized over their estimated useful lives to their estimated residual values. Goodwill is the only intangible asset with an indefinite life on our consolidated balance sheet.

RESULTS OF OPERATIONS

Year Ended December 31, 2021 compared to year ended December 31, 2020

Net Income

The net income for Financial for the year ended December 31, 2021 was $7,589,000 or $1.60 per basic and diluted share compared with net income of $4,980,000 or $1.04 per basic and diluted share for the year ended December 31, 2020. All earnings per share figures have been adjusted to reflect the 10% stock dividend paid in 2021. Note 13 of the consolidated financial statements provides additional information with respect to the calculation of Financial's earnings per share.

The increase of $2,609,000 in 2021 net income compared to 2020 was due in large part to an increase in net interest income of $1,933,000 or 7.69% and a decrease in the provision for loan losses of $3,048,000, or a decrease of 119.62%. These changes were partially offset by an increase in noninterest expense of $1,943,000, or 7.09%.

These operating results represent a return on average stockholders' equity of 11.34% for the year ended December 31, 2021 compared to 8.01% for the year ended December 31, 2020. Our return on average stockholder's equity increased because of an increase in net income and a decrease in the market value of the available-for-sale securities portfolio. The return on average assets for the year ended December 31, 2021 was 0.82% compared to 0.62% in 2020 primarily due to the increase in net income, which was offset in part by an increase in our total assets.

Net Interest Income

The fundamental source of Financial's earnings, net interest income, is defined as the difference between income on earning assets and the cost of funds supporting those assets. The significant categories of earning assets are loans, federal funds sold, interest-bearing balances at other banks, and investment securities, while deposits, fed funds purchased, and other borrowings represent interest-bearing liabilities. The level of net interest income is impacted primarily by variations in the volume and mix of these assets and liabilities, as well as changes in interest rates when compared to previous periods of operation.

Interest income decreased to $29,181,000 for the year ended December 31, 2021 from $29,686,000 for the year ended December 31, 2020. This decrease was due to a decrease in the yields on average earning assets which primarily consist of loans and investment securities, as discussed below.

Net interest income for 2021 increased $1,933,000, or 7.69%, to $27,079,000 from $25,146,000 in 2020. The growth in net interest income was due primarily to a decrease in interest expense. Our interest expense decreased by $2,438,000 to $2,102,000 in 2021 from $4,540,000 in 2020. Our interest expense decreased primarily because of a decrease in the rates paid on interest bearing liabilities but was partially offset by an increase in the balance of interest-bearing liabilities. The average balance of interest bearing liabilities increased 10.73% from $615,989,000 for the year ended December 31, 2020 to $682,089,000 for the year ended December 31, 2021. The average interest rate paid on interest bearing liabilities decreased by 43 basis points from 0.74% in 2021 to 0.31% in 2020.

The net interest margin decreased to 3.14% in 2021 from 3.32% in 2020. The average rate on earning assets decreased 53 basis points from 3.91% in 2020 to 3.38% in 2021 and the average rate on interest-bearing deposits decreased from 0.69% in 2020 to 0.25% in 2021. The decreases were primarily caused by the impact of lower-yielding PPP loans. One of the results of the spread of COVID-19 has been a sustained low interest rate environment, which negatively impacted our net interest margin. Because of Financial's asset interest rate sensitivity, we anticipate that an increase in interest rates would have a positive impact on our results of operations.

The following table shows the average balances of total interest earning assets and total interest bearing liabilities for the periods indicated, showing the average distribution of assets, liabilities, stockholders' equity and related revenue, expense and corresponding weighted average yields and rates. The average balances used in this table and other statistical data were calculated using average daily balances.

Net Interst Margin Analysis
Average Balance Sheets
For the Years Ended December 31, 2021 and 2020
(dollars in thousands)

	2021			2020		
	Average Balance Sheet	Interest Income/ Expense	Average Rates Earned/ Paid	Average Balance Sheet	Interest Income/ Expense	Average Rates Earned /Paid
ASSETS						
Loans, including fees (1)(2)	$ 601,272	$ 26,336	4.38%	$ 608,831	$ 27,812	4.57%
Loans held for sale	5,815	193	3.32%	6,876	209	3.04%
Federal funds sold	106,310	107	0.10%	57,249	102	0.18%
Interest-bearing bank balances	18,820	33	0.18%	18,492	89	0.48%
Securities (3)	128,886	2,459	1.91%	65,458	1,399	2.14%
Federal agency equities	1,281	67	5.23%	1,417	78	5.50%
CBB equity	116	—	0.00%	116	—	0.00%
Total earning assets	862,500	29,195	3.38%	758,439	29,689	3.91%
Allowance for loan losses	(7,223)			(5,913)		
Non-earning assets	65,197			59,903		
Total assets	$ 920,474			$ 812,429		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Deposits						
Demand interest bearing	412,301	446	0.11%	329,396	652	0.20%
Savings	111,571	118	0.11%	92,859	152	0.16%
Time deposits	144,206	1,105	0.77%	181,932	3,348	1.84%
Total interest bearing deposits	668,078	1,669	0.25%	604,187	4,152	0.69%
Other borrowed funds						
Other borrowings	30	—	0.00%	—	—	0.00%
Financing leases	3,951	106	2.68%	4,292	115	2.68%
Capital Notes	10,030	327	3.26%	7,510	273	3.64%
Total interest-bearing liabilities	682,089	2,102	0.31%	615,989	4,540	0.74%
Noninterest bearing deposits	165,138			129,000		
Other liabilities	6,310			5,247		
Total liabilities	853,537			750,236		
Stockholders' equity	66,937			62,193		
Total liabilities and Stockholders' equity	$ 920,474			$ 812,429		
Net interest earnings		$ 27,093			$ 25,149	
Net interest margin			3.14%			3.32%
Interest spread			3.08%			3.17%

(1) Net deferred loan fees and costs are included in interest income.
(2) Nonperforming loans are included in the average balances. However, interest income and yields calculated do not reflect any accrued interest associated with non-accrual loans.
(3) The interest income and yields calculated on securities have been tax affected to reflect any tax-exempt interest on municipal securities using the Company's applicable federal tax rate of 21% for each year.

Interest income and expenses are affected by fluctuations in interest rates, by changes in the volume of earning assets and interest-bearing liabilities, and by the interaction of rate and volume factors. The following table shows the direct causes of the year-to-year changes in components of net interest income on a taxable equivalent basis.

Volume and Rate
(dollars in thousands)
Years Ending December 31,

	2021			2020		
	Volume Effect	**Rate Effect**	**Change in Income/ Expense**	**Volume Effect**	**Rate Effect**	**Change in Income/ Expense**
Loans	$ (376)	$ (1,116)	$ (1,492)	$ 1,742	$ (1,280)	$ 462
Federal funds sold	10	(5)	5	(808)	456	(352)
Interest-bearing deposits	2	(58)	(56)	105	(342)	(237)
Securities	1,192	(132)	1,060	73	(58)	15
Restricted stock	(7)	(4)	(11)	4	(19)	(15)
Total earning assets	821	(1,315)	(494)	1,116	(1,243)	(127)
Liabilities:						
Demand interest bearing	261	(467)	(206)	626	(1,290)	(664)
Savings	62	(96)	(34)	1	(70)	(69)
Time deposits	(577)	(1,666)	(2,243)	309	(417)	(108)
Capital notes	78	(24)	54	89	(16)	73
Financing leases	(9)	—	(9)	52	(8)	44
Repurchase agreements and other borrowings	—	—	—	—	—	—
Total interest-bearing liabilities	$ (185)	$ (2,253)	$ (2,438)	$ 1,077	$ (1,801)	$ (724)
Change in net interest income	$ 1,006	$ 938	$ 1,944	$ 39	$ 558	$ 597

Noninterest Income of Financial

Noninterest income has been and will continue to be an important factor for increasing our profitability. Our management continues to review and consider areas where noninterest income can be increased. Noninterest income (excluding securities gains and losses) consists of income from mortgage originations and sales, service fees, income from life insurance, income from credit and debit card transactions, fees generated by the investment services of Investment, and going forward, income from PWW. Service fees consist primarily of monthly service and minimum account balance fees and charges on transactional deposit accounts, treasury management fees, overdraft charges, and ATM service fees.

The Bank, through the Mortgage Division originates both conforming, non-conforming consumer residential mortgage, and reverse mortgage loans primarily in the Region 2000 area as well as in Charlottesville, Harrisonburg, Roanoke, Lexington, and Blacksburg. As part of the Bank's overall risk management strategy, all of the loans originated and closed by the Mortgage Division are presold to mortgage banking or other financial institutions. The Mortgage Division assumes no credit or interest rate risk on these mortgages.

The Mortgage Division originated 1,335 mortgage loans, totaling approximately $331,235,000 during the year ended December 31, 2021 as compared with 1,304 mortgage loans, totaling $298,154,000 in 2020. Income improved with the increased origination volume, which is attributable in part to an improving residential real estate market throughout our footprint as well as consistently low long-term interest rates. Beginning in 2013 we began operating the Mortgage Division with hybrid correspondent relationships that allow the Bank to close loans in its name before an investor purchases the loan. By using the Bank's funds to close the loan (as compared to a broker relationship in which loans are funded by the purchaser of the mortgage), the Bank is able to obtain better pricing due to the slight increase in risk. In 2021 and 2020, the Mortgage Division continued to operate in an environment in which real estate values continued to improve some of which may be attributed to a decrease in overall home inventory for sale. Loans for new home purchases comprised 54% of the total volume in 2021 as compared to 59% in 2020. The Mortgage Division's revenue is derived from gains on sales of loans held-for-sale to the secondary market. For the year ended December 31, 2021, the Mortgage Division accounted for 20.46% of Financial's total revenue as compared with 19.44% of Financial's total revenue for the year ended December 31, 2020. Mortgage contributed $2,360,000 and $2,693,000 to Financial's pre-tax net income in 2021 and 2020, respectively. Because of the uncertainty surrounding current and near-term economic conditions and potential continuing effects from the COVID-19 pandemic, management cannot predict future mortgage rates. Management also anticipates that if rates continue to trend higher, the majority of the loan mix will continue to lean towards new home purchases and away from refinancing.

The Mortgage Division continues to increase its market share in its service areas. We opened a new mortgage origination office in Roanoke in October, 2013 and began originating mortgages in Charlottesville in March, 2014. In addition, in 2016, we hired a new mortgage loan origination officer for the Harrisonburg Market and in 2018 we opened a mortgage origination office in Blacksburg, Virginia with one producer. In 2018, we added one additional mortgage producer in Roanoke and in 2019, a second producer was also added in Blacksburg. In early 2020, a mortgage producer was added at the Bank's branch location in Lexington. Management expects that continued historically low rates coupled with the Mortgage Division's reputation in its markets and our recently-added offices and producers present an opportunity for us to continue to grow the Mortgage Division's revenue.

Service charges and fees and commissions increased to $2,496,000 for the year ended December 31, 2021 from $2,033,000 for the year ended December 31, 2020 primarily due to increases related to commissions on the sales of securities, debit card fees, and treasury management fees.

Investment provides brokerage services through an agreement with a third-party broker-dealer. Pursuant to this arrangement, the third party broker-dealer operates a service center adjacent to one of the branches of the Bank. The center is staffed by dual employees of the Bank and the broker-dealer. Investment receives commissions on transactions generated and in some cases ongoing management fees such as mutual fund 12b-1 fees. Investment's financial impact on our consolidated revenue has been minimal. Although management cannot predict the financial impact of Investment with certainty, management anticipates it will continue to be a relatively small component of revenue in 2022.

Although dependent on overall market performance and other economic factors, we anticipate that PWW will begin to contribute noninterest income to the Company in 2022.

In the third quarter of 2008, we began providing insurance and annuity products to Bank customers and others, through the Bank's Insurance subsidiary. The Bank has one full-time and one part-time employee that are dedicated to selling insurance products through Insurance. Insurance generates minimal revenue and its financial impact on our consolidated revenue has been immaterial. Management anticipates that Insurance's impact on noninterest income will remain immaterial in 2022.

Noninterest income, exclusive of gains and losses on the sale and call of securities, increased to $11,209,000 in 2021 from $10,331,000 in 2020. Inclusive of gains and losses on the sale and call of securities, noninterest income increased to $11,209,000 in 2021 from $10,975,000 in 2020. The following table summarizes our noninterest income for the periods indicated.

Noninterest Income (dollars in thousands) December 31,		
	2021	2020
Gains on sale of loans held for sale	$ 8,265	$ 7,812
Service charges, fees and commissions	2,496	2,033
Life insurance income	430	436
Other	18	50
Gain on sales and calls of securities, net	—	644
Total noninterest income	$ 11,209	$ 10,975

The increase in noninterest income for 2021 as compared to 2020 was due to an increase in income from gains on sale of loans held for sale and service charges and was partially offset by a decrease in gains on sales of securities.

Noninterest Expense of Financial

Noninterest expenses increased from $27,934,000 for the year ended December 31, 2020 to $29,337,000 for the year ended December 31, 2021. The following table summarizes our noninterest expense for the periods indicated.

Noninterest Expense (dollars in thousands) December 31,		
	2021	2020
Salaries and employee benefits	$ 16,377	$ 15,430
Occupancy	1,673	1,638
Equipment	2,526	2,350
Supplies	471	479
Professional, data processing and other outside expenses	4,094	3,691
Marketing	934	667
Credit expense	1,103	1,112
Other real estate expenses	102	443
FDIC insurance expense	548	336
Other	1,509	1,248
Total noninterest expense	$ 29,337	$ 27,394

The increase in noninterest expense was due in large part to an increase in compensation and benefits, which has a variable component related to mortgage origination. In 2020, compensation expense was impacted by the Bank's early retirement plan, pursuant to which the Bank incurred approximately $700,000 in salary and benefit expense. To a lesser degree professional, data processing, and other outside expenses, marketing, equipment, and FDIC Insurance, driven by the year-over-year increase in deposits, contributed to the overall increase. Professional, data processing, and other outside expense increased primarily due increased charges by our core service provider relating to the additional deposit business generated in 2021. The increase in equipment expense was related to the replacement of certain computer equipment and software in order to continue to make progress toward cloud-based computing and a fully electronic signature system. The increase in marketing expenses was due primarily to expenses incurred in resuming normal operations in light of easing COVID-19 restrictions and increased charitable contributions.

The efficiency ratio, that is the cost of producing each dollar of revenue, is determined by dividing noninterest expense by the sum of net interest income plus noninterest income. Financial's efficiency ratio increased from 75.84% in 2020 to 76.62% in 2021. Our efficiency ratio increased because of the increase in noninterest expense was greater than the increases in net interest income and noninterest income. This is a non-GAAP financial measure that the Company believes provides investors with important information regarding operational efficiency. No non-recurring adjustments were made to the calculation of the efficiency ratio.

Income Tax Expense

For the year ended December 31, 2020, Financial had federal income tax expense of $1,199,000, as compared to a federal income tax expense of $1,862,000 in 2021, which equates to effective tax rates of 19.40% and 19.70%, respectively. Our effective tax rate was lower than the statutory corporate tax rate in 2020 and 2021 because of federal income tax benefits resulting from the tax treatment of earnings on bank owned life insurance, and certain tax-free municipal securities. Note 12 of the consolidated financial statements provides additional information with respect to our 2020 and 2021 federal income tax expense and deferred tax accounts.

ANALYSIS OF FINANCIAL CONDITION

As of December 31, 2021 and December 31, 2020

General

Our total assets were $987,634,000 at December 31, 2021, an increase of $136,248,000 or 16.00% from $851,386,000 at December 31, 2020, primarily due to securities available-for-sale and cash equivalents, both of which were primarily funded by an increase in deposits. As explained in more detail below, deposits increased from $764,967,000 on December 31, 2020 to $887,056,000 on December 31, 2021. Loans, net of unearned income and the allowance, decreased to $576,469,000 on December 31, 2021 from $601,934,000 on December 31, 2020.

Loans

Our loan portfolio is the largest and most profitable component of our earning assets. The Bank has comprehensive policies and procedures which cover both commercial and consumer loan origination and management of credit risk. Loans are underwritten in a manner that focuses on the borrower's ability to repay. Management's goal is not to avoid risk, but to manage it and to include credit risk as part of the pricing decision for each product.

The Bank's loan portfolio consists of commercial short-term lines of credit, term loans, mortgage financing and construction loans that are used by the borrower to build or develop real estate properties, and consumer loans. The consumer portfolio includes residential real estate mortgages, home equity lines and installment loans.

Loans, net of unearned income and the allowance, decreased to $576,469,000 on December 31, 2021 from $601,934,000 on December 31, 2020. Total loans, including loans held for sale decreased to $585,012,000 on December 31, 2021 from $616,192,000 on December 31, 2020. The decrease in total loans was in large part due to PPP loan payoffs and normal amortization of non-PPP loans. This decrease was offset in part by growth in the non-PPP loan portfolio, which is attributed to increased calling and sales efforts by our lenders. Competition for qualified borrowers remains strong.

As of December 31, 2021, the Bank had $954,000, or 0.16% of its total loans, in non-accrual status compared with $2,063,000, or 0.34% of its total loans, at December 31, 2020. Management is continuing its efforts to reduce non-performing assets through enhanced collection efforts and the liquidation of underlying collateral. The Bank attempts to work with borrowers on a case-by-case basis to attempt to protect the Bank's interests. However, despite our commitment, a reduction of non-accrual loans can be dependent on a number of factors, including improvements in employment, housing, and overall economic conditions at the local, regional and national levels. See "*Asset Quality*" below.

The following table summarizes net charge-offs, average loan balance and the percentage of charge-offs to average loan balance for each of the Company's loan segments at the end of the period:

	Loan Portfolio *(dollars in thousands)* December 31,			
2021	**(Recovery of) Provision for Loan Losses**	**Net (Charge-offs) Recoveries**	**Average Loans**	**Ratio of Annualized Net (Charge-offs) Recoveries to Average Loans**
Commercial	$ (589)	$ 59	$ 126,162	0.05%
Commercial real estate	15	72	326,591	0.02%
Consumer	1	(9)	91,489	-0.01%
Residential	73	137	57,030	0.24%
Total loans	$ (500)	$ 259	$ 601,272	0.04%
2020				
Commercial	$ 747	$ (76)	$ 133,030	-0.06%
Commercial real estate	1,703	(85)	314,604	-0.03%
Consumer	25	(22)	93,483	-0.02%
Residential	73	(38)	67,714	-0.06%
Total loans	$ 2,548	$ (221)	$ 608,831	-0.04%

The following table sets forth the maturities of the loan portfolio at December 31, 2021:

Remaining Maturities of Selected Loans
(dollars in thousands)
At December 31, 2021

	Less than One Year	After One but Within Five Years	After Five but Within Fifteen Years	After Fifteen Years	Total
Commercial	$ 19,251	$ 41,911	$ 19,405	$ 24,500	$ 105,067
Commercial real estate	32,332	18,371	120,837	166,609	338,149
Consumer	7,352	25,814	51,387	4,549	89,102
Residential	19,541	351	3,036	28,138	51,066
Total	$ 78,476	$ 86,447	$ 194,665	$ 223,796	$ 583,384
Loans with fixed interest rates:					
Commercial	$ 3,941	$ 33,662	$ 4,132	$ 2,564	$ 44,299
Commercial real estate	11,709	14,839	22,860	572	49,980
Consumer	380	12,754	16,572	377	30,083
Residential	9,904	351	2,759	827	13,841
Total	$ 25,934	$ 61,606	$ 46,323	$ 4,340	$ 138,203
Loans with variable interest rates:					
Commercial	$ 15,310	$ 8,249	$ 15,273	$ 21,936	$ 60,768
Commercial real estate	20,623	3,532	97,977	166,037	288,169
Consumer	6,972	13,060	34,815	4,172	59,019
Residential	9,637	—	277	27,311	37,225
Total	$ 52,542	$ 24,841	$ 148,342	$ 219,456	$ 445,181

Deposits

We experienced an increase in deposits from $764,967,000 at December 31, 2020 to $887,056,000 at December 31, 2021, for an increase of 15.96%. Noninterest-bearing deposits increased $18,941,000 or 13.21% from $143,345,000 at December 31, 2020 to $162,286,000 at December 31, 2021. The increase in noninterest-bearing deposits was due to increased market share, customers maintaining higher balances due to COVID-19 uncertainty, along with government stimulus. To a lesser extent, the recent expansion into Charlottesville, Harrisonburg, Roanoke, and most recently, Appomattox and Rustburg, as well as increased and continued efforts to procure the primary checking accounts of our commercial loan customers through offering treasury services contributed to the increase in deposits. Interest-bearing deposits including certificates of deposit increased $103,148,000, or 16.59%, from $621,622,000 at December 31, 2020 to $724,770,000 at December 31, 2021.

The following table sets forth the average deposit balances and the rates paid on deposits for the years indicated:

	Average Deposits and Rates Paid (dollars in thousands) Year Ended December 31,			
	2021		2020	
	Amount	Rate	Amount	Rate
Noninterest-bearing deposits	$ 165,138	—	$ 129,000	—
Interest-bearing deposits				
Interest checking	$ 333,974	0.10%	$ 263,381	0.17%
Money market	78,327	0.15%	66,015	0.30%
Savings	111,571	0.11%	92,859	0.16%
Time deposits				
Less than or equal to $250,000	125,242	0.76%	147,546	1.81%
Greater than $250,000	18,964	0.81%	34,386	1.97%
Total interest-bearing deposits	$ 668,078	0.25%	$ 604,187	0.69%
Total deposits	$ 833,216		$ 733,187	

The following table includes a summary of maturities of CDs greater than $250,000:

	Maturities of CD's Greater than $ 250,000 (dollars in thousands)				
	Less than Three Months	Three to Six Months	Six to Twelve Months	Greater than One Year	Total
At December 31, 2021	$ 4,646	$ 4,425	$ 4,602	$ 5,353	$ 19,026

The total amount of all deposit categories in excess of the FDIC $250,000 insurance limit was $118,315,000 and $171,875,000 as of December 31, 2021 and 2020, respectively.

Cash and Cash Equivalents

Cash and cash equivalents increased from $100,886,000 on December 31, 2020 to $183,153,000 on December 31, 2021. Federal funds sold amounted to $153,816,000 on December 31, 2021 compared to $69,203,000 on December 31, 2020. The increase in the balance of federal funds sold is due in part to the Bank's decision not to invest a large amount of cash in low-yielding, long term securities. In addition, fluctuations in federal funds sold generally are related to fluctuations in transactional accounts and professional settlement accounts, and the use of cash and cash equivalents to fund loan growth. The large increase in cash and cash equivalents in 2021 can be directly attributed to the growth in deposits as a result of organic growth and PPP loan payoffs received throughout 2021.

Investment Securities

The investment securities portfolio of the Bank is used as a source of income and liquidity.

The following table summarizes the fair value of the Bank's securities portfolio for the periods indicated:

	Securities Portfolio (dollars in thousands) December 31, 2021	2020
Held-to-maturity		
U.S. agency obligations	$ 4,006	$ 4,192
Available-for-sale		
U.S. treasuries	$ 2,002	$ 2,027
U.S. agency obligations	58,470	41,320
Mortgage - backed securities	37,438	15,696
Municipals	50,204	24,773
Corporates	13,153	6,369
Total available-for-sale	$ 161,267	$ 90,185

Deposited funds are generally invested in overnight vehicles, including federal funds sold, until approved loans are funded. The decision to purchase investment securities is based on several factors or a combination thereof, including:

a) The fact that yields on acceptably rated investment securities (S&P "A" rated or better) are significantly better than the overnight federal funds rate;

b) Whether demand for loan funding exceeds the rate at which deposits are growing, which leads to higher or lower levels of surplus cash;

c) Management's target of maintaining a minimum of 6% of the Bank's total assets in a combination of federal funds sold and investment securities (aggregate of available-for-sale and held-to-maturity portfolios); and

d) Whether the maturity or call schedule meets management's asset/liability plan.

Available-for-sale securities (as opposed to held-to-maturity securities) may be liquidated at any time as funds are needed to fund loans. Liquidation of securities may result in a net loss or net gain depending on current bond yields available in the primary and secondary markets and the shape of the U.S. Treasury yield curve. Management is cognizant of its credit standards policy and does not feel pressure to maintain loan growth at the same levels as deposit growth and thus sacrifice credit quality in order to avoid security purchases.

Management has made the decision to maintain a significant portion of its available funds in liquid assets so that funds are available to fund future growth of the loan portfolio and in anticipation of rising rates. Management believes that this strategy will allow us to maximize interest margins while maintaining appropriate levels of liquidity.

Securities held-to-maturity at carrying cost decreased from $3,671,000 as of December 31, 2020 to $3,655,000 as of December 31, 2021. This decrease resulted from the amortization of premiums within the held-to-maturity portfolio. The decision to invest in securities held-to-maturity is based on the same factors as the decision to invest in securities available-for-sale except that management invests surplus funds in securities held-to-maturity only after concluding that such funds will not be necessary for liquidity purposes during the term of such security. However, the held-to-maturity securities may be pledged for such purposes as short term borrowings and as collateral for public deposits.

The portfolio of securities available-for-sale increased to $161,267,000 as of December 31, 2021 from $90,185,000 as of December 31, 2020. The increase was due to the use of excess cash from our increased deposit balances to purchase securities available-for-sale. The increase was offset in part by a decrease in the fair value of available-for-sale securities caused by rising interest rates. Out of an abundance of caution, during the first six months of 2020, the Bank sold available-for-sale securities to increase cash and cash equivalents in light of the uncertainties surrounding the COVID-19 pandemic. Because the need for additional liquidity did not materialize, the Bank reinvested some of the proceeds. The Bank realized $7,860,000 from pay-downs related to the normal amortization of principal related to the Bank's mortgage backed securities, calls, and maturities. During 2021, the Bank did not sell any available-for-sale securities. During 2021, the Bank purchased $83,964,000 of available-for-sale securities.

The following table shows the maturities of held-to-maturity and available-for-sale securities at fair value at December 31, 2021 and 2020 and approximate weighted average yields of such securities. Weighted average yields on all securities including state and political subdivision securities are shown on a pre-tax basis. Financial attempts to maintain diversity in its portfolio and maintain credit quality and repricing terms that are consistent with its asset/liability management and investment practices and policies. For further information on Financial's securities, see Note 4 to the consolidated financial statements included in Item 8 of this Form 10-K.

Securities Portfolio Maturity Distribution / Yield Analysis
(dollars in thousands)
At December 31, 2021

	Less than One Year	One to Five Years	Five to Ten Years	Greater than Ten Years	Total
Held-to-maturity					
U.S. Agency					
Fair value	$ —	$ —	$ 2,634	$ 1,372	$ 4,006
Weighted average yield			2.88%	3.23%	
Available-for-sale securities					
U.S Treasury					
Fair value	$ 2,002	$ —	$ —	$ —	$ 2,002
Weighted average yield	1.37%				
U.S. Agency					
Fair value	$ —	$ 6,131	$ 47,884	$ 4,455	$ 58,470
Weighted average yield		1.21%	1.42%	1.62%	
Mortgage Backed Securities					
Fair value	$ —	$ 1,178	$ 6,843	$ 29,417	$ 37,438
Weighted average yield		2.32%	1.58%	1.82%	
Municipals					
Fair value	$ 734	$ 1,563	$ 7,480	$ 40,427	$ 50,204
Weighted average yield	2.41%	1.94%	1.90%	2.27%	
Corporates					
Fair value	$ —	$ 4,162	$ 8,503	$ 488	$ 13,153
Weighted average yield		2.29%	3.75%	2.00%	
Total portfolio					
Fair value	$ 2,736	$ 13,033	$ 73,345	$ 76,159	$ 165,273
Weighted average yield	1.64%	1.74%	2.06%	1.93%	

Securities Portfolio Maturity Distribution / Yield Analysis (dollars in thousands) At December 31, 2020	Less than One Year	One to Five Years	Five to Ten Years	Greater than Ten Years	Total
Held-to-maturity					
U.S. Agency					
Fair value	$ —	$ —	$ 452	$ 3,740	$ 4,192
Weighted average yield			2.99%	2.99%	
Available-for-sale securities					
U.S Treasury					
Fair value	$ —	$ 2,027	$ —	$ —	$ 2,027
Weighted average yield		1.38%			
U.S. Agency					
Fair value	$ —	$ 4,215	$ 28,243	$ 8,862	$ 41,320
Weighted average yield		1.00%	1.61%	1.60%	
Mortgage Backed Securities					
Fair value	$ —	$ 508	$ 3,210	$ 11,978	$ 15,696
Weighted average yield		1.76%	2.25%	1.45%	
Municipals					
Fair value	$ 501	$ 3,030	$ 6,356	$ 14,886	$ 24,773
Weighted average yield	1.78%	2.27%	2.13%	2.27%	
Corporates					
Fair value	$ —	$ 3,242	$ 3,127	$ —	$ 6,369
Weighted average yield		2.22%	4.40%		
Total portfolio					
Fair value	$ 501	$ 13,022	$ 41,388	$ 39,466	$ 94,377
Weighted average yield	1.78%	1.68%	2.06%	1.93%	

Cash surrender value of bank-owned life insurance

The Company has funded bank-owned life insurance (BOLI) for a small group of its officers. The Company is the owner and sole beneficiary of the BOLI policies. As of December 31, 2021, the BOLI had a cash surrender value of $18,785,000, an increase of $2,430,000 from the cash surrender value of $16,355,000 as of December 31, 2020. The Company purchased an additional $2,000,000 in BOLI during 2021. With the exception of purchases, the value of BOLI increases from the cash surrender values of the pool of insurance. The increase in cash surrender value is recorded as a component of noninterest income; however, the Company does not pay tax on the increase in cash value. This profitability is used to offset a portion of current and future employee benefit costs. BOLI can be liquidated if necessary with associated tax costs. However, the Company intends to hold this pool of insurance, because it provides income that enhances the Company’s capital position. Therefore, the Company has not provided for deferred income taxes on the earnings from the increase in cash surrender value.

Goodwill and Other Intangible Assets

Goodwill arises from business combinations and is generally determined as the excess of fair value of the consideration transferred, plus the fair value of any noncontrolling interests in the acquired entity, over the fair value of the nets assets acquired and liabilities assumed as of the acquisition date. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but tested for impairment at least annually or more frequently in events and circumstances exists that indicate that a goodwill impairment test should be performed. The Company has selected September 1 of each year as the date to perform the annual impairment test. Intangible assets with definite useful lives are amortized over their estimated useful lives to their estimated residual values. Goodwill is the only intangible asset with an indefinite life on our balance sheet.

On December 31, 2021, Financial completed its acquisition of Pettyjohn, Wood & White, Inc. ("PWW"), a Lynchburg, Virginia-based investment advisory firm with approximately $650 million in assets under management and advisement at the time of the acquisition. PWW operates as a subsidiary of Financial. The acquisition date fair value of consideration transferred totaled $10.5 million, which was paid in cash.

In connection with this transaction, the Company recorded $3.0 million in goodwill and $8.4 million of amortizable intangible assets, which primarily relate to the value of customer relationships. The goodwill is not deductible for tax purposes. The Company is amortizing these intangible assets over a 15-year period using the straight line method. The transaction was accounted for using the acquisition method of accounting, and accordingly, assets acquired, liabilities assumed, and consideration exchanged were recorded at estimated fair values on the acquisition date. The fair values are subject to refinement for up to one year after the closing date of the acquisition, in accordance with ASC 350, Intangibles-Goodwill and Other.

Liquidity

Liquidity represents the ability of a company to convert assets into cash or cash equivalents without significant loss, and the ability to raise additional funds by increasing liabilities.

The liquidity of Financial depends primarily on Financial's current assets, available credit, and the dividends paid to it by the Bank. Payment of cash dividends by the Bank is limited by regulations of the Federal Reserve Board and is tied to the regulatory capital requirements. Management believes that Financial has sufficient liquidity to meet its current obligations. See "*Capital Resources,*" below.

The objective of liquidity management for the Bank is to ensure the continuous availability of funds to meet the demands of depositors, investors and borrowers. Liquidity management involves monitoring the Bank's sources and uses of funds in order to meet the day-to-day cash flow requirements while maximizing profits. Stable core deposits and a strong capital position are the components of a solid foundation for the Bank's liquidity position. Liquidity management is made more complicated because different balance sheet components are subject to varying degrees of management control. For example, the timing of maturities of securities held-to-maturity is fairly predictable and subject to a high degree of control at the time investment decisions are made. However, net non-maturity deposit inflows and outflows are far less predictable and are not subject to the same degree of control.

Funding sources for the Bank primarily include paid-in capital and customer-based deposits but also include borrowed funds and cash flow from operations. The Bank has in place several agreements that will provide alternative sources of funding, including, but not limited to, lines of credit, sale of investment securities, purchase of federal funds, advances through the Federal Home Loan Bank of Atlanta ("FHLBA") and correspondents, and brokered certificate of deposit arrangements. Management believes that the Bank has the ability to meet its liquidity needs.

At December 31, 2021, liquid assets, which include cash, interest-bearing and noninterest-bearing deposits with banks, federal funds sold, and securities available-for-sale totaled $344,420,000 as compared to $191,071,000 at December 31, 2020. Management deems liquidity to be sufficient. Investment securities traditionally provide a secondary source of liquidity since they can be converted into cash in a timely manner. However, approximately $24,055,000 (current market value) of these securities are pledged to secure public deposits and $8,104,000 (current market value) are pledged to secure unfunded lines of credit. In the event any secured line of credit is drawn upon, the related debt would need to be repaid before the securities could be sold and converted to cash.

While we have not experienced any unusual pressure on our deposit balances or our liquidity position as a result of the COVID-19 pandemic, management continues to monitor our sources and uses of funds in order to meet our cash flow requirements while maximizing profits. Based in part on recent loan activity including loans made pursuant to the PPP as discussed below under "ASSET QUALITY," the Bank is monitoring liquidity to ensure it is able to fund future loans and withdrawals related to the use of PPP funds.

The following table sets forth non-deposit sources of funding:

Funding Sources
(dollars in thousands)

Source	December 31, 2021		
	Capacity	Outstanding	Available
Federal funds purchased lines (unsecured)	$ 33,000	$ —	$ 33,000
Federal funds purchased lines (secured)	7,294	—	7,294
Reverse repurchase agreements	5,000	—	5,000
Borrowings from FHLB Atlanta (1)	235,788	—	235,788
Total	$ 281,082	$ —	$ 281,082

Source	December 31, 2020		
	Capacity	Outstanding	Available
Federal funds purchased lines (unsecured)	$ 33,000	$ —	$ 33,000
Federal funds purchased lines (secured)	8,055	—	8,055
Reverse repurchase agreements	5,000	—	5,000
Borrowings from FHLB Atlanta	212,366	—	212,366
Total	$ 258,421	$ —	$ 258,421

(1) Currently the Bank has in place pledged collateral in the form of 1-4 family residential mortgages in the amount of approximately $28,187,000 against which $0 was drawn and outstanding on December 31, 2021. Additional collateral would be required to be pledged in order for the full $235,788,000 to be available.

At the end of 2021, approximately 34.76%, or $202,812,000 of the loan portfolio could mature or could reprice within a one-year period. At December 31, 2021, non-deposit sources of available funds totaled $281,082,000, which included $235,788,000 available from the FHLBA.

Capital Resources

Capital adequacy is an important measure of financial stability and performance. Management's objectives are to maintain a level of capitalization that is sufficient to sustain asset growth and promote depositor and investor confidence.

Regulatory agencies measure capital adequacy utilizing a formula that takes into account the individual risk profiles of financial institutions. The guidelines define capital as Tier 1 (primarily common stockholders' equity, defined to include certain debt obligations) and Tier 2 (remaining capital generally consisting of a limited amount of subordinated debt, certain hybrid capital instruments and other debt securities, preferred stock and a limited amount of the general valuation allowance for loan losses).

On June 7, 2012, the Federal Reserve issued a series of proposed rules that would revise and strengthen its risk-based and leverage capital requirements and its method for calculating risk-weighted assets. The rules were proposed to implement the Basel III regulatory capital reforms from the Basel Committee on Banking Supervision and certain provisions of the Dodd-Frank Act. On July 2, 2013, the Federal Reserve approved certain revisions to the proposals and finalized new capital requirements for banking organizations.

Effective January 1, 2015, the final rules require the Bank to comply with the following minimum capital ratios: (i) a common equity Tier 1 capital ratio of 4.5% of risk-weighted assets; (ii) a Tier 1 capital ratio of 6.0% of risk-weighted assets; (iii) a total capital ratio of 8.0% of risk-weighted assets (unchanged from the previous requirement); and (iv) a leverage ratio of 4.0% of total assets. These initial capital requirements were phased in over a five-year period. The phase was completed, as of January 1, 2019 and the rules require the Bank to maintain (i) a minimum ratio of common equity Tier 1 to risk-weighted assets of at least 4.5%, plus a 2.5% "capital conservation buffer" (which is added to the 4.5% common equity Tier 1 ratio, effectively resulting in a minimum ratio of common equity Tier 1 to risk-weighted assets of at least 7.0% upon full implementation), (ii) a minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0%, plus the capital conservation buffer (which is added to the 6.0% Tier 1 capital ratio, effectively resulting in a minimum Tier 1 capital ratio of 8.5% upon full implementation), (iii) a minimum ratio of total capital to risk-weighted assets of at least 8.0%, plus the capital conservation buffer (which is added to the 8.0% total capital ratio, effectively resulting in a minimum total capital ratio of 10.5% upon full implementation), and (iv) a minimum leverage ratio of 4.0%, calculated as the ratio of Tier 1 capital to average assets.

The capital conservation buffer requirement was phased in beginning January 1, 2016, at 0.625% of risk-weighted assets, increasing each year until fully implemented at 2.5% on January 1, 2019. The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of common equity Tier 1 to risk-weighted assets above the minimum but below the conservation buffer will face constraints on dividends, equity repurchases, and compensation based on the amount of the shortfall.

With respect to the Bank, the rules also revised the "prompt corrective action" regulations pursuant to Section 38 of the FDIA by (i) introducing a common equity Tier 1 capital ratio requirement at each level (other than critically undercapitalized), with the required ratio being 6.5% for well-capitalized status; (ii) increasing the minimum Tier 1 capital ratio requirement for each category, with the minimum ratio for well-capitalized status being 8.0% (as compared to the previous 6.0%); and (iii) eliminating the current provision that provides that a bank with a composite supervisory rating of 1 may have a 3.0% Tier 1 leverage ratio and still be well-capitalized.

The capital requirements also include changes in the risk weights of assets to better reflect credit risk and other risk exposures. These include a 150% risk weight (up from 100%) for certain high volatility commercial real estate acquisition, development and construction loans and nonresidential mortgage loans that are 90 days past due or otherwise on non-accrual status, a 20% (up from 0%) credit conversion factor for the unused portion of a commitment with an original maturity of one year or less that is not unconditionally cancellable, a 250% risk weight (up from 100%) for mortgage servicing rights and deferred tax assets that are not deducted from capital, and increased risk-weights (from 0% to up to 600%) for equity exposures.

Pursuant to the Regulatory Relief Act, on September 17, 2019, the federal banking agencies adopted a final rule regarding a community bank leverage ratio. Under the final rule, which was effective on January 1, 2020, depository institutions and depository institution holding companies that have less than $10 billion in total consolidated assets and meet other qualifying criteria, including a leverage ratio (equal to tier 1 capital divided by average total consolidated assets) of greater than 9 percent, will be eligible to opt into the community bank leverage ratio framework (qualifying community banking organizations). Qualifying community banking organizations that elect to use the community bank leverage ratio framework and that maintain a leverage ratio of greater than 9 percent will be considered to have satisfied the generally applicable risk-based and leverage capital requirements in the agencies' capital rules (generally applicable rule) and, if applicable, will be considered to have met the well-capitalized ratio requirements for purposes of section 38 of the Federal Deposit Insurance Act.

The Bank's regulatory capital levels exceed those established for well-capitalized institutions.

The following table (along with Note 18 of the consolidated financial statements) shows the minimum capital requirements and the Bank's capital position as of December 31, 2021 and 2020.

Analysis of Capital for Bank of the James (Bank only)
(dollars in thousands)

Analysis of Capital	**December 31, 2021**	**December 31, 2020**
Tier 1 capital		
Common Stock	$ 3,742	$ 3,742
Surplus	22,325	22,325
Retained earnings	52,821	44,621
Total Tier 1 capital	$ 78,888	$ 70,688
Common Equity Tier 1 Capital (CET1)	$ 78,888	$ 70,688
Tier 2 capital		
Allowance for loan losses	$ 6,915	$ 7,156
Total Tier 2 capital:	$ 6,915	$ 7,156
Total risk-based capital	$ 85,803	$ 77,844
Risk weighted assets	$ 693,400	$ 635,445
Average total assets	$ 959,794	$ 853,558

	Actual		**Regulatory Benchmarks**	
	December 31, 2021	**December 31, 2020**	**For Capital Adequacy Purposes (1)**	**For Well Capitalized Purposes**
Capital Ratios:				
Tier 1 capital to average total assets	8.22%	8.28%	4.000%	5.000%
Common Equity Tier 1 capital	11.38%	11.12%	7.000%	6.500%
Tier 1 risk-based capital ratio	11.38%	11.12%	8.500%	8.000%
Total risk-based capital ratio	12.37%	12.25%	10.500%	10.000%

(1) Includes capital conservation buffer of 2.5%, where applicable.

During the first quarter of 2017, Financial closed a private placement of unregistered debt securities (the "2017 Offering") pursuant to which Financial issued $5,000,000 in principal of notes (the "2017 Notes"). The 2017 Notes were scheduled to mature on January 24, 2022, but were subject to prepayment in whole or in part on or after January 24, 2018 at Financial's sole discretion on 30 days written notice to the holders. The Company contributed $3,000,000 of the proceeds from the 2017 Offering to the Bank as additional paid in capital. The remainder of the proceeds were retained at the parent level to service the debt and pay dividends.

On April 13, 2020, the Company commenced a private placement of unregistered debt securities (the "2020 Offering"). In the 2020 Offering, the Company sold and closed $10,050,000 in principal of notes (the "2020 Notes") during the 2nd and 3rd quarters of 2020. The 2020 Offering officially ended on July 8, 2020. The 2020 Notes will bear interest at the rate of 3.25% per year with interest payable quarterly in arrears. The 2020 Notes will mature on June 30, 2025 and are subject to full or partial repayment on or after June 30, 2021. The balance of the 2020 Notes as presented on the December 31, 2021 consolidated balance sheet is net of unamortized issuance costs.

On September 24, 2020 the Bank used $5,000,000 of the proceeds for the payment of principal of the 2017 Notes. The Company intends to use the balance of the proceeds from the 2020 Offering for general corporate purposes in the discretion of Company's management such as payment of interest on the 2020 Notes and as a contribution of additional capital to the Bank.

The capital ratios set forth in the above tables state the capital position and analysis for the Bank only. Because total assets on a consolidated basis are less than $3 billion, Financial is not subject to the consolidated capital requirements imposed by the Bank Holding Company Act. Consequently, Financial does not calculate its financial ratios on a consolidated basis. If calculated, the capital ratios for the Company on a consolidated basis would be slightly lower than the capital ratios of the Bank because the of the Company's decision to contribute $3,000,000 in proceeds from the 2017 Offering to the Bank.

Stockholders' Equity

Stockholders' equity increased by $2,697,000 from $66,732,000 on December 31, 2021 to $69,429,000 on December 31, 2020 because of net income of $7,589,000, less cash dividends paid, less a comprehensive loss of $3,178,000 resulting from a decrease in the market value (mark to market) of available-for-sale securities.

ASSET QUALITY

We perform monthly reviews of all delinquent loans and loan officers are charged with working with customers to resolve potential payment issues. We generally classify a loan as non-accrual when interest is deemed uncollectible or when the borrower is 90 days or more past due. We generally restore a loan if i) a borrower is no longer 90 days past due on the loan and the borrower has demonstrated the capacity to repay the loan for six consecutive months or ii) the loan committee of the Board of Directors determines that a borrower has the capacity to repay the loan.

Non-accrual loans decreased to $954,000 on December 31, 2021 from $2,063,000 on December 31, 2020. As set forth in tabular form below, total charge-offs during 2021 were $91,000 compared to $448,000 in 2020. In 2021, the Bank recovered $350,000 in loans previously charged-off as compared with recoveries of $227,000 in 2020.

We also classify other real estate owned (OREO) as a nonperforming asset. OREO is the value of real property acquired by the Bank following default by the borrower. During the twelve months ended December 31, 2021 the Bank acquired two (2) OREO properties and disposed of three (3) OREO properties and as of December 31, 2021 is carrying two (2) OREO properties at a value of $761,000, as compared to three (3) properties with a value of $1,105,000 as of December 31, 2020. The OREO properties are available for sale and are being actively marketed on the Bank's website and through other means. The following table represents the changes in OREO balance in 2021 and 2020.

OREO Changes
(dollars in thousands)

	Year Ended December 31,	
	2021	**2020**
Balance at the beginning of the year (net)	$ 1,105	$ 2,339
Transfers from Loans	111	18
Capitalized costs	—	—
Valuation Adjustment	—	(437)
Sales proceeds	(368)	(844)
Gain (loss) on disposition	(87)	29
Balance at the end of the year (net)	$ 761	$ 1,105

Non-accrual loans plus OREO decreased to $1,715,000 on December 31, 2021 from $3,168,000 on December 31, 2020, a decrease of 45.88%.

We also classify troubled debt restructurings (TDRs) as both performing and nonperforming assets. We measure impaired loans based on the present value of expected future cash flows discounted at the effective interest rate of the loan or, as a practical expedient, at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. We maintain a valuation allowance to the extent that the measure of the impaired loan is less than the recorded investment. TDRs occur when we agree to significantly modify the original terms of a loan by granting a concession due to the deterioration in the financial condition of the borrower. TDRs are considered impaired loans. These concessions typically are made for loss mitigation purposes and could include reductions in the interest rate, payment extensions, forgiveness of principal, forbearance or other actions. Performing TDRs decreased to $372,000 on December 31, 2021 from $392,000 on December 31, 2020.

The following table sets forth the number of outstanding TDR contracts and the total amount of the Bank's TDRs as of December 31, 2021 and 2020.

Troubled Debt Restructurings
(dollars in thousands)

	December 31,	
	2021	**2020**
Number of performing TDR contracts	3	3
Number of nonperforming TDR contracts	—	—
Total number of TDR contracts	3	3
Amount of performing TDR contracts	$ 372	$ 392
Amount of nonperforming TDR contracts	—	—
Total amount of TDRs contracts	$ 372	$ 392

The amount allocated during the year to the provision for loan losses represents management's analysis of the existing loan portfolio and credit risks. Management's policy is to maintain the allowance for loan losses at a level sufficient to absorb the estimated losses inherent in the loan portfolio. Both the amount of the provision and the level of the allowance for loan losses are impacted by many factors, including general economic conditions, actual and expected credit losses, loan performance measures, historical trends and specific conditions of the individual borrower.

In performing its loan loss analysis, the Bank assigns a risk rating to each commercial loan in the Bank's portfolio.

The Bank's allowance for loan losses decreased 3.37% from $7,156,000 on December 31, 2020 to $6,915,000 on December 31, 2021, primarily due to an decrease in the general reserves, which led to a $500,000 recovery of loan loss provision. The general reserve component decreased significantly as compared to the prior year end due to improvements in qualitative factor adjustments related to the COVID-19 pandemic. Management intends to continue to be proactive in quantifying and mitigating the ongoing risk associated with all asset classes. Management has provided for the anticipated losses on its non-accrual loans through specific impairment in the allowance for loan losses.

At December 31, 2021, the allowance for loan losses was 1.19% of total loans outstanding, versus 1.17% of total loans outstanding at December 31, 2020. The allowance to total loans, excluding PPP loans, decreased to 1.20% at December 31, 2021 from 1.25% at December 31, 2020. Because the PPP loans are guaranteed in full by the U.S. Small Business Administration, management determined that these loans should be excluded from the calculation. At December 31, 2021, management believed the allowance for loan losses was at a level commensurate with the overall risk exposure of the loan portfolio. However, if economic conditions continue to deteriorate due to the COVID-19 pandemic, certain borrowers may experience difficulty and the level of nonperforming loans, charge-offs and delinquencies could rise and require increases in the allowance for loan losses. The process of identifying potential credit losses is a subjective process. Therefore, the Company maintains a general reserve to cover credit losses within the portfolio. The methodology management uses to determine the adequacy of the loan loss reserve includes the considerations below.

The decrease in the allowance for loan losses was largely driven by decreased qualitative factor adjustments related to the ongoing COVID-19 pandemic, primarily in relation to the economy and the fact that all loans previously granted principal and/or interest deferrals have returned to normal payment status. In addition, the reduction in the year-over-year loan balance resulted in a reduced need to maintain a higher allowance for loan losses. The reduction of the specific reserve from $4,000 to $0 was immaterial.

No non-accrual loans were excluded from impaired loans at December 31, 2021 and 2020. If interest on these loans had been accrued, such income cumulatively would have approximated $177,000 and $158,000 at December 31, 2021 and 2020, respectively. Loan payments received on non-accrual loans are applied to principal. When a loan is placed on non-accrual status there are several negative implications. First, all interest accrued but unpaid at the time of the classification is deducted from the interest income totals for the Bank. Second, accruals of interest are discontinued until it becomes certain that both principal and interest can be repaid. Third, there may be actual losses that necessitate additional provisions for credit losses charged against earnings. These loans were included in the nonperforming loan totals listed below. The following table sets forth the detail of loans charged-off, recovered, and the changes in the allowance for loan losses as of the dates indicated:

The following table shows the balance and percentage of the Bank's allowance for loan losses allocated to each major category of loans:

Allocation of Allowance for Loan Losses
(dollars in thousands)
At December 31,

	2021			2020		
		Amount	**Percent of Loans to Total Loans**		**Amount**	**Percent of Loans to Total Loans**
Commercial	$	1,471	18.01%	$	2,001	23.83%
Commercial real estate		3,637	57.97%		3,550	50.82%
Consumer		860	15.27%		868	15.16%
Residential		947	8.75%		737	10.19%
Total	$	6,915	100.00%	$	7,156	100.00%

The following table provides information on the Bank's nonperforming assets as of the dates indicated:

Nonperforming Assets
(dollars in thousands)
At December 31,

		2021		2020
Nonaccrual loans				
Commercial	$	25	$	121
Commercial Real Estate		640		1,492
Consumer		127		240
Residential		163		210
Total nonaccrual loans	$	955	$	2,063
Foreclosed Properties				
Commercial		695		695
Commercial Real Estate		—		410
Consumer		66		—
Residential		—		—
Total foreclosed properties	$	761	$	1,105
Repossessed Assets		—		—
Total Nonperforming assets	$	1,716	$	3,168
Total nonperforming loans as a percentage of total loans		0.16%		0.34%
Total nonperforming loans as a percentage of total assets		0.10%		0.24%
Allowance for loan losses on loans as a percentage of nonperforming loans		724.08%		346.82%
Allowance for loan losses on loans as a percentage of period end loans		1.19%		1.18%
Total nonaccrual loans as a percentage of total loans		0.16%		0.34%
Allowance for loan losses on loans as a percentage of nonaccrual loans		724.08%		346.82%

The allowance for loan losses as a percentage of nonaccrual loans increased from 2020 to 2021 due to the sharp decrease in nonaccrual loans for the same periods.

Asset Quality as it Relates to COVID-19

Although management believes that the risk has diminished somewhat, it remains possible that our commercial, commercial real estate, residential and consumer borrowers may encounter economic difficulties related to the COVID-19 pandemic. This could lead to to increases in our levels of nonperforming assets, impaired loans and troubled debt restructurings. Any potential financial impacts are unknown at this time.

We previously developed relief programs to assist borrowers in financial need due to the effects of the COVID-19 pandemic. Accordingly, we offered short-term modifications made in response to COVID-19 to certain borrowers who were current and otherwise not past due. These included short-term, 180 days or less, modifications in the form of payment deferrals, fee waivers, extensions of repayment terms, deferral of principal only (interest only payments), or other delays in payment that are insignificant. During the year ended December 31, 2020, the Bank modified a total of 191 loans with a total principal balance of approximately $95 million. No loans granted deferral status remain in deferral at December 31, 2021.

In accordance with the relief provisions of the CARES Act and the March 22, 2020 (revised April 2020) Joint Interagency Regulatory Guidance, the above modifications were not considered to be troubled debt restructurings and were excluded from the TDR discussion above. The TDR relief provisions provided for by the CARES Act were extended in December 2020 by the Consolidated Appropriations Act through the earlier of January 1, 2022 or 60 days after the national COVID-19 emergency terminates.

Management has reviewed loan segments that it believes could be adversely impacted by the COVID-19 pandemic, and identified the following segments: assisted living, education/childcare, entertainment, hospitality, oil & gas (gas stations), religious/charitable, restaurants, retail & services. At December 31, 2021, the loan balances in those segments were as follows:

Industry	Principal Balance (in thousands)	Number of Loans	Percent of Total Loan Portfolio
Assisted Living	$ 7,427	11	1.27%
Education/Childcare	8,825	15	1.51%
Entertainment	5,184	19	0.89%
Hospitality	18,693	9	3.20%
Oil & Gas (Gas Stations)	696	10	0.12%
Religious/Charitable	17,361	36	2.98%
Restaurants	16,226	41	2.78%
Retail & Services	9,287	41	1.59%
Total	$ 83,699	182	14.35%

Management continues to closely monitor loans in these categories.

Interest Rate Sensitivity

The most important element of asset/liability management is the monitoring of Financial’s sensitivity to interest rate movements. The income stream of Financial is subject to risk resulting from interest rate fluctuations to the extent there is a difference between the amount of Financial’s interest earning assets and the amount of interest-bearing liabilities that prepay, mature or reprice in specified periods. Management’s goal is to maximize net interest income with acceptable levels of risk to changes in interest rates. Management seeks to meet this goal by influencing the maturity and re-pricing characteristics of the various lending and deposit taking lines of business and by managing discretionary balance sheet asset and liability portfolios.

Management also is attempting to mitigate interest rate risk by limiting the dollar amount of loans carried on its balance sheet that have fixed rates in excess of five years. To reduce our exposure to interest rate risks inherent with longer term fixed rate loans, we generally do not hold such mortgages on our books. The Bank established the Mortgage Division to serve potential customers that desired fixed rate loans in excess of five years.

Management monitors interest rate levels on a daily basis and meets in the form of an Enterprise Risk Management and Asset/Liability Committee ("ALCO") meeting at least quarterly, or when a special situation arises (e.g., FOMC unscheduled rate change). The following reports and/or tools are used to assess the current interest rate environment and its impact on Financial's earnings and liquidity: monthly and year-to-date net interest margin and spread calculations, monthly and year-to-date balance sheet and income statements versus budget (including quarterly interest rate shock analysis), quarterly economic value of equity analysis, a weekly survey of rates offered by other local competitive institutions, and gap analysis which matches maturities or repricing dates of interest sensitive assets to those of interest sensitive liabilities.

Financial currently subscribes to computer simulated modeling tools made available through its consultant, FinPro, Inc., to aid in asset/liability analysis. In addition to monitoring by ALCO, the board is informed of the current asset/liability position and its potential effect on earnings at least quarterly.

Other Borrowings

On April 13, 2020, the Company commenced a private placement of unregistered debt securities (the "2020 Offering"). In the 2020 Offering, the Company sold and closed $10,050,000 in principal of notes (the "2020 Notes") during the 2nd and 3rd quarters of 2020. The 2020 Offering officially ended on July 8, 2020. The 2020 Notes bear interest at the rate of 3.25% per year with interest payable quarterly in arrears. The 2020 Notes will mature on June 30, 2025 and are subject to full or partial repayment on or after June 30, 2021. The balance of the 2020 Notes as presented on the December 31, 2021 consolidated balance sheet is net of unamortized issuance costs.

On December 29, 2021 Financial borrowed $11,000,000 from National Bank of Blacksburg pursuant to a secured promissory note (the "NBB Note"). The NBB Note bears interest at the rate of 4.00%, and is being amortized over a fifteen year period with a balloon payment of approximately $9,375,000 due on December 31, 2024. The note is secured by a first priority lien on approximately 4.95% of the Bank's common stock. The balance of the NBB Note is presented on the December 31, 2021 consolidated balance sheet under "other borrowings" and is net of unamortized issuance costs. A portion of the proceeds were used to purchase 100% of the capital stock of PWW.

Financial uses borrowing in conjunction with deposits to fund lending and investing activities. Borrowings include funding of a short and long-term nature.

Short-term borrowings consist of securities sold under agreements to repurchase, which are secured transactions with customers and generally mature the day following the date sold. short-term borrowings may also include federal funds purchased, which are unsecured overnight borrowings from other financial institutions, which totaled $0 as of December 31, 2021 and December 31, 2020. Unsecured federal funds lines and their respective limits are maintained with the following institutions: Community Bankers' Bank, $13,000,000, PNC Bank $6,000,000, First National Bankers' Bank, $10,000,000, and Zions Bank, $4,000,000. In addition, the Bank maintains a $5,000,000 reverse repurchase agreement with Truist Bank whereby securities may be pledged as collateral in exchange for funds for a minimum of 30 days with a maximum of 90 days. The Bank also maintains a secured federal funds line with Community Bankers' Bank whereby it may pledge securities as collateral with no specified minimum or maximum amount or term. The amount outstanding on the Community Bankers' Bank secured fed funds line was $0 as of December 31, 2021 and 2020.

Additional borrowings may be obtained through the Federal Home Loan Bank of Atlanta ("FHLBA"). The Bank's remaining available credit through the FHLBA was $235,788,000 as of December 31, 2021, the most recent calculation. Currently the Bank has in place pledged collateral in the amount of approximately $28,187,000 against which $0 was drawn and outstanding on December 31, 2021. Additional collateral would be required to be pledged in order for the full $235,788,000 to be available.

Off-Balance Sheet Arrangements

At December 31, 2021, the Bank had rate lock commitments to originate mortgage loans through its Mortgage Division amounting to approximately $21,039,000 and loans held for sale of $1,628,000. The Bank recorded $144,000 in other assets in relation to its interest rate lock commitments at December 31, 2021. The Bank has entered into corresponding commitments with third party investors to sell each of these loans that close. No other obligation exists.

The Bank is a 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. Such commitments involve, to varying degrees, elements of credit risk and interest rate 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 it does for on-balance sheet instruments. A summary of the Bank's commitments is as follows:

	Contract Amounts *(dollars in thousands)* at December 31,	
	2021	**2020**
Commitments to extend credit	$ 179,953	$ 152,834
Standby letters of credit	4,335	3,552
Total	$ 184,288	$ 156,386

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. Because many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on its credit evaluation of the customer.

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

Management does not anticipate any material losses as a result of these transactions.

The Bank rents, under non-cancelable leases eight of its banking facilities and one mortgage production office. "*Note 23 – Leases*" in the Notes to Consolidated Financial Statements provides information on the Company's liability under the Company's leases of significance.

Expansion Plans

Subject to regulatory approval, the Bank anticipates opening additional branches during the next two fiscal years. Although numerous factors could influence the Bank's expansion plans, the following discussion provides a general overview of the real property the Bank is holding for potential branch expansion.

Boonsboro Road, (Lynchburg), Virginia. In 2021 the Bank has purchased a building that formerly operated as a branch bank for another institution located at 4501 Boonsboro Road, Lynchburg, Virginia 24503. While the Bank does not anticipate opening a branch at this location until the fall of 2022, the Bank believes the investment needed to upfit this property will be minimal and primarily related to aesthetics due to the fact this location was a former bank branch.

Timberlake Road Area, Campbell County (Lynchburg), Virginia. As previously disclosed, the Bank has purchased certain undeveloped real property located at the intersection of Turnpike and Timberlake Roads, Campbell County, Virginia. The Bank has not determined when it will open a branch at this location. The Bank has determined that the existing structure is not suitable for use as a bank branch. The Bank estimates that the cost of improvements, furniture, fixtures, and equipment necessary to upfit the property at the undeveloped Timberlake location will be between $900,000 and $1,500,000.

Atherholt Road, Lynchburg, Virginia. On December 31, 2021, the Bank purchased real property located at 1925 Atherholt Road, Lynchburg, Virginia. The building currently serves as the offices for Financial's wholly-owned subsidiary, PWW. PWW is currently leasing the space from the Bank on a month-to-month basis. While the Bank currently does not have a timeline for a branch at this location, the space is attractive for a branch due to its close proximity to Centra's Lynchburg General Hospital. The investment needed to upfit the property will be minimal.

Although the Bank cannot predict with certainty the financial impact of each new branch, management generally anticipates that each new branch will become profitable within 12 to 18 months of opening.

Recent Accounting Pronouncements

For information regarding recent accounting pronouncements and their effect on us, see "*Impact of Recent Accounting Pronouncements*" in Note 24 to the consolidated financial statements included in Item 8 of this Form 10-K.

Item 7A. Quantitative and Qualitative Disclosure About Market Risk

Not applicable

Item 8. Financial Statements and Supplementary Data

The following financial statements are filed as a part of this report:

Management's Annual Report on Internal Control Over Financial Reporting

Report of Independent Registered Public Accounting Firm

Consolidated Financial Statements

Balance Sheets, December 31, 2021 and December 31, 2020

Statements of Income, Years Ended December 31, 2021 and December 31, 2020

Statements of Comprehensive Income, Years Ended December 31, 2021 and December 31, 2020

Statements of Changes in Stockholders’ Equity, Years Ended December 31, 2021 and December 31, 2020

Statements of Cash Flows, Years Ended December 31, 2021 and December 31, 2020

Notes to Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors of Bank of the James Financial Group, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Bank of the James Financial Group, Inc. and its subsidiaries (the Company) as of December 31, 2021 and 2020, 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 consolidated financial statements (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Allowance for Loan Losses – General Component – Qualitative Factors

Description of the Matter

As described in Note 2 (Summary of Significant Accounting Policies) and Note 5 (Loans and Allowance for Loan Losses) to the consolidated financial statements, the Company maintains an allowance for loan losses to provide for probable losses inherent in its loan portfolio. At December 31, 2021, the allowance for loan losses totaled $6,915,000, consisting solely of general components. The general component of the allowance is based on historical loss experience adjusted for qualitative factors. The qualitative factors are described in Note 2 and are determined based on management's ongoing evaluation of the factors, which may impact the quality of the Company's loan portfolio.

Management exercised significant judgment when assessing the qualitative factors used in estimating the allowance for loan losses. We identified the assessment of the qualitative factors as a critical audit matter as auditing the qualitative factors involved especially complex and subjective auditor judgment in evaluating management's assessment of the inherently subjective estimates.

How We Addressed the Matter in Our Audit

The primary audit procedures we performed to address this critical audit matter included:

- Substantively testing management's process, including evaluating their judgments and assumptions for developing the qualitative factors, which included:
  - Evaluating the completeness and accuracy of data inputs used as a basis for the qualitative factors.
  - Evaluating the reasonableness of management's judgments related to the determination of qualitative factors.
  - Evaluating the qualitative factors for directional consistency and for reasonableness.
  - Testing the mathematical accuracy of the allowance calculation, including the application of the qualitative factors.

/s/ Yount, Hyde & Barbour, P.C.

We have served as the Company's auditor since 2006.

Roanoke, Virginia
March 29, 2022

BANK OF THE JAMES FINANCIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(dollars in thousands, except per share data)

Assets		December 31, 2021		December 31, 2020
Cash and due from banks	$	29,337	$	31,683
Federal funds sold		153,816		69,203
Total cash and cash equivalents		183,153		100,886
Securities held-to-maturity, at amortized cost (fair value of $4,006 in 2021 and $4,192 in 2020)		3,655		3,671
Securities available-for-sale, at fair value		161,267		90,185
Restricted stock, at cost		1,324		1,551
Loans, net of allowance for loan losses of $6,915 in 2021 and $7,156 in 2020		576,469		601,934
Loans held for sale		1,628		7,102
Premises and equipment, net		18,351		16,982
Interest receivable		2,064		2,350
Cash value - bank owned life insurance		18,785		16,355
Other real estate owned		761		1,105
Customer relationship intangibles		8,406		-
Goodwill		3,001		-
Other assets		8,770		9,265
Total assets	$	987,634	$	851,386
Liabilities and Stockholders' Equity				
Deposits				
Noninterest bearing demand	$	162,286	$	143,345
NOW, money market and savings		582,000		463,506
Time deposits		142,770		158,116
Total deposits		887,056		764,967
Capital notes		10,031		10,027
Other borrowings		10,985		-
Interest payable		46		85
Other liabilities		10,087		9,575
Total liabilities	$	918,205	$	784,654
Commitments and Contingencies				
Stockholders' equity				
Preferred stock; authorized 1,000,000 shares; none issued and outstanding	$	-	$	-
Common stock $2.14 par value; authorized 10,000,000 shares; issued and outstanding 4,740,657 and 4,339,436 as of December 31, 2021 and 2020		10,145		9,286
Additional paid-in-capital		37,230		30,989
Retained earnings		23,440		24,665
Accumulated other comprehensive (loss) income		(1,386)		1,792
Total stockholders' equity	$	69,429	$	66,732
Total liabilities and stockholders' equity	$	987,634	$	851,386

See Notes to Consolidated Financial Statements

BANK OF THE JAMES FINANCIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(dollars in thousands, except per share amounts)

	For the Year Ended December 31, 2021	For the Year Ended December 31, 2020
Interest Income		
Loans	$ 26,529	$ 28,021
Securities		
US Government and agency obligations	875	690
Mortgage backed securities	462	217
Municipals - taxable	813	361
Municipals - tax exempt	52	11
Dividends	67	78
Other (Corporates)	243	117
Interest bearing deposits	33	89
Federal Funds sold	107	102
Total interest income	$ 29,181	$ 29,686
Interest Expense		
Deposits		
NOW, money market savings	564	804
Time Deposits	1,105	3,348
Finance leases	106	115
Capital notes	327	273
Total interest expense	2,102	4,540
Net interest income	27,079	25,146
(Recovery of) provision for loan losses	(500)	2,548
Net interest income after (recovery of) provision for loan losses	27,579	22,598
Noninterest income		
Gain on sales of loans held for sale	8,265	7,812
Service charges, fees and commissions	2,496	2,033
Life insurance income	430	436
Other	18	50
Gain on sales and calls of securities, net	-	644
Total noninterest income	11,209	10,975
Noninterest expenses		
Salaries and employee benefits	16,377	15,430
Occupancy	1,673	1,638
Equipment	2,526	2,350
Supplies	471	479
Professional, data processing, and other outside expense	4,094	3,691
Marketing	934	667
Credit expense	1,103	1,112
Other real estate expenses, net	102	443
FDIC insurance expense	548	336
Other	1,509	1,248
Total noninterest expenses	29,337	27,394
Income before income taxes	9,451	6,179
Income tax expense	1,862	1,199
Net Income	$ 7,589	$ 4,980
Weighted average shares outstanding - basic	4,747,821	4,775,733
Weighted average shares outstanding - diluted	4,747,821	4,775,733
Earnings per common share - basic	$ 1.60	$ 1.04
Earnings per common share - diluted	$ 1.60	$ 1.04

See Notes to Consolidated Financial Statements

BANK OF THE JAMES FINANCIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(dollars in thousands)

	For the Year Ended December 31,	
	2021	**2020**
Net Income	$ 7,589	$ 4,980
Other comprehensive (loss) income:		
Unrealized (losses) gains on securities available-for-sale	(4,022)	2,918
Tax effect	844	(612)
Reclassification adjustment for gains included in net income (1)	-	(644)
Tax effect (2)	-	135
Other comprehensive (loss) income, net of tax	(3,178)	1,797
Comprehensive income	$ 4,411	$ 6,777

(1) Gains are included in “gain on sales and calls of securities, net” on the consolidated statements of income.
(2) The tax effect on these reclassifications is reflected in “income tax expense” on the consolidated statements of income.

See Notes to Consolidated Financial Statements

BANK OF THE JAMES FINANCIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(dollars in thousands except per share amounts)

	Shares Outstanding	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total
Balance at December 31, 2019	4,357,436	$ 9,325	$ 31,225	$ 20,900	$ (5)	$ 61,445
Net Income	-	-	-	4,980	-	4,980
Dividends paid on common stock ($0.28 per share)	-	-	-	(1,215)	-	(1,215)
Repurchase of common stock	(18,000)	(39)	(236)	-	-	(275)
Other comprehensive income	-	-	-	-	1,797	1,797
Balance at December 31, 2020	4,339,436	$ 9,286	$ 30,989	$ 24,665	$ 1,792	$ 66,732
Net Income	-	-	-	7,589	-	7,589
Dividends paid on common stock ($0.28 per share)	-	-	-	(1,271)	-	(1,271)
Repurchase of common stock	(28,900)	(62)	(365)	-	-	(427)
10% Stock dividend	430,121	923	6,620	(7,543)	-	-
Cash in lieu of fractional shares	-	(2)	(14)	-	-	(16)
Other comprehensive (loss)	-	-	-	-	(3,178)	(3,178)
Balance at December 31, 2021	4,740,657	$ 10,145	$ 37,230	$ 23,440	$ (1,386)	$ 69,429

See Notes to Consolidated Financial Statements

BANK OF THE JAMES FINANCIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)

	For the Year Ended December 31,	
	2021	2020
Cash flows from operating activities		
Net Income	$ 7,589	$ 4,980
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,059	2,029
Stock based compensation expense	106	106
Net amortization and accretion of premiums and discounts on securities	516	405
Amortization of debt issuance costs	4	2
(Gain) on sales of available-for-sale securities	-	(644)
(Gain) on sales of loans held for sale	(8,265)	(7,812)
Proceeds from sales of loans held for sale	344,974	303,085
Origination of loans held for sale	(331,235)	(298,154)
(Recovery of) provision for loan losses	(500)	2,548
Loss (gain) on sale of other real estate owned	87	(29)
Impairment of other real estate owned	-	437
Benefit for deferred income taxes	114	(838)
Bank owned life insurance income	(430)	(436)
Decrease (increase) in interest receivable	286	(484)
Decrease (increase) in other assets	(269)	(474)
(Decrease) in interest payable	(39)	(88)
Increase in other liabilities	788	566
Net cash provided by operating activities	$ 15,785	$ 5,199
Cash flows from investing activities		
Purchases of securities available-for-sale	$ (83,964)	$ (51,150)
Proceeds from maturities, calls and paydowns of securities available-for-sale	8,360	9,837
Proceeds from sale of securities available-for-sale	-	13,313
Purchases of bank owned life insurance	(2,000)	(2,280)
Life insurance proceeds	-	405
(Redemption) purchase of Federal Home Loan Bank stock	227	(45)
Proceeds from sale of other real estate owned	368	844
Origination of loans, net of principal collected	25,854	(31,226)
Cash paid in acquisition, net of cash received	(10,400)	-
Purchases of premises and equipment	(2,909)	(1,751)
Net cash (used in) investing activities	$ (64,464)	$ (62,053)
Cash flows from financing activities		
Net increase in deposits	$ 122,089	$ 115,508
Principal payments on finance lease obligations	(414)	(414)
Repurchase of common stock	(427)	(275)
Cash in lieu of fractional shares	(16)	
Dividends paid to common stockholders	(1,271)	(1,215)
Proceeds from bank loan	10,985	-
Proceeds from sale of capital notes, net of issuance costs	-	10,025
Retirement of capital notes	-	(5,000)

See Notes to Consolidated Financial Statements

BANK OF THE JAMES FINANCIAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)

Net cash provided by financing activities	$	130,946	$	118,629
Increase in cash and cash equivalents		82,267		61,775
Cash and cash equivalents at beginning of period	$	100,886	$	39,111
Cash and cash equivalents at end of period	$	183,153	$	100,886
Non cash transactions				
Transfer of loans to other real estate owned	$	111	$	18
Fair value adjustment for securities available-for-sale		(4,022)		2,274
Lease liabilities arising from right-of-use assets		-		-
Cash transactions				
Cash paid for interest	$	2,141	$	4,628
Cash paid for income taxes		2,550		1,585
Transactions related to acquistion:				
Assets acquired, net of cash received	$	790	$	-
Liabilities assumed		32		-

See Notes to Consolidated Financial Statements

Note 1 – Organization

Bank of the James Financial Group, Inc. (“Financial” or the “Company”), a Virginia corporation, was organized in 2003 and is registered as a bank holding company under the Bank Holding Company Act of 1956, as amended. Financial is headquartered in Lynchburg, Virginia. Financial conducts its business activities through the branch offices and loan production offices of its wholly owned subsidiary bank, Bank of the James (the “Bank”), the Bank’s wholly-owned subsidiary, BOTJ Insurance, Inc. (“BOTJ-Ins.”), and through the Bank’s two divisions, Bank of the James Mortgage division (“Mortgage Division”) and BOTJ Investment Services division (“Investment Division”). On December 31, 2021, Financial acquired all of the issued and outstanding stock of Pettyjohn, Wood & White, Inc. (“PWW”) through which it conducts its investment advisory business. The Mortgage Division originates conforming and non-conforming home mortgages in the Region 2000 area, which includes the counties of Amherst, Appomattox, Bedford and Campbell (which includes the Town of Altavista and the county seat in Rustburg), the Town of Bedford and the City of Lynchburg, Virginia, as well as the cities of Charlottesville, Harrisonburg, Lexington, Roanoke, and Blacksburg. Financial exists primarily for the purpose of holding the stock of its subsidiaries, the Bank and such other subsidiaries as it may acquire or establish. Financial also has one wholly-owned non-operating subsidiary.

Bank of the James was incorporated on October 23, 1998, and began banking operations on July 22, 1999. The Bank is a Virginia chartered bank and is engaged in lending and deposit gathering activities in Region 2000 and other markets in Central Virginia and the Shenandoah Valley. It operates under the laws of Virginia and the Rules and Regulations of the Federal Reserve System and the Federal Deposit Insurance Corporation. The Bank’s locations consist of four branches (one of which is a limited service branch) in Lynchburg, Virginia, one in Forest, Virginia which includes the Mortgage Division, one in Madison Heights, Virginia, one in the Town of Amherst, Virginia, one in the Town of Bedford, Virginia, one in the Town of Altavista, Virginia, and one in the Town of Appomattox. Outside of Region 2000, the Bank also operates two full-service branches and one limited-service branch in Charlottesville, Virginia, a full-service branch in Harrisonburg, Virginia, two full-service branches in Roanoke, Virginia, a full-service branch in Rustburg, Virginia, a full-service branch in Lexington, Virginia and a mortgage origination office in Blacksburg, Virginia.

On December 31, 2021, Financial completed its acquisition of PWW, a Lynchburg, Virginia-based investment advisory firm. Because the acquisition of PWW was effective on December 31, 2021, PWW had no impact on the consolidated statements of income and was primarily reflected on the consolidated balance sheet at December 31, 2021 through balances recorded for Customer relationship intangibles and Goodwill.

Note 2 - Summary of significant accounting policies (dollars in thousands)

Consolidation

The consolidated financial statements include the accounts of Bank of the James Financial Group, Inc. and its wholly-owned subsidiaries. All material intercompany balances and transactions have been eliminated in consolidation.

Note 2 - Summary of significant accounting policies (continued)

Basis of presentation and use of estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements, as well as the amounts of income 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 valuation of other real estate owned.

Cash and cash equivalents

Cash and cash equivalents include cash and balances due from banks and federal funds sold, all of which mature within ninety days. Generally, federal funds are purchased and sold for one-day periods.

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, 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 (loss). Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Impairment of securities occurs when the fair value of a security is less than its amortized cost. For debt securities, impairment is considered other-than-temporary and recognized in its entirety in net income if either (1) the Bank intends to sell the security or (2) it is more likely than not that the Bank will be required to sell the security before recovery of its amortized cost basis. If, however, the Bank does not intend to sell the security and it is not more likely than not that the Bank will be required to sell the security before recovery, the Bank must determine what portion of the impairment is attributable to a credit loss, which occurs when the amortized cost of the security exceeds the present value of the cash flows expected to be collected from the security. If there is no credit loss, there is no other-than temporary impairment. If there is a credit loss, other-than-temporary impairment exists, and the credit loss must be recognized in net income and the remaining portion of impairment must be recognized in other comprehensive income.

We regularly review each investment security for other-than-temporary impairment based on criteria that include the extent to which cost exceeds market price, the duration of that market decline, the financial health of and specific prospects for the issuer, our best estimate of the present value of cash flows expected to be collected from debt securities, our intention with regard to holding the security to maturity, and the likelihood that we would be required to sell the security before recovery.

Note 2 - Summary of significant accounting policies (continued)

Restricted investments

As members of the Federal Reserve Bank (FRB) and the Federal Home Loan Bank of Atlanta (FHLBA), the Bank is required to maintain certain minimum investments in the common stock of the FRB and FHLBA. Required levels of investment are based upon the Bank's capital and a percentage of qualifying assets. The Bank also maintains stock ownership in Community Bankers' Bank (CBB). The investment in CBB is minimal and is not mandated but qualifies the Bank for preferred pricing on services offered by CBB. Based on liquidation restrictions, all of these investments are carried at cost.

Loans

Financial makes real estate, commercial and consumer loans to customers. A substantial portion of the loan portfolio is represented by real estate loans collateralized by real estate within Region 2000. The ability of Financial's debtors to honor their contracts is dependent upon the real estate and general economic conditions in the area.

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 adjusted for charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the interest method.

Past due status

Past due status is based on the contractual terms of the loan. In all cases, loans are placed on non-accrual and potentially charged-off at an earlier date if collection of principal or interest is considered doubtful.

Non-accrual status

Financial stops accruing interest on a loan at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. At the time the loan is placed on non-accrual status, all previously accrued but not collected interest is reversed against interest income. While the loan is classified as non-accrual, any payments collected are accounted for using the cost-recovery method which requires the entire amount of the payment to be applied directly to principal, until qualifying for return to performing status. Loans may be, but are not always, returned to performing status when all the principal and interest amounts contractually due are brought current (within 90 days past due), future payments are reasonably assured, and contractually required payments have been made on a timely basis for at least six consecutive months.

Charge-off

At the time a loan is placed on non-accrual status, it is generally reevaluated for expected loss and a specific reserve, if not already assigned, is established against the loan. Consumer term loans are typically charged-off no later than 120 days whereas consumer revolving credit loans are typically charged-off no later than 180 days. Although the goal for commercial and commercial real estate loans is for charge off no later than 180 days, a

Note 2 - Summary of significant accounting policies (continued)

commercial or commercial real estate loan may not be fully charged off until there is reasonable certainty that no additional workout efforts, troubled debt restructurings or any other types of concession can or will be made by Financial.

Paycheck Protection Program Loans

In 2020, the Company participated in the Paycheck Protection Program (PPP). The PPP commenced subsequent to the passage of the Coronavirus Aid, Relief and Economic Security (CARES) Act in March 2020 and was later expanded by the Paycheck Protection Program and Health Care Enhancement Act of April 2020.

The PPP was designed to provide U.S. small businesses with cash-flow assistance during the COVID-19 pandemic through loans that are fully guaranteed by the Small Business Administration (SBA) which may be forgiven upon satisfaction of certain criteria. As of December 31, 2021, the Company had 107 PPP loans with outstanding balances totaling $8.15 million. As compensation for originating the loans, the Company received lender processing fees from the SBA, which were deferred, along with the related loan origination costs. These net fees are being accreted to interest income over the remaining contractual lives of the loans. Upon forgiveness of a PPP loan and repayment by the SBA, which may be prior to the loan's maturity, the remainder of any unrecognized net fees are recognized in interest income. The Company continued to participate in the final round of the PPP during the first quarter of 2021.

Loans Held for Sale

Loans originated and intended for sale in the secondary market are sold, servicing released, and carried at the lower of cost or fair value, which is determined in the aggregate based on sales commitments to permanent investors or on current market rates for loans of similar quality and type. In addition, the Company requires a firm purchase commitment from a permanent investor before a loan can be closed, thus limiting interest rate risk.

Allowance for loan losses

The allowance for loan losses is management's estimate of probable losses inherent in the loan portfolio and is recorded 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 collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of specific and general components. The specific component relates to loans that are considered impaired. For such loans that are classified as impaired, an allowance is established when the collateral value of the impaired loan or discounted cash flows is lower than the carrying value of that loan. The

Note 2 - Summary of significant accounting policies (continued)

general component covers non-impaired loans and is based on historical loss experience adjusted for qualitative factors.

A loan is considered impaired when, based on current information and events, it is probable that Financial 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 by evaluating the discounted cash flows or fair value of the underlying collateral, if the loan is collateral dependent.

Management considers the following when calculating its loan loss reserve requirement:

- In accordance with current accounting rules (ASC 310) and the Bank's impairment methodology, the Bank performs an individual impairment analysis on all loans having a principal balance greater than $100,000 (unless related to another classified relationship or a TDR) with a risk rating of substandard, doubtful, and loss (our internal risk ratings of 7 through 9).
- In accordance with current accounting rules (ASC 450), the Bank examines historical charge-off data by segment in order to determine historical loss rates which are applied to specific pools of loans which carry similar risk characteristics. The Bank updates its historical charge-off data quarterly and adjusts the reserve accordingly.
- The Bank assesses various qualitative factors to adjust the historical loss rates described above to management's estimate of probable losses inherent in the loan portfolio as of the balance sheet date. Such factors include levels and trends of delinquent and non-accrual loans, economic conditions, trends in charge-offs, loan concentrations, lending policies and procedures, lending management, changes in the value of underlying collateral, the effect of external factors such as legal and regulatory requirements, and other factors, as deemed appropriate.

At December 31, 2021 and 2020, commercial loans included $8.15 million and $42.46 million of PPP loans, respectively. The Company does not maintain an allowance on these balances as they are 100% guaranteed by the SBA.

Troubled debt restructurings

In situations where, for economic or legal reasons related to a borrower's financial condition, management may grant a concession to the borrower that it would not otherwise consider, the related loan is classified as a troubled debt restructuring ("TDR"). Management strives to identify borrowers in financial difficulty early and work with them to modify their loan to more affordable terms before their loans reach non-accrual status. These modified terms may include rate reductions, principal forgiveness, payment forbearance and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of collateral. In cases where borrowers are granted new terms that generally (although not required to be considered a TDR) provide for a

Note 2 - Summary of significant accounting policies (continued)

reduction of either interest or principal, management measures any impairment on the restructuring as noted above for impaired loans. The Bank had $372 and $392 classified as TDRs as of December 31, 2021 and 2020, respectively.

Premises, equipment and depreciation

Premises and equipment, including leasehold improvements, are stated at cost less accumulated depreciation. Depreciation is provided over the estimated useful lives of the respective assets on the straight-line basis, which range from 3 to 7 years for equipment and 10 to 39.5 years for buildings and improvements. Leasehold improvements are amortized over a term which is the shorter of their useful life or the remaining lease term. Land is carried at cost and is not depreciable. Expenditures for major renewals and betterments are capitalized and those for maintenance and repairs are charged to operating expenses as incurred.

Bank owned life insurance

Financial has purchased life insurance policies on certain key employees. Bank owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value.

Other real estate owned

Other real estate owned consists of properties acquired through foreclosure or deed in lieu of foreclosure. These properties are carried at fair value less estimated costs to sell at the date of foreclosure establishing a new cost basis. These properties are subsequently accounted for at the lower of cost or fair value less estimated costs to sell. Losses from the acquisition of property in full or partial satisfaction of loans are charged against the allowance for loan losses. Subsequent write-downs, if any, are charged against expense. Gains and losses on the sales of foreclosed properties are included in determining net income in the year of the sale. Operating costs after acquisition are expensed.

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

Fair Value of Financial Instruments

Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absences of broad

Note 2 - Summary of significant accounting policies (continued)

markets for particular items. Changes in assumptions or in market conditions could significantly affect these estimates.

Business Segments

As of December 31, 2021, we operated two business segments, community banking and mortgage banking. The community banking segment includes both commercial and consumer lending and provides customers such products as commercial loans, real estate loans, and other business financing and consumer loans. In addition, this segment provides customers with several choices of deposit products, including demand deposit accounts, savings accounts and certificates of deposit. The mortgage banking segment engages primarily in the origination of residential mortgages for sale into the secondary market. Beginning with the first quarter of 2022, we will report an additional business segment, investment advisory services. For addition information, refer to Note 9 "Business Segments."

Retirement Plans

Employee 401(k) and profit sharing expense is the amount of matching contributions. Deferred compensation and supplemental retirement plan expense allocates the benefits over years of service.

Income taxes

Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying consolidated balance sheets along with any associated interest and penalties that would be payable to the taxing authorities upon examination.

Interest and penalties associated with unrecognized tax benefits are classified as additional income taxes in the consolidated statements of income. At December 31, 2021 and 2020, there were no liabilities recorded for unrecognized tax benefits.

Note 2 - Summary of significant accounting policies (continued)

Stock-based compensation plans

Compensation cost is recognized for stock-based awards issued to employees based on the fair value of the awards. The Black-Scholes valuation model is utilized to estimate the fair value of stock options and the market value of the Company's common stock on the date of grant is used for restricted stock awards. Restricted stock units, which may be settled in stock or in cash, are a liability classified with the fair value initially measured at the market value of the Company's common stock on the date of grant. These awards are subsequently remeasured to the fair value of the Company's common stock in each reporting period.
Compensation cost is recognized over the vesting period of the awards and the Company's policy is to recognize forfeitures as they occur.

Awards under the 2018 Bank of the James Financial Group, Inc. Equity Incentive Plan are detailed in Note 15, "Stock-based Compensation Plans". The Company's ability to grant awards under the Equity Incentive Plan is ongoing.

Earnings per common share

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

Reclassifications

Management has made certain immaterial reclassifications to the prior year financial statements to conform to the 2021 presentation. Reclassifications had no effect on prior year net income or stockholders' equity.

Comprehensive income

Comprehensive income consists of net income and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains (losses) on available-for-sale securities.

Business Combinations

Business combinations are accounted for under ASC 805, Business Combinations, using the acquisition method of accounting. The acquisition method of accounting requires an acquirer to recognize the assets acquired and the liabilities assumed at the acquisition date measured at their fair values as of that date. To determine the fair values, the Company utilizes third party valuations based on discounted cash flow analysis or other valuation techniques. Acquisition costs are costs the Company incurs to effect a business combination. Those costs include advisory, legal, accounting, valuation, and other professional or consulting fees. Some other examples of costs to the Company include systems conversions, integration planning consultants, contract terminations, and advertising costs. The Company will account for acquisition costs in the periods in which the costs are

Note 2 - Summary of significant accounting policies (continued)

incurred and the services are received, with one exception. The costs to issue debt or equity securities will be recognized in accordance with other applicable accounting guidance. These acquisition-related costs are included on the Company's Consolidated Statements of Income classified within "Other" in the noninterest expense caption.

Goodwill and Intangible Assets

Goodwill is subject to at least an annual assessment for impairment. Additionally, acquired intangible assets (such as customer relationship intangibles) are separately recognized if the benefit of the assets can be sold, transferred, licensed, rented, or exchanged, and amortized over their useful lives. The cost of customer relationships, based on independent valuation, are being amortized over their estimated lives of fifteen years.

The Company records as goodwill the fair value of the consideration transferred, plus the fair value of any noncontrolling interests in the acquiree, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. The Company will review the carrying value of the goodwill at least annually or more frequently if certain impairment indicators exist. In testing goodwill for impairment, the Company may first consider qualitative factors to determine whether the existence of events or circumstances lead to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events and circumstances, we conclude that it is more likely than not that the fair value of a reporting unit is not less than its carrying amount, then no further testing is required and the goodwill of the reporting unit is not impaired. If the Company elects to bypass the qualitative assessment or if we conclude that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, then the fair value of the reporting unit is compared with its carrying value to determine whether an impairment exists.

Marketing

The Company expenses advertising costs as incurred. Advertising expenses were $934 and $667 for 2021 and 2020, respectively.

Note 3 - Restrictions on cash

To comply with Federal Reserve regulations, the Bank may be required to maintain certain average cash reserve balances. There were no daily average cash reserve requirements for the weeks including December 31, 2021 and 2020, respectively. The Federal Reserve announced they were reducing the reserve requirement ratio to zero percent across all deposit tiers as of March 26, 2020. This decision came as the COVID-19 pandemic began to impact much of the way financial institutions both operate and serve their customers.

Note 4 - Securities

A summary of the amortized cost and fair value of securities, with gross unrealized gains and losses, follows:

	December 31, 2021			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held-to-maturity				
U.S. agency obligations	$ 3,655	$ 351	$ —	$ 4,006
Available-for-sale				
U.S. Treasuries	$ 2,000	$ 2	$ —	$ 2,002
U.S. agency obligations	59,144	575	(1,249)	58,470
Mortgage-backed securities	38,017	75	(654)	37,438
Municipals	50,806	368	(970)	50,204
Corporates	13,053	169	(69)	13,153
	$ 163,020	$ 1,189	$ (2,942)	$ 161,267

	December 31, 2020			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held-to-maturity				
U.S. agency obligations	$ 3,671	521	—	4,192
Available-for-sale				
U.S. Treasuries	$ 2,000	$ 27	$ —	$ 2,027
U.S. agency obligations	40,111	1,544	(335)	41,320
Mortgage-backed securities	15,461	241	(6)	15,696
Municipals	24,275	594	(96)	24,773
Corporates	6,070	299	—	6,369
	$ 87,917	$ 2,705	$ (437)	$ 90,185

Temporarily Impaired Securities

The following tables show the gross unrealized losses and fair value of the Bank’s investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2021 and 2020:

Note 4 –Securities (continued)

December 31, 2021	**Less than 12 months**		**More than 12 months**		**Total**	
	Fair Value	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
Held-to-maturity						
U.S. agency obligations	$ —	$ —	$ —	$ —	$ —	$ —
Available-for-sale						
U.S. Treasuries	—	—	—	—	—	—
U.S. agency obligations	21,893	379	15,233	870	37,126	1,249
Mortgage-backed securities	28,019	402	6,382	252	34,401	654
Municipals	28,028	635	7,952	335	35,980	970
Corporates	1,931	69	—	—	1,931	69
Total temporarily impaired securities	$ 79,871	$ 1,485	$ 29,567	$ 1,457	$ 109,438	$ 2,942

December 31, 2020	**Less than 12 months**		**More than 12 months**		**Total**	
	Fair Value	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
Held-to-maturity						
U.S. agency obligations	$ —	$ —	$ —	$ —	$ —	$ —
Available-for-sale						
U.S. Treasuries	—	—	—	—	—	—
U.S. agency obligations	15,808	335	—	—	15,808	335
Mortgage-backed securities	8,201	6	—	—	8,201	6
Municipals	8,202	96	—	—	8,202	96
Corporates	—	—	—	—	—	—
Total temporarily impaired securities	$ 32,211	$ 437	$ —	$ —	$ 32,211	$ 437

U.S. agency obligations. The unrealized losses on the 15 investments in U.S. agency obligations at December 31, 2021 were caused by an increase in interest rates. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost bases of the investments. Because the Bank does not intend to sell the investments and it is not more likely than not that the Bank will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Bank does not consider those investments to be other-than-temporarily impaired at December 31, 2021. Each of these 15 investments carries an S&P investment grade rating of AA or better.

Mortgage-backed securities. The unrealized losses on the 11 investments in U.S. government agency mortgage-backed securities at December 31, 2021 were caused by an increase in interest rates. The contractual terms of those investments does not permit the issuer to settle the securities at a price less than the amortized cost basis of the investments. Because the Bank does not intend to sell the investments and it is not more likely

Note 4 –Securities (continued)

than not that the Bank will be required to sell the investments before recovery of the amortized cost basis, which may be maturity, the Bank does not consider those investments to be other-than-temporarily impaired at December 31, 2021. Each of these 11 investments carries an S&P investment grade rating of AAA.

Municipals. The unrealized losses on the 34 investments in municipal obligations at December 31, 2021 were caused by an increase in interest rates. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost bases of the investments. Because the Bank does not intend to sell the investments and it is not more likely than not that the Bank will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Bank does not consider those investments to be other-than-temporarily impaired at December 31, 2021. Each of these 34 investments carries an S&P investment grade rating of AA or above.

Corporates. The unrealized losses on three investments in domestic corporate issued securities at December 31, 2021 were caused by an increase in interest rates. The contractual terms of those investments do not permit the issuers to settle the securities at a price less than the amortized cost basis of the investments. Because the Bank does not intend to sell the investments and it is not more likely than not that the Bank will be required to sell the investments before recovery of the amortized cost basis, which may be maturity, the Bank does not consider these investments to be other-than-temporarily impaired at December 31, 2021. Each of these three investments carries an S&P investment grade rating of A or above.

The amortized costs and fair values of securities at December 31, 2021, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Held-to-Maturity		Available-for-Sale	
	Amortized Cost	Fair Values	Amortized Cost	Fair Values
Due in one year or less	$ —	$ —	$ 2,724	$ 2,736
Due after one year through five years	—	—	12,859	13,033
Due after five years through ten years	2,427	2,635	71,225	70,710
Due after ten years	1,228	1,371	76,212	74,788
	$ 3,655	$ 4,006	$ 163,020	$ 161,267

The Bank received $0 and $13,313 in proceeds from sales of securities available-for-sale in 2021 and 2020, respectively. Gross realized gains amounted to $0 and $644 in 2021 and 2020, respectively. Gross realized losses amounted to $0 in both years.

At December 31, 2021 and 2020, securities with a carrying value of $32,159 and $31,202, respectively, were pledged as collateral for public deposits and for other purposes as required or permitted by law.

Note 5 - Loans and allowance for loan losses

The allowance represents an amount that, in management's judgment, will be adequate to absorb probable losses inherent in the loan portfolio. Management's judgment in determining the level of the allowance is based on evaluations of the collectability of loans while taking into consideration such factors as trends in delinquencies and charge-offs, changes in the nature and volume of the loan portfolio, current economic conditions that may affect a borrower's ability to repay and the value of collateral, overall portfolio quality and review of specific potential losses. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available.

Management has an established methodology used to determine the adequacy of the allowance for loan losses that assesses the risks and losses inherent in the loan portfolio. For purposes of determining the allowance for loan losses, the Bank has segmented certain loans in the portfolio by product type. Within these segments, the Bank has sub-segmented its portfolio by classes within the segments, based on the associated risks within these classes. The classifications set forth below do not correspond directly to the classifications set forth in the call report (Form FFIEC 041). Management has determined that the classifications set forth below are more appropriate for use in identifying and managing risk in the loan portfolio.

Loan Segments:	Loan Classes:
Commercial	Commercial and industrial loans
Commercial real estate	Commercial mortgages – owner occupied Commercial mortgages – non-owner occupied Commercial construction
Consumer	Consumer unsecured Consumer secured
Residential	Residential mortgages Residential consumer construction

Note 5 - Loans and allowance for loan losses (continued)

The evaluation also considers the following risk characteristics of each loan segment:

- Commercial loans carry risks associated with the successful operation of a business because the repayment of these loans may be dependent upon the profitability and cash flows of the business or project. In addition, there is risk associated with the value of collateral other than real estate which may depreciate over time and cannot be appraised with as much precision.
- Commercial real estate loans carry risks associated with a real estate project and other risks associated with the ownership of real estate. In addition, for real estate construction loans there is a risk that the project will not be finished according to schedule, the project will not be finished according to budget and the value of the collateral may, at any point in time, be less than the principal amount of the loan. Construction loans also bear the risk that the general contractor, who may or may not be a loan customer, may be unable to finish the construction project as planned because of financial pressure unrelated to the project.
- Consumer loans carry risks associated with the continued credit-worthiness of the borrower and the value of the collateral (e.g., rapidly-depreciating assets such as automobiles), or lack thereof. Consumer loans are more likely than real estate loans to be immediately adversely affected by job loss, divorce, illness or personal bankruptcy. Unsecured consumer loans carry additional risks associated with the continued credit-worthiness of borrowers who may be unable to meet payment obligations.
- Residential mortgage and construction loans carry risks associated with the continued credit-worthiness of the borrower and changes in the value of the collateral. Equity lines of credit carry risks associated with the continued credit-worthiness of the borrower and changes in the value of the collateral.

The Bank's internal risk rating system is in place to grade commercial and commercial real estate loans. Category ratings are reviewed periodically by lenders and the credit review area of the Bank based on the borrower's individual situation. Additionally, internal and external monitoring and review of credits are conducted on an annual basis.

Below is a summary and definition of the Bank's risk rating categories:

RATING 1	Excellent
RATING 2	Above Average
RATING 3	Satisfactory
RATING 4	Acceptable / Low Satisfactory
RATING 5	Monitor
RATING 6	Special Mention
RATING 7	Substandard
RATING 8	Doubtful
RATING 9	Loss

Based on the above criteria, we segregate loans into the above categories for special mention, substandard, doubtful and loss from non-classified, or pass rated, loans. We review the characteristics of each rating at least annually, generally during the first quarter. The characteristics of these ratings are as follows:

Note 5 - Loans and allowance for loan losses (continued)

- “Pass.” These are loans having risk ratings of 1 through 4. Pass loans are to persons or business entities with an acceptable financial condition, appropriate collateral margins, appropriate cash flow to service the existing loan, and an appropriate leverage ratio. The borrower has paid all obligations as agreed and it is expected that this type of payment history will continue. When necessary, acceptable personal guarantors support the loan.
- “Monitor.” These are loans having a risk rating of 5. Monitor loans have currently acceptable risk but may have the potential for a specific defined weakness in the borrower’s operations and the borrower’s ability to generate positive cash flow on a sustained basis. The borrower’s recent payment history may currently or in the future be characterized by late payments. The Bank’s risk exposure is mitigated by collateral supporting the loan. The collateral is considered to be well-margined, well maintained, accessible and readily marketable.
- “Special Mention.” These are loans having a risk rating of 6. Special Mention loans have weaknesses that deserve management’s close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the Bank’s credit position at some future date. Special Mention loans are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification. These loans do warrant more than routine monitoring due to a weakness caused by adverse events.
- “Substandard.” These are loans having a risk rating of 7. Substandard loans are considered to have specific and well-defined weaknesses that jeopardize the viability of the Bank’s credit extension. The payment history for the loan has been inconsistent and the expected or projected primary repayment source may be inadequate to service the loan. The estimated net liquidation value of the collateral pledged and/or ability of the personal guarantor(s) to pay the loan may not adequately protect the Bank. There is a distinct possibility that the Bank will sustain some loss if the deficiencies associated with the loan are not corrected in the near term. A substandard loan would not automatically meet our definition of impaired unless the loan is significantly past due and the borrower’s performance and financial condition provide evidence that it is probable that the Bank will be unable to collect all amounts due.
- “Doubtful.” These are loans having a risk rating of 8. Doubtful rated loans have all the weaknesses inherent in a loan that is classified substandard but with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. The possibility of loss is high.
- “Loss.” These are loans having a risk rating of 9. Loss rated loans are not considered collectible under normal circumstances and there is no realistic expectation for any future payment on the loan. Loss rated loans are fully charged off.

Note 5 - Loans and allowance for loan losses (continued)

The Bank grants primarily commercial, real estate, and installment loans to customers throughout its market area. The real estate portfolio can be affected by the condition of the local real estate markets. The commercial and installment loan portfolio can be affected by the local economic conditions.

A summary of loans, net is as follows:

	December 31,	
	2021	2020
Commercial	$ 105,067	$ 145,145
Commercial real estate	338,149	309,563
Consumer	89,102	92,344
Residential	51,066	62,038
Total loans (1)	583,384	609,090
Less allowance for loan losses	6,915	7,156
Net loans	$ 576,469	$ 601,934

(1) Includes net deferred (fees) and costs/premiums of $372 and $(18) as of December 31, 2021 and 2020, respectively.

The amounts of overdraft reclassified as loans were $182 and $43 as of December 31, 2021 and 2020, respectively.

The Company's officers, directors and their related interests have various types of loan relationships with the Bank. The total outstanding balances of these related party loans at December 31, 2021 and 2020 were $11,148 and $12,192 respectively. The beginning balance was adjusted during 2021 to include a $117 loan to a director that was not included as a related-party loan at the end of 2020. During 2021, new loans and advances amounted to $7,694 and repayments amounted to $8,738.

Note 5 - Loans and allowance for loan losses (continued)

The following tables set forth information regarding impaired and non-accrual loans as of December 31, 2021 and 2020:

Loans on Non-Accrual Status

	As of December 31,	
	2021	**2020**
Commercial	$ 25	$ 121
Commercial Real Estate:		
Commercial Mortgages-Owner Occupied	501	940
Commercial Mortgages-Non-Owner Occupied	138	552
Commercial Construction	—	—
Consumer		
Consumer Unsecured	—	—
Consumer Secured	127	240
Residential:		
Residential Mortgages	163	210
Residential Consumer Construction	—	—
Totals	$ 954	$ 2,063

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Note 5 - Loans and allowance for loan losses (continued)

	Impaired Loans (dollars in thousands) As of and For the Year Ended December 31, 2021				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With No Related Allowance Recorded:					
Commercial	$ 17	$ 67	$ -	$ 179	$ 5
Commercial Real Estate					
Commercial Mortgages-Owner Occupied	2,592	2,971	-	2,368	154
Commercial Mortgage Non-Owner Occupied	102	102	-	371	13
Commercial Construction	-	-	-	-	-
Consumer					
Consumer Unsecured	-	-	-	-	-
Consumer Secured	59	60	-	201	2
Residential					
Residential Mortgages	1,316	1,390	-	1,332	47
Residential Consumer Construction	-	-	-	-	-
With an Allowance Recorded:					
Commercial	$ -	$ -	$ -	$ 2	$ -
Commercial Real Estate					
Commercial Mortgages-Owner Occupied	-	-	-	-	-
Commercial Mortgage Non-Owner Occupied	-	-	-	-	-
Commercial Construction	-	-	-	-	-
Consumer					
Consumer Unsecured	-	-	-	-	-
Consumer Secured	-	-	-	-	-
Residential					
Residential Mortgages	-	-	-	-	-
Residential Consumer Construction	-	-	-	-	-
Totals:					
Commercial	$ 17	$ 67	$ -	$ 181	$ 5
Commercial Real Estate					
Commercial Mortgages-Owner Occupied	2,592	2,971	-	2,368	154
Commercial Mortgage Non-Owner Occupied	102	102	-	371	13
Commercial Construction	-	-	-	-	-
Consumer					
Consumer Unsecured	-	-	-	-	-
Consumer Secured	59	60	-	201	2
Residential					
Residential Mortgages	1,316	1,390	-	1,332	47
Residential Consumer Construction	-	-	-	-	-
	$ 4,086	$ 4,590	$ -	$ 4,453	$ 221

Note 5 - Loans and allowance for loan losses (continued)

Impaired Loans (dollars in thousands) As of and For the Year Ended December 31, 2020	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With No Related Allowance Recorded:					
Commercial	$ 341	$ 341	$ -	$ 405	$ 30
Commercial Real Estate					
Commercial Mortgages-Owner Occupied	2,143	2,496	-	2,305	135
Commercial Mortgage Non-Owner Occupied	639	677	-	601	43
Commercial Construction	-	-	-	-	-
Consumer					
Consumer Unsecured	-	-	-	-	-
Consumer Secured	343	346	-	225	16
Residential					
Residential Mortgages	1,347	1,415	-	1,319	62
Residential Consumer Construction	-	-	-	-	-
With an Allowance Recorded:					
Commercial	$ 4	$ 4	$ 4	$ 6	$ -
Commercial Real Estate					
Commercial Mortgages-Owner Occupied	-	-	-	6	-
Commercial Mortgage Non-Owner Occupied	-	-	-	7	-
Commercial Construction	-	-	-	-	-
Consumer					
Consumer Unsecured	-	-	-	-	-
Consumer Secured	-	-	-	-	-
Residential					
Residential Mortgages	-	-	-	70	-
Residential Consumer Construction	-	-	-	-	-
Totals:					
Commercial	$ 345	$ 345	$ 4	$ 411	$ 30
Commercial Real Estate					
Commercial Mortgages-Owner Occupied	2,143	2,496	-	2,311	135
Commercial Mortgage Non-Owner Occupied	639	677	-	608	43
Commercial Construction	-	-	-	-	-
Consumer					
Consumer Unsecured	-	-	-	-	-
Consumer Secured	343	346	-	225	16
Residential					
Residential Mortgages	1,347	1,415	-	1,389	62
Residential Consumer Construction	-	-	-	-	-
	$ 4,817	$ 5,279	$ 4	$ 4,944	$ 286

Note 5 - Loans and allowance for loan losses (continued)

The following tables set forth the allowance for loan losses activity for the years ended December 31, 2021 and 2020:

	Allowance for Loan Losses and Recorded Investment in Loans (dollars in thousands) As of and For the Year Ended December 31, 2021				
2021	**Commercial**	**Commercial Real Estate**	**Consumer**	**Residential**	**Total**
Allowance for Loan Losses:					
Beginning Balance	$ 2,001	$ 3,550	$ 868	$ 737	$ 7,156
Charge-Offs	(53)	-	(38)	-	(91)
Recoveries	112	72	29	137	350
Provision (recovery)	(589)	15	1	73	(500)
Ending Balance	1,471	3,637	860	947	6,915
Ending Balance: Individually evaluated for impairment	-	-	-	-	-
Ending Balance: Collectively evaluated for impairment	1,471	3,637	860	947	6,915
Totals:	$ 1,471	$ 3,637	$ 860	$ 947	$ 6,915
Financing Receivables:					
Ending Balance: Individually evaluated for impairment	17	2,694	59	1,316	4,086
Ending Balance: Collectively evaluated for impairment	105,050	335,455	89,043	49,750	579,298
Totals:	$ 105,067	$ 338,149	$ 89,102	$ 51,066	$ 583,384

Note 5 - Loans and allowance for loan losses (continued)

Allowance for Loan Losses and Recorded Investment in Loans
(dollars in thousands)
As of and For the Year Ended December 31, 2020

2020	**Commercial**	**Commercial Real Estate**	**Consumer**	**Residential**	**Total**
Allowance for Loan Losses:					
Beginning Balance	$ 1,330	$ 1,932	$ 865	$ 702	$ 4,829
Charge-Offs	(96)	(224)	(75)	(53)	(448)
Recoveries	20	139	53	15	227
Provision	747	1,703	25	73	2,548
Ending Balance	2,001	3,550	868	737	7,156
Ending Balance: Individually evaluated for impairment	4	-	-	-	4
Ending Balance: Collectively evaluated for impairment	1,997	3,550	868	737	7,152
Totals:	$ 2,001	$ 3,550	$ 868	$ 737	$ 7,156
Financing Receivables:					
Ending Balance: Individually evaluated for impairment	345	2,782	343	1,347	4,817
Ending Balance: Collectively evaluated for impairment	144,800	306,781	92,001	60,691	604,273
Totals:	$ 145,145	$ 309,563	$ 92,344	$ 62,038	$ 609,090

Note 5 - Loans and allowance for loan losses (continued)

The following tables set forth the age analysis of past due loans as of the years ended December 31, 2021 and 2020:

Age Analysis of Past Due Loans as of December 31, 2021

2021	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days & Accruing
Commercial	$ —	$ 1	$ 25	$ 26	$ 105,041	$ 105,067	$ —
Commercial Real Estate:							
Commercial Mortgages-Owner Occupied	464	—	501	965	127,869	128,834	—
Commercial Mortgages-Non-Owner Occupied	1,310	—	—	1,310	177,803	179,113	—
Commercial Construction	—	—	—	—	30,202	30,202	—
Consumer:							
Consumer Unsecured	8	1	—	9	2,596	2,605	—
Consumer Secured	111	3	118	232	86,265	86,497	—
Residential:							
Residential Mortgages	948	—	163	1,111	30,814	31,925	—
Residential Consumer Construction	—	—	—	—	19,141	19,141	—
Total	$ 2,841	$ 5	$ 807	$ 3,653	$ 579,731	$ 583,384	$ —

Age Analysis of Past Due Loans as of December 31, 2020

2020	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days & Accruing
Commercial	$ 157	$ —	$ —	$ 157	$ 144,988	$ 145,145	$ —
Commercial Real Estate:							
Commercial Mortgages-Owner Occupied	38	—	842	880	107,342	108,222	—
Commercial Mortgages-Non-Owner Occupied	252	116	394	762	170,307	171,069	—
Commercial Construction	—	—	—	—	30,272	30,272	—
Consumer:							
Consumer Unsecured	7	—	—	7	3,764	3,771	—
Consumer Secured	309	27	229	565	88,008	88,573	—
Residential:							
Residential Mortgages	575	243	210	1,028	45,868	46,896	—
Residential Consumer Construction	—	—	—	—	15,142	15,142	—
Total	$ 1,338	$ 386	$ 1,675	$ 3,399	$ 605,691	$ 609,090	$ —

Note 5 - Loans and allowance for loan losses (continued)

The following tables set forth the credit quality information by segment as of the years ended December 31, 2021 and 2020:

Credit Quality Information - by Class
December 31, 2021

2021	Pass	Monitor	Special Mention	Substandard	Doubtful	Totals
Commercial	$ 92,789	$ 7,965	$ 4,262	$ 51	$ —	$ 105,067
Commercial Real Estate:						
Commercial Mortgages-Owner Occupied	116,098	5,986	4,130	2,620	—	128,834
Commercial Mortgages-Non-Owner Occupied	176,291	2,506	—	316	—	179,113
Commercial Construction	30,202	—	—	—	—	30,202
Consumer						
Consumer Unsecured	2,581	—	23	1	—	2,605
Consumer Secured	86,265	—	—	232	—	86,497
Residential:						
Residential Mortgages	30,486	—	—	1,439	—	31,925
Residential Consumer Construction	19,141	—	—	—	—	19,141
Totals	$ 553,853	$ 16,457	$ 8,415	$ 4,659	$ —	$ 583,384

Credit Quality Information - by Class
December 31, 2020

2020	Pass	Monitor	Special Mention	Substandard	Doubtful	Totals
Commercial	$ 133,075	$ 4,332	$ 7,386	$ 352	$ —	$ 145,145
Commercial Real Estate:						
Commercial Mortgages-Owner Occupied	98,623	3,028	4,428	2,143	—	108,222
Commercial Mortgages-Non-Owner Occupied	161,300	7,277	1,682	810	—	171,069
Commercial Construction	30,272	—	—	—	—	30,272
Consumer						
Consumer Unsecured	3,740	—	30	1	—	3,771
Consumer Secured	88,044	—	—	529	—	88,573
Residential:						
Residential Mortgages	45,441	—	—	1,455	—	46,896
Residential Consumer Construction	15,142	—	—	—	—	15,142
Totals	$ 575,637	$ 14,637	$ 13,526	$ 5,290	$ —	$ 609,090

Note 5 - Loans and allowance for loan losses (continued)

Troubled Debt Restructurings (TDRs)

There were no loan modifications that were classified as Troubled Debt Restructurings (TDR) during the twelve months ended December 31, 2021 or 2020.

Loans that were previously classified as TDRs in prior periods and currently outstanding are factored into the determination of the allowance for loan losses and are included in the Bank's impaired loan analysis and individually evaluated for impairment.

At December 31, 2021 and December 31, 2020, the Bank had no outstanding commitments to disburse additional funds on loans classified as TDRs.

There were no loan modifications classified as TDRs within the last twelve months that defaulted (90 days past due) during the twelve months ended December 31, 2021 and 2020.

We previously developed relief programs to assist borrowers in financial need due to the effects of the COVID-19 pandemic. Accordingly, we offered short-term modifications made in response to COVID-19 to certain borrowers who were current and otherwise not past due. These included short-term, 180 days or less, modifications in the form of payment deferrals, fee waivers, extensions of repayment terms, deferral of principal only (interest only payments), or other delays in payment that are insignificant.

During the year ended December 31, 2020, the Bank modified a total of 191 loans with principal balances totaling approximately $95 million. As of December 31, 2021, none of the 191 previously modified loans remained in deferment and all have returned to previously agreed upon repayment schedules. No loans were modified in the year ended December 31, 2021.

If a customer requested a second modification, an extensive evaluation of the circumstances surrounding the need for the request was conducted. Procedurally, a commercial borrower was required to present financial forecasts, proof of business sustainability, and verification of sources of repayment to the primary loan officer, the Chief Lending Officer, and the Chief Credit Officer before a second deferral was granted. Retail borrowers were also required to submit in writing the reason for the need for a second deferral request before an additional deferral was granted. We are not currently evaluating any relationships, for additional deferrals.

In accordance with provisions of Section 4013 of the CARES Act (March 2020) and the Joint Interagency Regulatory Guidance (March 2020, revised April 2020), the above modifications were not considered to be TDRs. The CARES Act addressed COVID-19 related modifications and specified that COVID-19 related modifications on loans that were current as of December 31, 2019 are not TDRs. The Interagency Guidance encouraged financial institutions to work prudently with borrowers that may be unable to meet their contractual obligations because of the effects of COVID-19 and explained that in consultation with the Financial Accounting Standards Board (FASB) staff, the federal banking agencies concluded that short-term modifications (e.g. six months or less) made on a good faith basis to borrowers who were current as of the implementation date of a relief program and not TDRs. In December 2020, the Consolidated Appropriations Act extended the period established by Section 4013 of the CARES Act for providing temporary relief from

Note 5 - Loans and allowance for loan losses (continued)

TDR classification to the earlier of January 1, 2022 or 60 days after the date when the national emergency concerning COVID-19 terminates.

Note 6 - Other real estate owned

At December 31, 2021 and 2020, OREO was $761 and $1,105 respectively. OREO is primarily comprised of residential properties and non-residential properties associated with commercial relationships. As of December 31, 2021 and 2020 respectively, there were no consumer mortgage loans secured by residential real estate that were in the process of foreclosure. The following table represents the changes in OREO balance in 2021 and 2020.

OREO Changes

	Year Ended December 31,	
	2021	2020
Balance at the beginning of the year	$ 1,105	$ 2,339
Transfers from Loans	111	18
Capitalized costs	—	—
Valuation adjustments	—	(437)
Sales	(368)	(844)
(Loss) gain on sales	(87)	29
Balance at the end of the year	$ 761	$ 1,105

There were no residential properties being carried in OREO as of December 31, 2021 and 2020.

Note 7 – Premises and equipment

Premises and equipment at December 31, 2021 and 2020 are summarized as follows:

	December 31,	
	2021	2020
Land	$ 3,302	$ 3,302
Building and improvements	12,400	9,956
Property for future expansion	1,931	2,102
Furniture and equipment	8,407	7,652
Leasehold improvements	3,021	3,003
Software	1,974	1,964
	31,035	27,979
Less accumulated depreciation	12,684	10,997
Net premises and equipment	$ 18,351	$ 16,982

Total depreciation and amortization expense related to premises and equipment for the years ended December 31, 2021 and 2020 was $1,566 and $1,467, respectively.

Note 8 - Deposits

A summary of deposit accounts is as follows:

	December 31, 2021	December 31, 2020
Demand		
Noninterest bearing	$ 162,286	$ 143,345
Interest bearing	459,920	362,780
Savings	122,080	100,726
Time, $250,000 or more	19,526	25,499
Other time	123,244	132,617
	$ 887,056	$ 764,967

At December 31, 2021, maturities of time deposits are scheduled as follows:

Year Ending December 31,	Amount
2022	$ 101,139
2023	16,217
2024	5,595
2025	8,165
2026 and thereafter	11,654
	$ 142,770

The Bank held deposits from the Company's officers, directors and their related interests of $14,426 and $11,534 at December 31, 2021 and 2020, respectively.

Note 9 – Business Segments

The Company has two reportable business segments: (i) a traditional full-service community banking segment and, (ii) a mortgage loan origination business. The community banking business segment includes Bank of the James which provides loans, deposits, investments and insurance to retail and commercial customers throughout the Bank's market areas. The mortgage segment provides a variety of mortgage loan products principally within the Bank's market areas. Mortgage loans are originated and sold in the secondary market through purchase commitments from investors. Because of the pre-arranged purchase commitments, there is minimal risk to the Company.

Both of the Company's reportable segments are service based. The mortgage business is a fee-based business while the Bank's primary source of revenue is net interest income. The Bank also provides a referral network for the mortgage origination business. The mortgage business may also be in a position to refer its customers to the Bank for banking services when appropriate.

Note 9 – Business Segments (continued)

Information about reportable business segments and reconciliation of such information to the consolidated financial statements for years ended December 31, 2021 and 2020 was as follows:

Business Segments

	Community Banking	Mortgage	Total
For the year ended December 31, 2021			
Net interest income	$ 27,079	$ -	$ 27,079
(Recovery of) loan losses	(500)	-	(500)
Net interest income after (recovery of) loan losses	27,579	-	27,579
Noninterest income	2,944	8,265	11,209
Noninterest expenses	23,432	5,905	29,337
Income before income taxes	7,091	2,360	9,451
Income tax expense	1,366	496	1,862
Net income	5,725	1,864	7,589
Total assets	985,521	2,113	987,634
For the year ended December 31, 2020			
Net interest income	$ 25,146	$ -	$ 25,146
Provision for loan losses	2,548	-	2,548
Net interest income after provision for loan losses	22,598	-	22,598
Noninterest income	3,163	7,812	10,975
Noninterest expenses	22,275	5,119	27,394
Income before income taxes	3,486	2,693	6,179
Income tax expense	633	566	1,199
Net income	$ 2,853	$ 2,127	$ 4,980
Total assets	$ 843,323	$ 8,063	$ 851,386

Beginning with the first quarter of 2022, we will report an additional business segment, investment advisory services.

Note 10 – Capital notes

On April 13, 2020, the Company commenced a private placement of unregistered debt securities (the "2020 Offering"). In the 2020 Offering, the Company sold and closed $10,050 in principal of notes (the "2020 Notes") during the 2nd and 3rd quarters of 2020. The 2020 Offering officially ended on July 8, 2020. The 2020 Notes bear interest at the rate of 3.25% per year with interest payable quarterly in arrears. The 2020 Notes will mature on June 30, 2025 and are currently subject to full or partial call by the Company on thirty days notice. The balance of the 2020 Notes as of December 31, 2021 and 2020 is presented net of unamortized issuance costs on the Consolidated Balance Sheet.

Note 10 – Capital notes (continued)

On September 24, 2020 the Bank used $5,000 of the proceeds for the payment of principal of the Company's previously outstanding 4.00% notes that were issued in 2017. The Company intends to use the balance of the proceeds from the 2020 Offering for general corporate purposes in the discretion of Company's
management such as payment of interest on the 2020 Notes and as a contribution of additional capital to the Bank.

Note 11 – Other borrowings

Short-term borrowings may consist of securities sold under agreements to repurchase, which are secured transactions with customers and generally mature the day following the date sold. Short-term borrowings may also include Federal funds purchased, which are unsecured overnight borrowings from other financial institutions. There was no utilization of short-term borrowings in 2021 or 2020 other than one day nominal balances to test the lines. Average balances were less than $1 for both years.

Unsecured federal fund lines and their respective limits are maintained with the following institutions: Community Bankers' Bank, $13,000, Zions Bank, $4,000, PNC Bank, $6,000 and First National Bankers' Bank, $10,000. In addition, the Bank maintains a $5,000 reverse repurchase agreement with Suntrust (Truist) whereby securities may be pledged as collateral in exchange for funds for a minimum of 30 days with a maximum of 90 days. The Bank also maintains a secured federal funds line with Community Bankers' Bank whereby it may pledge securities as collateral with no specified minimum or maximum amount or term. The current amount available on the secured line based on the securities currently pledged is $7,294.

The Bank is also a member of the Federal Home Loan Bank of Atlanta ("FHLBA"). The Bank's available credit through the FHLBA was $235,788 as of December 31, 2021, the most recent calculation. The Bank must pledge collateral in order to access the FHLBA available credit. Currently the Bank has pledged to the FHLBA approximately $28,187 in 1-4 family residential mortgages which, after adjustments for the loan-to-value requirements by the FHLBA, would allow the Bank to access up to $21,012 in credit without pledging any additional collateral.

As of December 31, 2021, and 2020 there are no outstanding balances on any of the credit facilities mentioned above.

On December 29, 2021 Financial borrowed $11,000 from National Bank of Blacksburg pursuant to a secured promissory note (the "NBB Note"). The NBB Note bears interest at the rate of 4.00%, and is being amortized over a fifteen year period with a balloon payment of approximately $9,375 due on December 31, 2024. The note is secured by a first priority lien on approximately 4.95% of the Bank's common stock. The balance of the NBB Note is presented on the December 31, 2021 consolidated balance sheet under "other borrowings" and is net of unamortized issuance costs. A portion of the proceeds were used to purchase 100% of the capital stock of PWW.

Note 12 - Income taxes

The Company files income tax returns in the U.S. federal jurisdiction and the state of Virginia. With few exceptions, the Company is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years prior to 2018.

Income tax expense attributable to income before income tax expense is summarized as follows:

	December 31, 2021	December 31, 2020
Current federal income tax expense	$ 1,748	$ 2,037
Deferred federal income tax (benefit)	114	(838)
Income tax expense	$ 1,862	$ 1,199

Income tax expense differed from amounts computed by applying the U.S. Federal income tax rate of 21% to income before income tax expense as a result of the following:

	2021	2020
Computed "expected" income tax expense	$ 1,985	$ 1,298
Increase (reduction) in income tax resulting from:		
Non-taxable income	(101)	(94)
Non-deductible expenses	12	12
Other	(34)	(17)
Income tax expense	1,862	1,199

The tax effects of temporary differences result in deferred tax assets and liabilities as presented below:

Note 12 - Income taxes (continued)

	December 31, 2021	December 31, 2020
Deferred tax assets		
Lease liabilities	$ 1,065	$ 1,151
Allowance for loan losses	1,452	1,503
Unrealized losses on available-for-sale securities	368	—
OREO	96	239
Non-accrual interest	37	130
Deferred Compensation	665	564
Other	27	27
Gross deferred tax assets	3,710	3,614
Deferred tax liabilities		
Right-of-use assets	1,002	1,105
Depreciation	352	410
Unrealized gains on available-for-sale securities	—	476
Other	88	85
Gross deferred tax liabilities	1,442	2,076
Net deferred tax asset	$ 2,268	$ 1,538

Note 13 – Earnings per common share (EPS)

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

Note 13 – Earnings per common share (EPS) (continued)

The basic and diluted earnings per share calculations are as follows:

	Years ended December 31,	
	2021	2020
Numerator:		
Net income available to stockholders	$ 7,589	$ 4,980
Basic EPS weighted average shares outstanding	4,747,821	4,775,733
Effect of dilutive securities:		
Incremental shares attributable to stock options	—	—
Diluted EPS weighted-average shares outstanding	4,747,821	4,775,733
Basic earnings per common share	$ 1.60	$ 1.04
Diluted earnings per common share	$ 1.60	$ 1.04

In 2021 and 2020, all restricted stock units (RSUs) were excluded from calculating diluted earnings per share as the Company elected to settle units vesting in January 2021 and 2020 wholly in cash. Going forward, management has adopted a cash settlement policy for all currently outstanding RSUs. There were no potentially dilutive shares excluded from the 2020 earnings per share calculation because they were anti-dilutive.

Note 14 – Employee Benefit plans

Defined contribution benefit plan. The Company adopted a 401(k) defined contribution plan on October 1, 2000, which is administered by the Virginia Bankers' Association. Participants have the right to contribute up to a maximum of 19% of pretax annual compensation or the maximum allowed under Section 401(g) of the Internal Revenue Code, whichever is less. The Company contributed $411 and $373 to the plan on behalf of the employees for the years ended December 31, 2021 and 2020, respectively.

Supplemental Executive Retirement Plan. A Supplemental Executive Retirement Plan (SERP) was established to provide participating executives (as determined by the Company's Board of Directors) with benefits that cannot be provided under the 401(k) as a result of limitations imposed by the Internal Revenue Code. The SERP will also provide benefits to eligible employees or their survivors, as applicable, if they die, retire, or are terminated under certain circumstances. SERP expense totaled $477 and $471 for the years ended December 31, 2021 and 2020, respectively.

The Company funds the plan through a modified endowment contract. Income recorded for the plan represents life insurance income as recorded based on the projected increases in cash surrender values of life insurance policies. As of December 31, 2021 and 2020, the life insurance policies had cash surrender values of approximately $18,785 and $16,355, respectively.

Note 14 – Employee Benefit plans (continued)

Employee Stock Purchase Plan. The Company adopted an Employee Stock Purchase Plan ("ESPP") in 2018 in which all employees are eligible to participate. The plan allows employees to use a portion of their salaries and wages to purchase shares of the Company common stock at the market value of shares on a monthly basis. The Company makes no contributions to the ESPP. The Company may issue common shares to plan participants or purchase common shares on the open market. Common shares are purchased on the open market at a price based on the weighted average price of all shares purchased by the broker-dealer on the open market from each aggregate order placed by the Plan Administrator.

In 2021 and 2020, all shares purchased pursuant to the ESPP were purchased on the open market and consequently the Company issued no common shares in connection with the ESPP during the year ended December 31, 2021 and 2020.

Note 15 – Stock-based compensation plans

On March 20, 2018, the Board of Directors adopted the "2018 Bank of the James Financial Group, Inc. Equity Incentive Plan," which was approved by the shareholders on May 15, 2018. The 2018 Incentive Plan permits the issuance of up to 250,000 shares of common stock for awards to key employees of the Company and its subsidiaries in the form of stock options, restricted stock, restricted stock units, stock awards and performance units.

On January 2, 2019, the Company granted its first block of equity compensation under the 2018 Incentive Plan consisting of 24,500 restricted stock units. The recipients of restricted stock units do not receive shares of the Company's stock immediately, but instead receive shares, or cash compensation, or some combination of the two, upon satisfying the requisite service period specified by the terms and conditions of the grant. Additionally, the recipients of restricted stock units do not enjoy the same rights as other holders of the Company's common stock until the units have vested and as such, they do not have voting rights or rights to nonforfeitable dividends. The related compensation expense is based on the fair value of the Company's stock. Shares vest over 3 years in thirds with the first one-third vesting one year from the grant date. The total expense recognized for the years ended December 31, 2021 and 2020, in connection with the restricted stock unit awards was approximately $106 in each year. There were no forfeitures during the years ended December 31, 2021 and 2020. There were no new grants in the year ended December 31, 2021. The fair value of shares which vested in 2021 was $100.

At December 31, 2021, there was no remaining unrecognized stock-based compensation expense remaining as all current outstanding awards have vested and were cash settled.

Note 16 – Dividend Reinvestment Plan

The Company has in effect a Dividend Reinvestment Plan (DRIP) which provides an automatic conversion of dividends into common stock for enrolled shareholders. The Company may issue common shares to the DRIP or purchase common shares on the open market. Common shares are purchased on the open market at a price that based on the weighted average price of all shares purchased by the broker-dealer on the open market from each aggregate order placed by the Plan Administrator. In 2020 and 2021, all shares purchased through the DRIP were purchased on the open market and consequently the Company issued no common shares to the DRIP during the years ended December 31, 2020 and 2021.

Note 17 – Stockholders' equity

The Bank is subject to certain legal and regulatory restrictions on the amount of cash dividends it may declare. Financial is a legal entity, separate and distinct from the Bank. Financial currently does not have any significant sources of revenue other than cash dividends paid to it by its subsidiaries. Both Financial and the Bank are subject to laws and regulations that limit the payment of cash dividends, including requirements to maintain capital at or above regulatory minimums.

Note 18 - Regulatory matters

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table) of total Common Equity Tier 1 capital and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital to average assets (as defined). Management believes, as of December 31, 2021 that the Bank meets all capital adequacy requirements to which it is subject. The Bank's actual regulatory capital amounts and ratios for December 31, 2021 and 2020 are also presented in the table below.

In addition to the minimum regulatory capital required for capital adequacy purposes the Bank is required to maintain a minimum Capital Conservation Buffer above those minimums in the form of common equity, in order to avoid restrictions on capital distributions and discretionary bonuses. The Capital Conservation Buffer was 2.5% at December 31, 2021 and 2020, and is applicable for the Common Equity Tier 1, Tier 1, and Total Capital Ratios.

As of December 31, 2021, the most recent notification from the Federal Reserve Bank of Richmond categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the Bank's category.

Note 18 - Regulatory matters (continued)

To be categorized as well capitalized under the prompt corrective action regulations, the Bank must maintain minimum total risk-based, CET1, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the following table.

The capital ratios for the Bank for 2021 and 2020 are set forth in the following table:

	December 31, 2021					
	Actual		Minimum Capital Requirement		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio (1)	Amount	Ratio
Total capital (to risk-weighted assets)	$ 85,803	12.37%	$ 72,807	>10.50%	$ 69,340	> 10.00%
Tier 1 capital (to risk-weighted assets)	$ 78,888	11.38%	$ 58,939	>8.50%	$ 55,472	> 8.00%
Common Equity Tier 1 capital (to risk-weighted assets)	$ 78,888	11.38%	$ 48,538	>7.00%	$ 45,071	>6.50%
Tier 1 capital (leverage) (to average assets)	$ 78,888	8.22%	$ 38,392	> 4.00%	$ 47,990	> 5.00%

(1) Includes capital conservation buffer of 2.50% where applicable.

	December 31, 2020					
	Actual		Minimum Capital Requirement		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio (1)	Amount	Ratio
Total capital (to risk-weighted assets)	$ 77,844	12.25%	$ 66,722	>10.500%	$ 63,545	> 10.00%
Tier 1 capital (to risk-weighted assets)	$ 70,688	11.12%	$ 54,013	>8.50%	$ 50,836	> 8.00%
Common Equity Tier 1 capital (to risk-weighted assets)	$ 70,688	11.12%	$ 44,481	>7.00%	$ 41,304	>6.50%
Tier 1 capital (leverage) (to average assets)	$ 70,688	8.28%	$ 34,142	> 4.00%	$ 42,678	> 5.00%

(1) Includes capital conservation buffer of 2.50% where applicable.

Note 18 - Regulatory matters (continued)

The above tables set forth the capital position and analysis for the Bank only. Because total assets on a consolidated basis are less than $3 billion, Financial is not subject to the consolidated capital requirements imposed by the Bank Holding Company Act. Consequently, Financial does not calculate its financial ratios on a consolidated basis. If calculated, the capital ratios for the Company on a consolidated basis would no longer be comparable to the capital ratios of the Bank because the proceeds of the private placement do not qualify as equity capital on a consolidated basis.

Note 19 - Financial instruments with off-balance-sheet risk

The Bank is not a party to derivative financial instruments with off-balance-sheet risks such as futures, forwards, swaps and options. The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These instruments may involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated balance sheets. The contract amounts of these instruments reflect the extent of involvement the Bank has in particular classes of financial instruments.

Credit risk is defined as the possibility of sustaining a loss because the other party to a financial instrument fails to perform in accordance with the terms of the contract. The Bank's maximum 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 the instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

The Bank requires collateral or other security to support financial instruments when it is deemed necessary. 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 counterparty. Types of collateral vary but may include marketable securities, accounts receivable, inventory, and property, plant and equipment.

At December 31, 2021, the Bank had rate lock commitments to originate mortgage loans through its Mortgage Division amounting to approximately $21,039 and loans held for sale of $1,628. The Bank has entered into corresponding commitments with third party investors to sell each of these loans that close. No other obligation exists.

Note 19 - Financial instruments with off-balance-sheet risk (continued)

Financial instruments whose contract amounts represent credit risk are as follows:

	Contract Amounts at December 31,	
	2021	2020
Commitments to extend credit	$ 179,953	$ 152,834
Standby letters of credit	$ 4,335	$ 3,552

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

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 private borrowing arrangements. The credit risk involved in issuing standby letters of credit is generally less than that involved in extending loans to customers because the Bank generally holds deposits equal to the commitment. Management does not anticipate any material losses as a result of these transactions.

Note 20 – Concentration of credit risk

The Bank has a diversified loan portfolio consisting of commercial, real estate and consumer (installment) loans. Substantially all of the Bank's customers are residents or operate business ventures in its market area consisting primarily of the Lynchburg metropolitan area. Therefore, a substantial portion of its debtors' ability to honor their contracts and the Bank's ability to realize the value of any underlying collateral, if needed, is influenced by the economic conditions in this market area.

The Bank maintains a significant portion of its cash balances with one financial institution. Uninsured cash balances as of December 31, 2021 were approximately $4,162 which consisted of the total balances in one account at the Federal Home Loan Bank of Atlanta (FHLBA), as well as the balances (net of $250 FDIC coverage) held in one account at Community Bankers' Bank, one account at Suntrust (now Truist), one account at Zions Bank, one account held at First National Bankers' Bank, and one account held at PNC. Uninsured cash balances as of December 31, 2020 were approximately $5,544 which consisted of the total balances in the same accounts referenced for 2021 above.

Note 21 – Fair value measurements

Financial instruments measured at fair value on recurring basis.

Determination of Fair Value

The Company 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, the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market and in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

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

Fair Value Hierarchy

In accordance with this guidance, the Company 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 inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

- Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

- Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Note 21 – Fair value measurements (continued)

Securities

Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities would include highly liquid government bonds, mortgage products and exchange traded equities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flow.

Level 2 securities would include U.S. agency securities, mortgage-backed agency securities, obligations of states and political subdivisions and certain corporate, asset backed and other securities. In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy. Currently, all of the Company's securities are considered to be Level 2 securities.

Derivatives Assets/Liabilities – Interest Rate Lock Commitments (IRLCs)

Beginning in 2020, the Company recognizes IRLCs at fair value based on the price of the underlying loans obtained from an investor for loans that will be delivered on a best efforts basis while taking into consideration the probability that the rate lock commitments will close. All of the Company's IRLCs are classified as Level 3.

Note 21 – Fair value measurements (continued)

The following table summarizes the Company's financial assets that were measured at fair value on a recurring basis during the period.

		Fair Value at December 31, 2021		
Description	**Balance as of December 31, 2021**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
U.S. Treasuries	$ 2,002	$ —	$ 2,002	$ —
U.S. agency obligations	58,470	—	58,470	—
Mortgage-backed securities	37,438	—	37,438	—
Municipals	50,204	—	50,204	—
Corporates	13,153	—	13,153	—
Total available-for-sale securities	$ 161,267	$ —	$ 161,267	$ —
IRLCs – asset	144	—	—	144
Total assets at fair value	$ 161,411	$ —	$ 161,267	$ 144

		Fair Value at December 31, 2020		
Description	**Balance as of December 31, 2020**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
U.S. Treasuries	$ 2,027	$ —	$ 2,027	$ —
U.S. agency obligations	41,320	—	41,320	—
Mortgage-backed securities	15,696	—	15,696	—
Municipals	24,773	—	24,773	—
Corporates	6,369	—	6,369	—
Total available-for-sale securities	$ 90,185	$ —	$ 90,185	$ —
IRLCs – asset	425	—	—	425
Total assets at fair value	$ 90,610	$ —	$ 90,185	$ 425

Note 21 – Fair value measurements (continued)

The following table provides additional quantitative information about assets measured at fair value on a recurring basis and for which we have utilized Level 3 inputs to determine fair value:

	Quantitative information about Level 3 Fair Value Measurements for December 31, 2021 (dollars in thousands)			
	Fair Value	**Valuation Technique(s)**	**Unobservable Input**	**Range (Weighted Average)**
Assets				
IRLCs - asset	$ 144	Market approach	Range of pull through rate	85%

	Quantitative information about Level 3 Fair Value Measurements for December 31, 2020 (dollars in thousands)			
	Fair Value	**Valuation Technique(s)**	**Unobservable Input**	**Range (Weighted Average)**
Assets				
IRLCs - asset	$ 425	Market approach	Range of pull through rate	85%

Assets measured at fair value on a nonrecurring basis.

Loans held for sale

Loans held for sale are measured at lower of cost or fair value. Under ASC 820, market value is to represent fair value. Management obtains quotes or bids on all or part of these loans directly from the purchasing financial institutions. Premiums received or to be received on the quotes or bids are indicative of the fact that cost is lower than fair value. Because quotes and bids on loans held for sale are available in active markets, loans held for sale are considered to be Level 2. No nonrecurring fair value adjustments were recorded during the years ended December 31, 2021 and 2020. Gains and losses on the sale of loans are recorded in noninterest income on the Consolidated Statements of Income.

Impaired loans

ASC 820 applies to loans measured for impairment at an observable market price (if available), or at the fair value of the loan's collateral (if the loan is collateral dependent). Fair value of the loan's collateral, when the loan is dependent on collateral, is determined by appraisals or independent valuation which is then adjusted for the cost related to liquidation of the collateral.

Loans are designated as impaired when, in the judgment of management based on current information and events, it is probable that all amounts due according to the contractual terms of the loan agreement will not be collected when due. The measurement of loss associated with impaired loans can be based on either the observable market price of the loan or the fair value of the collateral. Fair value is measured based on the value

Note 21 – Fair value measurements (continued)

of the collateral securing the loans. Collateral may be in the form of real estate or business assets including equipment, inventory, and accounts receivable. The vast majority of the collateral is real estate. The value of

real estate collateral is determined utilizing an income or market valuation approach based on an appraisal conducted by an independent, licensed appraiser outside of the Bank using observable market data The value of business equipment is based upon an outside appraisal if deemed significant, or the net book value on the applicable business's financial statements if not considered significant using observable market data. Likewise, values for inventory and accounts receivables collateral are based on financial statement balances or aging reports. Any fair value adjustments are recorded in the period incurred as provision for loan losses on the Consolidated Statements of Income. The carrying values of all impaired loans are considered to be Level 3.

Other Real Estate Owned

Certain assets such as other real estate owned (OREO) are measured at fair value less cost to sell. We believe that the fair value component in its valuation follows the provisions of ASC 820.

Real estate acquired through foreclosure is transferred to other real estate owned ("OREO"). The measurement of loss associated with OREO at the date of transfer from loans is based on the fair value of the collateral less anticipated selling costs compared to the unpaid loan balance. Subsequent changes in fair value are recorded in noninterest expense on the Consolidated Statements of Income. The value of OREO collateral is determined utilizing an income or market valuation approach based on an appraisal conducted by an independent, licensed appraiser outside of the Bank using market data.

Any fair value adjustments are recorded in the period incurred and expensed against current earnings. The carrying values of all OREO are considered to be Level 3.

The following table summarizes the Company's impaired loans and OREO measured at fair value on a nonrecurring basis during the period.

		Fair Value at December 31, 2021		
Description	**Balance as of December 31, 2021**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Impaired loans*	$ 1,802	$ —	$ —	$ 1,802
Other real estate	$ 761	$ —	$ —	$ 761

*Includes loans charged down to the net realizable value of the collateral.

Note 21 – Fair value measurements (continued)

		Fair Value at December 31, 2020		
Description	**Balance as of December 31, 2020**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Impaired loans*	$ 1,829	$ —	$ —	$ 1,829
Other real estate	$ 1,105	$ —	$ —	$ 1,105

*Includes loans charged down to the net realizable value of the collateral.

Note 21 – Fair value measurements (continued)

The following table sets forth information regarding the quantitative inputs used to value assets classified as Level 3:

Quantitative information about Level 3 Fair Value Measurements for December 31, 2021
(dollars in thousands)

	Fair Value	Valuation Technique(s)	Unobservable Input	Range (Weighted Average)
Impaired loans	$ 1,802	Discounted appraised value	Selling cost	0% - 10% (8%)
			Discount for lack of marketability and age of appraisal	0% - 20% (6%)
OREO	$ 761	Discounted appraised value	Selling cost	10%
			Discount for lack of marketability and age of appraisal	0% - 27% (26%)

Quantitative information about Level 3 Fair Value Measurements for December 31, 2020
(dollars in thousands)

	Fair Value	Valuation Technique(s)	Unobservable Input	Range (Weighted Average)
Impaired loans	$ 1,829	Discounted appraised value	Selling cost	0% - 10% (8%)
			Discount for lack of marketability and age of appraisal	0% - 20% (6%)
OREO	$ 1,105	Discounted appraised value	Selling cost	10%
			Discount for lack of marketability and age of appraisal	0% - 27% (26%)

Financial Instruments

FASB ASC 825, Financial Instruments, requires disclosure about fair value of financial instruments, including those financial assets and financial liabilities that are not required to be measured and reported at fair value on a recurring or nonrecurring basis. ASC 825 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Company. The carrying amounts and estimated fair values of the Company's financial instruments are presented in the following tables whether or not recognized on the Consolidated Balance Sheets at fair value. Fair values for December 31, 2021 and 2020 were estimated using an exit price notion.

Note 21 – Fair value measurements (continued)

		Fair Value Measurements at December 31, 2021 using			
Assets	**Carrying Amounts**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Balance**
Cash and due from banks	$ 29,337	$ 29,337	$ —	$ —	$ 29,337
Fed funds sold	153,816	153,816	—	—	153,816
Securities					
Available-for-sale	161,267	—	161,267	—	161,267
Held-to-maturity	3,655	—	4,006	—	4,006
Restricted stock	1,324	—	1,324	—	1,324
Loans, net	576,469	—	—	565,543	565,543
Loans held for sale	1,628	—	1,628	—	1,628
Interest receivable	2,064	—	2,064	—	2,064
BOLI	18,785	—	18,785	—	18,785
Derivaties	144	—	—	144	144
Liabilities					
Deposits	$ 887,056	$ —	$ 887,955	$ —	$ 887,955
Borrowings	21,016	—	22,179	—	22,179
Interest payable	46	—	46	—	46

		Fair Value Measurements at December 31, 2020 using			
Assets	**Carrying Amounts**	**(Level 1)**	**(Level 2)**	**(Level 3)**	**Balance**
Cash and due from banks	$ 31,683	$ 31,683	$ —	$ —	$ 31,683
Fed funds sold	69,203	69,203	—	—	69,203
Securities					
Available-for-sale	90,185	—	90,185	—	90,185
Held-to-maturity	3,671	—	4,192	—	4,192
Restricted stock	1,551	—	1,551	—	1,551
Loans, net	601,934	—	—	598,745	598,745
Loans held for sale	7,102	—	7,102	—	7,102
Interest receivable	2,350	—	2,350	—	2,350
BOLI	16,355	—	16,355	—	16,355
Derivaties	425	—	—	425	425
Liabilities					
Deposits	$ 764,967	$ —	$ 766,212	$ —	$ 766,212
Borrowings	10,027	—	9,003	—	9,003
Interest payable	85	—	85	—	85

Note 22 – Revenue Recognition

Substantially all of the Company's revenue from contracts with customers that is within the scope of ASC 606, "Revenue from Contracts with Customers" is reported within noninterest income. Certain other in-scope revenue such as gains and losses on OREO and gains and losses on premises and equipment are recorded in noninterest expense. The recognition of interest income and certain sources of noninterest income (e.g. gains on securities transactions, bank-owned life insurance income, gains on loans held-for-sale, etc.) are governed by other areas of U.S. GAAP. Significant revenue streams that are within the scope of ASC 606 and included in noninterest income are discussed in the following paragraphs.

Service Charges on Deposit Accounts

Service charges on deposit accounts consist of account analysis fees (i.e., net fees earned on analyzed business checking accounts), monthly service fees, check orders, and other deposit account related fees. The Company's performance obligation for account analysis fees and monthly service fees is generally satisfied, and the related revenue recognized, over the period in which the service is provided. Check orders and other deposit account related fees are largely transactional based, and therefore, the Company's performance obligation is satisfied, and related revenue recognized, at a point in time. Payment for service charges on deposit accounts is primarily received immediately or at the end of the month through a direct charge to customers' accounts.

Fees, Exchange, and Other Service Charges

Fees, exchange, and other service charges are primarily comprised of debit and credit card income, ATM fees, merchant services income, treasury services income and other service charges. Debit and credit card income is primarily comprised of interchange fees earned whenever the Company's debit and credit cards are processed through card payment networks such as Visa. ATM fees are primarily generated when a Company cardholder uses a non-Company ATM or a non-Company cardholder uses a Company ATM. Merchant services income mainly represents fees charged to merchants to process their debit and credit card transactions, in addition to account management fees. Treasury services income primarily represents fees charged to customers for sweep, positive pay and lockbox services. Other service charges include revenue from processing wire transfers, bill pay service, cashier's checks, and other services. The Company's performance obligation for fees, exchange, and other service charges are largely satisfied, and related revenue recognized, when the services are rendered or upon completion. Payment is typically received immediately or at the end of the month.

Other

Other noninterest income consists of other recurring revenue streams such as commissions from sales of mutual funds and other investments, safety deposit box rental fees, and other miscellaneous revenue streams. Commissions from the sale of mutual funds and other investments are recognized on trade date, which is when the Company has satisfied its performance obligation. The Company also receives periodic service fees (i.e., trailers) from mutual fund companies typically based on a percentage of net asset value.

Trailer revenue is recorded over time, usually monthly or quarterly, as net asset value is determined. Safe deposit box rental fees are charged to the customer on an annual basis and recognized upon receipt of payment. The Company determined that since rentals and renewals occur fairly consistently over time, revenue is recognized on a basis consistent with the duration of the performance obligation.

Note 23 – Leases

The Company’s leases are recorded under ASC Topic 842 “Leases.” The right-of-use assets and lease liabilities are included in other assets and other liabilities, respectively, in the Consolidated Balance Sheets.”

Lease liabilities represent the Company’s obligation to make lease payments and are presented at each reporting date as the net present value of the remaining contractual cash flows. Cash flows are discounted at the Company’s incremental borrowing rate in effect at the commencement date of the lease. Right-of-use assets represent the Company’s right to use the underlying asset for the lease term and are calculated as the sum of the lease liability and if applicable, prepaid rent, initial direct costs and any incentives received from the lessor.

The Company currently leases four of its operating locations under long-term leases (greater than 12 months). Leases for two of these locations are classified as operating leases and two are classified as financing leases. Certain of these leases offer the option to extend the lease term and the Company has included such extensions in its calculation of the lease liabilities to the extent the options are reasonably certain of being exercised. The lease agreements do not provide for residual value guarantees and have no restrictions or covenants that would impact dividends or require incurring additional financial obligations.

The Bank leases its principal Lynchburg, Virginia, location from Jamesview Investments, LLC, a legal entity which is wholly-owned by William C. Bryant III, a member of the Board of Directors of both Financial and the Bank. This lease is classified as a finance lease and the related lease liability totaled $3.1 million at December 31, 2021.

The following table represents information about the Company's operating leases:

	December 31,	
(Dollars in thousands)	**2021**	**2020**
Lease liabilities	$ 1,325	$ 1,390
Right-of-use assets	$ 1,282	$ 1,360
Weighted average remaining lease term	13.7 years	14.7 years
Weighted average discount rate	3.44%	3.44%

Note 23 – Leases (continued)

The following table represents information about the Company's finance leases:

(Dollars in thousands)	**December 31, 2021**	**December 31, 2020**
Lease liabilities	$ 3,746	$ 4,093
Right-of-use assets	$ 3,488	$ 3,902
Weighted average remaining lease term	9.2 years	10.2 years
Weighted average discount rate	2.70%	2.70%

Lease cost (in thousands)	**For the Year Ended December 31, 2021**	**For the Year Ended December 31, 2020**
Operating lease cost	$ 125	$ 197
Finance lease cost:		
Amortization of right-of-use assets	414	414
Interest on lease liabilities	106	115
Total lease cost	$ 645	$ 726
Cash paid for amounts included in measurement of operating lease liabilities	$ 112	$ 183
Cash paid for amounts included in measurement of finance lease liabilities	$ 453	$ 444

Note 23 – Leases (continued)

A maturity analysis of operating and finance lease liabilities and reconciliation of the undiscounted cash flows to the total of lease liabilities is as follows:

Lease payments due (in thousands)	Operating Lease Liabilities **As of December 31, 2021**	Finance Lease Liabilities **As of December 31, 2021**
Twelve months ending December 31, 2022	$ 110	$ 454
Twelve months ending December 31, 2023	110	454
Twelve months ending December 31, 2024	110	479
Twelve months ending December 31, 2025	110	515
Twelve months ending December 31, 2026	116	515
Thereafter	1,125	1,850
Total undiscounted cash flows	$ 1,681	$ 4,267
Discount	(356)	(521)
Lease liabilities	$ 1,325	$ 3,746

Note 24 - Impact of recently issued accounting standards

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." The amendments in this ASU, among other things, require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. In addition, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The FASB has issued multiple updates to ASU 2016-13 as codified in Topic 326, including ASU's 2019-04, 2019-05, 2019-10, 2019-11, 2020-02, and 2020-03. These ASU's have provided for various minor technical corrections and improvements to the codification as well as other transition matters. Smaller reporting companies who file with the U.S. Securities and Exchange Commission (SEC) and all other entities who do not file with the SEC are required to apply the guidance for fiscal years, and interim periods within those years, beginning after December 15, 2022. The Company is currently assessing the impact that ASU 2016-13 will have on its consolidated financial statements The Company has a model in place that contains its historical data. The model will run parallel with the current allowance methodology beginning late spring of 2022.

Effective November 25, 2019, the SEC adopted Staff Accounting Bulletin (SAB) 119. SAB 119 updated portions of SEC interpretative guidance to align with FASB ASC 326, "Financial Instruments – Credit Losses." It covers topics including (1) measuring current expected credit losses; (2) development, governance, and documentation of a systematic methodology; (3) documenting the results of a systematic methodology; and (4) validating a systematic methodology.

Note 24 - Impact of recently issued accounting standards (continued)

In March 2020, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2020-04 "Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting." These amendments provide temporary optional guidance to ease the potential burden in accounting for reference rate reform. The ASU provides optional expedients and exceptions for applying generally accepted accounting principles to contract modifications and hedging relationships, subject to meeting certain criteria, that reference LIBOR or another reference rate expected to be discontinued. It is intended to help stakeholders during the global market-wide reference rate transition period. The guidance is effective for all entities as of March 12, 2020 through December 31, 2022. Subsequently, in January 2021, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2021-01 "Reference Rate Reform (Topic 848): Scope." This ASU clarifies that certain optional expedients and exceptions in Topic 848 for contract modifications and hedge accounting apply to derivatives that are affected by the discounting transition. The ASU also amends the expedients and exceptions in Topic 848 to capture the incremental consequences of the scope clarification and to tailor the existing guidance to derivative instruments affected by the discounting transition. An entity may elect to apply ASU No. 2021-01 on contract modifications that change the interest rate used for margining, discounting, or contract price alignment retrospectively as of any date from the beginning of the interim period that includes March 12, 2020, or prospectively to new modifications from any date within the interim period that includes or is subsequent to January 7, 2021, up to the date that financial statements are available to be issued. An entity may elect to apply ASU No. 2021-01 to eligible hedging relationships existing as of the beginning of the interim period that includes March 12, 2020, and to new eligible hedging relationships entered into after the beginning of the interim period that includes March 12, 2020. The Company has identified a small number of affected loans and is evaluating other benchmarks to substitute for LIBOR such as SOFR. The Company is assessing ASU 2020-04 and its impact on the Company's transition away from LIBOR for its loans.

In August 2021, the FASB issued ASU 2021-06, "'Presentation of Financial Statements (Topic 205), Financial Services—Depository and Lending (Topic 942), and Financial Services—Investment Companies (Topic 946): Amendments to SEC Paragraphs Pursuant to SEC Final Rule Releases No. 33-10786, Amendments to Financial Disclosures about Acquired and Disposed Businesses, and No. 33-10835, Update of Statistical Disclosures for Bank and Savings and Loan Registrants. This ASU incorporates recent SEC rule changes into the FASB Codification, including SEC Final Rule Releases No. 33-10786, Amendments to Financial Disclosures about Acquired and Disposed Businesses, and No. 33-10835, Update of Statistical Disclosures for Bank and Savings and Loan Registrants". The ASU is effective upon addition to the FASB Codification. The adoption of ASU 2021-06 did not have a material impact on the consolidated financial statements.

In October 2021, the FASB issued ASU 2021-08, "Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers". The ASU requires entities to apply Topic 606 to recognize and measure contract assets and contract liabilities in a business combination. The amendments improve comparability after the business combination by providing consistent recognition and measurement guidance for revenue contracts with customers acquired in a business combination and revenue contracts with customers not acquired in a business combination. The ASU is effective for fiscal years, including interim periods within those fiscal years, beginning after December 15, 2022. Entities should apply the amendments prospectively and early adoption is permitted. The Company does not expect the adoption of ASU 2021-08 to have a material impact on its consolidated financial statements.

Note 24 - Impact of recently issued accounting standards (continued)

In December 2019, the FASB issued ASU 2019-12, "Income Taxes (Topic 740) – Simplifying the Accounting for Income Taxes." The ASU is expected to reduce cost and complexity related to the accounting for income taxes by removing specific exceptions to general principles in Topic 740 (eliminating the need for an organization to analyze whether certain exceptions apply in a given period) and improving financial statement preparers' application of certain income tax-related guidance. This ASU is part of the FASB's simplification initiative to make narrow-scope simplifications and improvements to accounting standards through a series of short-term projects. ASU 2019-12 was effective for the Company on January 1, 2021. The adoption of ASU 2019-12 did not have a material effect on the Company's consolidated financial statements.

In October 2020, the FASB issued ASU 2020-08, "Codification Improvements to Subtopic 310-20, Receivables – Nonrefundable fees and Other Costs." This ASU clarifies that an entity should reevaluate whether a callable debt security is within the scope of ASC paragraph 310-20-35-33 for each reporting period. ASU 2020-08 was effective for the Company on January 1, 2021. The adoption of ASU 2020-08 did not have a material effect on the Company's consolidated financial statements.

Note 25 - Condensed financial statements of parent company

Financial information pertaining only to Bank of the James Financial Group, Inc. is as follows:

Balance Sheet

	December 31,	
	2021	**2020**
Assets		
Cash	$ 2,744	$ 4,400
Taxes receivable	9	74
Investment in subsidiaries	88,003	72,482
Other assets	17	10
Total assets	$ 90,773	$ 76,966
Liabilities and stockholders’ equity		
Capital notes	$ 10,031	$ 10,027
Bank note payable	10,985	—
Other liabilities	328	207
Total Liabilities	$ 21,344	$ 10,234
Common stock $2.14 par value	$ 10,145	$ 9,286
Additional paid-in-capital	37,230	30,989
Retained earnings	23,440	24,665
Accumulated other comprehensive (loss) income	(1,386)	1,792
Total stockholders’ equity	$ 69,429	$ 66,732
Total liabilities and stockholders’ equity	$ 90,773	$ 76,966

Note 25 – Condensed financial statements of parent company (continued)

Statements of Income

	Years Ended December 31,	
	2021	2020
Income		
Dividends from subsidiary	$ —	$ 1,000
Operating expenses		
Interest on capital notes	327	273
Legal and professional fees	259	159
Other expense	138	136
Total expenses	724	568
Income tax (benefit)	(114)	(119)
Income before equity in undistributed income of subsidiaries	610	551
Equity in undistributed income of subsidiaries	8,199	4,429
Net income	$ 7,589	$ 4,980

BANK OF THE JAMES FINANCIAL GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 25 – Condensed financial statements of parent company (continued)

Statements of Cash Flows

	Years Ended December 31, 2021		2020	
Cash flows from operating activities				
Net income	$	7,589	$	4,980
Adjustments to reconcile net income to net cash provided by operating activities				
Amortization of debt issuance costs		4		2
Decrease (increase) in income taxes receivable		65		(59)
(Increase) in other assets		(7)		(2)
Increase in other liabilities		121		161
Cash payment in lieu of fractional shares related to 10% stock dividend		(16)		—
Equity in undistributed net (income) of subsidiaries		(8,199)		(4,429)
Net cash (used in) provided by operating activities	$	(443)	$	651
Cash flows from investing activities				
Cash paid in acquisition, net of cash received		(10,400)		—
Cash flows from financing activities				
Dividends paid to common stockholders	$	(1,271)	$	(1,215)
Retirement of capital notes		—		(5,000)
Proceeds from sale of capital notes, net of issuance costs		—		10,025
Proceeds from bank note		10,985		—
Repurchase of common stock		(427)		(275)
Net cash provided by financing activities	$	9,287	$	3,537
(Decrease) increase in cash and cash equivalents	$	(1,556)	$	4,188
Cash and cash equivalents at beginning of period		4,400		212
Cash and cash equivalents at end of period	$	2,744	$	4,400
Transactions related to acquisition:				
Assets acquired, net of cash received	$	790	$	—
Liabilities assumed		32		—

Note 26 – Acquisitions

Goodwill arises from business combinations and is generally determined as the excess of fair value of the consideration transferred, plus the fair value of any noncontrolling interests in the acquired entity, over the fair value of the nets assets acquired and liabilities assumed as of the acquisition date. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but tested for impairment at least annually or more frequently in events and circumstances exists that indicate that a goodwill impairment test should be performed. The Company has selected September 1 of each year as the date to perform the annual impairment test. Intangible assets with definite useful lives are amortized over their estimated useful lives to their estimated residual values. Goodwill is the only intangible asset with an indefinite life on our balance sheet.

On December 31, 2021, Financial completed its acquisition of Pettyjohn, Wood & White, Inc. (“PWW”), a Lynchburg, Virginia-based investment advisory firm with approximately $650 million in assets under management and advisement at the time of the acquisition. PWW operates as a subsidiary of Financial. The acquisition date fair value of consideration transferred totaled $10.5 million, which was paid in cash.

In connection with this transaction, the Company recorded $3.0 million in goodwill and $8.4 million of amortizable intangible assets, which primarily relate to the value of customer relationships. The goodwill is not deductible for tax purposes. The Company is amortizing these intangible assets over a 15-year period using the straight line method. The transaction was accounted for using the acquisition method of accounting, and accordingly, assets acquired, liabilities assumed, and consideration exchanged were recorded at estimated fair values on the acquisition date. The fair values are subject to refinement for up to one year after the closing date of the acquisition, in accordance with ASC 350, Intangibles-Goodwill and Other.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

There has been no change in the independent accountants engaged to audit the financial statements of the Company and its subsidiaries during the last two fiscal years ended December 31, 2021. There have been no disagreements with such independent accountants during the last two fiscal years ended December 31, 2021, on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure.

Item 9A. Controls and Procedures

a) Evaluation of Disclosures and Controls Procedures

Management of the Company is responsible for establishing and maintaining disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Financial's management, including Financial's Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the Company's "disclosure controls and procedures," as such term is defined in Rule 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended, (the "Exchange Act") as of December 31, 2021. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that the Company's disclosure controls and procedures will detect or uncover every situation involving the failure of persons within the Company or its subsidiaries to disclose material information required to be set forth in the Company's periodic reports.

Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company did not, as of December 31, 2021, maintain effective disclosure controls and procedures due to a material weakness in the Company's internal control over financial reporting as described below.

Notwithstanding management's conclusion regarding the effectiveness of the Company's disclosure controls and procedures and the material weakness discussed below, the Company's management, including the Chief Executive Officer and Chief Financial Officer, has concluded that the Company's financial statements included in this Annual Report on Form 10-K present fairly, in all material respects, the Company's financial position, results of operations and cash flows for the periods presented in accordance with U.S. generally accepted accounting principles.

b) Report of Management's Assessment of Internal Controls over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Exchange act. Financial's internal control over financial reporting includes those policies and procedures that pertain to Financial's ability to record, process, summarize and report reliable financial data. Management recognizes that there are inherent limitations in the effectiveness of any internal control over financial reporting, including the possibility of human error and the circumvention or overriding of internal control. Accordingly, even effective internal control over financial reporting can provide only reasonable assurance with respect to financial statement preparation. Further, because of changes in conditions, the effectiveness of internal control over financial reporting may vary over time.

In order to ensure that Financial's internal control over financial reporting is effective, management regularly assesses such controls and did so most recently for its financial reporting as of December 31, 2021. This assessment was based on criteria for effective internal control over financial reporting described in Internal

Control Integrated Framework issued by the Committee of Sponsoring Organizations (COSO) in 2013, by the Treadway Commission.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis.

As of December 31, 2021, a control deficiency existed related to controls surrounding the review of a third-party vendor valuation in connection with an acquisition, which resulted in a material weakness. The Company engaged a third-party vendor to value the intangibles acquired in the acquisition and render a valuation report thereon in accordance with *ASC 805*, *Business Combinations.* The valuation report contained inconsistencies and errors that resulted in material changes to the initially recorded intangible values. These errors were not detected during the review of the third-party valuation report and were identified during the yearend financial statement audit. Upon identification, the Company made reclassification entries impacting the Consolidated Balance Sheets. The reclassifications had no impact on the Consolidated Statements of Income.

This control deficiency creates a reasonable possibility that a material misstatement of the consolidated financial statements would not have been prevented or detected on a timely basis. Management has concluded that the control deficiency represents a material weakness in internal control over financial reporting. Therefore, the Company's internal control over financial reporting was not effective as of December 31, 2021.

This annual report does not include an attestation report of Financial's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by Financial's registered public accounting firm pursuant to the rules of the Securities and Exchange Commission that permit Financial to provide only management's report in the annual report.

c) Remediation Plan

Recorded balances for intangibles, based on a third-party valuation report, contained undetected errors which resulted in material changes to the initially recorded intangible values on our Consolidated Balance Sheets. Management has determined the root cause of the material weakness. As a result, management has designed and implemented new controls and procedures pertaining to the review of third-party valuation reports. Management believes these remediation measures will strengthen the Company's internal control over financial reporting and remediate the material weakness identified.

d) Changes in Internal Control over Financial Reporting

Except for the remediation measures discussed above, there have been no significant changes during the quarter ended December 31, 2021, in the Company's internal controls over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) or in other factors that could have significantly affected those controls subsequent to the date of our most recent evaluation of internal controls over financial reporting.

Item 9B. Other Information

None.

Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Part of the response to this Item will be included in the information set forth under the headings "Nominees and Continuing Directors," "Corporate Governance and the Board of Directors Matters," "Director and Officer Biographical Information," and "Committees of the Board of Directors of Financial" in Financial's definitive Proxy Statement for its 2022 Annual Meeting of Shareholders, which Proxy Statement will be filed with the SEC within 120 days of the end of the Financial's 2021 fiscal year (the "2022 Proxy Statement"), and such information is hereby incorporated by reference

Financial has adopted a code of ethics that applies to Financial's directors, executive officers (including the principal financial officer, principal accounting officer or controller, or persons performing similar functions), and senior officers. The code of ethics has been posted under the "*Investor Relations*" section on Financial's website: www.bankofthejames.bank.

Item 11. Executive Compensation

The response to this Item will be included in the information set forth under the headings “Compensation of Directors and Executive Officers,” “Corporate Governance and the Board of Directors Matters,” and “Committees of the Board of Directors of Financial” in the 2022 Proxy Statement and such information is hereby incorporated by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this Item will be included in the information set forth under the headings “Securities Authorized for Issuance Under Equity Compensation Plans,” “Corporate Governance and the Board of Directors Matters – Independence of Directors,” and “Security Ownership of Management” in the 2022 Proxy Statement and is hereby incorporated by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The response to this Item will be included in the information set forth under the heading “Transactions with Related Parties” in the 2022 Proxy Statement and is hereby incorporated by reference.

Item 14. Principal Accounting Fees and Services

The response to this Item will be included in the information set forth under the heading “Independent Registered Public Accounting Firm” in the 2022 Proxy Statement and is hereby incorporated by reference. Our independent registered public accounting firm is Yount, Hyde & Barbour, Roanoke, Virginia, US PCAOB Auditor Firm I.D.: 613

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a)(1) Financial Statements. Listed and included in Part II, Item 8.

(2) Financial Statement Schedules. Not applicable.

(3) Exhibits. The following exhibits are filed as a part of this Form 10-K and this list includes the Exhibit Index:

No.	Description
2.1	Agreement and Plan of Share Exchange dated October 9, 2003 between Bank of the James Financial Group, Inc. and Bank of the James, dated as of October 9, 2003 (incorporated by reference to Exhibit 2.1 to Form 8-K12g-3 filed on January 13, 2004)
3.1	Amended and Restated Articles of Incorporation of Bank of the James Financial Group, Inc. (incorporated by reference to Exhibit 3(i) to Form 8-K filed on August 12, 2009)
3.2	Bylaws of Bank of the James Financial Group, Inc. (incorporated by reference to Exhibit 3.2 to Form 8-K filed February 19, 2021)
4.1	Description of Registrant's Securities (filed herewith)
10.1	Amended and Restated Deed of Lease effective as of June 1, 2019 by and between Bank of the James and Jamesview Investments LLC (incorporated by reference to Exhibit 10.1 to Form 8-K filed on March 10, 2020
10.2	Form of Securities Purchase Agreement, made as of November 23, 2015, between Bank of the James Financial Group, Inc. and each institutional investor purchasing common shares of Bank of the James Financial Group, Inc. in the private placement that closed on December 3, 2015 (incorporated by reference to Exhibit 10.1 to Form 8-K filed on November 24, 2015)
10.3	Salary Continuation Agreement dated as of August 6, 2009 by and between the Bank and Robert R. Chapman III (incorporated by reference to Exhibit 10.7 to Form 8-K filed on August 12, 2009)
10.4	Salary Continuation Agreement dated as of August 6, 2009 by and between the Bank and J. Todd Scruggs (incorporated by reference to Exhibit 10.8 to Form 8-K filed on August 12, 2009)
10.5	Salary Continuation Agreement dated as of August 6, 2009 by and between the Bank and Harry P. Umberger (incorporated by reference to Exhibit 10.9 to Form 8-K filed on August 12, 2009)
10.6	First Amended Salary Continuation Agreement dated effective as of October 1, 2016 by and between the Bank and Robert R. Chapman III (incorporated by reference to Exhibit 10.1 to Form 8-K filed on October 21, 2016)
10.7	First Amended Salary Continuation Agreement dated effective as of October 1, 2016 by and between the Bank and J. Todd Scruggs (incorporated by reference to Exhibit 10.2 to Form 8-K filed on October 21, 2016)
10.8	First Amended Salary Continuation Agreement dated effective as of October 1, 2016 by and between the Bank and Harry P. Umberger (incorporated by reference to Exhibit 10.3 to Form 8-K filed on October 21, 2016)
10.9	2016 Salary Continuation Agreement dated effective as of October 1, 2016 by and between the Bank and Harry P. Umberger (incorporated by reference to Exhibit 10.4 to Form 8-K filed on October 21, 2016)
10.10	Salary Continuation Agreement dated effective as of January 29, 2013 by and between the Bank and Michael A. Syrek (filed herewith)
10.11	Dividend Reinvestment Plan (Incorporated by reference to Registration Statement on Form S-3, filed on August 21, 2017)
10.12	2018 Bank of the James Financial Group, Inc. Equity Incentive Plan (incorporated by reference to Schedule 14A Proxy Statement Pursuant to Section 14(a) filed on April 9, 2018).
10.13	2018 Bank of the James Financial Group, Inc. Employee Stock Purchase Plan (incorporated by reference to Schedule 14A Proxy Statement Pursuant to Section 14(a) filed on April 9, 2018).
21.1	List of subsidiaries (filed herewith)
23.1	Consent of Yount, Hyde and Barbour, P.C. (filed herewith)
31.1	Certification pursuant to Rule 13a-14(a)/15d-14(a) (filed herewith)
31.2	Certification pursuant to Rule 13a-14(a)/15d-14(a) (filed herewith)
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of The Sarbanes-Oxley Act Of 2002 (filed herewith)

101 Pursuant to Rule 405 of Regulation S-T, the following materials from Bank of the James Financial Group, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2021, formatted in eXtensible Business Reporting Language (XBRL): (i) Consolidated Balance Sheets as of December 31, 2021 and 2020; (ii) Consolidated Statements of Income For the Years ended December 31, 2021 and 2020; (iii) Consolidated Statements of Cash Flows for the Years ended December 31, 2021 and 2020 (iv) Consolidated Statements of Changes in Stockholders' Equity and Comprehensive Income For the Years ended December 31, 2021 and 2020; (v) Notes to Consolidated Financial Statements.

Item 16. Form 10–K Summary - Not required

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SIGNATURES

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated as of March 29, 2022.

Signature	Capacity
/S/ Robert R. Chapman III Robert R. Chapman III	President (Principal Executive Officer) and Director
/S/ J. Todd Scruggs J. Todd Scruggs	Secretary and Treasurer (Principal Financial Officer and Principal Accounting Officer) and Director
/S/ Thomas W. Pettyjohn, Jr. Thomas W. Pettyjohn, Jr.	Director, Chairman
/S/ Lewis C. Addison Lewis C. Addison	Director
/S/ John R. Alford, Jr. John R. Alford, Jr.	Director
/S/ William C. Bryant III William C. Bryant III	Director
/S/ A. Douglas Dalton III A. Douglas Dalton III	Director
/S/ James F. Daly James F. Daly	Director
/S/ Julie P. Doyle Julie P. Doyle	Director
________________ Watt R. Foster, Jr.	Director
/S/ Phillip C. Jamerson Phillip C. Jamerson	Director
/S/ Lydia K. Langley Lydia K. Langley	Director
/S/ Augustus A. Petticolas, Jr. Augustus A. Petticolas, Jr.	Director

Exhibit 4.1

DESCRIPTION OF REGISTRANT'S SECURITIES
REGISTERED PURSUANT TO SECTION 12
OF THE SECURITIES EXCHANGE ACT OF 1934

(Exhibit pursuant to Item 601(b)(4)(vi) of Regulation S-K)

As of December 31, 2021, the Common Stock (as defined below) of Bank of the James Financial Group, Inc., a Virginia corporation ("Financial," the "Company," "we," "us" or "our"), is the only class of our securities registered under Section 12 of the Securities Exchange Act of 1934.

The following summary description of the material features of the Common Stock of Financial does not purport to be complete, and is subject to, and qualified in its entirety by reference to, Financial's articles of incorporation and bylaws, each as amended; copies of each of which are filed and incorporated by reference as exhibits to the Annual Report on Form 10-K of which this Exhibit is a part. For additional information, you should refer to our articles of incorporation and bylaws, the relevant provisions of the Virginia Stock Corporation Act (the "VSCA"), and the relevant provisions of applicable federal laws governing banks and bank holding companies.

General

Financial's articles of incorporation, as amended, authorize the issuance of 11,000,000 shares of capital stock of the Company, consisting of (a) 10,000,000 authorized shares of common stock, par value $2.14 per share ("Common Stock"), and (b) 1,000,000 authorized shares of preferred stock, par value $2.14 per share ("Preferred Stock").

To date, our board of directors has not fixed or designated any series of Preferred Stock, and no shares of Preferred Stock are currently outstanding.

Each share of Common Stock has the same relative rights as, and is identical in all respects to, each other share of Common Stock.

The Company's Common Stock is listed on the NASDAQ Capital Market under the symbol "BOTJ".

Broadridge Financial Solutions, Inc., 51 Mercedes Way, Edgewood, NY 11717, is the transfer agent and registrar for our Common Stock.

Dividends

Holders of shares of Common Stock are entitled to receive dividends when and as declared by our board of directors out of funds legally available therefore. Our ability to pay dividends will be dependent on our earnings and financial condition and subject to certain restrictions imposed by state and federal laws. A Virginia corporation generally may not authorize and make distributions if, after giving effect to the distribution, it would be unable to meet its debts as they become due in the usual course of business or if the corporation's total assets would be less than the sum of its total liabilities plus the amount that would be needed, if it were dissolved at that time, to satisfy any preferential rights of shareholders whose rights are superior to the rights of those receiving the distribution.

As a bank holding company, Financial's ability to pay dividends to our shareholders is affected by the ability of Bank of the James (the "Bank"), Financial's bank subsidiary, to pay dividends to Financial. The ability of the Bank to pay dividends to Financial is influenced by, among other things, bank regulatory requirements and capital guidelines.

Voting Rights, Generally

Each share of Common Stock entitles the holder thereof to one (1) vote on all matters upon which shareholders have the right to vote. A quorum at any meeting of shareholders shall be a majority of the votes entitled to be cast, represented in person or by proxy. Generally, if a quorum exists, action on a matter is approved by a majority of the votes cast, unless a greater vote is required by law or our articles of incorporation (except that in elections of directors those receiving the greatest number of votes shall be elected even though less than a majority, as noted below).

Election of Directors; No Cumulative Voting

At each meeting of the shareholders of Financial called for the election of directors, shareholders have the right to one (1) vote for each share of Common Stock standing in their name for each director properly nominated. Directors are elected by a plurality of the votes cast. There are no cumulative voting rights with respect to the election of directors of Financial.

Classification of Directors

The number of directors of Financial may not be less than five (5) nor more than twenty-five (25). Directors are divided into three (3) classes (Group I, Group II, and Group III), with each class being as nearly equal in number as possible. The term of office of each class of directors is three (3) years and staggered, such that the term of office of one given class of directors shall expire each year when their respective successors have been duly elected and qualified.

Liquidation Rights

In the event of our liquidation, dissolution, or winding up, the holders of shares of our Common Stock shall be entitled to ratably receive, in cash or in kind, our assets available for distribution remaining after payment or provision for payment of our debts and liabilities and distributions or provision for distributions to holders of any shares of Preferred Stock that may be issued and outstanding having preference over shares of our Common Stock.

No Preemptive or Conversion Rights

Holders of shares of our Common Stock do not have any preemptive rights to purchase additional shares of our Common Stock, nor are there any conversion or redemption rights associated with shares of our Common Stock.

Calls and Assessments

All of the issued and outstanding shares of our Common Stock are nonassessable and noncallable.

Certain Anti-Takeover Effects

Certain provisions of Financial's articles of incorporation and bylaws may be deemed to have an anti-takeover effect and could operate to discourage attempts to acquire control of Financial. Such provisions also may render the removal of one or all of our directors more difficult or deter or delay corporate changes of control and takeover attempts which have not been approved by our board of directors. These provisions include the following:

Staggered Board; Removal of Directors – As noted above, our articles of incorporation divide Financial's board of directors into three (3) classes of directors serving staggered three-year terms. As a result, only approximately one-third of our board of directors will be elected at each annual meeting of shareholders. In addition, under our bylaws, a director may be removed by shareholders only for cause, and only upon the affirmative vote of a majority of the shares that would entitled to be cast at an election of directors, at a meeting of shareholders called and noticed expressly for such purpose. The staggered classification of our board of directors and the limitations on removal of directors, together with the provision in our bylaws that permits the remaining directors to fill any vacancies arising on the board of directors, may have the effect of making it more difficult for shareholders to change the composition of the board of directors. As a result, at least two annual meetings of shareholders may be required for shareholders to change a majority of the directors, whether or not a change in the board of directors would be beneficial and whether or not a majority of shareholders believe such a change would be desirable.

Variability of Board Size – Our bylaws require that our board be composed of a minimum of five (5) and a maximum of twenty-five (25) directors; and we currently have twelve (12) directors. However, within this range, the exact number of directors constituting the board may be determined from time to time by resolution of our board of directors. Accordingly, our directors have authority to increase the size of the board, up to twenty-five (25) directors. Under our bylaws, any vacancies on our board of directors, including any new director positions resulting from an expansion of our board of directors, may be filled by a majority of the directors then in office, even if less than a quorum. As a result, if faced with an attempt to take control of the board, our directors may increase the size of the board and install directors opposed to the hostile takeover attempt.

No Cumulative Voting – As noted above, our articles of incorporation do not permit shareholders any right to cumulative voting in the election of our directors. The absence of cumulative voting may afford anti-takeover protection by making it more difficult for a shareholder to elect one or more nominees opposed by our board of directors.

Special Meetings of Shareholders – Under our bylaws, special meetings of shareholders may be called only by the Chairman of our board of directors, our Chief Executive Officer, our President, our Secretary or our entire board of directors. As a result, these provisions may impede or preclude shareholders, as well as any third party, from bringing a matter before a special meeting of shareholders unless they are able to persuade one of these officers or a majority of the board of directors to call a special meeting.

Authorized but Unissued Shares – The authorized but unissued shares of our Common Stock and Preferred Stock will be available for future issuance without shareholder approval. These additional shares may be used for a variety of corporate purposes, including future private or public offering to raise additional capital, corporate acquisitions, and employee benefit plans. The existence of authorized but unissued and unreserved shares of Common Stock and Preferred Stock may enable our board of directors to issue shares to persons friendly to current management, which could render more difficult or discourage any attempt to obtain control of us by means such as a proxy contest, tender offer, or merger, and thereby protect the continuity of the Company's management.

Undesignated Preferred Stock – Similarly, under our articles of incorporation, our board of directors is authorized to create and issue from time to time, without shareholder approval, up to an aggregate of 1,000,000 shares of Preferred Stock in one or more series, and to establish the number of shares of any series of Preferred Stock and fix the designations, powers, preferences and rights of the shares of each series. Accordingly, our board of directors, without shareholder approval, may authorize the issuance of one or more series of Preferred Stock with voting and conversion rights that could proportionately reduce, minimize or otherwise adversely affect the voting power of holders of our Common Stock and, under certain circumstances, have the effect of delaying, deferring or preventing an attempt by others to gain control of the Company.

Supermajority Voting – The VSCA provides that, unless a corporation's articles of incorporation provide for a higher or lower vote, certain significant corporate actions must be approved by the affirmative vote of the holders of more than two-thirds of the votes entitled to be cast on the matter. Corporate actions requiring a two-thirds vote include: (i) adoption of plans of merger or exchange; (ii) sales of all or substantially all of a corporation's assets other than in the ordinary course of business; and (iii) adoption of plans of dissolution. The VSCA provides that a corporation's articles of incorporation may increase the vote required to approve these actions or decrease the required vote to not less than a majority of the votes entitled to be cast. Our articles of incorporation provide that these transactions must be approved by the vote of at least a majority of all the votes entitled to be cast on such transaction by each voting group entitled to vote at a meeting at which a quorum of the voting group is present, *provided* that the transaction has been approved and recommended by at least two-thirds of our directors in office at the time of such approval and recommendation. However, if such transaction has not been so approved and recommended by at least two-thirds of our directors, then the transaction must be approved by the vote of at least 80% of all the votes entitled to be cast on such transaction by each voting group entitled to vote.

* * * * *

BANK OF THE JAMES
SALARY CONTINUATION AGREEMENT

This SALARY CONTINUATION AGREEMENT (this "Agreement") is adopted this 27th day of January, 2013, by and between **BANK OF THE JAMES,** a state-chartered commercial bank located in Lynchburg, Virginia (the "Bank"), and **MICHAEL A. SYREK** (the "Executive").

The purpose of this Agreement is to provide specified benefits to the Executive, a member of a select group of management or highly compensated employees who contribute materially to the continued growth, development and future business success of the Bank. This Agreement shall be unfunded for tax purposes and for purposes of Title I of the Employee Retirement Income Security Act of 1974 ("ERISA"), as amended from time to time.

Article 1
Definitions

Whenever used in this Agreement, the following words and phrases shall have the meanings specified:

1.1 "Account Value" means the amount shown on Schedule A under the heading Account Value. The parties expressly acknowledge that the Account Value may be different than the liability that should be accrued by the Bank, under Generally Accepted Accounting Principles, for the Bank's obligation to the Executive under this Agreement.

1.2 "Beneficiary" means each designated person or entity, or the estate of the deceased Executive, entitled to any benefits upon the death of the Executive pursuant to Article 4.

1.3 "Beneficiary Designation Form" means the form established from time to time by the Plan Administrator that the Executive completes, signs and returns to the Plan Administrator to designate one or more Beneficiaries.

1.4 "Board" means the Board of Directors of the Bank.

1.5 "Change in Control" means a change in the ownership or effective control of the Bank, or in the ownership of a substantial portion of the assets of the Bank, as such change is defined in Code Section 409A and regulations thereunder.

1.6 "Code" means the Internal Revenue Code of 1986, as amended.

1.7 "Disability" means the Executive: (i) is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months; or (ii) is, by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than twelve (12) months, receiving income replacement benefits for a period of not less than three (3) months under an accident and health plan covering employees or directors of the Bank. Medical determination of Disability may be made by either the Social Security Administration or by the provider of disability insurance covering employees or directors of the Bank provided that the definition of "disability" applied under such insurance program complies with the requirements of the preceding sentence. Upon the request of the Plan Administrator, the Executive must submit proof to the Plan Administrator of the Social Security Administration's or the provider's determination.

1.8 "Early Termination" means Separation from Service before Normal Retirement Age

except when such Separation from Service occurs within twenty-four (24) months

following a Change in Control or due to death, Termination for Cause or Disability.

1.9 "Effective Date" means January 1, 2013.

1.10 "Normal Retirement Age" means the Executive's age sixty-five (65).

1.11 "Normal Retirement Date" means the later of the Executive's Normal Retirement Age or Separation from Service.

1.12 "Plan Administrator" means the Board or such committee or person as the Board shall appoint.

1.13 "Plan Year" means each twelve (12) month period commencing on January 1 and ending on December 31 of each year.

1.14 "Schedule A" means the schedule attached to this Agreement and made a part hereof. Schedule A shall be updated upon a change in any of the benefits under Articles 2 or 3.

1.15 "Separation from Service" means termination of the Executive's employment with the Bank for reasons other than death or Disability. Whether a Separation from Service has occurred is determined in accordance with the requirements of Code Section 409A based on whether the facts and circumstances indicate that the Bank and Executive reasonably anticipated that no further services would be performed after a certain date or that the level of bona fide services the Executive would perform after such date (whether as an employee or as an independent contractor) would permanently decrease to no more than twenty percent (20%) of the average level of bona fide services performed (whether as an employee or an independent contractor) over the immediately preceding thirty-six (36) month period (or the full period of services to the Bank if the Executive has been providing services to the Bank less than thirty-six (36) months).

1.16 "Specified Employee" means an employee who at the time of Separation from Service is a key employee of the Bank, if any stock of the Bank is publicly traded on an established securities market or otherwise. For purposes of this Agreement, an employee is a key employee if the employee meets the requirements of Code Section 416(i)(1)(A)(i), (ii), or (iii) (applied in accordance with the regulations thereunder and disregarding section 416(i)(5)) at any time during the twelve (12) month period ending on December 31 (the "identification period"). If the employee is a key employee during an identification period, the employee is treated as a key employee for purposes of this Agreement during the twelve (12) month period that begins on the first day of April following the close of the identification period.

1.17 "Termination for Cause" means Separation from Service for:

(a) Gross negligence or gross neglect of duties to the Bank;

(b) Conviction of a felony or of a gross misdemeanor involving moral turpitude in connection with the Executive's employment with the Bank; or

(c) Fraud, disloyalty, dishonesty or willful violation of any law or significant Bank policy committed in connection with the Executive's employment and resulting in a material adverse effect on the Bank.

Article 2
Distributions During Lifetime

2.1 Normal Retirement Benefit. Upon Separation from Service after attaining Normal Retirement Age, the Bank shall distribute to the Executive the benefit described in this Section 2.1 in lieu of any other benefit under this Article.

2.1.1 Amount of Benefit. The annual benefit under this Section 2.1 is One Hundred Fifteen Thousand Dollars ($115,000).

2.1.2 Distribution of Benefit. The Bank shall distribute the annual benefit to the Executive in twelve (12) equal monthly installments commencing within ninety (90) days following the Normal Retirement Date. The annual benefit shall be distributed to the Executive for fifteen (15) years.

2.2 Early Termination Benefit. If Early Termination occurs, the Bank shall distribute to the

Executive the benefit described in this Section 2.2 in lieu of any other benefit under this Article.

2.2.1 Amount of Benefit. The benefit under this Section 2.2 is the vested Account Value as set forth on Schedule A determined as of the end of the Plan Year preceding Separation from Service. This benefit is determined by vesting the Executive in fifty percent (50%) of the Account Value at the end of the sixth Plan Year, and in an additional ten percent (10%) of said amount for each succeeding Plan Year thereafter until the Executive becomes one hundred percent (100%) vested in the Account Value.

2.2.2 Distribution of Benefit. The Bank shall distribute the benefit to the Executive in a lump sum within ninety (90) days following Separation from Service.

2.3 Disability Benefit. If the Executive experiences a Disability prior to Normal Retirement

Age, the Bank shall distribute to the Executive the benefit described in this Section 2.3 in lieu of any other benefit under this Article.

2.3.1 Amount of Benefit. The annual benefit under this Section 2.3 is the Disability benefit set forth on Schedule A determined as of the end of the Plan Year preceding such Disability. This benefit is based on one hundred percent (100%) of the Account Value.

2.3.2 Distribution of Benefit. The Bank shall distribute the annual benefit to the Executive in twelve (12) equal monthly installments commencing within ninety (90) days following the Executive's Normal Retirement Age. The annual benefit shall be distributed to the Executive for fifteen (15) years.

2.4 Change in Control Benefit. If a Change in Control occurs followed within twenty-four

(24) months by Separation from Service prior to Normal Retirement Age, the Bank shall distribute to the Executive the benefit described in this Section 2.4 in lieu of any other benefit under this Article.

2.4.1 Amount of Benefit. The benefit under this Section 2.4 is one hundred percent (100%) of the Account Value as set forth on Schedule A determined as of the end of the Plan Year preceding Separation from Service.

2.4.2 Distribution of Benefit. The Bank shall distribute the benefit to the Executive in a lump sum within ninety (90) days following Separation from Service.

2.5 Restriction on Commencement of Distributions. Notwithstanding any provision of this

Agreement to the contrary, if the Executive is considered a Specified Employee, the provisions of this Section 2.5 shall govern all distributions hereunder. If benefit distributions which would otherwise be made to the Executive due to Separation from Service are limited because the Executive is a Specified Employee, then such distributions shall not be made during the first six (6) months following Separation from Service. Rather, any distribution which would otherwise be paid to the Executive during such period shall be accumulated and paid to the

Executive in a lump sum on the first day of the seventh month following Separation from Service. All subsequent distributions shall be paid in the manner specified. The Bank shall pay an additional amount representing interest on the distributions which would have been made during such six (6) month period. Such amount shall be paid to the Executive on the first day of the seventh month following Separation from Service.

2.6 Distributions Upon Taxation of Amounts Deferred. If, pursuant to Code Section 409A,

the Federal Insurance Contributions Act or other state, local or foreign tax, the Executive becomes subject to tax on the amounts deferred hereunder, then the Bank may make a limited distribution to the Executive in a manner that conforms to the requirements of Code section 409A. Any such distribution will decrease the Executive's benefits distributable under this Agreement.

2.7 Change in Form or Timing of Distributions. For distribution of benefits under this

Article 2, the Executive and the Bank may, subject to the terms of Section 8.1, amend this Agreement to delay the timing or change the form of distributions. Any such amendment:

(a) may not accelerate the time or schedule of any distribution, except as provided in Code Section 409A;

(b) must, for benefits distributable under Sections 2.1, 2.2 and 2.4, delay the commencement of distributions for a minimum of five (5) years from the date the first distribution was originally scheduled to be made; and

(c) must take effect not less than twelve (12) months after the amendment is made.

Article 3
Distribution at Death

3.1 Death During Active Service. If the Executive dies prior to Separation from Service, the Bank shall distribute to the Beneficiary the benefit described in this Section 3.1. This benefit shall be distributed in lieu of any benefit under Article 2.

3.1.1 Amount of Benefit. The benefit under this Section 3.1 is One Million One Hundred Forty-One Thousand Three Hundred Thirty-Seven Dollars ($1,141,337).

3.1.2 Distribution of Benefit. The Bank shall distribute the benefit to the Beneficiary in a lump sum within ninety (90) days following the Executive's death. The Beneficiary shall be required to provide to the Bank the Executive's death certificate.

3.2 Death During Distribution of a Benefit. If the Executive dies after any benefit distributions have commenced under this Agreement but before receiving all such distributions, the Bank shall distribute to the Beneficiary the remaining benefits at the same time and in the same amounts they would have been distributed to the Executive had the Executive survived.

3.3 Death Before Benefit Distributions Commence. If the Executive is entitled to benefit

distributions under this Agreement but dies prior to the date that commencement of said benefit distributions, the Bank shall distribute to the Beneficiary the same benefits to which the Executive was entitled prior to death, except that the benefit distributions shall be paid in the manner specified in Section 3.1.2 and shall commence within ninety (90) days following the Executive's death.

Article 4

Beneficiaries

4.1 In General. The Executive shall have the right, at any time, to designate a Beneficiary to receive any benefit distributions under this Agreement upon the death of the Executive. The Beneficiary designated under this Agreement may be the same as or different from the beneficiary designated under any other plan of the Bank in which the Executive participates.

4.2 Designation. The Executive shall designate a Beneficiary by completing and signing the

Beneficiary Designation Form and delivering it to the Plan Administrator or its designated agent. If the Executive names someone other than the Executive's spouse as a Beneficiary, the Plan Administrator may, in its sole discretion, determine that spousal consent is required to be provided in a form designated by the Plan Administrator, executed by the Executive's spouse and returned to the Plan Administrator. The Executive's beneficiary designation shall be deemed automatically revoked if the Beneficiary predeceases the Executive or if the Executive names a spouse as Beneficiary and the marriage is subsequently dissolved. The Executive shall have the right to change a Beneficiary by completing, signing and otherwise complying with the terms of the Beneficiary Designation Form and the Plan Administrator's rules and procedures. Upon the acceptance by the Plan Administrator of a new Beneficiary Designation Form, all Beneficiary designations previously filed shall be cancelled. The Plan Administrator shall be entitled to rely on the last Beneficiary Designation Form filed by the Executive and accepted by the Plan Administrator prior to the Executive's death.

4.3 Acknowledgment. No designation or change in designation of a Beneficiary shall be

effective until received, accepted and acknowledged in writing by the Plan Administrator or its designated agent.

4.4 No Beneficiary Designation. If the Executive dies without a valid beneficiary designation, or if all designated Beneficiaries predecease the Executive, then the Executive's spouse shall be the designated Beneficiary. If the Executive has no surviving spouse, any benefit shall be paid to the Executive's estate.

4.5 Facility of Distribution. If the Plan Administrator determines in its discretion that a

benefit is to be distributed to a minor, to a person declared incompetent or to a person incapable of handling the disposition of that person's property, the Plan Administrator may direct distribution of such benefit to the guardian, legal representative or person having the care or custody of such minor, incompetent person or incapable person. The Plan Administrator may require proof of incompetence, minority or guardianship as it may deem appropriate prior to distribution of the benefit. Any distribution of a benefit shall be a distribution for the account of the Executive and the Beneficiary, as the case may be, and shall completely discharge any liability under this Agreement for such distribution amount.

Article 5
General Limitations

5.1 Termination for Cause. Notwithstanding any provision of this Agreement to the contrary,

the Bank shall not distribute any benefit under this Agreement if the Executive's employment with the Bank is terminated by the Bank or an applicable regulator due to a Termination for Cause.

5.2 Suicide or Misstatement. No benefit shall be distributed if the Executive commits suicide

within two (2) years after the Effective Date, or if an insurance company which issued a life insurance policy covering the Executive and owned by the Bank denies coverage (i) for material misstatements of fact made by the Executive on an application for such life insurance, or (ii) for any other reason.

5.3 Removal. Notwithstanding any provision of this Agreement to the contrary, the Bank

shall not distribute any benefit under this Agreement if the Executive is subject to a final removal or prohibition order issued by an appropriate federal banking agency pursuant to Section 8(e) of the Federal Deposit Insurance Act. Notwithstanding anything herein to the contrary, any payments made to the Executive pursuant to this Agreement, or otherwise, shall be subject to and conditioned upon compliance with 12 U.S.C. 1828 and FDIC Regulation 12 CFR Part 359, Golden Parachute Indemnification Payments and any other regulations or guidance promulgated thereunder.

Article 6
Administration of Agreement

6.1 Plan Administrator Duties. The Plan Administrator shall administer this Agreement according to its express terms and shall also have the discretion and authority to (i) make, amend, interpret and enforce all appropriate rules and regulations for the administration of this Agreement and (ii) decide or resolve any and all questions, including interpretations of this Agreement, as may arise in connection with this Agreement to the extent the exercise of such discretion and authority does not conflict with Code Section 409A.

6.2 Agents. In the administration of this Agreement, the Plan Administrator may employ

agents and delegate to them such administrative duties as the Plan Administrator sees fit, including acting through a duly appointed representative, and may from time to time consult with counsel who may be counsel to the Bank.

6.3 Binding Effect of Decisions. Any decision or action of the Plan Administrator with

respect to any question arising out of or in connection with the administration, interpretation or application of this Agreement and the rules and regulations promulgated hereunder shall be final and conclusive and binding upon all persons having any interest in this Agreement.

6.4 Indemnity of Plan Administrator. The Bank shall indemnify and hold harmless the Plan

Administrator against any and all claims, losses, damages, expenses or liabilities arising from any action or failure to act with respect to this Agreement, except in the case of willful misconduct by the Plan Administrator.

6.5 Bank Information. To enable the Plan Administrator to perform its functions, the Bank

shall supply full and timely information to the Plan Administrator on all matters relating to the date and circumstances of the Executive's death, Disability or Separation from Service, and such other pertinent information as the Plan Administrator may reasonably require.

6.6 Annual Statement. The Plan Administrator shall provide to the Executive, within one hundred twenty (120) days after the end of each Plan Year, a statement setting forth the benefits to be distributed under this Agreement.

Article 7
Claims And Review Procedures

7.1 Claims Procedure. An Executive or Beneficiary (“claimant”) who has not received benefits under this Agreement that he or she believes should be distributed shall make a claim for such benefits as follows:

7.1.1 Initiation — Written Claim. The claimant initiates a claim by submitting to the Plan Administrator a written claim for the benefits. If such a claim relates to the contents of a notice received by the claimant, the claim must be made within sixty (60) days after such notice was received by the claimant. All other claims must be made within one hundred eighty (180) days of the date on which the event that caused the claim to arise occurred. The claim must state with particularity the determination desired by the claimant.

7.1.2 Timing of Plan Administrator Response. The Plan Administrator shall respond to such claimant within ninety (90) days after receiving the claim. If the Plan Administrator determines that special circumstances require additional time for processing the claim, the Plan Administrator can extend the response period by an additional ninety (90) days by notifying the claimant in writing, prior to the end of the initial ninety (90) day period, that an additional period is required. The notice of extension must set forth the special circumstances and the date by which the Plan Administrator expects to render its decision.

7.1.3 Notice of Decision. If the Plan Administrator denies part or all of the claim, the Plan Administrator shall notify the claimant in writing of such denial. The Plan Administrator shall write the notification in a manner calculated to be understood by the claimant. The notification shall set forth:

(a) The specific reasons for the denial;
(b) A reference to the specific provisions of this Agreement on which the denial is based;
(c) A description of any additional information or material necessary for the claimant to perfect the claim and an explanation of why it is needed;
(d) An explanation of this Agreement's review procedures and the time limits applicable to such procedures; and
(e) A statement of the claimant's right to bring a civil action under ERISA Section 502(a) following an adverse benefit determination on review.

7.2 Review Procedure. If the Plan Administrator denies part or all of the claim, the claimant shall have the opportunity for a full and fair review by the Plan Administrator of the denial as follows:

7.2.1 Initiation — Written Request. To initiate the review, the claimant, within sixty (60) days after receiving the Plan Administrator's notice of denial, must file with the Plan Administrator a written request for review.

7.2.2 Additional Submissions — Information Access. The claimant shall then have the opportunity to submit written comments, documents, records and other information relating to the claim. The Plan Administrator shall also provide the claimant, upon request and free of charge, reasonable access to, and copies. of, all documents, records and other information relevant (as defined in applicable ERISA regulations) to the claimant's claim for benefits.

7.2.3 Considerations on Review. In considering the review, the Plan Administrator shall take into account all materials and information the claimant submits relating to the claim, without regard to whether such information was submitted or considered in the initial benefit determination.

7.2.4 Timing of Plan Administrator Response. The Plan Administrator shall respond in writing to such claimant within sixty (60) days after receiving the request for review. If the Plan Administrator determines that special circumstances require additional time for processing the claim, the Plan Administrator can extend the response period by an additional sixty (60) days by notifying the claimant in writing, prior to the end of the initial sixty (60) day period, that an additional

period is required. The notice of extension must set forth the special circumstances and the date by which the Plan Administrator expects to render its decision.

7.2.5 Notice of Decision. The Plan Administrator shall notify the claimant in writing of its decision on review. The Plan Administrator shall write the notification in a manner calculated to be understood by the claimant. The notification shall set forth:

(a) The specific reasons for the denial;
(b) A reference to the specific provisions of this Agreement on which the denial is based;
(c) A statement that the claimant is entitled to receive, upon request and free of charge, reasonable access to, and copies of, all documents, records and other information relevant (as defined in applicable ERISA regulations) to the claimant's claim for benefits; and
(d) A statement of the claimant's right to bring a civil action under ERISA Section 502(a).

Article 8
Amendments and Termination

8.1 Amendments. This Agreement may be amended only by a written agreement signed by the Bank and the Executive. However, the Bank may unilaterally amend this Agreement to conform with written directives to the Bank from its auditors or banking regulators or to comply with legislative changes or tax law.

8.2 Plan Termination Generally. This Agreement may be terminated only by a written

agreement signed by the Bank and the Executive. The benefit shall be the Account Value as of the date this Agreement is terminated. Except as provided in Section 8.3, the termination of this Agreement shall not cause a distribution of benefits under this Agreement. Rather, upon such termination benefit distributions will be made at the earliest distribution event permitted under Article 2 or Article 3.

8.3 Plan Terminations Under Code Section 409A. Notwithstanding anything to the contrary

in Section 8.2, if the Bank terminates this Agreement in the following circumstances:

(a) Within thirty (30) days before or twelve (12) months after a Change in Control, provided that all distributions are made no later than twelve (12) months following such termination of this Agreement and further provided that all the Bank's arrangements which are substantially similar to this Agreement are terminated so the Executive and all participants in the similar arrangements are required to receive all amounts of compensation deferred under the terminated arrangements within twelve (12) months of such termination;

(b) Upon the Bank's dissolution or with the approval of a bankruptcy court provided that the amounts deferred under this Agreement are included in the Executive's gross income in the latest of (i) the calendar year in which this Agreement terminates; (ii) the calendar year in which the amount is no longer subject to a substantial risk of forfeiture; or (iii) the first calendar year in which the distribution is administratively practical; or

(c) Upon the Bank's termination of this and all other arrangements that would be aggregated with this Agreement pursuant to Treasury Regulations Section 1.409A-1(c) if the Executive participated in such arrangements ("Similar Arrangements"), provided that (i) the termination and liquidation does not occur proximate to a downturn in the financial health of the Bank, (ii) all termination distributions are made no earlier than twelve (12) months and no later than twenty-four (24) months following such termination, and (iii) the Bank does not adopt any new arrangement that would be a Similar Arrangement for a minimum of three (3) years following the date the Bank takes all necessary action to irrevocably terminate and liquidate the Agreement;

the Bank may distribute the Account Value, determined as of the date of the termination of this Agreement, to the Executive in a lump sum subject to the above terms.

Article 9
Miscellaneous

9.1 Binding Effect. This Agreement shall bind the Executive and the Bank and their beneficiaries, survivors, executors, administrators and transferees.

9.2 No Guarantee of Employment. This Agreement is not a contract for employment. It does not give the Executive the right to remain as an employee of the Bank nor interfere with the Bank's right to discharge the Executive. It does not require the Executive to remain an employee nor interfere with the Executive's right to terminate employment at any time.

9.3 Non-Transferability. Benefits under this Agreement cannot be sold, transferred, assigned, pledged, attached or encumbered in any manner.

9.4 Tax Withholding and Reporting. The Bank shall withhold any taxes that are required to be withheld from the benefits provided under this Agreement. The Executive acknowledges that the Bank's sole liability regarding taxes is to forward any amounts withheld to the appropriate taxing authorities. The Bank shall satisfy all applicable reporting requirements.

9.5 Applicable Law. This Agreement and all rights hereunder shall be governed by the laws of the Commonwealth of Virginia, except to the extent preempted by the laws of the United States of America.

9.6 Unfunded Arrangement. The Executive and the Beneficiary are general unsecured creditors of the Bank for the distribution of benefits under this Agreement. The benefits represent the mere promise by the Bank to distribute such benefits. The rights to benefits are not subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, attachment or garnishment by creditors. Any insurance on the Executive's life or other informal funding asset is a general asset of the Bank to which the Executive and Beneficiary have no preferred or secured claim.

9.7 Reorganization. The Bank shall not merge or consolidate into or with another bank, or reorganize, or sell substantially all of its assets to another bank, firm or person unless such succeeding or continuing bank, firm or person agrees to assume and discharge the obligations of the Bank under this Agreement. Upon the occurrence of such an event, the term “Bank” as used in this Agreement shall be deemed to refer to the successor or survivor entity.

9.8 Entire Agreement. This Agreement constitutes the entire agreement between the Bank and the Executive as to the subject matter hereof No rights are granted to the Executive by virtue of this Agreement other than those specifically set forth herein.

9.9 Interpretation. Wherever the fulfillment of the intent and purpose of this Agreement requires and the context will permit, the use of the masculine gender includes the feminine and use of the singular includes the plural.

9.10 Alternative Action. In the event it shall become impossible for the Bank or the Plan Administrator to perform any act required by this Agreement due to regulatory or other constraints, the Bank or Plan Administrator may perform such alternative act as most nearly carries out the intent and purpose of this Agreement and is in the best interests of the Bank, provided that such alternative act does not violate Code Section 409A.

9.11 Headings. Article and section headings are for convenient reference only and shall not control or affect the meaning or construction of any provision herein.

9.12 Validity. If any provision of this Agreement shall be illegal or invalid for any reason, said illegality or invalidity shall not affect the remaining parts hereof, but this Agreement shall be construed and enforced as if such illegal or invalid provision had never been included herein.

9.13 Notice. Any notice or filing required or permitted to be given to the Bank or Plan Administrator under this Agreement shall be sufficient if in writing and hand-delivered or sent by registered or certified mail to the address below:

Bank of the James
828 Main Street
Lynchburg, VA 24504

Such notice shall be deemed given as of the date of delivery or, if delivery is made by mail, as of the date shown on the postmark on the receipt for registration or certification.

Any notice or filing required or permitted to be given to the Executive under this Agreement shall be sufficient if in writing and hand-delivered or sent by mail to the last known address of the Executive.

9.14 Deduction Limitation on Benefit Payments. If the Bank reasonably anticipates that the Bank's deduction with respect to any distribution under this Agreement would be limited or eliminated by application of Code Section 162(m), then to the extent deemed necessary by the Bank to ensure that the entire amount of any distribution from this Agreement is deductible, the Bank may delay payment of any amount that would otherwise be distributed under this Agreement. The delayed amounts shall be distributed to the Executive (or the Beneficiary in the event of the Executive's death) at the earliest date the Bank reasonably anticipates that the deduction of the payment of the amount will not be limited or eliminated by application of Code Section 162(m).

9.15 Compliance with Section 409A. This Agreement shall be interpreted and administered consistent with Code Section 409A.

IN WITNESS WHEREOF, the Executive and a duly authorized representative of the Bank have signed this Agreement.

EXECUTIVE:	BANK
/S/ Michael A. Syrek	**BANK OF THE JAMES**
MICHAEL A. SYREK	By: /S/ J. Todd Scruggs
	Title: EVP

[ ] New Designation
[ ] Change in Designation

I, MICHAEL A. SYREK, designate the following as Beneficiary under this Agreement:

Primary: ______________________________ ______________________________	___% ___%
Contingent: ______________________________ ______________________________	___% ___%

Notes:

- **Please PRINT CLEARLY or TYPE the names of the beneficiaries.**
- **To name a trust as Beneficiary, please provide the name of the trustee(s) and the exact name and date of the trust agreement.**
- **To name your estate as Beneficiary, please write "Estate of [your namel".**
- **Be aware that none of the contingent beneficiaries will receive anything unless ALL of the primary beneficiaries predecease you.**

I understand that I may change these beneficiary designations by delivering a new written designation to the Plan Administrator, which shall be effective only upon receipt and acknowledgment by the Plan Administrator prior to my death. I further understand that the designations will be automatically revoked if the Beneficiary predeceases me, or, if I have named my spouse as Beneficiary and our marriage is subsequently dissolved.

Name: Michael Syrek

Signature: /S/ Michael A. Syrek Date: 1/29/13

Received by the Plan Administrator this 29 day of January ,2013

By: /S/ J. Todd Scruggs

Title: EVP

Schedule A

Bank of the James
Lynchburg, VA

Michael A. Syrek

Values as of	Discount Rate	Benefit Level	Account Value	Early Voluntary Termination *Payable At Separation from Service* Vesting	Lump Sum Benefit	Disability *Payable upon Normal Retirement Age* Vesting	Annual Benefit	Change in Control *Payable At Separation from Service* Vesting	Lump Sum Benefit	Pre-retirement Death Benefit Lump Sum Benefit
1/1/2013	0.00%	1,141,337	0	0%	0	100%	0	100%	0	1,141,337
12/31/2013	6.00%	1,141,337	22,104	0%	0	100%	8,779	100%	22,104	1,141,337
12/31/2014	6.00%	1,141,337	45,572	0%	0	100%	17,047	100%	45,572	1,141,337
12/31/2015	6.00%	1,141,337	70,488	0%	0	100%	24,836	100%	70,488	1,141,337
12/31/2016	6.00%	1,141,337	96,940	0%	0	100%	32,172	100%	96,940	1,141,337
12/31/2017	6.00%	1,141,337	125,023	0%	0	100%	39,081	100%	125,023	1,141,337
12/31/2018	6.00%	1,141,337	154,839	50%	77,419	100%	45,590	100%	154,839	1,141,337
12/31/2019	6.00%	1,141,337	186,493	60%	111,896	100%	51,720	100%	186,493	1,141,337
12/31/2020	6.00%	1,141,337	220,100	70%	154,070	100%	57,494	100%	220,100	1,141,337
12/31/2021	6.00%	1,141,337	255,780	80%	204,624	100%	62,933	100%	255,780	1,141,337
12/31/2022	6.00%	1,141,337	293,661	90%	264,295	100%	68,055	100%	293,661	1,141,337
12/31/2023	6.00%	1,141,337	333,877	100%	333,877	100%	72,880	100%	333,877	1,141,337
12/31/2024	6.00%	1,141,337	376,575	100%	376,575	100%	77,425	100%	376,575	1,141,337
12/31/2025	6.00%	1,141,337	421,906	100%	421,906	100%	81,706	100%	421,906	1,141,337
12/31/2026	6.00%	1,141,337	470,032	100%	470,032	100%	85,738	100%	470,032	1,141,337
12/31/2027	6.00%	1,141,337	521,127	100%	521,127	100%	89,536	100%	521,127	1,141,337
12/31/2028	6.00%	1,141,337	575,374	100%	575,374	100%	93,113	100%	575,374	1,141,337
12/31/2029	6.00%	1,141,337	632,966	100%	632,966	100%	96,482	100%	632,966	1,141,337
12/31/2030	6.00%	1,141,337	694,110	100%	694,110	100%	99,656	100%	694,110	1,141,337
12/31/2031	6.00%	1,141,337	759,026	100%	759,026	100%	102,645	100%	759,026	1,141,337
12/31/2032	6.00%	1,141,337	827,946	100%	827,946	100%	105,461	100%	827,946	1,141,337
12/31/2033	6.00%	1,141,337	901,116	100%	901,116	100%	108,113	100%	901,116	1,141,337
12/31/2034	6.00%	1,141,337	978,799	100%	978,799	100%	110,611	100%	978,799	1,141,337
12/31/2035	6.00%	1,141,337	1,061,274	100%	1,061,274	100%	112,964	100%	1,061,274	1,141,337
11/30/2036	6.00%	1,141,337	1,141,337	100%	1,141,337	100%	115,000	100%	1,141,337	1,141,337

Exhibit 21.1

List of Subsidiaries

Subsidiary	Jurisdiction or State of Incorporation	Names Under Which Subsidiary Does Business
Bank of the James	Virginia	Bank of the James Bank of the James Mortgage Bank of the James Mortgage, a Division of Bank of the James BOTJ Investment Services
BOTJ Insurance, Inc.	Virginia	BOTJ Insurance, Inc.
Pettyjohn, Wood & White, Inc.	Virginia	Pettyjohn, Wood & White, Inc. Pettyjohn, Wood & White
BOTJ Investment Group, Inc.	Virginia	Inactive

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in Registration Statement (No. 333-220084) on Form S-3 and Registration Statement (No. 333-226222) on Form S-8 of Bank of the James Financial Group, Inc. of our report dated March 29, 2022, relating to our audit of the consolidated financial statements included in the Annual Report on Form 10-K of Bank of the James Financial Group, Inc. for the year ended December 31, 2021.

/s/ Yount, Hyde & Barbour, P.C.

Roanoke, Virginia
March 29, 2022

Exhibit 31.1

Certification—Principal Executive Officer

I, Robert R. Chapman III, President of Bank of the James Financial Group, Inc. certify that:

(1) I have reviewed this Form 10-K of Bank of the James Financial Group, Inc.;

(2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

(3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

(4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

(5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 29, 2022

By /S/ Robert R. Chapman III
Robert R. Chapman III
President (Principal Executive Officer) and Director

Exhibit 31.2

Certification—Principal Financial Officer and Principal Accounting Officer

I, J. Todd Scruggs, Secretary and Treasurer of Bank of the James Financial Group, Inc., certify that:

(1) I have reviewed this Form 10-K of Bank of the James Financial Group, Inc.;

(2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

(3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

(4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

(5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 29, 2022

By /S/ J. Todd Scruggs
J. Todd Scruggs
Secretary and Treasurer (Principal Financial Officer and Principal Accounting Officer) and Director

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Robert R. Chapman III, Chief Executive Officer of Bank of the James Financial Group, Inc., a Virginia corporation (the "Company") and J. Todd Scruggs, Secretary and Treasurer (Principal Financial Officer and Principal Accounting Officer), each certify in his capacity as an officer of the Company that he has reviewed the annual report on Form 10-K for the year ended December 31, 2021 (the "Report") and to the best of his knowledge:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of the Company as of the dates and for the periods covered by the Report.

BANK OF THE JAMES FINANCIAL GROUP, INC.

Date: March 29, 2022

By /S/ Robert R. Chapman III
Robert R. Chapman III
President and Director (Principal Executive Officer)

Date: March 29, 2022

By /S/ J. Todd Scruggs
J. Todd Scruggs
Secretary and Treasurer (Principal Financial Officer and Principal Accounting Officer)