Blue Ridge **Bankshares, Inc.**

2018

Annual Report

Bank Smarter.

Parent Company of:

Blue Ridge Bank

@myblueridgebank

Blue Ridge Bank	www.mybrb.com
CAROLINA STATE BANK	www.mycsbank.com
Blue Ridge Bank Mortgages	www.mybrbmortgage.com
MONARCH MORTGAGE A Division of Blue Ridge Bank, N.A. since 1893	www.monarch1893.com
Standard Mortgage COMPANY	www.standardmortgagecompany.com
MoneyWise® payroll solutions	www.moneywisepayroll.com
EXCHANGERS LTD.	www.exchangersltd.com

TO OUR SHAREHOLDERS

Blue Ridge Bankshares, Inc., your Company, had a record year in 2018. We recorded the highest earnings in the Company's history and also paid significantly more in annual common stock dividends than any prior year. This was accomplished while concurrently launching the Company's efforts in Greensboro, North Carolina, its first commercial banking effort outside of Virginia, and onboarding significant additions to Blue Ridge Bank's mortgage division. I hope that you, as a shareholder, are as proud of the efforts of the Blue Ridge team as I am for accomplishing the profitability growth, geographic expansion, and business line enhancements that we saw in 2018.

You are likely aware, prior to reading the financial statement disclosure, that subsequent to year-end we announced the conclusion of a common stock raise. The addition of these shares provides us with the capital needed to take advantage of the opportunities that exist for us to grow, expand, and enhance shareholder value. The common stock raise serves as both a validation of our efforts and includes key strategic investors that will help the Company continue to succeed. The Company was pleased to raise the capital at a level accretive to tangible book value.

The process of raising capital is instructive. It is not just an opportunity to explain to current and potential investors the story and vision of Blue Ridge Bankshares, Inc., it is a time to reflect more critically on the strength and robustness of that vision, particularly in conjunction with insightful questions and critiques from potential investors.

We continue to focus on meaningful, prudent growth driven by identifying attractive geographic and service market segments. The expansion into the Piedmont Triad in North Carolina was driven by recognizing an opportunity created in that market by the mass consolidation of North Carolina banks and the resulting service gap it created. The Piedmont Triad Combined Statistical Area has over 1.6 million residents, surpassing all other Blue Ridge Bank commercial banking population areas combined. Combining the population and local economy size with the relative inattention paid by the national banks creates a compelling opportunity for us to create shareholder value through the expansion of our model of responsive banking.

Our focus on asset growth is only to the extent that asset growth creates more income. Ultimately, we are an earnings business, and in the long run earnings, not assets, determines our capacity to reinvest in the business and drive meaningful shareholder return.

We remain diligent about executing the expansion of our noninterest income streams. We added significant mortgage pieces in 2018 to drive our purchase-based, profitability-oriented mortgage banking model. We are continuing our efforts to better integrate our payroll company with the core banking model, and in 2019 we are expecting to see significant noninterest income improvements resulting from our business credit card program and a steadier flow of government-guaranteed loan sales.

You will note in our subsequent disclosures that early in 2019 we also invested in an insurance partnership. We believe this relationship, particularly when coupled with effective cross-selling of opportunities in the commercial and mortgage banking sectors, will drive meaningful income growth in the future and our partner is just as focused on generating success and growth as much as we are.

The addition of an insurance partner provides one of the last desired pieces in building a full-service, comprehensive financial services partner that provides services across the financial spectrum that improve the client experience and also create additional points of contact for the Company. The augmentation of the core commercial banking model with additional services does not simply create additional current income from that line of business, it adds commercial banking value with improved client retention and lengthened average customer lives. It is much easier to grow the balance sheet and further enhance earnings when our average relationship stays longer.

We are uniquely positioned. Our combined service suite is unmatched by other community banks, and as most national banks continue to look upstream and reduce efforts across our footprint, we are able to step in and offer our clients a product and technology suite that matches the national banks but with our customized service level. There is no other bank like us in our geographic markets.

We are excited. There is an incredible opportunity ahead of us that can be captured with diligence, hard work, and a commitment to evolve with the industry and technology. The writer of *Ecclesiastes* noted in verse 11 of the 9th chapter that "*…the race is not to the swift, nor the battle to the strong, neither yet bread to the wise, nor yet riches to men of understanding, nor yet favour to men of skill; but time and chance happeneth to them all.*" I am not saying we are any of those things, but the best laid plans mean nothing if not executed in the right circumstances. Banking industry changes are swirling around us at an accelerating pace, and we remain vigilant and observant about the impacts they will have on us. That does not mean we will always be right or react as quickly as we could, but we also recognize success is an iterative process and with energy and a rabid focus on our client experience we can continue to create outsized value for our investors.

Our growth and success in 2018 also came in the form of key talent acquisitions. We significantly added to the depth and breadth of the team across our business lines, and as a result are much better positioned to deal with any events, expected or unexpected, that impact the management team. While perhaps not exciting, this is a key business item you as an investor should take comfort in.

Please contact me with any questions, comments, or suggestions you have. My phone number is 540-743-6521 and my e-mail address is bplum@mybrb.com.

Thank you for your continued trust and investment dollars. We do not take it lightly, and we'll continue to work hard for you.

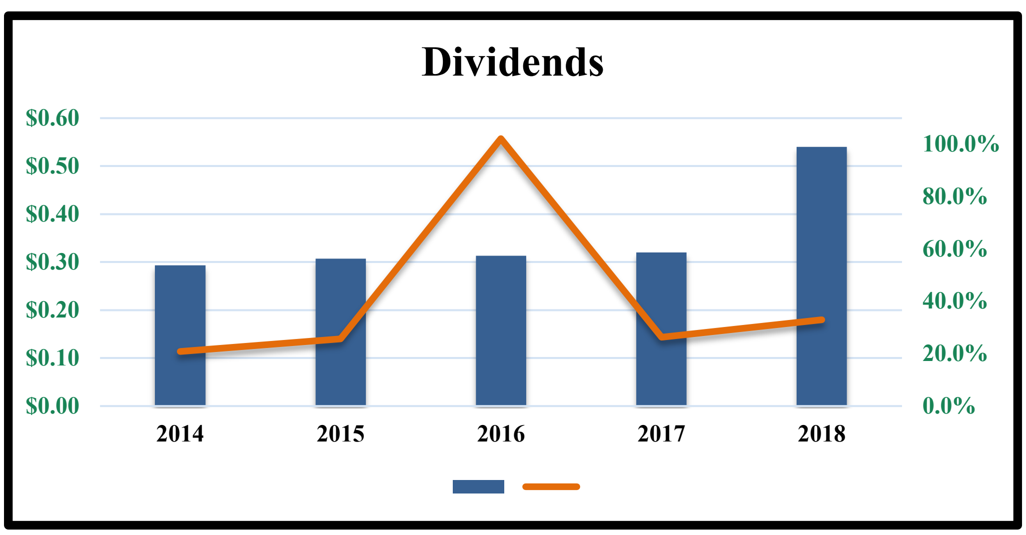
Sincerely,

Brian K Plum

Brian K. Plum
President and Chief Executive Officer

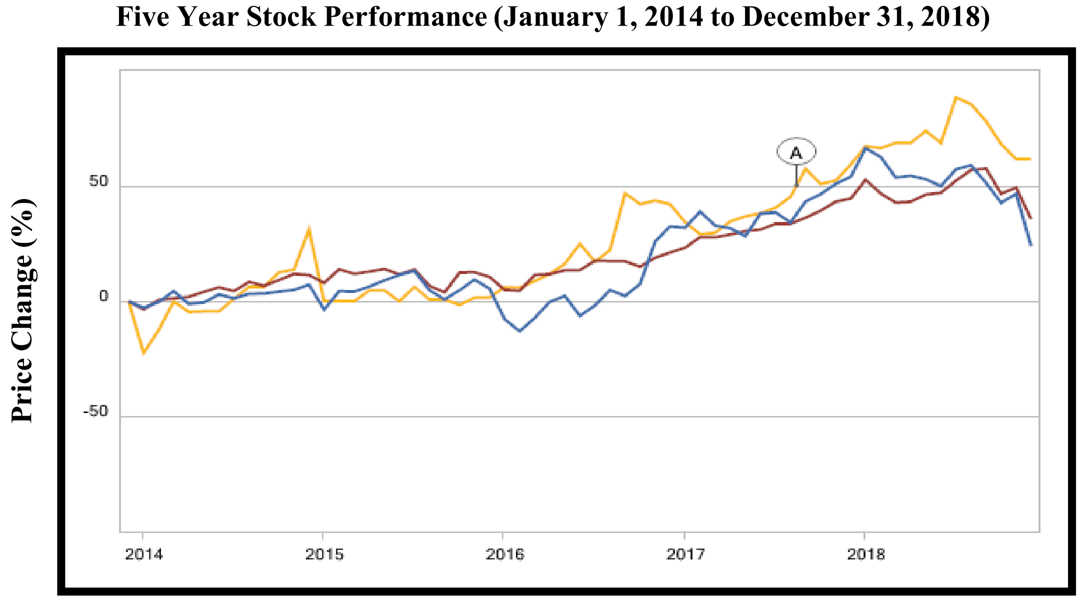
BLUE RIDGE BANKSHARES, INC.
FINANCIAL HIGHLIGHTS

	2018	2017	2016	2015	2014
For The Year					
Net income	$ 4,572,709	$ 3,350,124	$ 688,728	$ 2,498,105	$ 2,029,062
Net income available to common stockholders	4,559,269	3,350,520	688,728	2,453,105	1,984,062
Common stock dividends paid	1,500,578	880,443	708,443	611,430	412,934
Earnings per common share	1.64	1.22	0.31	1.19	1.41
Dividends per common share	0.540	0.320	0.313	0.307	0.293
At Year End					
Total assets	$ 539,589,524	$ 424,122,390	$ 418,124,046	$ 268,910,152	$ 239,353,596
Total investments	58,750,128	48,994,839	42,607,381	37,957,139	37,056,056
Net loans held for investment	411,288,250	328,002,333	317,614,392	204,936,540	184,723,649
Deposits	415,026,585	339,289,742	340,874,155	196,491,845	183,898,642
Total equity	39,620,139	36,441,623	33,627,105	24,100,824	24,786,488
Common stockholders' equity	39,407,095	36,242,019	33,627,105	24,100,824	20,286,488
Book value per common share	14.11	13.10	12.29	11.46	10.64
Number of common stock shares outstanding	2,792,885	2,765,635	2,737,136	2,102,267	1,905,833
Key Ratios					
Return on average assets	0.95%	0.80%	0.20%	0.98%	0.89%
Return on average equity	12.02%	9.56%	2.39%	10.22%	9.22%
Return on average common equity	12.05%	9.59%	2.39%	11.05%	11.33%
Total stockholders' equity to assets	7.34%	8.59%	8.04%	8.96%	10.36%
Common stockholders' equity to assets	7.30%	8.55%	8.04%	8.96%	8.48%



Dividends per Common Share
Dividend Payout Ratio

Five Year Stock Performance (January 1, 2014 to December 31, 2018)



OTC Pink: BRBS: 61.72%
S&P 500: 35.63%
KBW Nasdaq Bank: 23.86%

Ⓐ 2017 Stock-Split

Source: S&P Global Market Intelligence

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

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2018

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BROWNEDWARDS
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, 2018 and 2017, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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.

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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, 2018 and 2017, 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 13, 2019

BLUE RIDGE BANKSHARES, INC.
CONSOLIDATED BALANCE SHEETS
December 31, 2018 and 2017

ASSETS	2018	2017
Cash and due from banks (Note 1)	$ 15,025,651	$ 10,319,189
Federal funds sold	546,000	88,000
Investment securities		
Securities available for sale (at fair value) (Note 2)	38,046,596	32,578,294
Securities held to maturity (fair value of $15,503,426 in 2018, $13,414,988 in 2017) (Note 2)	15,565,086	13,206,415
Restricted investments	5,138,446	3,210,130
Total Investment Securities	58,750,128	48,994,839
Loans held for sale (Note 3)	29,233,325	17,219,636
Loans held for investment (Note 3)	414,867,966	330,804,825
Allowance for loan losses (Note 3)	(3,579,716)	(2,802,492)
Net Loans Held for Investment	411,288,250	328,002,333
Bank premises and equipment, net (Note 4)	3,343,030	2,277,269
Bank owned life insurance (Note 1)	8,454,893	7,654,471
Goodwill (Note 10)	2,694,164	2,094,164
Other assets	10,254,083	7,472,489
Total Assets	$ 539,589,524	$ 424,122,390
LIABILITIES		
Deposits		
Demand deposits		
Noninterest bearing	$ 88,264,516	$ 61,387,671
Interest bearing	128,077,956	88,356,225
Savings deposits	28,922,144	27,532,229
Time deposits (Note 5)	169,761,969	162,013,617
Total Deposits	415,026,585	339,289,742
Other borrowed funds (Note 6)	73,100,000	36,044,626
Subordinated debt, net of issuance costs (Note 7)	9,766,554	9,732,671
Other liabilities	2,076,246	2,613,728
Total liabilities	499,969,385	387,680,767
STOCKHOLDERS' EQUITY		
Common stock and related surplus, no par value; authorized 10,000,000 (2018) and 5,000,000 (2017); outstanding 2,792,885 and 2,765,636, respectively (Note 8)	16,452,452	16,323,685
Contributed equity	251,543	194,864
Retained earnings	23,321,026	20,190,047
Accumulated other comprehensive income	(617,926)	(323,621)
	39,407,095	36,384,975
Unearned ESOP shares	-	(142,956)
Total Stockholders' Equity	39,407,095	36,242,019
Noncontrolling interest	213,044	199,604
Total Equity	39,620,139	36,441,623
Total Liabilities and Stockholders' Equity	$ 539,589,524	$ 424,122,390

The accompanying notes are an integral part of this statement.

BLUE RIDGE BANKSHARES, INC.
CONSOLIDATED STATEMENTS OF INCOME
December 31, 2018 and 2017

	2018	2017
INTEREST INCOME		
Interest and fees on loans held for investment	$ 19,692,607	$ 16,430,902
Interest and fees on loans held for sale	785,794	505,013
Interest on federal funds sold	17,016	16,753
Interest and dividends on taxable investment securities	1,649,255	1,278,031
Interest and dividends on nontaxable investment securities	291,889	250,458
Total Interest Income	22,436,561	18,481,157
INTEREST EXPENSE		
Interest on savings and interest bearing demand deposits	813,657	490,246
Interest on time deposits	2,698,546	2,238,186
Interest on borrowed funds	1,639,602	1,202,505
Total Interest Expense	5,151,805	3,930,937
Net Interest Income	17,284,756	14,550,220
PROVISION FOR LOAN LOSSES	1,225,000	1,095,000
Net Interest Income after Provision for Loan Losses	16,059,756	13,455,220
OTHER INCOME		
Service charges on deposit accounts	635,207	654,893
Earnings on investment in life insurance	200,422	138,161
Small business investment company fund income	208,215	162,126
Mortgage brokerage income	2,724,048	1,527,203
Gain on sale of mortgages	4,541,061	4,139,475
Gain on sale of available for sale securities	5,242	192,161
Gain on sale of government guaranteed USDA loans	-	264,069
Other noninterest income	1,808,476	720,437
Total Other Income	10,122,671	7,798,525
OTHER EXPENSES		
Salaries and employee benefits	11,842,850	8,690,038
Occupancy and equipment expenses	1,614,174	1,615,892
Data processing	1,110,574	891,825
Communications	401,350	480,637
Advertising expense	484,775	371,077
Debit card expenses	290,013	270,252
Directors fees	190,220	202,150
Audits and examinations	142,515	116,176
Other taxes and assessments	800,871	636,222
Other contractual services	544,497	351,477
Other noninterest expense	3,040,734	2,220,770
Total Other Expenses	20,462,573	15,846,516
Income before income taxes & noncontrolling interest	5,719,854	5,407,229
INCOME TAX EXPENSE (Note 12)	1,147,145	2,057,105
Net Income	4,572,709	3,350,124
Net (income) loss attributable to noncontrolling interest	(13,440)	396
Net income attributable to Blue Ridge Bankshares, Inc.	$ 4,559,269	$ 3,350,520
Net Income Available to Common Stockholders	$ 4,559,269	$ 3,350,520
Earnings per Share	$ 1.64	$ 1.22
Weighted Average Shares Outstanding	2,779,090	2,751,503

The accompanying notes are an
integral part of this statement.

BLUE RIDGE BANKSHARES, INC.
CONSOLIDATED STAEMENTS OF COMPREHENSIVE INCOME
December 31, 2018 and 2017

	2018	2017
Net Income	$ 4,572,709	$ 3,350,124
Other comprehensive income:		
Gross unrealized gains (losses) arising during the period	(275,325)	(16,524)
Adjustment for income tax benefit	57,450	5,618
	(217,875)	(10,906)
Less:		
Reclassification adjustment for gains included in net income	(5,242)	(192,161)
Adjustment for income tax expense	1,100	75,726
	(4,142)	(116,435)
Other comprehensive income (loss), net of tax	(222,017)	(127,341)
Comprehensive income	$ 4,350,692	$ 3,222,783
Comprehensive (income) loss attributable to noncontrolling interest	$ (13,440)	$ 396
Comprehensive income attributable to Blue Ridge Bankshares, Inc.	$ 4,337,252	$ 3,223,179

The accompanying notes are an integral part of this statement.

BLUE RIDGE BANKSHARES, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
December 31, 2018 and 2017

	Common Stock & Related Surplus	Contributed Equity	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest	Unearned ESOP Shares	Total
Balance, December 31, 2016	$ 16,270,152	$ 131,357	$ 17,666,715	$ (143,025)	$ -	$ (298,094)	$ 33,627,105
Comprehensive Net Income							
Net income	-	-	3,350,520	-	(396)	-	3,350,124
Changes in unrealized gains on securities available for sale, net of deferred income tax asset of $81,344	-	-	-	(180,596)	-	-	(180,596)
Tax rate change effect	-	-	53,255	-	-	-	53,255
Total Comprehensive Income	-	-	-	-	-	-	3,222,783
Issuance of restricted common stock	53,533	-	-	-	-	-	53,533
Release of unearned ESOP shares	-	63,507	-	-	-	155,138	218,645
Noncontrolling interest	-	-	-	-	200,000	-	200,000
Common stock dividends	-	-	(880,443)	-	-	-	(880,443)
Balance, December 31, 2017	16,323,685	194,864	20,190,047	(323,621)	199,604	(142,956)	$ 36,441,623
Comprehensive Net Income							
Net income (loss)	-	-	4,559,269	-	13,440	-	4,572,709
Changes in unrealized gains on securities available for sale, net of deferred income tax asset of $58,550	-	-	-	(222,017)	-	-	(222,017)
Total Comprehensive Income	-	-	-	-	-	-	4,350,692
Reclassification of equity securities	-	-	72,288	(72,288)	-	-	-
Issuance of restricted common stock, net of forfeitures	128,767	-	-	-	-	-	128,767
Release of unearned ESOP shares	-	56,679	-	-	-	142,956	199,635
Common stock dividends	-	-	(1,500,578)	-	-	-	(1,500,578)
Balance, December 31, 2018	$ 16,452,452	$ 251,543	$ 23,321,026	$ (617,926)	$ 213,044	$ -	$ 39,620,139

The accompanying notes are an integral part of this statement.

BLUE RIDGE BANKSHARES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
December 31, 2018 and 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 4,572,709	$ 3,350,124
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	1,225,000	1,095,000
Deferred income taxes	8,763	(324,604)
Net (increase) decrease in loans held for sale, originated	(8,433,389)	2,640,840
(Gain) loss on disposition of assets	(795)	52,291
Loss on sale of other real estate owned	-	11,010
Securities gains	(5,242)	(192,161)
Depreciation	414,794	374,277
Investment amortization expense, net	238,621	212,209
Amortization of debt refinancing fees	63,472	76,167
Amortization of subordinated debt issuance costs	33,883	33,881
Amortization of other intangibles	504,677	437,992
(Increase) Decrease in other assets	(3,381,856)	979,372
Increase (Decrease) in accrued expenses	(537,481)	1,313,392
Increase in carrying value of life insurance investments	(200,422)	(138,161)
Release of unearned ESOP shares	199,635	218,645
Total adjustments	(9,870,340)	6,790,150
Net Cash (Used in) Provided by Operating Activities	(5,297,631)	10,140,274
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of securities available for sale	(11,581,996)	(14,076,296)
Purchases of securities held to maturity	(4,400,884)	(1,144,048)
Proceeds from calls, maturities, sales, paydowns and maturities of securities available for sale	5,274,262	2,382,784
Proceeds from calls, maturities, paydowns and maturities of securities held for investment	1,915,000	6,622,239
(Decrease) increase in federal funds sold	(458,000)	1,638,000
Net increase in loans held for investment	(84,510,917)	(11,482,941)
Net (increase) decrease in loans held for sale, participated	(3,580,300)	4,795,425
Purchase of bank premises and equipment	(1,496,773)	(197,438)
Capital calls of SBIC funds and other investments	(552,031)	(220,590)
Nonincome distributions from limited liability companies	97,403	30,725
Proceeds from sale of assets	17,013	-
Purchase of bank owned life insurance	(600,000)	(3,000,000)
Increase in restricted investments	(1,475,618)	(400,870)
Net Cash Used in Investing Activities	(101,352,841)	(15,053,010)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net change in demand and savings deposits	67,988,491	(2,291,448)
Net change in time deposits	7,748,352	707,035
Federal Home Loan Bank advances	185,300,000	26,000,000
Federal Home Loan Bank repayments	(148,157,000)	(22,500,000)
Common stock dividends paid	(1,500,578)	(880,443)
Issuance of restricted common stock, net of forfeitures	128,767	53,533
Noncontrolling interest	-	199,604
Repayment of contingent ESOP liability	(151,098)	(154,805)
Net Cash Provided by Financing Activities	111,356,934	1,133,476
CASH AND CASH EQUIVALENTS		
Net increase in cash and cash equivalents	4,706,462	(3,779,260)
Cash and Cash Equivalents, Beginning of Year	10,319,189	14,098,449
Cash and Cash Equivalents, End of Year	$ 15,025,651	$ 10,319,189

The accompanying notes are an
integral part of this statement.

BLUE RIDGE BANKSHARES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
December 31, 2018 and 2017

	2018	2017
SUPPLEMENTAL INFORMATION		
Interest Paid	$ 4,984,907	$ 3,872,382
Income taxes paid	1,350,000	650,000

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. (the "Company") through Blue Ridge Bank, N.A. (the "Bank") operates under a national charter and provides commercial banking services and mortgage lending services. The Bank is subject to regulation by the Office of the Comptroller of the Currency as a nationally chartered institution. The Bank provides commercial banking services to customers located primarily in the Piedmont, Southside, and Shenandoah Valley regions of the Commonwealth of Virginia and also operates under the name Carolina State Bank in Greensboro, North Carolina. Mortgage lending services are provided in these regions as well, with additional mortgage offices located in Northern Virginia, Maryland, North Carolina, and Florida.

Consolidation policy

The consolidated financial statements include the accounts of Blue Ridge Bankshares, Inc. and its wholly-owned subsidiaries, Blue Ridge Bank, N.A. and PVB Properties, LLC, as well as MoneyWise Payroll Solutions, Inc, of which Blue Ridge Bank, N.A. has a controlling ownership interest. All significant intercompany balances and transactions have been eliminated.

Use of estimates in the preparation of financial statements

Management is required to make estimates and assumptions that affect the reported amounts in preparing the financial 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. The Bank also has compensating balance agreements with is 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, 2018 and 2017 was $775,000.

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.

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

Investment securities (Continued)

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.

Loans held for sale

Mortgage loans originated or purchased and intended for sale in the secondary market are carried at the lower of cost or estimated market value in the aggregate. The agreed upon sales price is considered fair value as all of these loans are under agreements to sell to investors at the time of origination. This amount is generally the loan's principal amount. Changes in fair value are recognized in the gain on sale of mortgages on the consolidated statements of income.

Loans held for investment

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.

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

Allowance for loan losses (Continued)

The allowance consists of specific, general, and unallocated components. The specific component relates to loans that are classified as 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 at least two prior years.

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.

There have been no significant changes to the methods used to determine the allowance for loan losses during the years ended December 31, 2018 and 2017.

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.

Small business investment company (SBIC) fund income

The Bank has an interest in several SBIC funds. The Bank's obligations to these funds are satisfied in the form of capital calls that occur during the commitment period. Two-thirds of income distributions from these funds are shown as a reduction to the Bank's principal investment. The remaining one-third is recognized as income until the investment principal has been recovered. All distributions in excess of initial investment are recognized as income.

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

Advertising costs

Advertising costs are expensed as incurred.

Bank premises and equipment

Bank premises and equipment are stated at cost less 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.

Other real estate owned (foreclosed assets)

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Expenses associated with the maintenance and upkeep of other real estate owned are recorded as other real estate expense.

Assets acquired through loan foreclosure that are guaranteed by governmental agencies are carried as a receivable for the value which is guaranteed. The remainder of the asset is recorded at fair value at the date of foreclosure and valuations are periodically performed by management. The assets are carried at the lower of carrying amount or fair value less cost to sell.

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

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

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.

(Continued)

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

Subsequent events

Subsequent events have been evaluated through March 13, 2019, the date the financial statements were available to be issued.

Note 2. 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, 2018				
Available for Sale (AFS)				
State and municipal	$ 1,000,240	$ 3,170	$ -	$ 1,003,410
U.S. Treasury and agencies	3,374,917	-	208,358	3,166,559
Mortgage backed securities	28,975,918	22,306	628,172	28,370,052
Corporate bonds	5,477,239	77,279	47,943	5,506,575
	38,828,314	102,755	884,473	38,046,596
Held to Maturity (HTM)				
State and municipal	15,565,086	78,649	140,309	15,503,426
	15,565,086	78,649	140,309	15,503,426
Total Investment Securities	$ 54,393,400	$ 181,404	$ 1,024,782	$ 53,550,022

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2017				
Available for Sale (AFS)				
State and municipal	$ 1,321,005	$ 23,658	$ -	$ 1,344,663
U.S. Treasury and agencies	3,374,900	-	174,169	3,200,731
Mortgage backed securities	22,910,329	20,751	504,001	22,427,079
Corporate bonds	4,825,614	119,406	20,000	4,925,020
Equity securities	556,091	149,611	24,901	680,801
	32,987,939	313,426	723,071	32,578,294
Held to Maturity (HTM)				
State and municipal	13,206,415	224,180	15,607	13,414,988
	13,206,415	224,180	15,607	13,414,988
Total Investment Securities	$ 46,194,354	$ 537,606	$ 738,678	$ 45,993,282

Proceeds from sales, calls, and maturities of AFS securities during 2018 and 2017 were $5,274,262 and $2,382,784, respectively, resulting in a gain of $5,242 and $192,161, respectively.

(Continued)

Note 2. Investment Securities (Continued)

During 2018 and 2017, HTM securities with book values of $1,915,000 and $6,622,239, respectively, were either called or matured resulting in no gain or loss for either year.

Investment securities with an approximate fair value of $26,408,094 and $15,541,000, at December 31, 2018 and 2017, 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, 2018, 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	$ 500,240	$ 502,130	$ 302,493	$ 302,412
After one year through five years	2,499,917	2,436,714	4,088,803	4,109,832
After five years through ten years	8,546,937	8,346,572	2,687,057	2,678,578
After ten years	27,281,220	26,761,180	8,486,733	8,412,604
	38,828,314	38,046,596	15,565,086	15,503,426

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

December 31, 2018	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	$ 6,278,495	$ (105,118)	$ 2,402,406	$ (35,191)	$ 8,680,901	$ (140,309)
U.S. Treasury and Agency	-	-	3,166,559	(208,358)	3,166,559	(208,358)
Mortgage backed	10,030,885	(50,590)	17,172,584	(577,582)	27,203,469	(628,172)
Corporate bonds	2,114,453	(35,548)	487,605	(12,395)	2,602,058	(47,943)
Total	$ 18,423,833	$ (191,256)	$ 23,229,154	$ (833,526)	$ 41,652,987	$ (1,024,782)

Note 2. Investment Securities (Continued)

December 31, 2017	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	$ 2,306,451	$ (15,607)	$ -	$ -	$ 2,306,451	$ (15,607)
U.S. Treasury and Agency	-	-	3,200,731	(174,169)	3,200,731	(174,169)
Mortgage backed	11,442,024	(237,469)	8,490,769	(266,532)	19,932,793	(504,001)
Corporate bonds	1,230,000	(20,000)	-	-	1,255,099	(44,901)
Equity securities	-	-	25,099	(24,901)	-	-
Total	$ 14,978,475	$ (273,076)	$ 11,716,599	$ (465,602)	$ 26,695,074	$ (738,678)

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.

The Company had securities which have depreciated 2.51% in value from the amortized cost at December 31, 2018. Included in this total are securities that have been in a continuous loss position for more than twelve months. 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. No declines are deemed to be other-than-temporary as management has the ability and intent to hold debt securities until maturity, or for the foreseeable future if classified as AFS.

Note 3. Loans Receivable and Related Allowance for Loan Losses

The following table summarizes the primary segments of the loan portfolio (in thousands):

	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
December 31, 2018			
Residential loans	$ 293	$ 132,219	$ 132,512
Commercial real estate loans			
Non owner-occupied & multi-family	-	91,229	91,229
Owner-occupied & farmland	1,258	62,169	63,427
Construction loans			
Residential construction	-	15,097	15,097
Commercial construction & raw land	-	14,614	14,614
Home equity loans	395	16,798	17,193
Consumer loans	-	31,991	31,991
Commercial/farm loans	-	40,625	40,625
Municipal/other loans	-	8,688	8,688
Unearned income on loans	-	(508)	(508)
Total	$ 1,946	$ 412,922	$ 414,868

	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total
December 31, 2017			
Residential loans	$ -	$ 106,243	$ 106,243
Commercial real estate loans			
Non owner-occupied & multi-family	700	49,227	49,927
Owner-occupied & farmland	1,091	64,865	65,956
Construction loans			
Residential construction	-	8,130	8,130
Commercial construction & raw land	-	11,967	11,967
Home equity loans	395	12,875	13,270
Consumer loans	-	25,491	25,491
Commercial/farm loans	1,041	37,484	38,525
Municipal/other loans	-	11,763	11,763
Unearned income on loans	-	(467)	(467)
Total	$ 3,227	$ 327,578	$ 330,805

The Bank's loan portfolio is disaggregated to a level that is consistent with applicable call report codes to allow management to better monitor risk and performance. In general, the loan portfolio is segmented into the following categories: (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; however, each category may consist of multiple call report codes.

(Continued)

Note 3. Loans Receivable and Related Allowance for Loan Losses (Continued)

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, and 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. 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.

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 $1,946,000 and $3,227,000 in loans individually evaluated for impairment as of December 31, 2018 and 2017, respectively.

Note 3. Loans Receivable and Related Allowance for Loan Losses (Continued)

Loans acquired in a transfer, including business combinations, where there is evidence of credit deterioration since origination and it is probable at the date of acquisition that we will not collect all contractually required principal and interest payments, are accounted for as purchased impaired loans. Purchased impaired loans are initially recorded at fair value, which includes estimated future credit losses expected to be incurred over the life of the loan. Accordingly, the historical allowance for credit losses related to these loans is not carried over.

Purchased loans from the 2016 River Bancorp, Inc. acquisition had remaining balances of $34,672,107 and 49,831,573 as of December 31, 2018 and 2017, respectively. Of these balances, three loan relationships were considered specifically impaired purchased credit-impaired loans. One of these relationships was resolved during 2018 and the Company recovered $200,000 of the balance previously written-off. At December 31, 2018, the remaining specifically impaired PCI loans totaled $2,761,919 with a specific impairment of $390,000. The following table presents the segments of the River Bancorp, Inc. purchased loans as of December 31, 2018 (in thousands):

	River Bancorp, Inc. Purchased Loan Balances	
	2018	2017
Real Estate		
Construction loans and all land development and other land loans	$ 1,522	$ 1,712
Secured by farmland	319	512
Revolving, open-end loans secured by 1-4 family residential properties and extended under lines of credit	3,376	3,659
Secured by first liens	10,448	13,727
Secured by junior liens	505	875
Secured by multifamily (5 or more) residential properties	250	984
Loans secured by owner-occupied, nonfarm nonresidential properties	7,344	11,701
Loans secured by other nonfarm nonresidential properties	6,239	8,284
Commercial and Industrial	4,457	7,841
Other		
Other revolving credit plans	89	252
Automobile loans	30	100
Other consumer loans	93	185
Total	$ 34,672	$ 49,832

Note 3. Loans Receivable and Related Allowance for Loan Losses (Continued)

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.

The Bank has a structured loan rating process with both internal and external oversight 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'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 an annual basis of all relationships greater than $2,400,000. The internal audit function of the Bank reviews a sample of new loans throughout 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 3. Loans Receivable and Related Allowance for Loan Losses (Continued)

The following tables present the classes of the loan portfolio summarized by the aggregate Pass, Watch and the criticized categories of Special Mention, Substandard, and Doubtful within the internal watch risk rating system as of December 31, 2018 and 2017 (in thousands):

	Pass	Watch/ Special Mention	Substandard	Doubtful	Total
December 31, 2018					
Commercial real estate loans					
Non owner-occupied & multi-family	$ 90,884	$ 345	$ -	$ -	$ 91,229
Owner-occupied & farmland	58,924	1,323	3,180	-	63,427
Construction loans					
Residential construction loans	15,097	-	-	-	15,097
Commercial construction & raw land loans	13,594	-	1,020	-	14,614
Commercial/farm loans	40,313	-	312	-	40,625
Municipal/other loans	8,688	-	-	-	8,688
	227,500	1,668	4,512	-	233,680
Less: Unearned revenue	(449)	-	-	-	(449)
Total	$227,051	$ 1,668	$ 4,512	$ -	$ 233,231

	Pass	Watch/ Special Mention	Substandard	Doubtful	Total
December 31, 2017					
Commercial real estate loans					
Non owner-occupied & multi-family	$ 47,228	$ 2,004	$ 695	$ -	$ 49,927
Owner-occupied & farmland	62,826	-	3,130	-	65,956
Construction loans					
Residential construction loans	8,130	-	-	-	8,130
Commercial construction & raw land loans	10,612	-	1,355	-	11,967
Commercial/farm loans	37,045	-	1,480	-	38,525
Municipal/other loans	11,763	-	-	-	11,763
	177,604	2,004	6,660	-	186,268
Less: Unearned revenue	(261)	-	-	-	(261)
Total	$177,343	$ 2,004	$ 6,660	$ -	$ 186,007

Note 3. Loans Receivable and Related Allowance for Loan Losses (Continued)

The following tables present (in thousands) the classes of the loan portfolio for which loan performance is the primary credit quality indicator as of December 31, 2018 and 2017:

	Residential Loans	Home Equity Loans	Consumer Loans	Total
December 31, 2018				
Performing loans	$ 131,515	$ 16,749	$ 31,634	$ 179,898
Non-performing loans	997	444	357	1,798
	132,512	17,193	31,991	181,696
Less: Unearned revenue	(201)	42	100	(59)
Total	$ 132,311	$ 17,235	$ 32,091	$ 181,637

	Residential Loans	Home Equity Loans	Consumer Loans	Total
December 31, 2017				
Performing loans	$ 105,675	$ 12,875	$ 25,295	$ 143,845
Non-performing loans	568	395	196	1,159
	106,243	13,270	25,491	145,004
Less: Unearned revenue	(297)	27	64	(206)
Total	$ 105,946	$ 13,297	$ 25,555	$ 144,798

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.

Note 3. Loans Receivable and Related Allowance for Loan Losses (Continued)

The following tables present the classes of the loan portfolio summarized by the aging categories of performing loans and nonaccrual loans as of December 31, 2018 and 2017 (in thousands):

December 31, 2018	Current	30-59 Days Past Due	60 - 89 Days Past Due	90 Days+ Past Due	Total Past Due	Non-Accrual	Total Loans
Residential loans	$ 129,728	$ 701	$ 7	$ 1,079	$ 1,787	$ 997	$ 132,512
Commercial real estate loans							
Non owner-occupied/multi-family	91,075	-	154	-	154	-	91,229
Owner-occupied & farmland	59,619	341	287	739	1,367	2,441	63,427
Construction loans							
Residential construction loans	14,866	-	-	231	231	-	15,097
Commercial construction & raw land loans	13,635	-	-	-	-	979	14,614
Home equity loans	16,690	59	-	-	59	444	17,193
Consumer loans	30,205	1,017	408	4	1,429	357	31,991
Commercial/farm loans	40,004	280	29	-	309	312	40,625
Municipal/other loans	8,688	-	-	-	-	-	8,688
Unearned income on loans	(508)	-	-	-	-	-	(508)
Total	$ 404,002	$ 2,398	$ 885	$ 2,053	$ 5,336	$ 5,530	$ 414,868

December 31, 2017	Current	30-59 Days Past Due	60 - 89 Days Past Due	90 Days+ Past Due	Total Past Due	Non-Accrual	Total Loans
Residential loans	$ 105,622	$ 23	$ -	$ 30	$ 53	$ 568	$ 106,243
Commercial real estate loans							
Non owner-occupied/multi-family	49,232	-	-	-	-	695	49,927
Owner-occupied & farmland	62,778	48	-	-	48	3,130	65,956
Construction loans							
Residential construction loans	8,130	-	-	-	-	-	8,130
Commercial construction & raw land loans	10,931	-	-	-	-	1,036	11,967
Home equity loans	12,875	-	-	-	-	395	13,270
Consumer loans	24,281	786	228	-	1,014	196	25,491
Commercial/farm loans	36,699	235	55	43	333	1,493	38,525
Municipal/other loans	11,763	-	-	-	-	-	11,763
Unearned income on loans	(467)	-	-	-	-	-	(467)
Total	$ 321,844	$ 1,092	$ 283	$ 73	$ 1,448	$ 7,513	$ 330,805

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 3. 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: changes in lending policies and procedures, changes in international, national, regional, and local conditions, changes in the nature and volume of the portfolio and terms of loans, changes in the experience, depth, and ability of lending management, changes in the volume and severity of past due loans and other similar conditions, changes in the quality of the organization's loan review system, changes in the value of underlying collateral for dependent loans, the existence and effect of any concentrations of credit and changes in the levels of such concentrations, and the effect of other external factors.

Management reviews the loan portfolio on a monthly 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.

(Continued)

Note 3. Loans Receivable and Related Allowance for Loan Losses (Continued)

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, 2018 and 2017. Activity in the allowance is presented for the each of the twelve months ended December 31, 2018 and 2017 (in thousands):

	Commercial	Commercial Real Estate	Consumer	Residential	Municipal	Total
ALLL Balance at December 31, 2017	$ 537	$ 826	$ 936	$ 445	$ 58	$ 2,802
Charge-offs	(6)	-	(544)	(13)	-	(563)
Recoveries	12	-	104	-	-	116
Provision	96	377	704	58	(10)	1,225
ALLL Balance at December 31, 2018	$ 639	$ 1,203	$ 1,200	$ 490	$ 48	$ 3,580
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	$ 639	$ 1,203	$ 1,200	$ 490	$ 48	$ 3,580

	Commercial	Commercial Real Estate	Consumer	Residential	Municipal	Total
ALLL Balance at December 31, 2016	$ 294	$ 658	$ 631	$ 365	$ 65	$ 2013
Charge-offs	-	(71)	(365)	-	-	(436)
Recoveries	34	-	95	1	-	130
Provision	209	239	575	79	(7)	1,095
ALLL Balance at December 31, 2017	$ 537	$ 826	$ 936	$ 445	$ 58	$ 2,802
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	$ 537	$ 826	$ 936	$ 445	$ 58	$ 2,802

Note 3. Loans Receivable and Related Allowance for Loan Losses (Continued)

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.

Loans with a carrying amount of $105 million were pledged to secure short-term and long-term borrowings with the Federal Home Loan Bank at December 31, 2018.

Loans held for sale includes the Bank's commitment to purchase up to $20,000,000 in residential mortgage loan fundings originated 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 also has an in-house residential mortgage loan division that originates loans held for sale. The balance of loans held for sale was $29,233,325 and $17,219,636 at December 31, 2018 and 2017, respectively.

Nonaccrual loans were approximately $5,530,000 and $7,513,000 at December 31, 2018 and 2017, respectively. The Bank is not committed to lend additional funds to borrowers whose loans are considered impaired or whose loans have been modified.

Note 4. Bank Premises and Equipment

Bank premises and equipment are summarized as follows:

	2018	2017
Buildings and land	$ 3,109,573	$ 2,494,030
Furniture, fixtures and equipment	2,976,895	2,450,202
Software	376,508	321,463
Total cost	6,462,976	5,265,695
Less: Accumulated depreciation	(3,119,946)	(2,988,426)
Total, net of depreciation	$ 3,343,030	$ 2,277,269

Depreciation expense for 2018 and 2017 was $414,794 and $374,277, respectively.

Note 5. Time Deposits

The aggregate amounts of certificates of deposit, with a minimum denomination of $250,000 were $39,148,000 and $37,060,000 at December 31, 2018 and 2017, respectively.

Time deposits include brokered deposits purchased through the Certificate of Deposit Account Registry Service (CDARS). The balance of these time deposits was $1,204,844 and $1,221,229 at December 31, 2018 and 2017, 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, 2018, the Bank could have purchased up to approximately $81,000,000 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, 2018, the scheduled maturities of time deposits are as follows:

	Maturities
2019	$ 71,658,999
2020	39,180,287
2021	27,919,644
2022	9,078,767
2023	18,673,176
2024 and beyond	3,251,096
Total	$ 169,761,969

Note 6. 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. The Bank had borrowings from FHLB that totaled $73,100,000 at December 31, 2018. The interest rate on the borrowings range from 1.34% to 3.95% depending on structure and maturity. The borrowings also required the Bank to own $3,487,900 of FHLB stock. This amount is included with restricted investments on the consolidated balance sheets.

The principal on FHLB borrowings matures as follows:

	Maturities
2019	$ 73,100,000

The Bank had fixed rate advances from FHLB totaling $35,893,528 at December 31, 2017.

Note 6. Borrowings (Continued)

The Company issued stock as part of a private placement capital raise in December 2014. The Bank's Employee Stock Ownership Plan (ESOP) purchased stock as part of this raise and borrowed $600,000 from Community Bankers' Bank to fund the purchase. The loan carried an interest rate of 4.50% and was to be repaid in seven annual installments of principal and interest. The Company guaranteed the loan, which was paid off as of December 31, 2018 and carried a balance of $151,098 at December 31, 2017. The 2017 balance is included in other borrowed funds on the consolidated balance sheet. Repayment of the loan came from the Bank's annual discretionary contribution to the ESOP, as well as the Bank's matching component to employee's elective deferrals into the 401(k) plan, the proceeds of which were contributed to the ESOP. The shares purchased with the proceeds of this loan were being used as collateral and were therefore restricted. A prorated portion of the restricted shares were released each year as the loan was repaid. As of December 31, 2018, there are no longer any restricted shares related to this loan. The Company also pledged securities from its AFS portfolio, which were included in restricted investments on the consolidated balance sheet in prior years.

The Bank has established lines of credit for federal funds purchases of $19,000,000 with its correspondent banks. The balance was zero at December 31, 2018 and December 31, 2017.

Note 7. Subordinated Debt

The Company entered into a Subordinated Note Purchase Agreement (the "Purchase Agreement") with 14 institutional accredited investors under which the Company issued an aggregate of $10,000,000 of subordinated notes (the "Notes") to the institutional accredited investors on November 20, 2015. The Notes have a maturity date of December 1, 2025. The Notes bear interest, payable on the 1st of June and December of each year, commencing June 1, 2016, at a fixed rate of 6.75% per year for the first five years, and thereafter will bear a floating interest rate of LIBOR plus 512.8 basis points. The Notes are not convertible into common stock or preferred stock and are not callable by the holders. The Company has the right to redeem the Notes, in whole or in part, without premium or penalty, at any interest payment date on or after December 1, 2020 and prior to the maturity date, but in all cases in a principal amount with integral multiples of $1,000, plus interest accrued and unpaid through the date of redemption. If an event of default occurs, such as the bankruptcy of the Company, the holder of a Note may declare the principal amount of the Note to be due and immediately payable. The Notes are unsecured, subordinated obligations of the Company and will rank junior in right of payment to the Company's existing and future senior indebtedness. The Notes qualify as Tier 2 capital for regulatory reporting.

The Company incurred issuance costs totaling $338,813 as part of the transaction. These costs are being amortized over the life of the Notes. The following table summarizes the balance of the Notes and related issuance costs at December 31, 2018 and 2017:

	2018	2017
Subordinated debt	$ 10,000,000	$ 10,000,000
Unamortized issuance costs	(233,446)	(267,329)
Subordinated debt, net	$ 9,766,554	$ 9,732,671

Note 8. Common Stock

The Company has 10,000,000 shares of no par value authorized common stock of which 2,792,885 shares were issued and outstanding at December 31, 2018. The Company had 5,000,000 shares of no par value authorized common stock of which 2,765,636 shares were issued and outstanding at December 31, 2017.

Note 9. Other Real Estate Owned (Foreclosed Assets)

The Bank had the following amounts in other real estate owned at December 31, 2018 and 2017:

	Estimated Realizable Value	
Real Estate Held	**2018**	**2017**
1 – 4 Family	$ 134,230	$ 207,425

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. Adjustments to reduce the loan balance to net realizable value at the time the properties were 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 consolidated balance sheets.

Foreclosed assets guaranteed by governmental agencies and not included in the above total, amounted to $43,849 and $274,073 at December 31, 2018 and 2017, respectively. These balances are included with other assets on the Company's consolidated balance sheets.

Note 10. Goodwill

The balance in goodwill is the result of a branch acquisition in Charlottesville in 2011, the acquisition of River Bancorp, Inc. in 2016, and the acquisition of a mortgage line of business in 2018. The purpose of these acquisitions was to expand the geographic service area by targeting attractive markets with potential to provide continued balance sheet growth and new opportunities for the Company. Bank management will evaluate at least annually the recorded value of the goodwill. In accordance with GAAP the Company is not amortizing goodwill. In the event the asset suffers a decline in value based on criteria established in governing accounting standards, an impairment will be recorded.

Goodwill	**2018**	**2017**
Charlottesville Branch Acquisition	$ 366,300	$ 366,300
River Bancorp, Inc. Acquisition	1,727,864	1,727,864
Mortgage Business Acquisition	600,000	-
	$ 2,694,164	$ 2,094,164

Note 11. 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:

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, 2018 and 2017 are as follows:

	Fair Value Measurements at Reporting Date Using			
	Fair Value	**(Level 1)**	**(Level 2)**	**(Level 3)**
December 31, 2018				
Available for-sale securities	$ 38,046,596	$ -	$ 38,046,596	$ -
Bank-owned life insurance	8,454,893	-	8,454,893	-
Total	$ 46,501,489	$ -	$ 46,501,489	$ -
December 31, 2017				
Available for-sale securities	$ 32,578,294	$ -	$ 32,578,294	$ -
Bank-owned life insurance	7,654,471	-	7,654,471	-
Total	$ 40,232,765	$ -	$ 40,232,765	$ -

Note 11. Fair Value Measurements (Continued)

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

December 31, 2018:	
Total gains included in earnings for the year	$ 5,242
Change in unrealized gains or losses relating to assets still held at year end	$ (275,325)
December 31, 2017:	
Total gains included in earnings for the year	$ 192,161
Change in unrealized gains or losses relating to assets still held at year end	$ (16,524)

Fair values of assets measured on a non-recurring basis at December 31, 2018 and 2017 are as follows:

	Fair Value Measurements at Reporting Date Using			
	Fair Value	**(Level 1)**	**(Level 2)**	**(Level 3)**
December 31, 2018				
Other real estate owned	$ 134,230	$ -	$ -	$ 134,230
Total	$ 134,230	$ -	$ -	$ 134,230
December 31, 2017				
Other real estate owned	$ 207,425	$ -	$ -	$ 207,425
Total	$ 207,425	$ -	$ -	$ 207,425

For Level 3 assets and liabilities measured at fair value on a recurring basis or non-recurring basis as of December 31, the significant unobservable inputs used in the fair value measurements were as follows:

	Fair Value At December 31, 2018	**Valuation Technique**	**Significant Unobservable Inputs**	**Range**
Other real estate owned	$ 134,230	Discounted appraised value	Discounted for selling costs and age of appraisals	15%-35%

	Fair Value At December 31, 2017	**Valuation Technique**	**Significant Unobservable Inputs**	**Range**
Other real estate owned	$ 207,425	Discounted appraised value	Discounted for selling costs and age of appraisals	15%-35%

Note 11. Fair Value Measurements (Continued)

The estimated fair values, and related carrying amounts (in thousands), of the Company's financial instruments are as follows:

	Carrying Amount	Fair Value Measurements at December 31, 2018			
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value
Financial Assets					
Cash and short-term investments	$ 15,025,651	$ 15,025,651	$ -	$ -	$ 15,025,651
Federal funds sold	546,000	546,000	-	-	546,000
Investment securities	58,750,128	-	58,688,468	-	58,688,468
Loans held for sale	29,233,325	-	29,233,325	-	29,233,325
Net loans held for investment	411,288,250	-	-	404,888,675	404,888,675
Accrued interest receivable	1,769,450	-	1,769,450	-	1,769,450
Bank-owned life insurance	8,454,893	-	8,454,893	-	8,454,893
Financial Liabilities					
Deposits	415,026,585	-	323,280,000	81,070,864	404,350,864
Other borrowed funds	73,100,000	-	73,113,000	-	73,113,000
Subordinated debt, net	9,766,554	-	-	9,766,554	9,766,554
Accrued interest payable	395,892	-	395,892	-	395,892

	Carrying Amount	Fair Value Measurements at December 31, 2017			
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value
Financial Assets					
Cash and short-term investments	$ 10,319,189	$ 10,319,189	$ -	$ -	$ 10,319,189
Federal funds sold	88,000	88,000	-	-	88,000
Investment securities	48,994,839	-	49,203,412	-	49,203,412
Loans held for sale	17,219,636	-	17,219,636	-	17,219,636
Net loans held for investment	328,002,333	-	-	331,854,364	331,854,364
Accrued interest receivable	1,519,577	-	1,519,577	-	1,519,577
Bank-owned life insurance	7,654,471	-	7,654,471	-	7,654,471
Financial Liabilities					
Deposits	339,289,742	-	266,694,000	68,665,051	335,359,051
Other borrowed funds	36,044,626	-	36,162,098	-	36,162,098
Subordinated debt, net	9,732,671	-	-	9,732,671	9,732,671
Accrued interest payable	285,753	-	285,753	-	285,753

Note 12. 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:

	2018	2017
Income taxes computed at the applicable federal income tax rate	$ 1,201,765	$ 2,099,816
Tax exempt municipal income	(89,380)	(137,526)
Income from life insurance	(42,089)	(46,975)
Nondeductible core deposit intangible amortization	64,649	132,187
Other, net	12,200	9,603
Income Tax Expense	$ 1,147,145	$ 2,057,105

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

	2018	2017
Current tax expense	$ 1,155,908	$ 1,732,501
Deferred tax (benefit) expense	(8,763)	324,604
Income tax expense	$ 1,147,145	$ 2,057,105

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 securities gains.

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

	2018	2017
Deferred tax assets	$ 938,743	$ 752,751
Deferred tax liabilities	(433,517)	(314,838)
Net Deferred Tax Asset	$ 505,226	$ 437,913

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 2015 to 2018 are subject to examination by the Internal Revenue Service and the Virginia Department of Taxation.

On December 22, 2017, President Trump signed into law new U.S. tax reform legislation (the “Act”). The Act makes significant changes to U.S. corporate income tax laws including a decrease in the corporate income tax rate to 21% effective for tax years beginning after December 31, 2017. As a result of the change in tax rate, a deferred tax expense of $217,835 was recorded in 2017.

Note 13. 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% of an employee's contribution up to 5% of his or her salary following one year of continuous service and the benefits vest immediately. The Bank's Board of Directors may make additional contributions at its discretion. Employees become eligible to participate in the discretionary contributions after one year of continuous service and the benefits vest over a five-year period. For the years ended December 31, 2018 and 2017, total expenses attributable to this plan were $364,653 and $308,878, respectively.

In 2013, the Company established an Employee Stock Ownership Plan (ESOP) 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 discretionary profit contributions. In December 2014, the ESOP borrowed $600,000 and used the proceeds to purchase 64,286 common shares from the Company. Shares purchased with the borrowed funds were allocated and released to participants over the repayment period of the loan using a formula that considered current contributions to service the debt compared to total expected future contributions. The loan was repaid and all shares released as of December 31, 2018. All shares issued to and held by the Plan are considered outstanding in the computation of earnings per share. The Plan or the Company is required to purchase shares from separated employees at a price determined by a third-party appraisal.

The Company recognized discretionary expenses of $165,000 and $120,000 for contributions to the Plan in 2018 and 2017, respectively. Compensation expense with regards to allocated shares is determined based on the fair value of the stock at the date of allocation and totaled $196,000 for 2018 and $211,000 for 2017. Dividends on shares released are recorded as dividends paid on common stock in the statement of stockholders' equity and totaled approximately $23,000 in 2018. The Plan held 79,800 total shares of Company stock at December 31, 2018 and 2017.

Note 14. Financial Instruments with Off-Balance-Sheet Risk

In the normal course of business, to meet credit needs of customers, the Bank has made commitments to extend credit of $58,664,000 and $45,499,000 as of December 31, 2018 and 2017, 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.

(Continued)

Note 15. 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 $1,319,627 for its interest in five Small Business Investment Company (SBIC) funds. The Bank funded $1,326,873 of its total $2,646,500 investment prior to December 31, 2018, 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.

The Bank sells mortgage loans to unrelated investors. In the event the Bank is not able to deliver certain loan closing documents within the specified time period, the Company may be required to repurchase some of these loans.

Note 16. Lease Commitments

Various facilities are leased under noncancellable operating leases with initial remaining terms in excess of one year and an option for renewal. In addition to minimum rentals, certain leases have escalation clauses and include provisions for additional payments to cover taxes, insurance, and maintenance. Rental expense for 2018 and 2017 was $816,590 and $777,228, respectively.

At December 31, 2018, the aggregate future minimum rental commitments (base rents) under this noncancellable operating lease are as follows:

	Annual Payments
For the year ending December 31,	
2019	$ 1,183,502
2020	1,123,313
2021	971,496
2022	754,243
2023	667,933
Thereafter	1,752,047
Total	$ 6,452,534

Note 17. 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 18. Transactions with Related Parties

During the year, officers, directors, and principal shareholders 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:

	2018	2017
Total loans, beginning of year	$ 11,811,000	$ 7,785,000
Advances	4,180,000	6,293,000
Curtailments	(6,383,000)	(2,267,000)
Total loans, end of year	$ 9,608,000	$ 11,811,000

The Bank held related party deposits of approximately $5,500,000 and $5,664,000 at December 31, 2018 and 2017, respectively.

Note 19. Stock-Based Compensation

The Company has granted restricted stock awards to employees under the Blue Ridge Bank Equity Incentive Plan. The restricted stock awards are considered fixed awards as the number of shares and fair value is known at the date of grant and the fair value at the grant date is amortized over the vesting period. Non-cash compensation expense recognized in the consolidated statements of income related to restricted stock awards, net of estimated forfeitures, was $128,767 and $53,533 for the years ended December 31, 2018 and 2017, respectively. The fair value of restricted stock awards at December 31, 2018 and 2017 was $933,000 and $418,000, respectively.

Note 20. Derivative Instruments and Hedging Activities

The Bank participates in a “mandatory” delivery program for its government guaranteed and conventional mortgage loans. Under the mandatory delivery system, loans with interest rate locks are paired with the sale of a TBA mortgage-backed security bearing similar attributes. Under the mandatory delivery program, the Bank commits to deliver loans to an investor at an agreed upon price prior to the close of such loans. This differs from a “best efforts” delivery, which sets the sale price with the investor on a loan-by-loan basis when each loan is locked.

Note 21. Regulatory Matters

The principal source of funds of Blue Ridge Bankshares, Inc. is dividends paid by its subsidiary bank. The various regulatory authorities impose restrictions on dividends paid by a national bank. A national bank cannot pay dividends (without the consent of the Comptroller of the Currency) 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, 2019, the Bank could pay dividends to Blue Ridge Bankshares, Inc. of approximately $7,358,932 without the permission of regulatory authorities. The ability to pay such a dividend would additionally be affected by the subsidiary bank’s capital availability.

(Continued)

Note 21 Regulatory Matters (Continued)

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, 2018, that the Bank meets all capital adequacy requirements to which it is subject.

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, Common Equity Tier 1, 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 $000s	Ratio	Amount $000s	Ratio	Amount $000s	Ratio
As of December 31, 2018						
Total risk based capital						
(To risk rated assets)						
Blue Ridge Bankshares	$ 43,500	10.78%	$ 32,285	8.0%	N/A	N/A
Blue Ridge Bank, N.A.	$ 48,811	12.11%	$ 32,235	8.0%	$ 40,294	10.0%
Tier I capital						
(To risk rated assets)						
Blue Ridge Bankshares	$ 39,920	9.89%	$ 24,214	6.0%	N/A	N/A
Blue Ridge Bank, N.A.	$ 45,231	11.23%	$ 24,176	6.0%	$ 32,235	8.0%
Common equity tier 1 capital						
(To risk rated assets)						
Blue Ridge Bankshares	$ 39,920	9.89%	$ 18,160	4.5%	N/A	N/A
Blue Ridge Bank, N.A.	$ 45,231	11.23%	$ 18,132	4.5%	$ 26,191	6.5%
Tier I capital						
(To average assets)						
Blue Ridge Bankshares	$ 39,920	8.28%	$ 19,274	4.0%	N/A	N/A
Blue Ridge Bank, N.A.	$ 45,231	8.89%	$ 20,342	4.0%	$ 25,428	5.0%

(Continued)

Note 21 Regulatory Matters (Continued)

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under the Prompt Corrective Action Provisions	
	Amount $000s	Ratio	Amount $000s	Ratio	Amount $000s	Ratio
As of December 31, 2017						
Total risk based capital						
(To risk rated assets)						
Blue Ridge Bankshares	$ 39,328	12.70%	$ 24,767	8.0%	N/A	N/A
Blue Ridge Bank, N.A.	$ 45,127	14.61%	$ 24,714	8.0%	$ 30,893	10.0%
Tier I capital						
(To risk rated assets)						
Blue Ridge Bankshares	$ 36,526	11.80%	$ 18,575	6.0%	N/A	N/A
Blue Ridge Bank, N.A.	$ 42,325	13.70%	$ 18,536	6.0%	$ 24,714	8.0%
Common equity tier 1 capital						
(To risk rated assets)						
Blue Ridge Bankshares	$ 36,526	11.80%	$ 13,932	4.5%	N/A	N/A
Blue Ridge Bank, N.A.	$ 42,325	13.70%	$ 13,902	4.5%	$ 20,080	6.5%
Tier I capital						
(To average assets)						
Blue Ridge Bankshares	$ 36,526	8.67%	$ 16,845	4.0%	N/A	N/A
Blue Ridge Bank, N.A.	$ 42,325	10.33%	$ 16,392	4.0%	$ 20,491	5.0%

On July 7, 2013 the Federal Reserve Board approved the Basel III Final Rule which began 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 changed minimum capital ratios and raised the Tier 1 Risk Weighted Assets to 6% from 4%. In addition, the new rules require a bank to maintain a capital conservation buffer that started at 0.625% beginning in 2016 and reaches 2.50% by 2019. The phase in of this buffer began in 2015 with complete compliance required by 2019. Generally, the Basel III Final Rule requires banks to maintain higher levels of common equity and regulatory capital.

Note 22. Revenue from Contracts with Customers

In May 2014, the FASB issued *ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606).* ASU 2014-09 is a comprehensive revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services.

Interest income, loan fees, realized securities gains and losses, bank owned life insurance income, SBIC income, and mortgage banking revenue are not in the scope of ASC Topic 606. All of our revenue from contracts with customers in the scope of ASC 606 is recognized within noninterest income in the consolidated statements of income. Incremental costs of obtaining a contract are expensed when incurred when the amortization period is one year or less.

Note 22. Revenue from Contracts with Customers (Continued)

A description of our significant sources of revenue accounted for under ASC 606 is as follows:

Service fees on deposit accounts are fees charged to deposit customers for transaction-based, account maintenance and overdraft services. Transaction-based fees, which are earned based on specific transactions or customer activity within a customer's deposit account, are recognized at the time the related transaction or activity occurs, as it is at this point when the customer's request has been fulfilled. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the performance obligation was satisfied. Overdraft fees are recognized when the overdraft occurs. Service fees on deposit accounts are paid through a direct charge to the customer's account.

Bank card revenue is comprised of interchange revenue and ATM fees. Interchange revenue is earned when bank debit and credit cardholders conduct transactions through VISA, MasterCard, and other payment networks. Interchange fees represent a percentage of the underlying cardholder's transaction value and are generally recognized daily, concurrent with the transaction processing services provided to the cardholder. ATM fees are earned when a non-Bank cardholder uses a Bank ATM. ATM fees are recognized daily, as the related ATM transactions are settled.

Payroll processing income is comprised of fees charged to customers for payroll services through MoneyWise Payroll Solutions, Inc., of which Blue Ridge Bank, N.A. owns a controlling interest.

The following table illustrates our total non-interest income segregated by revenues within the scope of ASC Topic 606 and those which are within the scope of other ASC Topics:

	2018	2017
Service fees on deposit accounts	$ 635,207	$ 654,893
Bank card revenue	513,884	446,009
Payroll processing income	1,009,649	235,100
Revenue from contracts with customers	2,158,740	1,336,002
Non-interest income within scope of other ASC topics	7,963,931	6,462,523
Total noninterest income	$ 10,122,671	$ 7,798,525

Note 23. Subsequent Events

On February 1, 2019, the Company purchased a 35% ownership interest in an insurance agency for an aggregate purchase price of $1,018,500. The purchase price is expected to be allocated to goodwill in the amount of $612,500 and an amortizing intangible asset of $406,000, which will be amortized over a period of 12 years.

On February 27, 2019, the Company announced the sale of 1,304,848 shares of common stock for an aggregate price of approximately $19.9 million in a private placement to accredited investors. The Company expects to sell up to an additional 232,000 shares of common stock pursuant to a previously existing non-dilution right. Once completed, the total net proceeds for the Company are expected to be approximately $22.3 million. The Company intends to use the net proceeds of the offering for general corporate purposes, including organic growth.

(Continued)

Note 24. Recent Accounting Pronouncements and Changes

In February 2016, ASU No. 2016-02, *Leases (Topic 842)* was issued by the FASB. In the amendments in this ASU, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date: (1) A lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) A right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted upon issuance. The Company is currently evaluating the effect that implementation of the new standard will have on its financial position, results of operations, and cash flows.

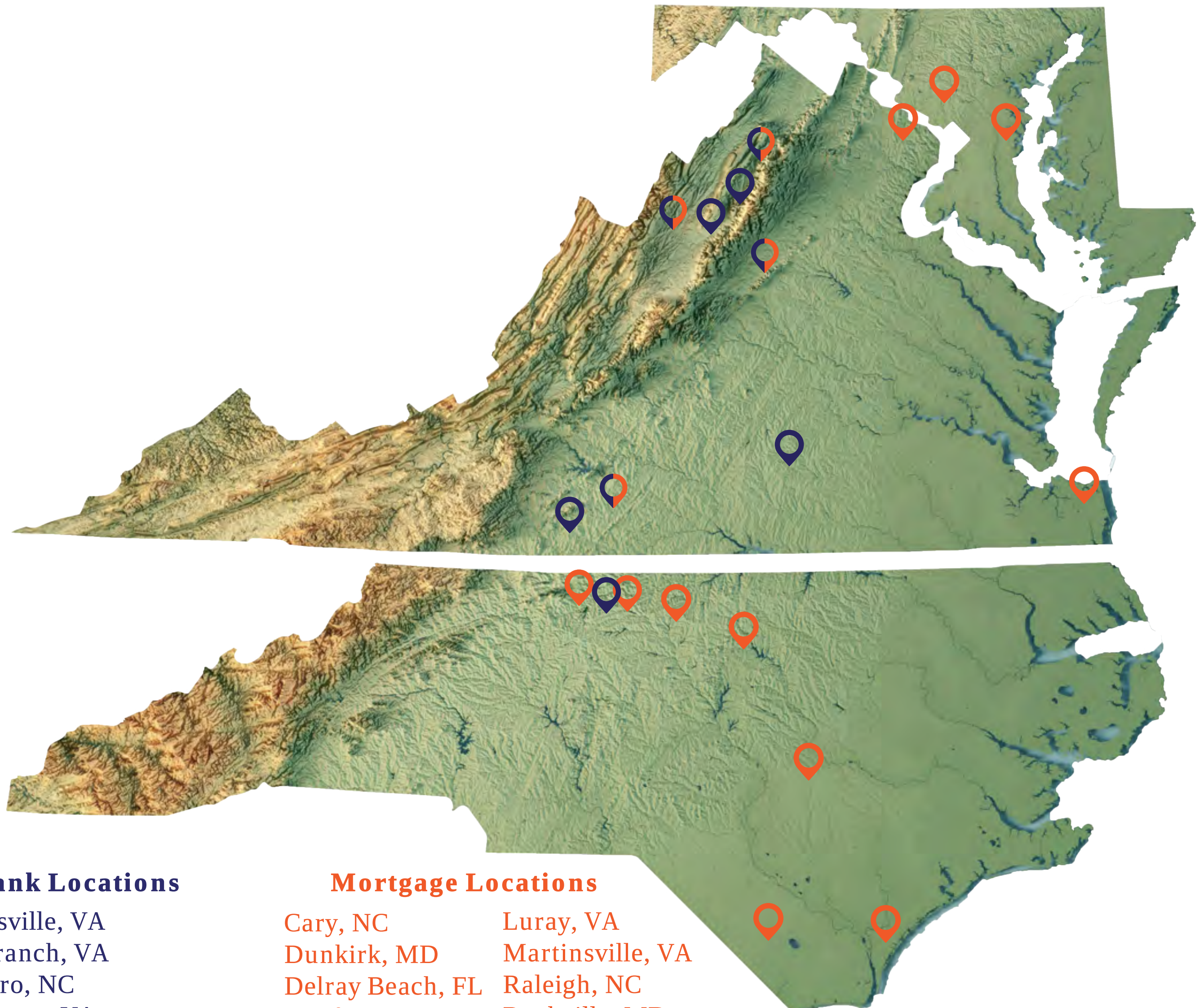
In June 2016, *ASU No. 2016-13 Financial Instruments – Credit Losses (Topic 326)* was issued by the FASB. The ASU is intended to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The ASU is effective for the Company in fiscal years beginning after December 15, 2020. Early application will be permitted for all organizations for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Company is currently evaluating the effect that implementation of the new standard will have on its financial position, results of operations, and cash flows.

Other accounting standards have been issued by the FASB that are not currently applicable to the Company or are not expected to have a material impact on the Company's financial statements.

Board of Directors

Hunter H. Bost	Kenneth E. Flynt	Richard L. Masincup
Robert B. Burger, Jr.	James E. Gander, II	Brian K. Plum
Mensel D. Dean	John H. H. Graves	William W. Stokes
Larry Dees	Robert S. Janney	Malcolm R. Sullivan, Jr.

Locations



Commercial Bank Locations

Charlottesville, VA
Drakes Branch, VA
Greensboro, NC
Harrisonburg, VA
Luray, VA
Martinsville, VA
McGaheysville, VA
Shenandoah, VA
Stuart, VA

Mortgage Locations

Cary, NC
Dunkirk, MD
Delray Beach, FL
Fairfax, VA
Fayetteville, NC
Greensboro, NC
Harrisonburg, VA
Kernersville, NC
Luray, VA
Martinsville, VA
Raleigh, NC
Rockville, MD
Virginia Beach, VA
Whiteville, NC
Wilmington, NC

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