10226136

Blue Ridge Bankshares, Inc.

Parent of

Blue Ridge Bank

120 YEARS
1893-2013

2013
Annual Report

TO OUR SHAREHOLDERS

Blue Ridge Bankshares, Inc. enjoyed a great year in 2013. Amidst celebrating the 120th anniversary of Blue Ridge Bank, we were also able to record net income of $1,844,604, marking the 5th consecutive year of record net income for the Company. Earnings per common share also increased 25% from $1.40 per share in 2012 to $1.75 per share in 2013. We are very fortunate to have been able to enjoy this success in recent years as many others in the industry have struggled. Our achievements today are possible due to the hard work and diligence of those who have worked at the Bank over its history; diligently serving the community and serving as a steward to the shareholders' investment.

We are planning to open a full-service branch in Harrisonburg in April 2014. The Bank has enjoyed some success in the market working to attract loans from current locations, but the Board and Management decided that to increase our ability to capitalize on opportunities in the market we needed to establish a physical presence. While we will have startup costs to absorb as we become fully operational, we think that long-term this move will create value for your investment. We continue to look for opportunities to grow the Bank in a prudent and meaningful fashion. Regulatory and competitive pressures necessitate a strategy that focuses on continuing to grow in order to absorb additional costs required to be compliant and competitive.

The writer of Ecclesiastes tells us *"to every thing there is a season, and a time to every purpose under the heaven"*. While the writer does not specifically mention a "time to retire", quite possibly because retirement as we know it did not exist at that point in history, there is a time for that as well. During 2013 I announced my intention to retire at December 31, 2014. The Board of Directors accepted my retirement and has designated Brian Plum as my successor. Brian has been with the Bank since 2006 and has been a key part of our success in recent years. Just as importantly, I know Brian believes in the mission of community banking. He will be working with a great Board and management team, and I am confident that moving ahead they will continue to lead the Company in the right direction.

As a result of my pending retirement, this is the last Annual Report Shareholders' Letter that I will write. I want to take this opportunity to offer my deep and heartfelt gratitude to all shareholders and the Board of Directors for allowing me to serve you over the last 12 years. While certainly not perfect, I believe we worked together to make a lot of positive things happen during my tenure as President and Chief Executive Officer. Lord Robert Baden-Powell, founder of the Boy Scouts, charged Scouts in his final message to *"try and leave this world a little better than you found it"*. It is my sincere hope that I have accomplished this for Blue Ridge Bankshares, Inc.

As always, I encourage you to contact me with any questions, concerns, or suggestions you may have regarding the Company. Please remember the best way to add value to your investment is to conduct your financial business with, and refer others to Blue Ridge Bank.

Sincerely,

Monte L. Layman

Monte L. Layman
President/CEO

BLUE RIDGE BANKSHARES, INC.
FINANCIAL HIGHLIGHTS

	2013	2012
For The Year		
Net income	$ 1,844,604	$ 1,516,362
Net income available to common stockholders	1,637,349	1,318,942
Common stock dividends declared	318,223	282,574
Earnings per common share	1.75	1.40
Dividends per common share	0.34	0.30
At Year End		
Total assets	$ 214,724,007	$ 208,228,537
Total investments	47,712,416	56,372,941
Net loans	153,786,879	136,138,597
Deposits	168,345,328	168,737,648
Total stockholders' equity	19,229,543	18,494,435
Common stockholders' equity	14,729,543	13,994,435
Book value per common share	15.76	14.85
Number of common stock shares outstanding	934,539	942,221
Key Ratios		
Return on average assets	0.87%	0.74%
Return on average equity	9.78%	8.44%
Return on average common equity	11.40%	9.79%
Total stockholders' equity to assets	8.96%	8.88%
Common stockholders' equity to assets	6.86%	6.72%
Increase in assets	3.12%	4.20%
Increase (decrease) in earnings per common share	25.00%	22.81%
Increase in book value per share	6.12%	8.10%

Financial Statements

BLUE RIDGE BANKSHARES, INC.
PARENT OF
BLUE RIDGE BANK
LURAY, VIRGINIA

December 31, 2013

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BROWN EDWARDS
certified public accountants

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Blue Ridge Bankshares, Inc.
Luray, Virginia

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Blue Ridge Bankshares, Inc. and subsidiaries, which comprise the consolidated balance sheets as of December 31, 2013 and 2012, and the related consolidated statements of income, changes in stockholders' equity, comprehensive income, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

124 Newman Avenue • Harrisonburg, VA 22801-4004 • 540-434-6736 • Fax: 540-434-3097 • www.BEcpas.com

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Blue Ridge Bankshares, Inc. and subsidiaries as of December 31, 2013 and 2012, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
March 5, 2014

BLUE RIDGE BANKSHARES, INC.
CONSOLIDATED BALANCE SHEETS
December 31, 2013 and 2012

ASSETS	2013	2012
Cash and due from banks (Note 2)	$ 4,561,708	$ 3,672,032
Federal funds sold	545,000	3,648,000
Investment securities		
Securities available for sale (at fair value) (Note 3)	30,406,638	41,956,697
Securities held to maturity (fair value of $15,407,134 in 2013, $13,568,540 in 2012) (Note 3)	15,411,778	12,817,744
Restricted investments	1,894,000	1,598,500
Total Investment Securities	47,712,416	56,372,941
Loans held for sale (Note 4)	-	10,792,727
Loans held for investment (Note 4)	155,858,186	127,127,540
Allowance for loan losses (Note 4)	(2,071,307)	(1,781,670)
Net Loans Held for Investment	153,786,879	125,345,870
Bank premises and equipment, net (Note 5)	1,830,643	1,987,953
Bank owned life insurance (Note 1)	2,283,800	2,215,300
Goodwill (Note 11)	366,300	366,300
Other assets	3,637,261	3,827,414
Total Assets	$ 214,724,007	$ 208,228,537
LIABILITIES		
Deposits		
Demand deposits		
Noninterest bearing	$ 23,450,958	$ 21,570,207
Interest bearing	42,726,208	39,423,482
Savings deposits	10,501,484	9,615,540
Time deposits (Note 6)	91,666,678	98,128,419
Total Deposits	168,345,328	168,737,648
Other borrowed funds (Note 7)	26,388,861	20,334,123
Other liabilities	760,275	662,331
Total liabilities	195,494,464	189,734,102
STOCKHOLDERS' EQUITY		
Preferred stock, $50 par value, authorized - 250,000 shares; outstanding - 4,500 shares (Note 8)	225,000	225,000
Common stock, no par value, authorized - 5,000,000 shares; outstanding - 934,539 and 942,221, respectively (Note 9)	859,944	938,573
Contributed equity	4,275,000	4,275,000
Retained earnings	14,273,627	12,954,501
Accumulated other comprehensive income (loss)	(404,028)	101,361
Total Stockholders' Equity	19,229,543	18,494,435
Total Liabilities and Stockholders' Equity	$ 214,724,007	$ 208,228,537

The accompanying notes are an integral part of this statement.

BLUE RIDGE BANKSHARES, INC.
CONSOLIDATED STATEMENTS OF INCOME
December 31, 2013 and 2012

	2013	2012
INTEREST INCOME		
Interest and fees on loans held for investment	$ 6,931,126	$ 6,667,519
Interest and fees on loans held for sale	181,802	219,864
Interest on federal funds sold	2,557	3,477
Interest and dividends on taxable investment securities	842,515	1,088,945
Interest and dividends on nontaxable investment securities	308,676	301,336
Total Interest Income	8,266,676	8,281,141
INTEREST EXPENSE		
Interest on savings and interest bearing demand deposits	166,218	143,023
Interest on time deposits	1,029,832	1,121,925
Interest on borrowed funds	375,709	512,142
Total Interest Expense	1,571,759	1,777,090
Net Interest Income	6,694,917	6,504,051
PROVISION FOR LOAN LOSSES	310,000	670,000
Net Interest Income after Provision for Loan Losses	6,384,917	5,834,051
OTHER INCOME		
Service charges on deposit accounts	298,984	315,926
Earnings on investment in life insurance	68,500	71,500
Securities gains	66,562	30,437
Other than temporary impairment losses	-	(102,802)
Gain (loss) on disposal of assets	110,419	(112,561)
Other noninterest income	451,299	420,510
Total Other Income	995,764	623,010
OTHER EXPENSES		
Salaries and employee benefits	2,265,760	2,036,776
Occupancy and equipment expenses	466,495	495,673
Data processing	366,104	311,264
Audits and examinations	136,944	123,547
Advertising expense	266,659	141,106
Directors fees	103,750	109,800
Debit card expenses	127,829	107,543
Other taxes and assessments	320,376	314,839
Other noninterest expense	772,468	737,339
Total Other Expenses	4,826,385	4,377,887
Income before Income Taxes	2,554,296	2,079,174
INCOME TAX EXPENSE (Note 14)	709,692	562,812
Net Income	1,844,604	1,516,362
Dividends to Preferred Stockholders	(207,255)	(197,420)
Net Income Available to Common Stockholders	$ 1,637,349	$ 1,318,942
Earnings per Share	$ 1.75	$ 1.40
Weighted Average Shares Outstanding	936,535	941,939

The accompanying notes are an
integral part of this statement.

BLUE RIDGE BANKSHARES, INC.
CONSOLIDATED STAEMENTS OF COMPREHENSIVE INCOME
December 31, 2013 and 2012

	2013	2012
Net Income	$ 1,844,604	$ 1,516,362
Other comprehensive income:		
Gross unrealized gains (losses) arising during the period	(699,177)	56,377
Adjustment for income tax expense	237,720	(19,168)
	(461,457)	37,209
Less:		
Reclassification adjustment for gains included in net income	(66,562)	(30,437)
Adjustment for income tax expense	22,630	10,349
	(43,932)	(20,088)
Other comprehensive income (loss), net of tax	(505,389)	17,121
Comprehensive income	$ 1,339,215	$ 1,533,483

The accompanying notes are an integral part of this statement.

BLUE RIDGE BANKSHARES, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
December 31, 2013 and 2012

	Preferred Stock	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2011	$ 4,500,000	$ 935,339	$ 11,918,132	$ 84,240	$ 17,437,711
Comprehensive Net Income					
Net income	-	-	1,516,362	-	1,516,362
Changes in unrealized gains on securities available for sale, net of deferred income tax liability of $8,820	-	-	-	17,121	17,121
Total Comprehensive Income		-	-	-	1,533,483
Issuance of common stock (308 shares)	-	3,234	-	-	3,234
Preferred stock dividends	-	-	(197,420)	-	(197,420)
Common stock dividends	-	-	(282,573)	-	(282,573)
Balance, December 31, 2012	4,500,000	938,573	12,954,501	101,361	18,494,435
Comprehensive Net Income					
Net income	-	-	1,844,604	-	1,844,604
Changes in unrealized gains on securities available for sale, net of deferred income tax asset of $260,352	-	-	-	(505,389)	(505,389)
Total Comprehensive Income	-	-	-	-	1,339,215
Common stock purchased and retired (8,200 shares)	-	(86,281)	-	-	(86,281)
Issuance of common stock (518 shares)	-	7,652	-	-	7,652
Preferred stock dividends	-	-	(207,255)	-	(207,255)
Common stock dividends		-	(318,223)	-	(318,223)
Balance, December 31, 2013	$ 4,500,000	$ 859,944	$ 14,273,627	$ (404,028)	$ 19,229,543

The accompanying notes are an integral part of this statement.

BLUE RIDGE BANKSHARES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
December 31, 2013 and 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 1,844,604	$ 1,516,362
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	310,000	670,000
Deferred income taxes	163,539	(60,361)
Net (increase) decrease in loans held for sale	10,792,727	(1,182,846)
(Gain) loss on disposition of assets	(110,419)	112,561
Securities gains	(66,562)	(30,437)
Gain on sale of other real estate owned	(2,300)	(20,322)
Other than temporary impairment losses	-	102,802
Depreciation	199,681	222,101
Investment amortization expense, net	758,602	789,577
Amortization of debt refinancing fees	76,169	12,694
Decrease in other assets	207,445	313,600
Increase (Decrease) in accrued expenses	100,024	17,250
Increase in carrying value of life insurance investments	(68,500)	(71,500)
Total adjustments	12,360,406	875,119
Net Cash Provided by Operating Activities	14,205,010	2,391,481
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of securities available for sale	(14,173,080)	(22,277,424)
Purchases of securities held to maturity	(3,329,152)	(783,215)
Proceeds from calls, maturities, sales, paydowns and maturities of securities available for sale	24,369,855	28,084,238
Proceeds from calls, maturities, sales, paydowns and maturities of securities held for investment	630,621	808,486
(Increase) Decrease in federal funds sold	3,103,000	(3,648,000)
Net increase in loans held for investment	(28,751,009)	(10,598,874)
Purchase of bank premises and equipment	(140,179)	(306,577)
Investment in limited liability companies	(162,500)	(275,000)
Nonincome distributions from limited liability companies	244,321	51,436
Proceeds from sale of assets	208,227	-
(Increase) Decrease in restricted investments	(295,500)	55,800
Net Cash Used in Investing Activities	(18,295,396)	(8,889,130)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in demand and savings deposits	6,069,421	2,424,333
Net change in time deposits	(6,461,741)	2,873,611
Federal Home Loan Bank advances	55,450,000	69,857,000
Federal Home Loan Bank repayments	(49,471,431)	(66,671,428)
Payment of debt refinancing fees	-	(457,000)
Decrease in federal funds purchased	-	(752,000)
Preferred stock dividends paid	(209,335)	(169,840)
Common stock dividends paid	(318,223)	(282,573)
Purchase of common stock	(86,281)	-
Issuance of common stock	7,652	3,234
Net Cash Provided by Financing Activities	4,980,062	6,825,337
CASH AND CASH EQUIVALENTS		
Net increase in cash and cash equivalents	889,676	327,688
Cash and Cash Equivalents, Beginning of Year	3,672,032	3,344,344
Cash and Cash Equivalents, End of Year	$ 4,561,708	$ 3,672,032

The accompanying notes are an
integral part of this statement.

BLUE RIDGE BANKSHARES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
December 31, 2013 and 2012

	2013	2012
SUPPLEMENTAL INFORMATION		
Interest Paid	$ 1,588,631	$ 1,786,675
Income taxes paid	540,000	275,000
Preferred stock dividends accrued, not paid	30,750	28,670
Real estate acquired by foreclosure	175,000	140,000

The accompanying notes are an
integral part of this statement.

Note 1. Nature of Operations and Significant Accounting Policies:

Nature of Operations:

Blue Ridge Bankshares, Inc. ("Company") through Blue Ridge Bank, Inc. ("Bank") operates under a charter issued by the Commonwealth of Virginia and provides commercial banking services. As a state chartered bank, the Bank is subject to regulation by the Virginia Bureau of Financial Institutions and The Federal Reserve Bank of Richmond. The Bank provides services to customers located primarily in the Piedmont and Shenandoah Valley regions of the Commonwealth of Virginia.

Consolidation Policy:

The consolidated financial statements include the accounts of Blue Ridge Bankshares, Inc. and its wholly-owned subsidiaries, Blue Ridge Bank, Inc., Page Valley Investments, LLC, and PVB Properties, LLC. All significant intercompany balances and transactions have been eliminated.

Use of Estimates in the Preparation of Financial Statements:

In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts in those statements. Actual results could differ significantly from those estimates. A material estimate that is particularly susceptible to significant changes is the determination of the allowance for loan losses, which is sensitive to changes in local and national economic conditions.

Cash and Cash Equivalents:

Cash and cash equivalents include cash on hand and correspondent balances in other financial institutions.

Investment Securities:

Management determines the appropriate classification of securities at the time of purchase. If management has the intent and the Company has the ability at the time of purchase to hold securities until maturity, they are classified as held to maturity and carried at amortized historical cost. Securities not intended to be held to maturity are classified as available for sale and carried at fair value. Securities available for sale are intended to be used as part of the Company's asset and liability management strategy and may be sold in response to changes in interest rates, prepayment risk or other similar factors.

Amortization of premiums and accretion of discounts on securities are reported as adjustments to interest income using the effective interest method. Realized gains and losses on dispositions are based on the net proceeds and the adjusted book value of the securities sold using the specific identification method. Unrealized gains and losses on investment securities available for sale are based on the difference between book value and fair value of each security. These gains and losses are credited or charged to shareholders' equity, whereas realized gains and losses flow through the Company's current earnings.

Note 1. Nature of Operations and Significant Accounting Policies (Continued):

Loans:

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at their outstanding unpaid principal balances, net of an allowance for loan losses and any deferred fees or costs. Interest income is accrued on the unpaid principal balance. Loan origination fees and costs are deferred and recognized as an adjustment of the yield (interest income) of the related loans. The Company is generally amortizing these amounts over the contractual life of the loan that are carried on the balance sheet net of any unearned discount and the allowance for loan losses. Interest income on loans is based generally on the daily amount of principal outstanding.

The accrual of interest on impaired loans is discontinued when, in the opinion of management, the interest income recognized will not be collected. Receipts on impaired loans are applied to principal until the loan is brought current and collection is reasonably assured. Loans are considered past due based on the contractual terms of the loan.

Allowance for Loan Losses:

The allowance for loan losses is maintained at a level believed to be adequate by management to absorb probable losses inherent in the portfolio and is based on the size and current risk characteristics of the loan portfolio, an assessment of individual problem loans and actual loss experience, current economic events in specific industries and other pertinent factors such as regulatory guidance and general economic conditions. The allowance is established through a provision for loan losses charged to earnings. Loans identified as losses and deemed uncollectible by management are charged to the allowance. Subsequent recoveries, if any, are credited to the allowance. The allowance for loan losses is evaluated on a regular basis by management.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as impaired, for which an allowance is established when the fair value of the loan is lower than its carrying value. The general component covers non-impaired loans and is based on historical loss experience adjusted for qualitative factors. Historical losses are categorized into risk-similar loan pools and a loss ratio factor is applied to each group's loan balances to determine the allocation. The loss ratio factor is based on average loss history for the current year and two prior years.

An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio. Qualitative and environmental factors include external risk factors that management believes affect the overall lending environment of the Company. Environmental factors that management of the Company routinely analyze include levels and trends in delinquencies and impaired loans, levels and trends in charge-offs and recoveries, trends in volume and terms of loans, effects of changes in risk selection and underwriting practices, experience, ability, depth of lending management and staff, national and local economic trends, conditions such as unemployment rates, housing statistics, banking industry conditions, and the effect of changes in credit concentrations. Determination of the allowance is inherently subjective as it requires significant estimates, including the amounts and timing of expected future cash flows on impaired loans, estimated losses on pools of homogeneous loans based on historical loss experience and consideration of current economic trends, all of which may be susceptible to significant change.

Note 1. Nature of Operations and Significant Accounting Policies (Continued):

Allowance for Loan Losses (Continued):

There have been no significant changes to the methods used to determine the allowance for loan losses during the years ended December 31, 2013 and 2012.

Loan Charge-off Policies:

Consumer loans are generally fully or partially charged down to the fair value of collateral securing the asset when the loan is 120 days past due unless the loan is well secured and in the process of collection. All other loans are generally charged down to the net realizable value when the loan is 90 days past due or when current information confirms all or part of a specific loan to be uncollectible.

Bank Owned Life Insurance:

The Bank owns and is the beneficiary of several single premium life insurance contracts insuring key employees of the Bank. The policies are stated at cash surrender value, with changes in value recorded in income for the year.

Advertising Costs:

Advertising costs are expensed as incurred.

Bank Premises and Equipment:

Bank premises and equipment are stated at cost, less any accumulated depreciation. Depreciation is recognized over the estimated useful lives of the assets on a straight-line basis. Maintenance and repairs are charged to operations as incurred. Gains and losses on dispositions are reflected in noninterest income or expense.

Income Taxes:

Amounts provided for income tax expense are based on income reported for financial statement purposes rather than amounts currently payable under income tax laws. Deferred taxes, which arise principally from temporary differences between the period in which certain income and expenses are recognized for financial accounting purposes and the period in which they affect taxable income, are included in the amounts provided for income taxes.

Earnings Per Share:

Earnings per share are based on the weighted average number of shares outstanding.

Financial Instruments:

In the ordinary course of business the Bank has entered into commitments to extend credit. Such financial instruments are recorded in the financial statements when they are funded.

Note 1. Nature of Operations and Significant Accounting Policies (Continued):

Reclassified Amounts:

Certain amounts have been reclassified from prior year financial statements to ensure consistent presentation with current year amounts. These reclassifications are for presentation purposes, and have no impact on overall financial information.

Subsequent Events:

Subsequent events have been evaluated through March 5, 2014, the date the financial statements were available to be issued.

Note 2. Cash and Due From Banks

The Bank has compensating balance agreements with its correspondent bank and The Federal Reserve Bank of Richmond. The total included in cash and due from banks related to these agreements at December 31, 2013 and 2012 was $275,000.

Note 3. Investment Securities

The amortized cost and fair values of investment securities are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2013				
Available for Sale				
Mortgage backed securities	$ 28,427,935	$ 143,572	$ 777,170	$ 27,794,337
Corporate bonds	1,975,462	20,235	6,905	1,988,792
Equity securities	613,731	24,345	14,567	623,509
	31,017,128	188,152	798,642	30,406,638
Held to Maturity				
State and municipal	15,408,700	343,376	348,026	15,404,050
Mortgage backed securities	3,078	18	12	3,084
	15,411,778	343,394	348,038	15,407,134
Total Investment Securities	$ 46,428,906	$ 531,546	$ 1,146,680	$ 45,813,772

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2012				
Available for Sale				
Mortgage backed securities	$ 40,931,965	$ 281,110	$ 112,131	$ 41,100,944
Equity securities	860,751	42,237	47,235	855,753
	41,792,716	323,347	159,366	41,956,697
Held to Maturity				
State and municipal	12,804,115	753,220	2,500	13,554,835
Mortgage backed securities	13,629	76	-	13,705
	12,817,744	753,296	2,500	13,568,540
Total Investment Securities	$ 54,610,460	$ 1,076,643	$ 161,866	$ 55,525,237

Note 3. Investment Securities (Continued)

Proceeds from sales, calls and maturities of available for sale securities during 2013 and 2012 were \$24,369,855 and \$15,588,188, resulting in gains of \$66,562 and \$30,437 for 2013 and 2012, respectively.

During 2013 and 2012, held to maturity securities with book values of \$630,621 and \$789,879, respectively, were either called or matured resulting in no gain or loss for both years.

Investment securities with an approximate fair value of \$3,119,000 and \$6,141,000, at December 31, 2013 and 2012, respectively, were pledged to secure public deposits and for other purposes required by law and as collateral for the Bank's line of credit with the Federal Home Loan Bank of Atlanta.

The amortized cost and fair value of investment securities at December 31, 2013, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without prepayment penalties.

	Securities Available for Sale		Securities Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Amounts maturing:				
Within one year	$ -	$ -	$ 342,768	$ 344,584
After one year through five years	2,467,331	2,514,340	210,624	212,494
After five years through ten years	4,520,934	4,539,290	6,570,774	6,661,779
After ten years	23,415,132	22,729,499	8,287,612	8,188,277
	30,403,397	29,783,129	15,411,778	15,407,134
Equity investments with no maturity	613,731	623,509	-	-
Total	$ 31,017,128	$ 30,406,638	$ 15,411,778	$ 15,407,134

Information pertaining to securities with gross unrealized losses at December 31, 2013 and 2012 aggregated by investment category and length of time that individual securities have been in a continuous loss position is as follows:

2013	**Less than 12 Months**		**12 Months or Greater**		**Total**	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
State and Municipal	$ 5,514,512	$ (310,991)	$ 462,965	$ (37,035)	$ 5,977,477	$ (348,026)
Mortgage backed	5,254,104	(134,941)	14,207,225	(642,229)	19,461,329	(777,170)
Corporate bonds	993,095	(6,905)	-	-	993,095	(6,905)
Equity securities	8,400	(100)	364,155	(14,467)	372,555	(14,567)
Total	$ 11,770,111	$ (452,937)	$ 15,034,345	$ (693,731)	$ 26,804,456	$ (1,146,668)

Note 3. Investment Securities (Continued)

2012	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
State and Municipal	$ 497,500	$ (2,500)	$ -	$ -	$ 497,500	$ (2,500)
Mortgage backed	17,871,375	(89,545)	1,465,030	(22,586)	19,336,405	(112,131)
Equity securities	267,789	(39,593)	85,174	(7,642)	352,963	(47,235)
Total	$ 18,636,664	$ (131,638)	$ 1,550,204	$ (30,228)	$ 20,186,868	$ (161,866)

Management evaluates securities for other-than-temporary impairment on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

At December 31, 2013, the Company had securities which have depreciated .5% in value from the amortized cost. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition. As management has the ability and intent to hold debt securities until maturity, or for the foreseeable future if classified as available-for-sale, no declines are deemed to be other-than-temporary.

Note 4. Loans Receivable and Related Allowance for Loan Losses

The following table summarizes the primary segments of the loan portfolio as of December 31, 2013 and 2012 (in thousands):

	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
December 31, 2013			
Residential loans	$ 111	$ 61,416	$ 61,527
Commercial real estate loans			
Non owner-occupied & multi-family	-	21,612	21,612
Owner-occupied & farmland	908	34,284	35,192
Construction loans			
Residential construction loans	-	809	809
Commercial construction & raw land loans	-	10,385	10,385
Home equity loans	-	2,547	2,547
Consumer loans	-	1,510	1,510
Commercial/farm loans	-	11,712	11,712
Municipal/other loans	-	10,666	10,666
Unearned income on loans	-	(102)	(102)
Total	$ 1,019	$ 154,839	$ 155,858

Note 4. Loans Receivable and Related Allowance for Loan Losses (Continued)

	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
December 31, 2012			
Residential loans	$ 433	$ 51,183	$ 51,616
Commercial real estate loans			
Non owner-occupied & multi-family	918	24,922	25,840
Owner-occupied & farmland	933	18,822	19,755
Construction loans			
Residential construction loans	-	569	569
Commercial construction & raw land loans	-	7,744	7,744
Home equity loans	23	2,220	2,243
Consumer loans	-	1,832	1,832
Commercial/farm loans	-	7,710	7,710
Municipal/other loans	-	10,136	10,136
Unearned income on loans	-	(317)	(317)
Total	$ 2,307	$ 124,821	$ 127,128

The segments of the Bank's loan portfolio are disaggregated to a level that allows management to monitor risk and performance. In reviewing risk, management has determined there to be several different risk categories within the loan portfolio. The allowance for loan losses consists of amounts applicable to: (i) the commercial loan portfolio; (ii) the commercial real estate loan portfolio; (iii) the municipal loan portfolio; (iv) the consumer loan portfolio; and, (v) the residential loan portfolio.

The commercial loan segment consists of loans made for the purpose of financing the activities of commercial customers. The commercial real estate ("CRE") loan segment includes both non-owner occupied and owner occupied CRE loans, in addition to multifamily residential and commercial real estate construction loans. The municipal loan segment includes loans made to local governments and governmental authorities in the normal course of their operations. The consumer loans consist of motor vehicle loans, savings account loans, personal lines of credit, overdraft loans, other types of secured consumer loans, and unsecured personal loans. The residential loan segment is made up of fixed rate and adjustable rate single-family amortizing term loans, which are primarily first liens. The residential loan segment also includes the Bank's home equity loan portfolio, which are generally second liens.

Management establishes the allowance for loan losses based upon its evaluation of the pertinent factors underlying the types and quality of loans in the portfolio. Commercial loans and commercial real estate loans are reviewed on a regular basis with a focus on larger loans along with loans which have experienced past payment or financial deficiencies. Certain loans including commercial and other loans which are experiencing payment or financial difficulties, loans in industries for which economic trends are negative and loans which are of heightened concern to management are included on the Bank's "watch list". Watch list loans, if significant, and larger commercial loans and commercial real estate loans which are 90 days or more past due are selected for impairment testing. These loans are analyzed to determine if they are "impaired", which means that it is probable that all amounts will not be collected according to the contractual terms of the loan agreement.

Note 4. Loans Receivable and Related Allowance for Loan Losses (Continued)

Factors considered by management in evaluating impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. 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.

The Bank does not separately evaluate individual consumer and residential mortgage loans for impairment, unless such loans are part of a larger relationship that is impaired, or are classified as a troubled debt restructuring agreement.

Once the determination has been made that a loan is impaired, the determination of whether a specific allocation of the allowance is necessary is measured by comparing the recorded investment in the loan to the fair value of the loan using one of three methods: (a) the present value of expected future cash flows discounted at the loan's effective interest rate; (b) the loan's observable market price; or (c) the fair value of the collateral less selling costs. The method is selected on a loan-by-loan basis, with management primarily utilizing the fair value of collateral method, which is required for loans that are collateral dependent. The evaluation of the need and amount of a specific allocation of the allowance and whether a loan can be removed from impairment status is made on a monthly basis. The Bank's policy for recognizing interest income on impaired loans does not differ from its overall policy for interest recognition.

The Bank had no material impaired loans during 2013 or 2012.

Management uses a nine point internal risk rating system to monitor the credit quality of the overall loan portfolio. The first five categories are considered not criticized, and are aggregated as "Pass" rated. The criticized rating categories utilized by management generally follow Bank regulatory definitions. The Special Mention category includes assets that are currently protected but are potentially weak, resulting in an undue and unwarranted credit risk, but not to the point of justifying a Substandard classification. Loans in the Substandard category have well-defined weaknesses that jeopardize the orderly liquidation of the debt, and have a distinct possibility that some loss will be sustained if the weaknesses are not corrected. All loans greater than 90 days past due are considered Substandard. Loans in the Doubtful category have all the weaknesses found in Substandard loans, with the added provision that the weaknesses make collection of debt in full highly questionable and improbable. Any portion of a loan that has been charged off is placed in the Loss category.

To help ensure that risk ratings are accurate and reflect the present and future capacity of borrowers to repay a loan as agreed, the Bank has a structured loan rating process with both internal and external oversight. The Bank's loan officers are responsible for the timely and accurate risk rating of the loans in their portfolios at origination and on an ongoing basis. The loan processing department confirms the appropriate risk grade at origination and monitors all subsequent changes to risk ratings. The Bank's Loan Committee reviews risk grades when approving a loan and approves all risk rating changes, except those made within the pass risk ratings. The Bank engages an external consultant to conduct loan reviews on a semi-annual basis. Generally, the external consultant reviews relationships greater than $750,000 and all loans over $50,000 that are either in nonaccrual status, over 90 days past due, or that are adversely classified. The external consultant also reviews a sample of new loans during the year. The Bank's process requires the review and evaluation of an impaired loan to be updated at least quarterly. Loans in the Special Mention and Substandard categories that are collectively evaluated for impairment are given separate consideration in the determination of the allowance.

Note 4. Loans Receivable and Related Allowance for Loan Losses (Continued)

The following table presents the classes of the loan portfolio summarized by the aggregate Pass and the criticized categories of Special Mention, Substandard, and Doubtful within the internal risk rating system as of December 31, 2013 and 2012 (in thousands):

	Pass	Special Mention	Substandard	Doubtful	Total
December 31, 2013					
Commercial real estate loans					
Non owner-occupied & multi-family	$ 18,188	$ 3,424	$ -	$ -	$ 21,612
Owner-occupied & farmland	33,530	754	908	-	35,192
Construction loans					
Residential construction loans	809	-	-	-	809
Commercial construction & raw land loans	10,140	233	12	-	10,385
Commercial/farm loans	11,410	267	-	35	11,712
Municipal/other loans	9,603	1,063	-	-	10,666
	$ 83,680	$ 5,741	$ 920	$ 35	$ 90,376
Purchased Loan Premiums	255	-	-	-	255
Less: Unearned revenue	(236)	-	-	-	(236)
Total	$ 83,699	$ 5,741	$ 920	$ 35	$ 90,395

	Pass	Special Mention	Substandard	Doubtful	Total
December 31, 2012					
Commercial real estate loans					
Non owner-occupied & multi-family	$ 21,952	$ 2,970	$ 918	$ -	$ 25,840
Owner-occupied & farmland	18,018	804	933	-	19,755
Construction loans					
Residential construction loans	569	-	-	-	569
Commercial construction & raw land loans	7,494	236	14	-	7,744
Commercial/farm loans	7,654	12	-	44	7,710
Municipal/other loans	9,002	1,134	-	-	10,136
	$ 64,689	$ 5,156	$ 1,865	$ 44	$ 71,754
Less: Unearned revenue	(219)	-	-	-	(219)
Total	$ 64,470	$ 5,156	$ 1,865	$ 44	$ 71,535

The following table presents (in thousands) the classes of the loan portfolio for which loan performance is the primary credit quality indicator as of December 31, 2013 and 2012:

	Residential Loans	Home Equity Loans	Consumer Loans	Total
December 31, 2013				
Performing loans	$ 61,527	$ 2,547	$ 1,505	$ 65,579
Non-performing loans	-	-	5	5
	$ 61,527	$ 2,547	$ 1,510	$ 65,584
Less: Unearned revenue	(92)	(6)	(23)	(121)
Total	$ 61,435	$ 2,541	$ 1,487	$ 65,463

	Residential Loans	Home Equity Loans	Consumer Loans	Total
December 31, 2012				
Performing loans	$ 51,261	$ 2,220	$ 1,832	$ 55,313
Non-performing loans	355	23	-	378
	$ 51,616	$ 2,243	$ 1,832	$ 55,691
Less: Unearned revenue	-	-	(98)	(98)
Total	$ 51,616	$ 2,243	$ 1,734	$ 55,593

(Continued)

Note 4. Loans Receivable and Related Allowance for Loan Losses (Continued)

An allowance for loan and lease losses ("ALLL") is maintained to absorb losses from the loan portfolio. The ALLL is based on management's continuing evaluation of the risk characteristics and credit quality of the loan portfolio, assessment of current economic conditions, diversification and size of the portfolio, adequacy of collateral, past and anticipated loss experience, and the amount of non-performing loans. Management further monitors the performance and credit quality of the loan portfolio by analyzing the age of the portfolio as determined by the length of time a recorded payment is past due. The following table presents the classes of the loan portfolio summarized by the aging categories of performing loans and nonaccrual loans as of December 31, 2013 and 2012 (in thousands):

December 31, 2013	Current	30-59 Days Past Due	60 - 89 Days Past Due	90 Days+ Past Due	Total Past Due	Non-Accrual	Total Loans
Residential loans	$ 61,413	$ 95	$ 19	$ -	$ 114	$ -	$ 61,527
Commercial real estate loans							
Non owner-occupied/multi-family	21,612	-	-	-	-	-	21,612
Owner-occupied & farmland	35,192	-	-	-	-	-	35,192
Construction loans							
Residential construction loans	809	-	-	-	-	-	809
Commercial construction & raw land loans	10,385	-	-	-	-	-	10,385
Home equity loans	2,547	-	-	-	-	-	2,547
Consumer loans	1,501	4	-	-	4	5	1,510
Commercial/farm loans	11,609	82	-	-	82	21	11,712
Municipal/other loans	10,666	-	-	-	-	-	10,666
Unearned income on loans	(102)	-	-	-	-	-	(102)
Total	$ 155,632	$ 181	$ 19	$ -	$ 200	$ 26	$ 155,858

December 31, 2012	Current	30-59 Days Past Due	60 - 89 Days Past Due	90 Days+ Past Due	Total Past Due	Non-Accrual	Total Loans
Residential loans	$ 50,414	$ 826	$ 21	$ -	$ 847	$ 355	$ 51,616
Commercial real estate loans							
Non owner-occupied/multi-family	25,840	-	-	-	-	-	25,840
Owner-occupied & farmland	19,755	-	-	-	-	-	19,755
Construction loans							
Residential construction loans	569	-	-	-	-	-	569
Commercial construction & raw land loans	7,744	-	-	-	-	-	7,744
Home equity loans	2,211	9	-	-	9	23	2,243
Consumer loans	1,827	5	-	-	5	-	1,832
Commercial/farm loans	7,681	-	-	18	18	11	7,710
Municipal/other loans	10,136	-	-	-	-	-	10,136
Unearned income on loans	(317)	-	-	-	-	-	(317)
Total	$ 125,860	$ 840	$ 21	$ 18	$ 879	$ 389	$ 127,128

The classes described above provide the starting point for the ALLL analysis. Management tracks the historical net charge-off activity by loan class. A historical charge-off factor is calculated and applied to each class. Loans that are collectively evaluated for impairment are analyzed with general allowances being made as appropriate. For general allowances, historical loss trends are used in the estimation of losses in the current portfolio. Other qualitative factors are also considered.

Note 4. Loans Receivable and Related Allowance for Loan Losses (Continued)

"Pass" rated credits are segregated from "Criticized" credits for the application of qualitative factors. Management has identified a number of qualitative factors which it uses to supplement the historical charge-off factor because these factors are likely to cause estimated credit losses associated with the existing loan pools to differ from historical loss experience. The qualitative factors are evaluated quarterly and updated using information obtained from internal, regulatory, and governmental sources. The Bank's qualitative factors consist of: national and local economic trends and conditions; levels of and trends in delinquency rates and non-accrual loans; levels of and trends in the Bank's borrowers in bankruptcy; trends in volumes and terms of loans; effects of changes in lending policies and strategies; and concentrations of credit from a loan type, industry and/or geographic standpoint.

Management reviews the loan portfolio on a quarterly basis using a defined, consistently applied process in order to make appropriate and timely adjustments to the ALLL. When information confirms all or part of specific loans to be uncollectible, these amounts are promptly charged off against the ALLL.

The following tables summarize the primary segments of the ALLL, segregated into the amount required for loans individually evaluated for impairment and the amount required for loans collectively evaluated for impairment as of December 31, 2013 and 2012. Activity in the allowance is presented for the each of the twelve months ended December 31, 2013 and 2012 (in thousands):

	Commercial	Commercial Real Estate	Consumer	Residential	Municipal	Unallocated	Total
ALLL Balance at December 31, 2012	$ 284	$ 751	$ 43	$ 360	$ 344	$ -	$ 1,782
Charge-offs	-	-	(34)	-	-	-	(34)
Recoveries	-	-	13	-	-	-	13
Provision	22	322	34	(38)	(30)	-	310
ALLL Balance at December 31, 2013	$ 306	$ 1,073	$ 56	$ 322	$ 314	$ -	$ 2,071
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	$ 306	$ 1,073	$ 56	$ 322	$ 314	$ -	$ 2,071

	Commercial	Commercial Real Estate	Consumer	Residential	Municipal	Unallocated	Total
ALLL Balance at December 31, 2011	$ 262	$ 665	$ 56	$ 158	$ 304	$ 12	$ 1,457
Charge-offs	(14)	(267)	(39)	(41)	-	-	(361)
Recoveries	-	-	16	-	-	-	16
Provision	36	353	10	243	40	(12)	670
ALLL Balance at December 31, 2012	$ 284	$ 751	$ 43	$ 360	$ 344	$ -	$ 1,782
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	$ 284	$ 751	$ 43	$ 360	$ 344	$ -	$ 1,782

Note 4. Loans Receivable and Related Allowance for Loan Losses (Continued)

The following is a summary of the changes in the allowance for loan losses for the years ended December 31, 2013 and 2012 (in thousands):

	2013	2012
Balance, beginning	$ 1,782	$ 1,457
Charge-offs	(34)	(361)
Recoveries	13	16
Provision	310	670
Balance, ending	$ 2,071	$ 1,782

The allowance for loan losses is based on estimates, and actual losses will vary from current estimates. Management believes that the granularity of the homogeneous pools and the related historical loss ratios and other qualitative factors, as well as the consistency in the application of assumptions, result in an ALLL that is representative of the risk found in the components of the portfolio at any given date.

At December 31, 2013 loans with a carrying amount of $50.2 million were pledged to secure short-term and long-term borrowings with the Federal Home Loan Bank.

Nonaccrual loans were approximately $26,000 and $389,000 at December 31, 2013 and 2012, respectively.

Loans held for sale consists of the Bank's commitment to purchase residential mortgage loan fundings originated primarily in Virginia and North Carolina by another financial institution. The Bank reviews loan documentation for each specific mortgage prior to funding to ensure it conforms to the terms of the agreement. The mortgages funded through this program must have already obtained a purchase commitment (takeout) from another financial institution as part of the conditions of the Bank's funding. The Bank earns Prime less .50% on a daily floating rate plus additional loan fees on all loans held in this category. The Bank's maximum commitment under this agreement was $3,000,000 and $15,000,000 at December 31, 2013 and 2012, respectively, and the balance of loans held for sale was zero and $10,792,727 at December 31, 2013 and 2012, respectively. The large year-to-year decline is attributable to the precipitous decline in mortgage refinancings in the 2nd half of 2013 due to an increase in interest rates.

The Bank is not committed to lend additional funds to borrowers whose loans are considered impaired or whose loans have been modified.

The Bank has a loan with a balance of approximately $833,000 and $897,000 at December 31, 2013 and 2012 that was involved in bankruptcy litigation. The loan was for the benefit of a municipality. Funds advanced for the loan were held in the custody of the company that declared bankruptcy, resulting in the municipality not taking in its direct possession the full note amount. The municipality has continued to make payments on the note and it was current at December 31, 2013 and 2012.

Note 5. Bank Premises and Equipment

Bank premises and equipment are summarized as follows:

	2013	2012
Buildings and land	$ 1,993,632	$ 2,157,796
Furniture, fixtures and equipment	1,894,732	1,846,545
Software	221,343	220,015
Total Cost	4,109,707	4,224,356
Less: Accumulated depreciation	2,279,064	2,236,403
Total, net of depreciation	$ 1,830,643	$ 1,987,953

Depreciation expense for 2013 and 2012 was $199,681 and $222,101, respectively.

Note 6. Time Deposits

The aggregate amounts of certificates of deposit, with a minimum denomination of $100,000 were $50,554,000 and $52,269,000 at December 31, 2013 and 2012, respectively.

Time deposits include brokered deposits purchased through the Certificate of Deposit Account Registry Service (CDARS). The balance of these time deposits was approximately $15,231,000 and $26,580,000 at December 31, 2013 and 2012, respectively. As long as the Bank maintains its current rating through CDARS rating service, it may purchase deposits up to 15% of its assets as of the most recent quarter end. At December 31, 2013, the Bank could have purchased up to approximately $32,100,000 in deposits through CDARS. The decision to utilize this funding depends on the Bank's liquidity needs and the pricing of CDARS deposits compared to other potential funding sources.

At December 31, 2013, the scheduled maturities of time deposits are as follows:

	Maturities
2014	$ 37,074,444
2015	19,553,073
2016	23,436,551
2017	7,041,705
2018	3,630,653
2019 and beyond	930,252
Total	$ 91,666,678

Note 7. Borrowings

The Bank has a line of credit from the Federal Home Loan Bank of Atlanta (FHLB) secured by the Bank's real estate loan portfolio and certain pledged securities. The FHLB will lend up to 25% of the Bank's total assets at the prior quarter end, subject to certain eligibility requirements, including adequate collateral. At December 31, 2013, the Bank had borrowings from FHLB that totaled $26,757,000. The interest rate on the borrowings range from .38% to 3.96% depending on structure and maturity. The borrowings at year-end also required the Bank to own $1,529,000 of FHLB's stock. This amount is included with restricted investments on the consolidated balance sheets.

During 2012, the Bank refinanced $11,000,000 of its fixed rate debt to take advantage of the low rate interest environment by extending maturities. The refinancing of this debt created fees of approximately $457,000, which were capitalized according to accounting standards and are included on the balance sheet as a reduction of the outstanding principal. This amount is being amortized over the life of the new debt.

The principal on FHLB borrowings matures as follows:

	Maturities
2014	$ 6,171,428
2015	2,128,572
2016	2,500,000
2017	-
2018	14,957,000
2019 and beyond	1,000,000
Total principal	26,757,000
Capitalized refinancing fees	(368,139)
Borrowings, net	$ 26,388,861

At December 31, 2012, the Bank had fixed rate advances from the Federal Home Loan Bank of Atlanta (FHLB) totaling $20,778,429.

In addition the Bank has established lines of credit for federal funds purchases of $5,000,000 with its correspondent bank. The balance was zero at December 31, 2013 and December 31, 2012.

Note 8. Preferred Stock

The Company is authorized to issue 250,000 shares of preferred stock at a par value of $50 per share. The Company issued 4,500 shares of Senior Non-Cumulative Perpetual Preferred Stock, Series A to the United States Department of Treasury as part of the Small Business Lending Fund (SBLF) program. The shares were issued at $1,000 per share, which is also the liquidation value, for a total issuance of $4,500,000. Dividend rates fluctuated with the amount of qualified small business lending as defined by the SBLF program. As of December 31, 2013, the dividend rate was 1.00%. The dividend rate will become 9% during 2016 if the preferred stock is still outstanding.

(Continued)

Note 9. Common Stock

The Company has 5,000,000 shares of no par value authorized common stock of which 934,539 and 942,221 shares were issued and outstanding at December 31, 2013 and 2012, respectively.

From time to time, we repurchase shares of our Common Stock under share repurchase programs authorized by our Board of Directors. Shares repurchased constitute authorized, but unissued shares under the Virginia laws under which we are incorporated. Additionally, our Common Stock has no par or stated value. Accordingly, we record the full value of share repurchases, upon the trade date, against Common Stock except when to do so would result in a negative balance in our Common Stock account.

Note 10. Other Real Estate Owned (Foreclosed Assets)

The Bank had the following amounts in Other Real Estate Owned at December 31, 2013 and 2012:

	Estimated Realizable Value	
Real Estate Held	2013	2012
Land	$ 140,000	$ 140,000
1-4 family	-	300,000
Total	$ 140,000	$ 440,000

The estimated realizable value is the net amount Bank management expects to realize from the sale of the foreclosed upon real estate. The net realizable amount takes into account realtor commissions and other anticipated costs associated with the disposition of real estate. The property currently held in Other Real Estate Owned was obtained during 2012. Adjustments to reduce the loan balance to net realizable value at the time the property was acquired were made to the Allowance for Loan Losses. Bank management continues to monitor the properties for changes in value. Any decline in value would be charged to operations.

Expenses associated with the maintenance and upkeep of Other Real Estate Owned are recorded as Other Real Estate Expense. The balance of Other Real Estate Owned is included with Other Assets on the Company's Balance Sheet.

Note 11. Goodwill

The balance in goodwill is the result of a branch acquisition in Charlottesville in 2011. The Bank purchased the branch in an effort to expand its geographic service area by targeting an attractive market with the potential to provide continued balance sheet growth and new opportunities for the Bank. Bank management will evaluate at least annually the recorded value of the goodwill. In the event the asset suffers a decline in value based on criteria established in governing accounting standards, an impairment will be recorded.

Note 12. Disclosures About Fair Value of Financial Instruments

In accordance with the requirements of U.S. GAAP, fair value disclosure estimates are being made for like kind financial instruments. Fair value estimates are based on present value of expected future cash flows, quoted market prices of similar financial instruments, if available, and other valuation techniques. These valuations are significantly affected by the discount rates, cash flow assumptions and risk assumptions used. Therefore, the fair value estimates may not be substantiated by comparison to independent markets and are not intended to reflect the proceeds that may be realizable in an immediate settlement of the financial instruments.

U.S. GAAP excludes certain items from the disclosure requirements, and accordingly, the aggregate fair value of amounts presented do not represent the underlying value of the Company. Management does not have the intention to dispose of a significant portion of its financial instruments and, therefore, the unrealized gains or losses should not be interpreted as a forecast of future earnings and cash flows.

The following table represents the estimates of fair value of financial instruments as of December 31, 2013 and 2012:

	2013		2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Cash and short-term investments	$ 4,561,708	$ 4,561,708	$ 3,672,032	$ 3,672,032
Federal funds sold	545,000	545,000	3,648,000	3,648,000
Investment securities	47,712,416	47,707,772	56,372,941	57,124,197
Loans held for sale	-	-	10,792,727	10,792,727
Net loans held for investment	153,786,879	158,381,000	125,345,870	132,812,000
Accrued interest receivable	751,464	751,464	697,128	697,128
Bank-owned life insurance	2,283,800	2,283,800	2,215,300	2,215,300
Financial Liabilities				
Deposits	168,345,328	169,816,000	168,737,648	170,474,000
Other borrowed funds	26,388,861	26,651,000	20,334,123	20,999,000
Federal funds purchased	-	-	-	-
Accrued interest payable	167,556	167,556	184,428	184,428

The following methods and assumptions are used to estimate the fair value of financial instruments:

Cash and short term investments: The carrying amount for cash and short-term investments is a reasonable estimate of fair value. Short-term investments consist of certificates of deposit in other banks.

Investment securities: Fair values for investment securities are based on quoted market prices, if available. If market prices are not available, quoted market prices of similar securities are used.

Loans held for investment: The fair value of loans held for investment is based on a discounted value of the estimated future cash flow expected to be received through the earlier of the loan payout or the loan repricing date. The interest rate applied in the discounted cash flow method reflects average current rates on similar loans adjusted for relative risk and maturity. Fair values of impaired loans are estimated based on estimates of net realization of underlying collateral.

Loans held for sale: Loans held for sale are usually held for a short period of time ranging from 10 to 60 days. The carrying value of these loans approximates their fair value.

Note 12. Disclosures About Fair Value of Financial Instruments (Continued)

Deposits: The carrying amount is considered a reasonable estimate of fair value for demand and savings deposits and other variable rate deposit accounts. The fair value of fixed maturity certificates of deposit is estimated by a discounted cash flow method using the interest rates currently offered for deposits of similar remaining maturities.

Accrued interest receivable and payable: The carrying amounts of accrued interest receivable and payable approximate their fair values.

Bank-owned life insurance: The carrying and fair value amount of bank-owned life insurance is based on the present value of the receivable from the executive. The cash surrender values of the policies exceed the carrying amounts as of the balance sheet date.

Off-balance sheet instruments: The fair value of commitments is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present credit standing of the customers. The amount of fees currently charged on commitments is determined to be insignificant and therefore the fair value and carrying value of off-balance sheet instruments are not shown.

Note 13. Fair Value Measurements

U.S. GAAP defines fair value, establishes a framework for measuring fair value, establishes a three-level valuation hierarchy for disclosure of fair value measurement and enhances disclosure requirements for fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

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 liabilities, 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.

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

Note 13. 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 or quoted prices of securities with similar characteristics. 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.

Fair values of assets and liabilities measured on a recurring basis at December 31, 2013 and 2012 are as follows:

	Fair Value Measurements at Reporting Date Using			
	Fair Value	(Level 1)	(Level 2)	(Level 3)
December 31, 2013				
Available for-sale securities	$ 30,406,638	$ -	$ 30,406,638	$ -
Bank-owned life insurance	2,283,800	-	2,283,800	-
Total	$ 32,690,438	$ -	$ 32,690,438	$ -
December 31, 2012				
Available for-sale securities	$ 41,956,697	$ -	$ 41,956,697	$ -
Bank-owned life insurance	2,215,300	-	2,215,300	-
Total	$ 44,171,997	$ -	$ 44,171,997	$ -

Gains and losses (realized and unrealized) included in earnings for the year are reported in noninterest income as follows:

December 31, 2013:	
Total gains included in earnings for the year	$ 66,562
Change in unrealized gains or losses relating to assets still held at year end	$ (765,741)
December 31, 2012:	
Total gains included in earnings for the year	$ 30,437
Change in unrealized gains or losses relating to assets still held at year end	$ 25,941

Note 13. Fair Value Measurements (Continued)

Fair values of assets measured on a non-recurring basis at December 31, 2013 and 2012 are as follows:

	Fair Value Measurements at Reporting Date Using			
	Fair Value	(Level 1)	(Level 2)	(Level 3)
December 31, 2013				
Other real estate owned	$ 140,000	$ -	$ -	$ 140,000
Impaired loans	-	-	-	-
Total	$ 140,000	$ -	$ -	$ 140,000
December 31, 2012				
Other real estate owned	$ 440,000	$ -	$ -	$ 440,000
Impaired loans	-	-	-	-
Total	$ 440,000	$ -	$ -	$ 440,000

Note 14. Income Taxes

A reconciliation between the amount of total income taxes and the amount computed by multiplying income by the applicable federal income tax rates is as follows:

	2013	2012
Income taxes computed at the applicable federal income tax rate	$ 874,492	$ 706,919
Tax exempt municipal income	(147,665)	(142,309)
Income from life insurance	(23,290)	(24,310)
Other, net	6,155	22,512
Income Tax Expense	$ 709,692	$ 562,812

The current and deferred components of income tax expense are as follows:

	2013	2012
Current tax expense	$ 873,231	$ 623,173
Deferred tax expense	(163,539)	(60,361)
Income Tax Expense	$ 709,692	$ 562,812

Deferred tax assets have been provided for temporary differences related to the allowance for loan losses, recognition of loan fee income, and deferred compensation agreements. Deferred tax liabilities have been provided for temporary differences related to depreciation and unrealized security losses.

The net deferred tax asset was made up of the following:

	2013	2012
Deferred tax assets	$ 1,341,723	$ 865,522
Deferred tax liabilities	(254,217)	(419,299)
Net Deferred Tax Asset	$ 1,087,506	$ 446,223

(Continued)

Note 14. Income Taxes (Continued)

This amount has been included as part of other assets on the balance sheet.

The federal and Virginia income tax returns of the Company for 2010 to 2013 are subject to examination by the Internal Revenue Service and the Virginia Department of Taxation.

Note 15. Employee Benefits

The Bank has a 401(k) Profit Sharing Plan that covers eligible employees. Employees may make voluntary contributions subject to certain limits based on federal tax laws. The Bank matches 100 percent of an employee's contribution up to five percent of his or her salary. The Bank's Board of Directors may make additional contributions at its discretion. Employees become eligible to participate after one year of continuous service and the benefits vest over a five-year period. For the years ended December 31, 2013 and 2012, total expenses attributable to this plan were $73,312 and $97,321, respectively.

The Bank implemented an Employee Stock Ownership Plan (ESOP) in 2013 that covers eligible employees. Benefits in the Plan vest over a five-year period. Contributions to the plan are made at the discretion of the Board of Directors, and may include both the matching component to employees' elective deferrals into the 401(k) plan and any profit-sharing contributions. All shares issued and held by the Plan are considered outstanding in the computation of earnings per share. The Company recognized expenses of $51,484 for contributions to the Plan in 2013. The Plan held 1,600 shares of Company stock at December 31, 2013.

Note 16. Financial Instruments With Off-Balance-Sheet Risk

In the normal course of business, to meet the credit needs of its customers, the Bank has made commitments to extend credit of $21,408,000 and $14,461,000 as of December 31, 2013 and 2012, respectively. These commitments represent a credit risk which is not recognized in the consolidated balance sheet. The Bank uses the same credit policies in making commitments as it does for the loans reflected in the balance sheet. Commitments to extend credit are generally made for a period of one year and interest rates are determined when funds are disbursed. Collateral and other security for the loans are determined on a case-by-case basis. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The distribution of commitments to extend credit approximates the distribution of loans outstanding.

Note 17. Commitments and Contingencies

In the ordinary course of business, the Bank has various outstanding commitments and contingent liabilities that are not reflected in the accompanying consolidated financial statements. The commitments include a total of $612,500 for its interest in two Small Business Investment Company (SBIC) funds. The Bank funded $887,500 of its total $1,500,000 investment prior to December 31, 2013, and anticipates capital calls for the remaining amount to occur during the next one to three years. Management does not anticipate any loss resulting from these commitments.

Note 18. Lease Commitments

The Bank leases real property in McGaheysville, Virginia for a branch that began operations in March 2003. The lease term commenced March 1, 2003 and continues for fifteen years, with five optional one year extensions. Base annual rent, including utilities, is $36,300 or $3,025 per month, adjusted annually for inflation as listed by the Consumer Price Index.

The Bank leases real property in Albemarle County, Virginia for a branch that began operations in May 2012. The lease term commenced May 1, 2012 and continues for seven years with two optional five year extensions. Base annual rent, including utilities, is $81,400, or $6,783 per month, increasing at 2% annually. This lease replaced a lease at the original branch location that terminated December 31, 2012 and had a base annual rent of $24,000, or $2,000 per month.

At December 31, 2013, the aggregate future minimum rental commitments (base rents) under this noncancellable operating lease are as follows:

For the year ending December 31,	Annual Payments
2014	$ 117,700
2015	117,700
2016	117,700
2017	117,700
2018	87,450
Thereafter	27,133
Total	$ 585,383

Rent expense for 2013 and 2012 was $128,548 and $138,510, respectively.

Note 19. Concentration of Credit Risk

The majority of the Bank's loans are made to customers in the Bank's trade area and a substantial portion of the loans are secured by real estate. Accordingly, the ultimate collectability of the Bank's loan portfolio is susceptible to changes in local economic conditions including the agribusiness sector and the real estate market. A summary of loans by type is shown in Note 4. Collateral required by the Bank is determined on an individual basis depending on the nature of the loan and the financial condition of the borrower. In addition, investment in state and municipal securities include governmental entities within the Bank's market area.

Note 20. Transactions With Related Parties

During the year, officers and directors and their related interests were customers of and had transactions with the Bank during the normal course of business. These transactions were made on substantially the same terms as those prevailing for other customers and did not involve any abnormal risk. Loan transactions to such related parties are shown in the following schedule:

	2013	2012
Total loans, beginning of year	$ 1,690,000	$ 1,625,000
Advances	2,412,000	1,557,000
Curtailments	(1,960,000)	(1,492,000)
Total loans, end of year	$ 2,142,000	$ 1,690,000

The Bank held related party deposits of approximately $3,285,000 and $3,277,000 at December 31, 2013 and 2012, respectively.

Note 21. Regulatory Matters

The principal source of funds of Blue Ridge Bankshares, Inc. are dividends paid by its subsidiary bank. The various regulatory authorities impose restrictions on dividends paid by a state bank. A state bank cannot pay dividends (without the consent of state banking authorities) in excess of the total net profits (net income less dividends paid) of the current year to date and the combined retained net profits of the previous two years. As of January 1, 2014, Blue Ridge Bank could pay dividends to Blue Ridge Bankshares, Inc. of approximately $3,467,000 without the permission of regulatory authorities. The ability to pay such a dividend would additionally be affected by the subsidiary bank's capital availability.

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 discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

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

Note 21. Regulatory Matters (Continued)

The Bank is considered well capitalized under the regulatory framework for prompt corrective action. To remain categorized as well capitalized, the Bank will have to maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as disclosed in the table below. There are no conditions or events since the most recent notification that management believes have changed the Bank's prompt corrective action category.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under the Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2013						
Total risk based capital						
(To risk rated assets)						
Blue Ridge Bankshares	$ 21,608	16.21%	$ 10,662	8%	N/A	N/A
Blue Ridge Bank	$ 19,933	15.04%	$ 10,605	8%	$ 13,257	10%
Tier I capital						
(To risk rated assets)						
Blue Ridge Bankshares	$ 19,537	14.66%	$ 5,331	4%	N/A	N/A
Blue Ridge Bank	$ 18,271	13.78%	$ 5,303	4%	$ 7,954	6%
Tier I capital						
(To average assets)						
Blue Ridge Bankshares	$ 19,537	9.24%	$ 8,459	4%	N/A	N/A
Blue Ridge Bank	$ 18,271	8.57%	$ 8,531	4%	$ 10,664	5%

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under the Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2012						
Total risk based capital						
(To risk rated assets)						
Blue Ridge Bankshares	$ 20,074	16.64%	$ 9,649	8%	N/A	N/A
Blue Ridge Bank	$ 18,224	15.24%	$ 9,567	8%	$ 11,959	10%
Tier I capital						
(To risk rated assets)						
Blue Ridge Bankshares	$ 18,292	15.17%	$ 4,825	4%	N/A	N/A
Blue Ridge Bank	$ 16,726	13.99%	$ 4,784	4%	$ 7,175	6%
Tier I capital						
(To average assets)						
Blue Ridge Bankshares	$ 18,292	8.97%	$ 8,161	4%	N/A	N/A
Blue Ridge Bank	$ 16,726	8.06%	$ 8,305	4%	$ 10,381	5%

Note 21. Regulatory Matters (Continued)

On July 7, 2013 the Federal Reserve Board approved Basel III Final Rule to begin implementation January 1, 2015. The desired overall objective of Basel III is to improve the banking sector's ability to absorb shocks arising from financial and economic stress. The Final Rule changes minimum capital ratios and raises the Tier 1 Risk Weighted Assets to 6% from 4%. In addition, the new rules require a bank to maintain a capital conservation buffer of between 2 and 2 ½ % beginning in 2016. The new rules will be phased in beginning in 2015 with complete compliance required by 2019. Generally, the Basel III Final Rule will require banks to maintain higher levels of common equity and regulatory capital.

Note 22. New Accounting Standards

The following is a discussion of accounting pronouncements that have and/or may impact the presentation of the Company's financial statements:

In February 2013, ASU No. 2013-02 - *Comprehensive Income* was issued to improve the reporting of reclassifications out of accumulated other comprehensive income by requiring an entity to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail about those amounts. The amendments are effective for reporting periods beginning after December 15, 2013 with early adoption permitted.

In July 2013, the FASB issued ASU 2013-11, *Income Taxes (Topic 740) - Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss or a Tax Credit Carrryforward Exists*. ASU 2013-11 is intended to clarify the presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss or a tax credit carrryforward exists. This presentation had not been addressed in Topic 740 and there was diversity in reporting practices in those instances. ASU 2013-11 requires an unrecognized tax benefit to be presented as a liability and not netted against a deferred tax asset. ASU 2013-11 is effective for reporting periods beginning after December 15, 2013. Adoption by the Company is not expected to have an impact on the consolidated financial statements and related disclosures.

Note 22. New Accounting Standards (Continued)

In January 2014, the FASB issued ASU No. 2014-04, *Receivables - Troubled Debt Restructurings by Creditors - Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure*. The amendments are intended to clarify when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan should be derecognized and the real estate recognized. These amendments clarify that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either: (a) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure; or (b) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additional disclosures are required. The amendments are effective for annual periods beginning after December 15, 2014, and interim periods within annual periods beginning after December 15, 2015.

Other accounting standards that have been issued or proposed by the FASB or other standard–setting bodies are not currently applicable to the Company or are not expected to have a significant impact on the Company's financial position, results of operations and cash flows.

Board of Directors

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Certified Public Accountant

James E. Gander, II
Farmer

John H. H. Graves
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Luray Caverns Corporation

Robert S. Janney
Attorney at Law
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Blue Ridge Bank

Richard L. Masincup
Retired Tax Auditor

William W. Stokes
Chief Financial Officer
Bio-Cat, Inc.

Malcolm R. Sullivan, Jr.
Chairman
Sullivan Mechanical Contractors, Inc.

Blue Ridge Bank
Since 1893

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Craig H. Richards, Controller
Sharon S. Lamb, Assistant Cashier
Sharon D. Nauman, Secretary

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Kimberly F. Good, Loan Officer
Mark P. Milam, Mortgage Loan Officer
Cheryl E. Petefish, Loan Officer
Donna S. Dofflemyer, Loan Officer
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