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

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

For the Fiscal Year Ended December 31, 2014

BANK OF THE JAMES FINANCIAL GROUP, INC.
(Exact Name of Registrant as Specified in Its Charter)

Commission file number 001-35402

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

(434) 846-2000
(Issuer's telephone number, including area code)

Securities registered under Section 12(b) of the Exchange Act:

Title of Each Class	Name of Exchange on Which Registered
Common Stock, $2.14 par value	**The NASDAQ Capital Markets**

Securities registered under Section 12(g) of the Exchange Act: Common Stock, $2.14 par value

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. ☐ Yes ☒ No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ☒ Yes ☐ No

Indicate by check mark if disclosure of delinquent filers in response to Item 405 of Regulation S-K (§ 229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

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

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

The aggregate value of the voting common equity held by nonaffiliates as of June 30, 2014, the last business day of the registrant’s most recently completed second fiscal quarter, was approximately $26,078,000 based on the price at which the common stock last traded on such day. This price reflects inter-dealer prices without retail mark up, mark down, or commissions, and may not represent actual transactions.

The number of shares outstanding of Common Stock, $2.14 par value as of March 20, 2015 was approximately 3,371,616.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the 2015 Proxy Statement for the Annual Meeting of Shareholders, scheduled to be held on May 19, 2015, are incorporated by reference into Part III of this Form 10-K

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PART I

Item 1. Business

General

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

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

The Bank was organized in part as a response to the loss of many of the Central Virginia, Region 2000 area's (as defined in below) local financial institutions through mergers with larger, non-local banks and bank holding companies. The organizers perceived that local customers who once relied on experienced personal attention were being forced to use 800 numbers, computerized menus, and persons in other localities who were not familiar with their needs.

The Bank opened for business on July 22, 1999 to fill this void left in the Region 2000 market. The Bank's organizers recognized that an opportunity existed to create a banking institution designed exclusively for a market that expected personalized service. The idea was to build a financial institution staffed with experienced professionals who would place a high value on knowing their customers and serving their distinctive banking needs. This remains our philosophy today.

Management believes that the key to the Bank's success lies in providing Bank customers with personalized service while providing products and services that meet their banking needs.

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

Financial conducts two principal activities: (1) general retail and commercial banking through Bank of the James; (2) mortgage orginiation services through Bank of the James Mortgage, a division of the Bank.

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

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

Products and Services

Retail and Commercial Banking . The Bank currently conducts business within Region 2000 from nine full-service branch and one limited service branch. Four of the full-service offices are located in Lynchburg, Virginia and a full-service branch is located in each of Madison Heights, Virginia, the Town of Amherst, Virginia, Forest, Virginia, the City of Bedford, Virginia and the Town of Altavista, Virginia. The limited services branch is located in the Westminster-Canterbury facilities in Lynchburg. The Bank established a mortgage loan origination division that conducts business under the name "Bank of the James Mortgage, a Division of Bank of the James." The mortgage division conducts business primarily from the division's main office located in the Forest branch of the Bank. In addition, in 2013 the Bank expanded into Charlottesville, Virginia with a loan production office (as of July 2014 this location became a limited service branch) and Roanoke, Virginia with a mortgage production office. For a more detailed description of these facilities, see " *Item 2. Properties* " below.

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

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

In general, the Bank offers the following lending services:

- *Commercial Business Lending.* We make loans to small- and medium-sized businesses in Region 2000 for purposes such as purchases of equipment, facilities upgrades, inventory acquisition and various working capital purposes.
- *Real Estate Construction* . We make commercial and residential construction and development loans to customers in our market area.
- *Commercial Real Estate Mortgage* . We make loans to borrowers secured by commercial real estate.
- *Consumer* . We offer various types of secured and unsecured consumer loans, including personal loans, lines of credit, overdraft lines of credit, automobile loans, installment loans, demand loans, and home equity loans. We make consumer loans primarily for personal, family or household purposes.
- *Loan Participations* . We sell loan participations in the ordinary course of business when a loan originated by us exceeds our legal lending limit or we otherwise want to share risk with

another bank. We also purchase loan participations from time to time from other banks in the ordinary course of business, usually without recourse against that bank. Purchased loan participations are underwritten in accordance with our loan policy and represent a source of loan growth.

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

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

Mortgage Banking. The Bank, through Bank of the James Mortgage, a Division of Bank of the James (the "Mortgage Division") originates conforming and non-conforming home mortgages primarily in the Region 2000 area. As part of the Bank's overall risk management strategy, the loans originated and closed by the Mortgage Division are pre-sold to major mortgage banking or other financial institutions. Effective April 1, 2011, the Mortgage Division began funding these pre-sold loans. The loans are transferred promptly, typically within 2 to 3 business days, to the buyer for a pre-arranged price. Management believes that there is acceptable risk associated with this arrangement.

Other Activities

We provide brokerage and investment services through the Bank's Investment division ("Investment"). The Investment division provides securities brokerage services to Bank customers and others through an agreement with Infinex Financial Group, LLC ("Infinex"), a registered broker-dealer. Under our agreement, Infinex operates a service center at 615 Church Street, Lynchburg, Virginia. To date the operating results of the Investment division have not had a material impact on our financial performance.

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

Employees

As of March 20, 2015, we had approximately 121 full-time equivalent employees. None of our employees are represented by any collective bargaining agreements, and relations with employees are considered excellent. We maintain employee benefit programs that include health insurance, a flexible spending account, a health savings account, and a 401(k) plan.

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Location and Market Area

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

Total population in the market area equals approximately 252,000. According to the U.S. Census, in 2010 the populations of the localities in the Region 2000 market area were approximately as follows: City of Lynchburg – 76,000; Amherst County – 32,000; Appomattox County – 15,000; Bedford County (including the City of Bedford) – 74,000; Campbell County (including the Town of Altavista) – 55,000. The area is serviced by one daily newspaper and a number of radio and television stations providing diverse media outlets. Median family income in Region 2000 has risen over the past ten years.

Region 2000 has a broad range of services, light industry, and manufacturing plants. Principal service, industrial, research and development employers include: BWX Technologies, Inc. (nuclear fuel); AREVA (nuclear services); Centra Health, Inc. (health care services); C.B. Fleet, Inc. (consumer healthcare products); Genworth Financial (life insurance and other financial products); Frito-Lay, Inc. (snack foods); Griffin Pipe Products Co. (ductile iron pipe); R.R. Donnelley Printing Inc. (printed products); as well as six colleges including Randolph College, Sweet Briar College, Liberty University, and Lynchburg College.

In 2013 the Bank expanded into Charlottesville, Virginia (north of Region 2000) with a loan production office which subsequently became a limited service branch in July 2014, and to Roanoke, Virginia (west of Region 2000) with a mortgage production office. Even with this expansion outside of Region 2000, the Bank continues to consider its primary market to be Region 2000.

In December 2014, we purchased improved real property located 1391 South High Street, Harrisonburg, VA. The property was previously used as a bank branch by another financial institution. We have filed an application and received authorization to open a full-service bank branch at this location.

Competition

Retail and Commercial Banking

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

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

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

Mortgage Banking

The Mortgage Division competes with large national and regional banks, credit unions, regional mortgage lenders and local mortgage brokers. Following 2008, the mortgage industry experienced consolidation. Despite the consolidation, the competition with regard to price has increased as the remaining participants struggle to achieve volume and profitability. The downturn in the housing markets related to declines in real estate values, increased payment defaults and foreclosures have had a dramatic effect on the secondary market. The guidelines surrounding agency business (i.e., loans sold to Fannie Mae and Freddie Mac) have become much more restrictive and the associated mortgage insurance for loans above 80 percent loan-to-value has continued to tighten. These changes in the conventional market have caused a dramatic increase in government lending and state bond programs. The Mortgage Division competes by attracting the top sales people in the industry, providing an operational infrastructure that manages the guideline changes efficiently and effectively, offering a product menu that is both competitive in loan parameters as well as price, and providing consistently high quality customer service.

The Mortgage Division, like other residential mortgage originators and lenders, would be impacted by the inability of Fannie Mae, Freddie Mac, the FHA or the VA to purchase loans. Although the Mortgage Division sells loans to various intermediaries, the ability of these aggregators to purchase loans would be limited if these government-sponsored entities cease to exist or materially limit their purchases of mortgage loans.

SUPERVISION AND REGULATION

General

Both Financial, as a bank holding company, and the Bank are subject to extensive federal and state laws and regulations. These laws and regulations impose specific requirements or restrictions on and provide for general regulatory oversight of virtually all aspects of our operations. The following briefly summarizes the more significant provisions of applicable federal and state laws, certain regulations and the potential impact of such provisions on Financial and the Bank. These laws and regulations are generally intended to protect depositors, not shareholders. The following summary is qualified by reference to the statutory and regulatory provisions discussed.

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

Regulation of Financial

General . Financial is subject to the periodic reporting requirements of the Securities and Exchange Act of 1934, as amended (the "Exchange Act"), including the filing with the Securities and Exchange Commission (the "SEC") of annual, quarterly and other reports on the financial condition and performance of the organization. Financial is directly affected by the corporate responsibility and accounting reform legislation signed into law on July 30, 2002, known as the Sarbanes-Oxley Act of 2002 (the "SOX Act"), and the related rules and regulations. The SOX Act includes provisions that, among other things, require that periodic reports containing financial statements that are filed with the SEC be accompanied by chief executive officer and chief financial officer certifications as to the accuracy and compliance with law, additional disclosure requirements and corporate governance and other related rules. Although we are not

required to receive an opinion of our external auditors regarding our internal control over financial reporting under section 404 of the SOX Act because of our status as a smaller reporting company, our management's report on internal control over financial reporting is set forth in Item 8 and incorporated into Item 9A herein. Financial has expended considerable time and money in complying with the SOX Act and expects to continue to incur additional expenses in the future.

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

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

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

Since September 1995, the BHCA has permitted bank holding companies from any state to acquire banks and bank holding companies located in any other state, subject to certain conditions, including nationwide and state imposed concentration limits. Banks are also able to branch across state lines, provided certain conditions are met, including that applicable state laws expressly permit such interstate branching. Virginia has adopted legislation that permits branching across state lines, provided there is reciprocity with the state in which the out-of-state bank is based.

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

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

The GLB Act also imposes customer privacy requirements on financial institutions. Financial institutions generally are prohibited from disclosing customer information to non-affiliated third parties,

unless the customer has been given the opportunity to object and has not objected to such disclosure. Financial institutions must disclose their specific privacy policies to their customers annually. Upon making such disclosure, there is no specific restriction on financial institutions disclosing customer information to affiliated parties. Financial institutions must comply with state law, however, if it protects customer privacy more fully than federal law.

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

Mergers and Acquisitions . The Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 authorizes the Federal Reserve Board to permit adequately capitalized and adequately managed bank holding companies to acquire all or substantially all of the assets of an out-of-state bank or bank holding company, subject to certain conditions, including nationwide and state concentration limits. Banks also are able to branch across state lines, provided certain conditions are met, including that applicable state law must expressly permit such interstate branching. Virginia law permits branching across state lines, provided there is reciprocity with the state in which the out-of-state bank is based.

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

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

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

- The Dodd-Frank Reform Act changed the assessment base for federal deposit insurance from the amount of insured deposits to consolidated assets less tangible capital, eliminated the ceiling on the size of the Deposit Insurance Fund (DIF) and increased the floor applicable to the size of the DIF. The Dodd-Frank Act also made permanent the $250,000 limit for federal deposit insurance and increased the cash limit of Securities Investor Protection Corporation protection from $100,000 to $250,000.

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

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

Economic Emergency Stabilization Act of 2008 . In response to the financial crisis affecting the banking system and financial markets and going concern threats to investment banks and other financial institutions, on October 3, 2008, the Emergency Economic Stabilization Act of 2008 (the "EESA") was signed into law. Through its authority under the EESA, the Treasury announced in October 2008 the Troubled Asset Relief Program—Capital Purchase Program (the "CPP") a program designed to bolster healthy institutions, like Financial, by making $250 billion of capital available to U.S. financial institutions in the form of preferred stock. Participants in the CPP are subject to executive compensation limits and are encouraged to expand their lending and mortgage loan modifications. Although Financial received preliminary approval from the United States Treasury to participate in the TARP Capital Purchase Program, Financial decided not to participate in the program.

Regardless of our lack of participation in certain programs, governmental intervention and new regulations under these programs could materially and adversely affect our business, financial condition and results of operations.

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

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

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

Regulation of the Bank

The Bank is a Virginia chartered commercial bank and a state member bank. The Bank's deposit accounts are insured by the DIF of the FDIC up to the maximum legal limits of the FDIC and it is subject to regulation, supervision and regular examination by the Virginia Bureau of Financial Institutions and the Federal Reserve. The regulations of these various agencies govern most aspects of the Bank's business,

including required reserves against deposits, loans, investments, mergers and acquisitions, borrowings, dividends and location and number of branch offices. The laws and regulations governing the Bank generally have been promulgated to protect depositors and the deposit insurance funds, and not for the purpose of protecting shareholders.

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

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

FDIC Insurance Premiums. The Bank has deposits that are insured by the Federal Deposit Insurance Corporation (FDIC). FDIC maintains a Deposit Insurance Fund ("DIF") that is funded by risk-based insurance premium assessments on insured depository institutions. Assessments are determined based upon several factors, including the level of regulatory capital and the results of regulatory examinations. FDIC may adjust assessments if the insured institution's risk profile changes or if the size of the DIF declines in relation to the total amount of insured deposits. In 2014, the Bank expensed $262,000 in FDIC assessments which compared to $573,000 in 2013. Any increases in FDIC insurance premiums could adversely affect the Bank's profitability.

Deposits at FDIC-insured institutions are insured up to $250,000 per depositor, subject to aggregation rules.

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

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

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

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

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

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

If the new minimum capital ratios described above had been effective as of December 31, 2014, based on management's interpretation and understanding of the new rules, Financial would have remained "well capitalized" as of such date.

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

Loans to Insiders. The Bank is subject to the restrictions contained in Section 22(h) of the Federal Reserve Act and the Federal Reserve Board's Regulation O thereunder on loans to executive officers, directors and principal stockholders. Under Section 22(h), loans to a director, an executive officer or a greater-than-10% stockholder of a bank as well as certain affiliated interests of any of the foregoing may not exceed, together with all other outstanding loans to such person and affiliated interests, the loans-to-one-borrower limit applicable to national banks (generally 15% of the institution's unimpaired capital and

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

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

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

Safety and Soundness . The federal banking agencies have broad powers under current federal law to take prompt corrective action to resolve problems of insured depository institutions. The extent of these powers depends upon whether the institutions in question are "well capitalized," "adequately capitalized," "undercapitalized," "significantly undercapitalized," or "critically undercapitalized," all such terms are defined under uniform regulations defining such capital levels issued by each of the federal banking agencies. An insured depository institution which is less than adequately capitalized must adopt an acceptable capital restoration plan, is subject to increased regulatory oversight and is increasingly restricted in the scope of its permissible activities. As of December 31, 2014, the Bank was considered "well capitalized."

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

Bank Secrecy Act (BSA). Under the Bank Secrecy Act, a financial institution is required to have systems in place to detect certain transactions, based on the size and nature of the transaction. Financial institutions are generally required to report cash transactions involving more than $10,000 to the Treasury. In addition, financial institutions are required to file suspicious activity reports for transactions that involve more than $5,000 and which the financial institution knows, suspects or has reason to suspect, involves illegal funds, is designed to evade the requirements of the BSA or has no lawful purpose.

USA Patriot Act . The USA Patriot Act became effective on October 26, 2001 and provides for the facilitation of information sharing among governmental entities and financial institutions for the purpose of combating terrorism and money laundering. Among other provisions, the USA Patriot Act permits financial institutions, upon providing notice to the United States Treasury, to share information with one another in order to better identify and report to the federal government concerning activities that may involve money laundering or terrorist activities. The USA Patriot Act is considered a significant banking law in terms of information disclosure regarding certain customer transactions. Although it does create a reporting obligation, the USA Patriot Act has not to materially affected the Bank's products, services or other business activities.

Reporting Terrorist Activities . The Federal Bureau of Investigation ("FBI") has sent, and will send, our banking regulatory agencies lists of the names of persons suspected of involvement in the September 11, 2001, terrorist attacks on New York City and Washington, DC. The Bank has been asked, and may be asked again, to search its records for any relationships or transactions with persons on those lists. If the Bank finds any relationships or transactions, it must file a suspicious activity report and contact the FBI. The Office of Foreign Assets Control ("OFAC"), which is a division of the Department of the Treasury is responsible for helping to ensure that United States entities do not engage in transactions with "enemies" of the United States, as defined by various Executive Orders and Acts of Congress. OFAC has sent, and will send, our banking regulatory agencies lists of names of persons and organizations suspected of aiding, harboring or engaging in terrorist acts. If the Bank finds a name on any transaction, account or wire transfer that is on an OFAC list, it must freeze such account, file a suspicious activity report and notify the FBI. The Bank has appointed an OFAC compliance officer to oversee the inspection of its accounts and the filing of any notifications. The Bank actively checks high-risk OFAC areas such as new accounts, wire transfers and customer files. The Bank performs these checks utilizing software, which is updated each time a modification is made to the lists provided by OFAC and other agencies of Specially Designated Nationals and Blocked Persons.

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

Check Clearing for the 21st Century Act (Check 21). Check 21 gives "substitute checks," such as a digital image of a check and copies made from that image, the same legal standing as the original paper check. The major provisions of Check 21 include: allowing check truncation without making it mandatory; demanding that every financial institution communicate to account holders in writing a description of its substitute check processing program and their rights under the law; legalizing substitutions for and replacements of paper checks without agreement from consumers; retaining in place the previously-mandated electronic collection and return of checks between financial institutions only when individual agreements are in place; requiring that when account holders request verification, financial institutions

produce the original check (or a copy that accurately represents the original) and demonstrate that the account debit was accurate and valid; and requiring recrediting of funds to an individual's account on the next business day after a consumer proves that the financial institution has erred. This legislation has not significantly increased our capital spending.

Effect of Governmental Monetary Policies

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

Future Regulatory Uncertainty

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

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

Item 1A. Risk Factors

Not applicable.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

Current Locations and Property

As of December 31, 2014, the Bank conducted its banking business from 12 locations, its mortgage origination services business primarily from three locations, and its investment and insurance services business primarily from one location.

Depending on such factors as cost, availability, and location, we may either lease or purchase our facilities. The existing facilities that we have purchased typically have been former branches of other financial institutions. We own 6 of our locations and lease 6 of our locations. The following table describes the location and general character of our operating facilities:

Address	Type of Facility	Year Opened	Owned/Leased
5204 Fort Avenue Lynchburg, Virginia	Full service branch with drive thru and ATM	2000	Owned
4698 South Amherst Highway Madison Heights, Virginia	Full service branch with drive thru and ATM	2002	Owned
17000 Forest Road Forest, Virginia	Full service branch with drive thru and ATM Headquarters for Mortgage Division	2005	Owned
164 South Main Street Amherst, Virginia	Full service branch with drive thru and ATM	2007	Owned
1405 Ole Dominion Blvd. Bedford, Virginia	Full service branch with drive thru and ATM	2008	Owned
1110 Main Street Altavista, Virginia	Full service branch with drive thru and ATM	2009	Owned
828 Main Street Lynchburg, Virginia	Corporate Headquarters; Full service branch with ATM	2004	Leased (1)
615 Church Street Lynchburg, Virginia	Full service branch with drive thru and ATM Headquarters for Investment and Insurance Divisions	1999	Leased (2)
4935 Boonsboro Road, Suites C and D Lynchburg, Virginia	Full service branch with drive thru and ATM	2006	Leased (3)
501 VES Road Lynchburg, Virginia	Limited service branch	2010	Leased (4)
1430 Rolkin Court Suite 203 Charlottesville, Virginia	Commercial loan origination and mortgage office as well as a limited service branch	2013	Leased (5)
133 Salem Avenue, SW Roanoke, Virginia	Mortgage banking office	2013	Leased (6)

(1) Base lease expired July 31, 2014 at which the Bank elected to exercise its first five-year renewal option. The Bank currently has one more five-year renewal option that we may exercise at our discretion subject to the terms and conditions outlined in the lease. The Bank leases this property from Jamesview Investment, LLC, which is wholly-owned by William C. Bryant III, a member of the Board of Directors of both Financial and the Bank.

(2) Base lease expires July 31, 2019. We have one or more renewal options that we may exercise at our discretion subject to the terms and conditions outlined in the lease.

(3) The current term expires on December 31, 2015. The Bank has one renewal option to extend the lease for an additional five year period that we may exercise at our discretion subject to the terms and conditions outlined in the lease."

(4) Base lease expires May 31, 2015. The Bank intends to continue operating at this location.

(5) Base lease expires December 31, 2018. We have one renewal option that we may exercise at our discretion subject to the terms and conditions outlined in the lease.

(6) This office is owned by employees (or a company owned by such employees) who work from that space. The office space is provided by the employees as part of their compensation arrangement with the Bank,

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

In addition, the Bank may evaluate the feasibility of entering into sale/leaseback agreements for certain branches.

Interest in Additional Properties

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

- real property located in the Timberlake Road area of Campbell County (Lynchburg), Virginia. The Timberlake property is not suitable for its intended use as a branch bank. Management anticipates that it will be necessary to raze the current structures and replace it with appropriate new construction.
- real property located at 5 Village Highway (near the intersection of Routes 501 and 24) in Rustburg, Virginia. The structure on the property has been demolished and removed. The Bank does not anticipate opening a branch at this location prior to 2016.
- real property located near the intersection of Confederate Boulevard and Moses Avenue in Appomattox, Virginia. There is no structure on the property. The bank does not anticipate opening a branch at this location prior to the fourth quarter of 2015.
- real property located 1391 South High Street, Harrisonburg, VA. There is a former bank branch building located on the property. Management anticipates minimal, if any, additional investment in the property in order to open a bank branch/commercial loan production office at this location. Regulatory approval has been granted to open at this location and it is anticipated that this location will open some time in the next 3-9 months.

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

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

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Item 3. Legal Proceedings

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

Item 4. Mine Safety Disclosures

Not applicable.

PART II

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

Market Prices and Dividends

As of January 25, 2012, the Common Stock of Financial is traded on the NASDAQ Capital Market LLC (NASDAQ) under the symbol "BOTJ." Prior to this time, the Common Stock of Financial was quoted on the Over the Counter Bulletin Board (OTCBB) under the symbol "BOJF" and transactions generally involved a small number of shares. The following table sets forth the quarterly high and low bid prices for each quarter in fiscal 2014 and 2013 for Financial and was obtained from Bloomberg. Management believes this source to be accurate.

	Market Prices and Dividends		
	Bid Price ($)		
	High	Low	Dividends ($)
Fiscal 2014			
Fourth Quarter	10.50	8.90	0.05
Third Quarter	9.40	8.90	0.05
Second Quarter	9.24	8.50	0.05
First Quarter	9.25	8.88	0.00
Fiscal 2013			
Fourth Quarter	9.00	7.93	0.00
Third Quarter	8.80	7.75	0.00
Second Quarter	7.84	6.80	0.00
First Quarter	8.11	5.60	0.00

The quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not represent actual transactions.

As of March 18, 2015 (the most recent date available), the Common Stock traded for $10.85 per share. As of March 18, 2015, there were approximately 3,371,616 shares of Common Stock outstanding, which shares are held by approximately 1,720 active shareholders of record.

Dividend Policy

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

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

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

Financial will evaluate the foregoing when making a determination of whether to continue to pay a cash dividend in 2015.

Stock Buyback Plan

In October, 2014, Financial's board of directors authorized a share repurchase program. The plan, which expires in October, 2015, authorizes Financial to buy back up to 100,000 shares of common stock on such terms and conditions as the Company deems favorable. As of March 20, 2015, Financial has not repurchased any shares under the plan.

Securities Authorized for Issuance under Equity Compensation Plans

The following table summarizes information concerning Financial's equity compensation plans at December 31, 2014. All figures have been adjusted to reflect all prior stock dividends declared by Financial. All outstanding stock options have been issued under plans approved by shareholders.

Plan Category	Number of Shares to be Issued Upon Exercise of Outstanding Options	Weighted Average Exercise Price of Outstanding Options	Number of Shares Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Shares Reflected in First Column)
Equity compensation plans approved by shareholders - 1999 Stock Option Plan of Bank of the James Financial Group, Inc.	69,372	$ 11.44	—
Equity compensation plans not approved by shareholders	N/A	N/A	N/A
Total	69,372	$ 11.44	—

Recent Sales of Unregistered Equity Securities

None.

Item 6. Selected Financial Data

Not applicable.

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

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion is intended to assist readers in understanding and evaluating our financial condition and results of operations. You should read this discussion in conjunction with our financial statements and accompanying notes included elsewhere in this report. Because Bank of the James Financial Group, Inc. ("Financial") has no material operations and conducts no business other than the ownership of its operating subsidiary, Bank of the James (and its divisions and subsidiary), the discussion primarily concerns the business of the Bank. However, for ease of reading and because our financial statements are presented on a consolidated basis, references to "we," "us," or "our" refer to Financial, Bank of the James, and their divisions and subsidiaries as appropriate. The comparison of operating results for Financial between the years ended December 31, 2014 and 2013 should be read in the context of both the size and the time frame in which the Bank has been operating.

Cautionary Statement Regarding Forward-Looking Statements

This report contains statements that constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and the Private Securities Litigation Reform Act of 1995. The words "believe," "estimate," "expect," "intend," "anticipate," "plan" and similar expressions and variations thereof identify certain of such forward-looking statements which speak only as of the dates on which they were made. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise. Readers are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and that actual results may differ materially from those indicated in the forward-looking statements as a result of various factors. Factors that could cause actual results to differ from the results discussed in the forward-looking statements include, but are not limited to: economic conditions (both generally and more specifically in the markets in which we operate); competition for our customers from other providers of financial services; government legislation and regulation relating to the banking industry (which changes from time to time and over which we have no control) including but not limited to the Dodd-Frank Wall Street Reform and Consumer Protection Act; changes in the value of real estate securing loans made by the Bank; changes in interest rates; and material unforeseen changes in the liquidity, results of operations, or financial condition of our customers. Other risks, uncertainties and factors could cause our actual results to differ materially from those projected in any forward-looking statements we make.

Overview

Financial is a bank holding company headquartered in Lynchburg, Virginia. Our primary business is retail banking which we conduct through our wholly-owned subsidiary, Bank of the James (which we refer to as the "Bank"). We conduct three other business activities, mortgage banking through the Bank's Mortgage division (which we refer to as "Mortgage"), investment services through the Bank's Investment division (which we refer to as "Investment"), and insurance activities through BOTJ Insurance, Inc., a subsidiary of the Bank, (which we refer to as "Insurance").

Although we intend to increase other sources of revenue, our operating results depend primarily upon the Bank's net interest income, which is determined by the difference between (i) interest and dividend income on earning assets, which consist primarily of loans, investment securities and other investments, and (ii) interest expense on interest-bearing liabilities, which consist principally of deposits

and other borrowings. The Bank's net income also is affected by its provision for loan losses, as well as the level of its noninterest income, including loan fees and service charges, and its noninterest expenses, including salaries and employee benefits, occupancy expense, data processing expenses, miscellaneous other expenses, franchise taxes, and income taxes.

As discussed in more detail below,

- For the year ended December 31, 2014, Financial had net income of $3,413,000, an increase of $353,000 from net income of $3,060,000, from the year ended December 31, 2013;
- For the year ended December 31, 2014, earnings per basic and diluted common share was $1.01, as compared earnings of $0.91 per basic and diluted common share for the year ended December 31, 2013;
- Net interest income increased to $16,404,000 for the current year from $15,989,000 for the year ended December 31, 2013;
- Noninterest income (exclusive of net gains on sales of securities) increased to $3,444,000 for the year ended December 31, 2014 from $3,022,000 for the year ended December 31, 2013;
- Total assets as of December 31, 2014 were $460,865,000 compared to $434,511,000 at the end of 2013, an increase of $26,354,000 or 6.07%;
- Loans (excluding loans held for sale), net of unearned income and loan loss provision, increased to $394,573,000 as of December 31, 2014 from $339,994,000 as of the end of December 31, 2013, an increase of 16.05%; and
- The net interest margin decreased 11 basis points to 3.97% for 2014, compared to 4.08% for 2013.

The following table sets forth selected financial ratios:

	For the Year Ended December 31,		
	2014	2013	2012
Return on average equity	10.28%	10.13%	7.76%
Return on average assets	0.76%	0.71%	0.50%
Dividend payout %	1.46%	0.00%	0.00%
Average equity to total average assets	7.39%	6.97%	6.39%

Effect of Economic Trends

Although the U.S. economy improved in 2014, the U.S. economy continued to experience slow growth. Locally, real estate values appear to have stabilized and has begun to show signs of increasing valuation. Region 2000 experienced positive trends in housing during 2013 and 2014. However, uncertainty for small and medium size businesses continued to lessen demand for lending despite the continued low interest rate environment. Despite the difficult economic environment, the Bank's capital levels and asset quality continued to improve in 2014.

For additional information regarding the local economy and its impact on the Company's business refer to the Business Section in this 10-K under the caption "Location and Market Area" (*Part I. Item 1. Business Section – Location and Market Area).*

Despite this improvement, management expects difficult economic conditions to persist in 2014. In light of these conditions, financial institutions also face continued heightened levels of scrutiny from federal and state regulators. Financial institutions experienced, and are expected to continue to experience, pressure on credit costs, loan yields, deposit and other borrowing costs, liquidity, and capital.

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

The downward trend in short term interest rates beginning in the last quarter of 2007 was due to the actions of the Federal Open Market Committee ("FOMC") resulting from a deteriorating economy. The federal funds target rate set by the Federal Reserve has remained at 0.00% to 0.25% since December 2008, following a decline from 4.25% in December 2007 through a series of rate reductions. As liquidity increased as a result of open market operations and other government actions, longer-term interest rates decreased and the yield curve remains positively sloped. Although it cannot be certain, as discussed below under "Results of Operations—Net Interest Income" management believes that short term interest rates will remain stable for the foreseeable future. An increase in long-term interest rates would have an adverse impact on the Mortgage Division, primarily due to reduced refinancing opportunities.

Stock Dividends

All share amounts and dollar amounts per share in this report with regard to the common stock have been adjusted to reflect all prior stock splits and stock dividends.

Critical Accounting Policies

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

The allowance for loan losses is management's estimate of the losses that may be sustained in our loan portfolio. The allowance is based on two basic principles of accounting: (i) ASC 450, Contingencies, which requires that losses be accrued when they are probable of occurring and are reasonably estimable and (ii) ASC 310, Receivables, which requires that losses on impaired loans be accrued based on the differences between the value of collateral, present value of future cash flows or values that are observable in the secondary market and the loan balance. Guidelines for determining allowances for loan losses are also provided in the SEC Staff Accounting Bulletin No. 102 – "Selected Loan Loss Allowance Methodology and Documentation Issues" and the Federal Financial Institutions Examination Council's interagency guidance, "Interagency Policy Statement on the Allowance for Loan and Lease Losses" (the "FFIEC Policy Statement"). See " *Management Discussion and Analysis Results of Operations – Asset Quality* " below for further discussion of the allowance for loan losses.

In situations where, for economic or legal reasons related to a borrower's financial condition, management may grant a concession to the borrower that it would not otherwise consider, the related loan is classified as a troubled debt restructuring ("TDR"). Management strives to identify borrowers in financial difficulty early and work with them to modify their loan to more affordable terms before their loans reach nonaccrual status. These modified terms may include rate reductions, principal forgiveness, payment forbearance and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of collateral. In cases where borrowers are granted new terms that provide for a reduction of either interest or principal, management measures any impairment on the restructuring as noted above for impaired loans. The Bank had loans totaling $376,000 and $564,000 that were classified as TDRs as of December 31, 2014 and 2013, respectively.

Management considers historical trends, industry trends, peer comparisons, as well as individual classified impaired loans, in addition to historical experience to evaluate the allowance for loan losses. Our method for determining the allowance for loan losses is discussed more fully under " *Management Discussion and Analysis Results of Operations – Asset Quality* " below.

RESULTS OF OPERATIONS

December 31, 2014 compared to year ended December 31, 2013

Net Income

The net income for Financial for the year ended December 31, 2014 was $3,413,000 or $1.01 per basic and diluted share compared with net income of $3,060,000 or $0.91 per basic and diluted share for the year ended December 31, 2013. Note 13 of the Audited Financial Statements provide additional information with respect to the calculation of Financial's earnings per share.

The increase of $353,000 in 2014 net income compared to 2013 net income was due in large part the following: i) a significant decrease in provisions for loan losses in 2014 as compared to 2013; ii) a slight increase in net interest income; iii) a decrease in expenses associated with other real estate owned; iv) a decrease in FDIC insurance expense, and v) an increase in mortgage origination income. The increase was partially offset by increases in salary and employee benefits expense, occupancy and equipment expense, and marketing expense. As discussed in more detail below, we charged off $551,000 in nonperforming loans during the year ended December 31, 2014 as compared with $1,105,000 in 2013. The amount of the provision for loan losses was $55,000 in the year ended December 31, 2014 as compared to $540,000 in 2013.

These operating results represent a return on average stockholders' equity of 10.28% for the year ended December 31, 2014 compared to 10.13% for the year ended December 31, 2013. The return on average assets for the year ended December 31, 2014 was 0.76% compared to 0.71% in 2013.

Net Interest Income

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

Interest income increased to $18,729,000 for the year ended December 31, 2014 from $18,428,000 for the year ended December 31, 2013. This increase was due to an increase in loan balances and was mitigated by a decrease in the yields on average earning assets which primarily consist of loans and investment securities, as discussed below.

Interest expense decreased, as discussed more fully below.

Net interest income for 2014 increased $415,000 to $16,404,000 or 2.60% from net interest income of $15,989,000 in 2013. The growth in net interest income was due partially to a decrease in our interest expense of $114,000 from $2,439,000 for the year ended December 31, 2013 to $2,325,000 for the year ended December 31, 2014. This decrease in interest expense was primarily due to reductions in the interest rate paid on time deposits and an increase in the average balance held in non-interest bearing accounts. The average interest rate paid on time deposits decreased by 15 basis points during 2014 as compared to 2013.

The net interest margin decreased to 3.97% in 2014 from 4.08% in 2013. The average rate on earning assets decreased 17 basis points from 4.70% in 2013 to 4.53% in 2014 and the average rate on interest-bearing liabilities decreased from 0.73% in 2013 to 0.69% in 2014. Although management cannot predict with certainty future interest rate decisions by the FOMC, statements from the Federal Reserve Board indicate that interest rates will remain low through at least the next six months.

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

Net Interest Margin Analysis
Average Balance Sheets
For the Year Ended December 31, 2014 and 2013
(*dollars in thousands*)

	2014			2013		
	Average Balance Sheet	Interest Income/ Expense	Average Rates Earned/ Paid	Average Balance Sheet	Interest Income/ Expense	Average Rates Earned/ Paid
ASSETS						
Loans, including fees (1) (2)	$365,942	$17,447	4.77%	$333,028	$16,891	5.07%
Loans AFS	1,499	64	4.27%	883	33	3.74%
Federal funds sold	2,052	4	0.19%	7,818	30	0.38%
Interest bearing deposits with other banks	5,000	13	0.26%	—	—	0.00%
Securities (3)	39,093	1,195	3.06%	51,370	1,533	2.98%
Federal agency equities	1,207	63	5.22%	1,336	59	4.42%
CBB equity	116	—	0.00%	116	—	0.00%
Total earning assets	414,909	18,786	4.53%	394,551	18,546	4.70%
Allowance for loan losses	(5,099)			(5,376)		
Non-earning assets	39,651			43,989		
Total assets	$449,461			$433,164		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Deposits						
Demand interest bearing	$101,337	$ 215	0.21%	$ 93,286	$ 208	0.22%
Savings	126,791	271	0.21%	134,427	286	0.21%
Time deposits	97,228	1,152	1.18%	95,268	1,268	1.33%
Total interest bearing deposits	325,356	1,638	0.50%	322,981	1,762	0.55%
Other borrowed funds						
Fed funds purchased	963	9	0.93%	204	1	0.49%
Other borrowings	3,444	78	3.14%	2,000	76	3.80%
Capital notes	10,000	600	6.00%	10,000	600	6.00%
Total interest-bearing liabilities	338,801	2,325	0.68%	335,185	2,439	0.73%
Noninterest bearing deposits	75,584			67,113		
Other liabilities	909			662		
Total liabilities	416,256			402,960		
Stockholders' equity	33,205			30,204		
Total liabilities and Stockholders' equity	$449,461			$433,164		
Net interest earnings		$16,461			$16,107	
Net interest margin			3.97%			4.08%
Interest spread			3.84%			3.97%

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(1) Net deferred loan fees and costs are included in interest income.
(2) Nonperforming loans are included in the average balances. However, interest income and yields calculated do not reflect any accrued interest associated with nonaccrual loans.
(3) The interest income and yields calculated on securities have been tax affected to reflect any tax exempt interest on municipal securities.

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

	Volume and Rate (dollars in thousands) Years Ending December 31,					
	2014			2013		
	Volume Effect	Rate Effect	Change in Income/ Expense	Volume Effect	Rate Effect	Change in Income/ Expense
Loans	$1,429	$(842)	$ 587	$ 559	$(633)	$ (74)
Federal funds sold	(15)	(11)	(26)	(3)	8	5
Interest bearing deposits	13	—	13	—	—	—
Securities	(381)	43	(338)	(178)	(72)	(250)
Restricted stock	(2)	6	4	5	(6)	(1)
Total earning assets	1,044	(804)	240	383	(703)	(320)
Liabilities:						
Demand interest bearing	17	(9)	8	41	(68)	(27)
Savings	(15)	—	(15)	(47)	(140)	(187)
Time deposits	26	(143)	(117)	49	(320)	(271)
Fed funds purchased	6	2	8	1	—	1
Capital notes	—	—	—	63	—	63
FHLB borrowings	(3)	5	2	(207)	65	(142)
Repurchase agreements	—	—	—	(8)	(8)	(15)
Total interest-bearing liabilities	$ 32	$(146)	$ (114)	$ (108)	$(471)	$ (578)
Change in net interest income	$1,013	$(659)	$ 354	$ 491	$(232)	$ 258

Noninterest Income of Financial

Noninterest income has been and will continue to be an important factor for increasing our profitability. Our management continues to review and consider areas where noninterest income can be increased. Noninterest income (excluding securities gains and losses) consists of mortgage income, service fees, distributions from a title insurance agency in which we have an ownership interest, and fees generated by the investment services of Investment. Service fees consist primarily of monthly service and minimum account balance fees and charges on transactional deposit accounts, overdraft charges, and ATM service fees.

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

The Mortgage Division originated 298 mortgage loans, totaling $52,177,000 in 2013 as compared with 350 mortgage loans, totaling $62,545,000 during the year ended December 31, 2014. Income improved with the increased volume and the improved pricing from the investors that purchase loans from the Mortgage Division. The primary driver of the improved pricing was the migration of the Mortgage Division's broker relationships to hybrid correspondent in 2013. The hybrid correspondent relationship allows the Bank to close loans in its name before an investor purchases the loan. By using the Bank's funds to close the loan (as compared to a broker relationship in which loans are funded by the purchaser of the mortgage), the Bank is able to obtain better pricing due to the slight increase in risk. In 2014, the Mortgage Division faced an improving real estate market and loans for new home purchase comprised 67% of the total volume. Refinancing decreased in response to slightly higher long term mortgage rates, which limited the number of borrowers for whom refinancing made economic sense. For the year ended December 31, 2014, the Mortgage Division accounted for 7.75 % of Financial's total revenue as compared with 5.73% of Financial's total revenue for the year ended December 31, 2013. Mortgage contributed $306,000 and $236,000 to Financial's pre-tax net income in 2014 and 2013, respectively. Although management anticipates that residential mortgage rates will remain low by historical standards throughout 2015, management also anticipates that if rates trend higher, the loan mix will continue to shift towards new home purchases and away from refinancing. The Mortgage Division continues to improve its market share in Region 2000. We opened a new mortgage origination office in Roanoke in October, 2013 and began originating mortgages in Charlottesville in March, 2014. Management expects that low rates coupled with the Mortgage Division's reputation in Region 2000 and these new offices present an opportunity for us to continue to grow the Mortgage Division's revenue.

Service charges and fees and commissions increased slightly to $1,352,000 for the year ended December 31, 2014 from $1,350,000 for the year ended December 31, 2013.

Our Investment division provides brokerage services through an agreement with a third-party broker-dealer. Pursuant to this arrangement, the third party broker-dealer operates a service center adjacent to one of the branches of the Bank. The center is staffed by dual employees of the Bank and the broker-dealer. Investment receives commissions on transactions generated and in some cases ongoing management fees such as mutual fund 12b-1 fees. The Investment division's financial impact on our consolidated revenue has been immaterial. Although management cannot predict the financial impact of Investment with certainty, management anticipates it will continue to be an immaterial component of revenue in 2015.

In the third quarter of 2008, we began providing insurance and annuity products to Bank customers and others, through the Bank's Insurance subsidiary. The Bank has one full-time and one part-time employee that are dedicated to selling insurance products through Insurance. Insurance generates minimal revenue and its financial impact on our consolidated revenue has been immaterial. Management anticipates that Insurance's impact on noninterest income will remain immaterial in 2015.

Noninterest income, exclusive of gains and losses on sale of securities, increased to $3,444,000 in 2014 from $3,022,000 in 2013. Inclusive of gains and losses on sale of securities, noninterest income increased slightly to $3,587,000 in 2014 from $3,478,000 in 2013. The following table summarizes our noninterest income for the periods indicated.

	Noninterest Income (*dollars in thousands)* December 31,	
	2014	2013
Mortgage income	$ 1,716	$ 1,255
Service charges, fees and commissions	1,352	1,350
Increase in cash value of life insurance	282	299
Other	94	118
Gain on sale of available-for-sale securities	143	456
Total noninterest income	$ 3,587	$ 3,478

The increase in noninterest income for 2014 as compared to 2013 was due to an increase in income from the Mortgage Division. These gains were partially offset by a decrease in income on gains on sales of securities available-for-sale.

Noninterest Expense of Financial

Noninterest expenses increased from $14,825,000 for the year ended December 31, 2013 to $15,235,000 for the year ended December 31, 2014. The following table summarizes our noninterest expense for the periods indicated.

	Noninterest Expense *(dollars in thousands)* December 31,	
	2014	**2013**
Salaries and employee benefits	$ 7,940	$ 7,161
Occupancy	1,214	1,205
Equipment	1,234	1,043
Supplies	387	362
Professional, data processing and other outside expenses	2,241	2,294
Marketing	472	367
Credit expense	220	229
Other real estate expenses	206	506
Amortization of tax credit investment	247	247
FDIC insurance expense	262	573
Other	812	838
Total noninterest expense	$15,235	$14,825

The increase in noninterest expense was due in large part to an increase in compensation, equipment, occupancy, and marketing expense. The increase in these costs was partially offset by a decrease in OREO, professional, credit, and FDIC insurance expenses. Our total personnel expense, net of

direct salary costs incurred in originating certain loans (in accordance with current accounting rules), increased to $7,940,000 for the year ended December 31, 2014, from $7,161,000 for the year ended December 31, 2013. Compensation for some employees of the Mortgage Division and Investment is commission-based and therefore subject to fluctuation.

The efficiency ratio, that is the cost of producing each dollar of revenue, is determined by dividing noninterest expense by the sum of net interest income plus noninterest income. Financial's efficiency ratio increased from 74.89% in 2013 to 76.21% in 2014, in large part due to the increases in the above expenses.

Income Tax Expense

For the year ended December 31, 2014, Financial had a federal income tax expense of $1,288,000, as compared to a federal income tax expense of $1,042,000 in 2013, which equate to effective tax rates of 27.39% and 25.40%, respectively. Our effective rate was lower than the corporate tax rate in both 2014 and 2013 from federal income tax benefits resulting from the tax treatment of earnings on bank owned life insurance, certain tax free municipal securities, and tax credits. Note 12 of the Audited Financial Statements provide additional information with respect to our 2014 federal income tax expense and the deferred tax accounts.

ANALYSIS OF FINANCIAL CONDITION

As of December 31, 2014 and December 31, 2013

General

Our total assets were $460,865,000 at December 31, 2014, an increase of $26,354,000 or 6.07% from $434,511,000 at December 31, 2013, primarily due to an increase in loan balances which was offset in part by decreases in securities available-for-sale and held-to-maturity, cash and cash equivalents, and the deferred tax asset. As explained in more detail below, deposits increased from $387,398,000 on December 31, 2013 to $399,497,000 on December 31, 2014. Loans, net of unearned income and allowance, increased to $394,573,000 on December 31, 2014 from $339,994,000 on December 31, 2013.

Loans

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

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

Loans, net of unearned income and allowance, increased significantly to $394,573,000 on December 31, 2014 from $339,994,000 on December 31, 2013. Total loans, including loans held for sale increased to $400,393,000 on December 31, 2014 from $347,101,000 on December 31, 2013. The increase in total loans was partially due to enhanced marketing efforts and the employment of a Charlottesville-based lender in September 2013. We anticipate that this office will continue to add to our loan balances. The increase is also attributed to increased calling and sales efforts by our lenders. Despite these factors, the number of qualified buyers remains limited. Management expects that the number of qualified borrowers will remain limited until the economy further improves.

As of December 31, 2014, the Bank had $3,506,000, or 0.88% of its total loans, in non-accrual status compared with $3,066,000, or 0.90% of its total loans, at December 31, 2013. This slight increase is due primarily to one relationship that became non-accrual in December 2014. Despite the increase, efforts are ongoing to reduce non-performing assets through enhanced collection efforts and the liquidation of underlying collateral. The Bank attempts to work with borrowers on a case-by-case basis to attempt to protect the Bank's interests. However, despite our commitment, a reduction of non-accrual loans can be dependent on improvements in employment, housing, and overall economic conditions at the local, regional and national levels. See "Asset Quality" below.

The following table summarizes the composition of the Bank's loan portfolio for the periods indicated by dollar amount:

	Loan Portfolio (*dollars in thousands*) December 31,				
	2014	2013	2012	2011	2010
Commercial	$ 63,259	$ 55,803	$ 55,084	$ 59,623	$ 62,786
Commercial real estate	207,262	172,117	153,416	150,622	143,428
Consumer	76,380	71,165	70,639	72,488	68,289
Residential	52,462	46,095	46,318	41,633	51,679
Total loans	399,363	345,180	325,457	324,366	326,182
Less allowance for loan losses	4,790	5,186	5,535	5,612	5,467
Net loans	$394,573	$339,994	$319,922	$318,754	$320,715

The following table sets forth the maturities of the loan portfolio at December 31, 2014.

	Remaining Maturities of Selected Loans (*dollars in thousands*) At December 31, 2014			
	Less than One Year	One to Five Years	Greater than Five Years	Total
Commercial	$ 18,742	$ 13,364	$ 31,153	$ 63,259
Commercial real estate	13,324	35,904	158,034	207,262
Consumer	4,428	38,557	33,395	76,380
Residential	10,491	14,947	27,024	52,462
Total	$ 46,985	$ 102,772	$ 249,606	$399,363
For maturities over one year:				
Fixed Rates	$ 92,287	26.19%		
Variable Rates	260,091	73.81%		
Total	$ 352,378			

Deposits

We experienced an increase in deposits from $387,398,000 at December 31, 2013 to $399,497,000 at December 31, 2014, for an increase of 3.12%. Noninterest-bearing deposits increased $11,426,000 or 18.06% from $63,256,000 at December 31, 2013 to $74,682,000 at December 31, 2014. The increase in non-interest bearing deposits was due to increased and continued efforts to procure the primary checking accounts of our commercial loan customers. The increase can also be attributed to end of the year real estate and business closings related to our professional settlement accounts. Interest-bearing deposits increased slightly $673,000 from $324,142,000 at December 31, 2013 to $324,815,000 at December 31, 2014. This modest 0.21% increase in interest bearing deposits was due primarily to the continued low interest rates paid on accounts. The Bank has not aggressively tried to increase deposits in the current environment but anticipates the need to increase deposit levels in 2015 to fund loan growth.

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

Average Deposits and Rates Paid
(*dollars in thousands*)
Year Ended December 31,

	2014		2013		2012	
	Amount	**Rate**	**Amount**	**Rate**	**Amount**	**Rate**
Noninterest-bearing deposits	$ 75,584	—	$ 67,113	—	$ 60,134	—
Interest-bearing deposits						
Interest checking	$ 61,048	0.22%	$ 51,816	0.24%	$ 38,447	0.28%
Money market	40,289	0.20%	41,470	0.21%	43,001	0.30%
Savings	126,791	0.21%	134,427	0.21%	150,850	0.31%
Time deposits						
Less than $100,000 (1)	55,664	1.19%	56,495	1.33%	55,873	1.65%
Greater than $100,000 (1)	41,563	1.18%	38,773	1.33%	36,947	1.70%
Total interest-bearing deposits	$325,355	0.50%	$322,981	0.55%	$324,668	0.69%
Total deposits	$400,939		$390,094		$384,802	

(1) Although the FDIC currently insures accounts up to $250,000, the Bank considers $100,0000 time deposits (“CDs” as high balance accounts and therefore continues to monitor CDs at and above this amount in order to plan for liquidity needs. The total balance in $250,000 and above CDs totaled approximately $8,785,000 at December 31, 2014.

The following table includes a summary of maturities of CDs greater than $100,000.

Maturities of CDs Greater than $ 100,000
(dollars in thousands)

	Less than Three Months	Three to Six Months	Six to Twelve Months	Greater than One Year	Total
At December 31, 2014	$ 5,743	$ 5,138	$10,498	$19,500	$40,879

Cash and Cash Equivalents

Cash and cash equivalents decreased from $16,671,000 on December 31, 2013 to $12,743,000 on December 31, 2014. Federal funds sold amounted to $0 on December 31, 2014 and December 31, 2013. The decrease was due primarily to routine fluctuations in deposits, the fluctuations in transactional accounts and professional settlement accounts as discussed above, and use of cash and cash equivalents to fund loan growth.

Investment Securities

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

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

	Securities Portfolio (*dollars in thousands*) December 31,		
	2014	**2013**	**2012**
Held-to-maturity			
U.S. agency obligations	$ 2,699	$ 3,740	$ 3,417
Available-for-sale			
U.S. treasuries	—	3,611	—
U.S. agency obligations	13,498	20,108	23,069
Mortgage - backed securities	1,982	5,311	1,812
Municipals	7,899	15,138	22,804
Corporates	1,016	1,923	2,609
Total available-for-sale	$24,395	$46,091	$50,294

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

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

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

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

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

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

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

Securities held-to-maturity at carrying cost decreased from $3,537,000 as of December 31, 2013 to $2,528,000 as of December 31, 2014. This decrease resulted from an issuer exercising the call provision of one security within the held-to-maturity portfolio. The decision to invest in securities held-to-maturity is based on the same factors as the decision to invest in securities available-for-sale except that management invests surplus funds in securities held-to-maturity only after concluding that such funds will not be necessary for liquidity purposes during the term of such security. However, the held-to-maturity securities may be pledged for such purposes as short term borrowings and as collateral for public deposits.

The portfolio of securities available-for-sale decreased to $24,395,000 as of December 31, 2014 from $46,091,000 as of December 31, 2013. During 2014, the Bank sold higher duration available-for-sale securities and received $27,708,000 in proceeds which were used to fund loan growth.

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The following table shows the maturities of held-to-maturity and available-for-sale securities at amortized cost and market value at December 31, 2014 and December 31, 2013 and approximate weighted average yields of such securities. Yields on state and political subdivision securities are not shown on a tax equivalent basis. Financial attempts to maintain diversity in its portfolio and maintain credit quality and repricing terms that are consistent with its asset/liability management and investment practices and policies. For further information on Financial’s securities, see Note 4 to the consolidated financial statements included in Item 8 of this Form 10-K.

Securities Portfolio Maturity Distribution / Yield Analysis
(*dollars in thousands*)
At December 31, 2014

	Less than One Year	One to Five Years	Five to Ten Years	Greater than Ten Years and Other Securities	Total
Held-to-maturity					
U.S. agency					
Amortized cost	$—	$2,528	$ —	$ —	$ 2,528
Market value	$—	$2,699	$ —	$ —	$ 2,699
Weighted average yield		3.51%			
Available-for-sale securities					
U.S. agency					
Amortized cost	$—	$ —	$ 7,982	$ 6,108	$14,090
Market value	$—	$ —	$ 7,710	$ 5,788	$13,498
Weighted average yield			2.50%	3.22%	
Mortgage Backed Securities					
Amortized cost	$—	$ —	$ 2,042	$ —	$ 2,042
Market value	$—	$ —	$ 1,982	$ —	$ 1,982
Weighted average yield			2.06%		
Municipals					
Amortized cost	$—	$ 479	$ 1,505	$ 5,848	$ 7,832
Market value	$—	$ 515	$ 1,511	$ 5,873	$ 7,899
Weighted average yield		5.60%	2.11%	3.34%	
Corporates					
Amortized cost	$—	$ —	$ 1,020	$ —	$ 1,020
Market value	$—	$ —	$ 1,016	$ —	$ 1,016
Weighted average yield			2.85%		
Total portfolio					
Amortized cost	$—	$3,007	$12,549	$ 11,956	$27,512
Market value	$—	$3,214	$12,219	$ 11,661	$27,094
Weighted average yield		3.84%	2.41%	3.28%	

Securities Portfolio Maturity Distribution / Yield Analysis (*dollars in thousands*) At December 31, 2013					
	Less than One Year	**One to Five Years**	**Five to Ten Years**	**Greater than Ten Years and Other Securities**	**Total**
Held-to-maturity					
U.S. agency					
Amortized cost	$—	$2,537	$ 1,000	$ —	$ 3,537
Market value	$—	$2,738	$ 1,002	$ —	$ 3,740
Weighted average yield		3.51%	4.05%		
Available-for-sale securities					
U.S. treasuries					
Amortized cost	$—	$ —	$ 3,907	$ —	$ 3,907
Market value	$—	$ —	$ 3,611	$ —	$ 3,611
Weighted average yield			2.02%		
U.S. agency					
Amortized cost	$—	$ —	$ 9,405	$ 13,139	$22,544
Market value	$—	$ —	$ 8,583	$ 11,525	$20,108
Weighted average yield			2.79%	2.93%	
Mortgage Backed Securities					
Amortized cost	$—	$ —	$ 2,047	$ 3,403	$ 5,450
Market value	$—	$ —	$ 1,899	$ 3,412	$ 5,311
Weighted average yield			2.06%	2.65%	
Municipals					
Amortized cost	$—	$ 479	$ 2,878	$ 12,488	$15,845
Market value	$—	$ 480	$ 2,782	$ 11,876	$15,138
Weighted average yield		5.60%	1.72%	3.32%	
Corporates					
Amortized cost	$—	$ —	$ 2,011	$ —	$ 2,011
Market value	$—	$ —	$ 1,923	$ —	$ 1,923
Weighted average yield			3.05%		
Totals					
Amortized cost	$—	$3,016	$21,248	$ 29,030	$53,294
Market value	$—	$3,218	$19,800	$ 26,813	$49,831
Weighted average yield		3.84%	2.52%	3.06%	

Cash surrender value of bank owned life insurance

On July 1, 2009, the Company funded bank owned life insurance (BOLI) for a small group of its officers, where the Company is the owner and sole beneficiary of the policies. As of December 31, 2014, the BOLI had a cash surrender value of $9,512,000, an increase of $282,000 from the cash surrender value

of $9,230,000 as of December 31, 2013. The increase resulted from an increase in the cash surrender value relating to the aggregate earnings on all of the BOLI policies. The value of BOLI increases from the cash surrender values of the pool of insurance. The increase in cash surrender value is recorded as a component of noninterest income; however, the Company does not pay tax on increase in cash value. This profitability is used to offset a portion of current and future employee benefit costs. BOLI can be liquidated if necessary with associated tax costs. However, the Company intends to hold this pool of insurance, because it provides income that enhances the Company's capital position. Therefore, the Company has not provided for deferred income taxes on the earnings from the increase in cash surrender value.

Liquidity

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

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

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

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

At December 31, 2014, liquid assets, which include cash, interest-bearing and noninterest-bearing deposits with banks, federal funds sold, and securities available-for-sale totaled $37,138,000 on December 31, 2014 as compared to $62,762,000 at December 31, 2013. Despite this decrease, management deems liquidity to be adequate. Investment securities traditionally provide a secondary source of liquidity since they can be converted into cash in a timely manner. However, approximately $11,630,000 of these securities are pledged against outstanding debt, public deposits, or lines of credit. Therefore, the related debt would need to be repaid prior to the securities being sold in order for these securities to be converted to cash.

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

Funding Sources
(*dollars in thousands*)

Source	December 31, 2014 Capacity	Outstanding	Available
Fed funds purchased lines (unsecured)	$ 24,000	$ 3,189	$ 20,811
Fed funds purchased lines (secured)	4,317	—	4,317
Reverse repurchase agreements	5,000	—	5,000
Borrowings from FHLB Atlanta (1)	90,370	12,000	78,370
Total	$123,687	$ 15,189	$108,498

(1) Currently the Bank has in place pledged collateral in the amount of approximately $25,000,000 against which $12,000,000 was drawn and outstanding on December 31, 2014. Additional collateral would be required to be pledged in order for the full $78,370,000 to be available.

At the end of 2014, approximately 76.89%, or $307,073,000 of the loan portfolio would mature or could reprice within a one-year period. At December 31, 2014, non-deposit sources of available funds totaled $108,498,000, which included $78,370,000 available from the FHLBA.

Capital Resources

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

Regulatory agencies measure capital adequacy utilizing a formula that takes into account the individual risk profiles of financial institutions. The guidelines define capital as Tier 1 (primarily common stockholders' equity, defined to include certain debt obligations) and Tier 2 (remaining capital generally consisting of a limited amount of subordinated debt, certain hybrid capital instruments and other debt securities, preferred stock and a limited amount of the general valuation allowance for loan losses). The Bank's regulatory capital levels exceed those established for well-capitalized institutions. The following table (along with Note 17 of the Audited Financial Statements) shows the minimum capital requirements and the Bank's capital position as of December 31, 2014 and 2013.

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

	December 31, 2014	December 31, 2013
Tier 1 Capital:		
Common stock	$ 3,742	$ 3,742
Additional paid in capital	19,325	19,325
Retained earnings	20,479	16,563
Total Tier 1 Capital	$ 43,546	$ 39,630
Tier 2 Capital:		
Allowable portion of allowance for loan losses	4,619	4,166
Total Tier 2 Capital	$ 4,619	$ 4,166
Total risk-based capital	$ 48,165	$ 43,796
Risk weighted assets	$369,348	$332,280
Average total assets	$452,276	$435,236

	December 31,		Regulatory Minimums	
	2014	2013	Capital Adequacy	Well Capitalized
Capital Ratios				
Tier 1 capital to average total assets	9.63%	9.11%	4.00%	5.00%
Tier 1 risk-based capital ratio	11.79%	11.93%	4.00%	6.00%
Total risk-based capital ratio	13.04%	13.18%	8.00%	10.00%

During the third quarter of 2012, Financial closed a private placement of unregistered debt securities (the "2012 Offering") pursuant to which Financial issued $10,000,000 in principal of notes (the "2012 Notes"). The 2012 Notes have not been and will not be registered under the Securities Act of 1933 and may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements. The 2012 Notes bear interest at the rate of 6% per year with interest payable quarterly in arrears. The 2012 Notes mature on April 1, 2017, but are subject to prepayment in whole or in part on or after April 1, 2013 at Financial's sole discretion on 30 days written notice to the holders. Financial used $7 million of the proceeds from the 2012 Offering in April 2012 to pay on maturity the principal due on notes issued in 2009.

The proceeds from the 2012 Offering, existing capital, and funds generated from operations provide Financial with sufficient liquidity and capital with which to operate.

The capital ratios set forth in above tables state the capital position and analysis for the Bank only. Because total assets on a consolidated basis are less than $500,000,000, Financial is not subject to the consolidated capital requirements imposed by the Bank Holding Company Act. Consequently, Financial does not calculate its financial ratios on a consolidated basis. If calculated, the capital ratios for the Company on a consolidated basis would no longer be comparable to the capital ratios of the Bank because the proceeds of these private placements do not qualify as equity capital on a consolidated basis.

As further described under " *Regulation of the Bank – Capital Requirements* ," the Basel Committee released in June 2011 a revised framework for the regulation of capital and liquidity of internationally active banking organizations. The new framework is generally referred to as "Basel III". As discussed above, when full phased in, Basel III will require certain bank holding companies and their bank subsidiaries to maintain substantially more capital, with a greater emphasis on common equity.

Stockholders' Equity

Stockholders' equity increased by $5,004,000 from $29,772,000 on December 31, 2013 to $34,776,000 on December 31, 2014 because of the net income of $3,413,000, plus the adjustment for other comprehensive loss net of dividends, in the year ended December 31, 2014.

ASSET QUALITY

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

Non-accrual loans increased slightly to $3,506,000 on December 31, 2014 from $3,066,000 on December 31, 2013. We have been successful in resolving a significant portion of our problem assets despite a slight increase in year over year non-accrual loans. These problem assets resulted from the economic downturn, which severely impacted commercial development loans and residential speculative housing construction loans due in part to a decline in the value of the collateral supporting those loans. Management intends to continue to be proactive in quantifying and mitigating the ongoing risk. Management has provided for the anticipated losses on its non-accrual loans through specific impairment in the allowance for loan loss.

We also classify other real estate owned (OREO) as a nonperforming asset. OREO is the value of real property acquired by the Bank either at a foreclosure sale of collateral on which the Bank has a lien or by deed in lieu of foreclosure. OREO decreased 34.11% to $956,000 on December 31, 2014 from $1,451,000 on December 31, 2013. The following table represents the changes in OREO balance in 2014 and 2013.

OREO Changes
(*Dollars in Thousands*)

	Year Ended December 31,	
	2014	2013
Balance at the beginning of the year (net)	$ 1,451	$ 2,112
Transfers from Loans	473	860
Write-downs to OREO expense	(167)	(368)
Sales proceeds	(780)	(1,140)
Gain (loss) on disposition	(21)	(13)
Balance at the end of the year (net)	$ 956	$ 1,451

Overall asset quality improved as the increase in non-accrual loans was offset by a decrease in OREO. Non-accrual loans plus OREO decreased to $4,462,000 on December 31, 2014 from $4,517,000 on December 31, 2013, a decrease of 1.26%.

We also classify troubled debt restructurings (TDRs) as both performing and nonperforming assets. We measure impaired loans based on the present value of expected future cash flows discounted at the

effective interest rate of the loan or, as a practical expedient, at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. We maintain a valuation allowance to the extent that the measure of the impaired loan is less than the recorded investment. TDRs occur when we agree to significantly modify the original terms of a loan by granting a concession due to the deterioration in the financial condition of the borrower. TDRs are considered impaired loans. These concessions typically are made for loss mitigation purposes and could include reductions in the interest rate, payment extensions, forgiveness of principal, forbearance or other actions. Performing TDRs decreased to $376,000 on December 31, 2014 from $564,000 on December 31, 2013.

The following table sets forth the number of outstanding TDR contracts and the total amount of the Bank's TDRs as of December 31, 2014 and 2013.

Troubled Debt Restructurings
(*Dollars in Thousands*)

	December 31,	
	2014	2013
Number of performing TDR contracts	2	3
Number of nonperforming TDR contracts	—	—
Total number of TDR contracts	2	3
Amount of performing TDR contracts	$376	$564
Amount of nonperforming TDR contracts	—	—
Total amount of TDRs contracts	$376	$564

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

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

The Bank's allowance for loan losses decreased 7.64% from $5,186,000 on December 31, 2013 to $4,790,000 on December 31, 2014. This decrease resulted primarily from improved economic conditions, charge-off trends, and overall improvement in the Bank's asset quality.

Impairment resulting from the individual impairment analysis (ASC 310) increased slightly but the overall reserve decreased slightly because of the application of the Bank's loan rating system. The increase in individual loan impairment was offset by a decrease in general reserves (ASC 450). The reasons for the decrease in general reserves and subsequent changes to the ALLL methodology are discussed immediately below.

Change in Look Back Period for Charge off History in Relation to General Reserves

General reserves have trended downward for several quarters. This downward trend is directly attributable to the Bank's charge-off history through the most recent negative credit cycle. A significant part of the general reserve calculation incorporates how a particular loan class performs over a period of time (that is, its charge-off history). Following the financial crisis in 2008 and beyond that disrupted the banking and financial systems, the Bank's asset quality deteriorated. This deterioration resulted in a significant increase in charge-offs against the Bank's loan portfolio. The elevated charge-offs continued through 2011. During this period, the Bank's loan loss methodology, which is based in part on the Bank's

charge-off history, dictated an increase in the amount allocated to the general reserve component of the loan loss reserve. Beginning in 2011, asset quality began to rapidly improve. Because the Bank used a three year charge-off history in calculating general reserves, the general reserves remained elevated (relative to our historical norms) through 2013.

In 2014, general reserves would have decreased significantly because, based on the three year charge off history, 2011 charge-off experience would no longer be reflected in the calculation. Management was concerned that this decrease would not accurately reflect the increased risk related to expansion in Charlottesville and Harrisonburg and the related loan growth, as well as continuing economic conditions. Throughout the fourth quarter of 2014, management and the Bank's board of directors had numerous discussions to address this concern regarding the adequacy of the allowance for loan losses going forward. To insure that the general reserves accurately incorporated the additional risks noted above, management recommended to the board that the historical loss history be expanded from 3 years to 4 years within the ALLL calculation. We believe the expanded four year charge-off history more closely reflects the ongoing economic cycle and the Bank's current operations in the new markets. This recommendation to replace the three year history with the four year history was approved by the board. As of December 31, 2014 the allowance for loan losses was equal to 1.20% of the total loan portfolio as compared with 1.50% at December 31, 2013.

No nonaccrual loans were excluded from impaired loan disclosure under current accounting rules at December 31, 2014 and 2013. If interest on these loans had been accrued, such income cumulatively would have approximated $915,000 and $1,173,000 for 2014 and 2013, respectively. Loan payments received on nonaccrual loans are applied to principal. When a loan is placed on nonaccrual status there are several negative implications. First, all interest accrued but unpaid at the time of the classification is deducted from the interest income totals for the Bank. Second, accruals of interest are discontinued until it becomes certain that both principal and interest can be repaid. Third, there may be actual losses that necessitate additional provisions for credit losses charged against earnings. These loans were included in the nonperforming loan totals listed below. The following table sets forth the detail of loans charged-off, recovered, and the changes in the allowance for loan losses as of the dates indicated:

	Allowance for Loan Losses *(dollars in thousands)* **At December 31,**				
	2014	**2013**	**2012**	**2011**	**2010**
Balance, beginning of period	$5,186	$5,535	$5,612	$5,467	$4,288
Loans charged-off:					
Commercial	165	19	739	702	845
Commercial real estate	187	932	1,061	2,738	300
Consumer	79	126	697	817	369
Residential	120	28	102	459	385
Total loans charged off	$ 551	$1,105	$2,599	$4,716	$1,899
Recoveries:					
Commercial	$ 51	$ 37	$ 18	$ 16	$ 132
Commercial real estate	10	42	129	3	—
Consumer	39	137	77	31	119
Residential	—	—	9	4	44
Total recoveries	$ 100	$ 216	$ 233	$ 54	$ 295
Net charge-offs	$ 451	$ 889	$2,366	$4,662	$1,604
Provision for loan losses	55	540	2,289	4,807	2,783
Balance, end of period	$4,790	$5,186	$5,535	$5,612	$5,467

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

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

	2014		2013		2012		2011		2010	
	Amount	Percent of Loans to Total Loans	Amount	Percent of Loans to Total Loans	Amount	Percent of Loans to Total Loans	Amount	Percent of Loans to Total Loans	Amount	Percent of Loans to Total Loans
Commercial	$1,235	15.84%	$1,015	16.17%	$ 987	16.93%	$ 892	18.36%	$ 473	19.25%
Commercial – real estate	2,194	51.89%	2,631	49.86%	2,849	47.14%	2,677	46.37%	2,897	43.97%
Consumer	812	19.13%	935	20.62%	1,057	21.70%	1,486	22.31%	1,207	20.94%
Residential	549	13.14%	605	13.35%	642	14.23%	557	12.96%	890	15.84%
	$4,790	100.00%	$5,186	100.00%	$5,535	100.00%	$5,612	100.00%	$5,467	100.00%

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

Nonperforming Assets
(dollars in thousands)
At December 31,

	2014	2013	2012	2011	2010
Nonaccrual loans	$ 3,506	$ 3,066	$6,346	$10,376	$ 8,366
Foreclosed property (OREO)	956	1,451	2,112	3,253	3,440
Loans past due 90 days accruing interest	—	—	—	—	—
Total nonperforming assets	$ 4,462	$ 4,517	$8,458	$13,629	$11,806
Restructured loans – performing portion (TDR)	$ 376	$ 564	$ 572	$ 783	$ 4,987
Allowance for loan losses to period end loans	1.20%	1.50%	1.70%	1.73%	1.68%
Nonperforming assets to period end loans	1.13%	1.33%	2.60%	4.20%	3.62%
Net charge-offs (recoveries) to average loans	0.12%	0.27%	0.74%	1.44%	0.49%
Allowance for loan losses to non-performing loans	136.62%	169.15%	87.22%	54.09%	65.35%

Interest Rate Sensitivity

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

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

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

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

Other Borrowings

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

Short-term borrowings consist of securities sold under agreements to repurchase, which are secured transactions with customers and generally mature the day following the date sold. As discussed above, the Bank ceased offering sweep accounts to its customers and therefore no longer has short term borrowings in the form repurchase agreements. Short-term borrowings may also include federal funds purchased, which are unsecured overnight borrowings from other financial institutions, which totaled $3,189,000 and $4,108,000 as of December 31, 2014 and December 31, 2013, respectively. Unsecured federal funds lines and their respective limits are maintained with the following institutions: Community Bankers’ Bank, $11,000,000, PNC Bank $6,000,000, Suntrust Bank, $3,000,000, and Zions Bank, $4,000,000. In addition, the Bank maintains a $5,000,000 reverse repurchase agreement with Suntrust whereby securities may be pledged as collateral in exchange for funds for a minimum of 30 days with a maximum of 90 days. The Bank also maintains a secured federal funds line with Community Bankers’ Bank whereby it may pledge securities as collateral with no specified minimum or maximum amount or term. The amount outstanding on the Community Bankers’ Bank unsecured fed funds line was $3,189,000 and $4,108,000 as of December 31, 2014 and 2013, respectively.

Long-term borrowings are obtained through the Federal Home Loan Bank of Atlanta (“FHLBA”). The Bank’s remaining available credit through the FHLBA is $78,370,000 as of December 31, 2014, the most recent calculation.

The following information is provided for borrowings balances, rates and maturities:

(dollars in thousands)	As of December 31, 2014	As of December 31, 2013
Short Term:		
Federal funds purchased		
Balance at end of year	$ 3,189	$4,108
Maximum month-end outstanding balance	5,976	4,108
Average outstanding balance during the year	963	204
Average interest rate during the year	0.93%	0.49%
Average interest rate at end of year	0.96%	0.50%
Long Term:		
Federal Home Loan Bank advances		
Balance at end of year	$12,000	$2,000
Maximum month-end outstanding balance	12,000	2,000
Average outstanding balance during the year	2,082	2,000
Average interest rate during the year	3.65%	3.79%
Average interest rate at end of year	2.56%	3.79%

Maturities of FHLBA advances:

Amount *(dollars in thousands)*	Type	Rate	Ultimate Maturity Date
$ 2,000	Fixed rate credit	3.785%	4/15/2015
10,000	Daily rate credit	0.300%	N/A
$ 12,000	Total	0.880%	

The maximum balance on the FHLBA credit was approximately $12,000,000 and $2,000,000 for the years ended December 31, 2014 and December 31, 2013, respectively.

Off-Balance Sheet Arrangements

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Such commitments involve, to varying degrees, elements of credit risk and interest rate risk in excess of the amount recognized in the balance sheets.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. A summary of the Bank's commitments is as follows:

	Contract Amounts (*dollars in thousands*) at December 31,	
	2014	**2013**
Commitments to extend credit	$83,312	$70,944
Standby letters of credit	4,252	1,140
Total	$87,564	$72,084

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Because many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on its credit evaluation of the customer.

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

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

The Bank rents, under non-cancelable leases, three of its banking facilities and one mortgage production office. The Bank has liability in the form of minimum annual rental commitments under these leases as follows:

Year Ending	Amount (in thousands)
2015	$ 503
2016	461
2017	468
2018	475
2019	260
	$ 2,167

Expansion Plans

Subject to regulatory approval, the Bank anticipates opening additional branches during the next two fiscal years. Although numerous factors could influence the Bank's expansion plans, the following discussion provides a general overview of the additional branch location that the Bank currently is considering.

Developed real property:

1391 South High Street, Harrisonburg, Virginia. There is a former bank branch building located on the property. Management anticipates minimal, if any, additional investment in the property in order to open a bank branch/commercial loan office at this location. The Bank has filed application for and received permission to open a branch at this location within the next 3-9 months.

Undeveloped real property:

Timberlake Road Area, Campbell County (Lynchburg), Virginia. As previously disclosed, the Bank has purchased real property located at the intersection of Turnpike and Timberlake Roads, Campbell County, Virginia. The Bank does not anticipate opening a branch at this location prior to 2015. The Bank has determined that the existing structure is not suitable for use as a bank branch.

Rustburg, Virginia . In March 2011, the Bank purchased real property near the intersection of Routes 501 and 24 in Rustburg, Virginia. The structure on the property has been removed. The Bank has not determined when it will open a branch at this location.

Appomattox, Virginia . In July, 2013 the Bank purchased real property located near the intersection of Confederate Boulevard and Moses Avenue for future branch expansion. The Bank has not determined when it will open a branch at this location.

The Bank estimates that the cost of improvements, furniture, fixtures, and equipment necessary to upfit the property at the undeveloped locations will be between $900,000 and $1,500,000 per location.

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

Recent Accounting Pronouncements

For information regarding recent accounting pronouncements and their effect on us, see “Recent Accounting Pronouncements” in Note 22 to the consolidated financial statements included in Item 8 of this Form 10-K.

Item 7A. Quantitative and Qualitative Disclosure About Market Risk

Not applicable

Item 8. Financial Statements and Supplementary Data

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

Management’s Annual Report on Internal Control Over Financial Reporting

Report of Independent Registered Public Accounting Firm

Consolidated Financial Statements

- Balance Sheets, December 31, 2014 and December 31, 2013
- Statements of Income, Years Ended December 31, 2014 and December 31, 2013
- Statements of Comprehensive Income, Years Ended December 31, 2014 and December 31, 2013
- Statements of Changes in Stockholders’ Equity, Years Ended December 31, 2014 and December 31, 2013
- Statements of Cash Flows, Years Ended December 31, 2014 and December 31, 2013
- Notes to Consolidated Financial Statements

MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for the preparation and fair presentation of the consolidated financial statements included in this annual report. The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and reflect management's judgments and estimates concerning effects of events and transactions that are accounted for or disclosed.

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

In order to ensure that Financial's internal control over financial reporting is effective, management regularly assesses such controls and did so most recently for its financial reporting as of December 31, 2014. This assessment was based on criteria for effective internal control over financial reporting described in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations (COSO) in 2013, by the Treadway Commission. Based on this assessment, management has concluded that the internal control over financial reporting was effective as of December 31, 2014.

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

The Board of Directors, acting through its Audit Committee, is responsible for the oversight of Financial's accounting policies, financial reporting and internal control. The Audit Committee of the Board of Directors is comprised entirely of outside directors who are independent of management. The Audit Committee is responsible for the appointment and compensation of the independent registered public accounting firm and approves decisions regarding the appointment or removal of Financial's Internal Auditor. It meets periodically with management, the independent registered public accounting firm and the internal auditors to ensure that they are carrying out their responsibilities. The Audit Committee is also responsible for performing an oversight role by reviewing and monitoring the financial, accounting and auditing procedures of Financial in addition to reviewing Financial's financial reports. The independent registered public accounting firm and the internal auditors have full and unlimited access to the Audit Committee, with or without management, to discuss the adequacy of internal control over financial reporting, and any other matter which they believe should be brought to the attention of the Audit Committee.

/s/ Robert R. Chapman III	/s/ J. Todd Scruggs
Chief Executive Officer & President	Secretary-Treasurer (Principal Financial Officer)
March 20, 2015	March 20, 2015

See Notes to Consolidated Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of Bank of the James Financial Group, Inc. and subsidiaries as of December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Bank of the James Financial Group, Inc. and subsidiaries as of December 31, 2014 and 2013, and the results of their operations and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

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

Winchester, Virginia
March 20, 2015

See Notes to Consolidated Financial Statements

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

	December 31,	
	2014	**2013**
Assets		
Cash and due from banks	$ 12,743	$ 16,671
Securities held-to-maturity (fair value of $2,699 in 2014 and $3,740 in 2013)	2,528	3,537
Securities available-for-sale, at fair value	24,395	46,091
Restricted stock, at cost	1,739	1,428
Loans, net of allowance for loan losses of $4,790 in 2014 and $5,186 in 2013	394,573	339,994
Loans held for sale	1,030	1,921
Premises and equipment, net	9,262	8,676
Interest receivable	1,246	1,360
Cash value - bank owned life insurance	9,512	9,230
Other real estate owned, net of valuation allowance	956	1,451
Income taxes receivable	945	448
Deferred tax asset, net	1,221	2,628
Other assets	715	1,076
Total assets	$460,865	$434,511
Liabilities and Stockholders' Equity		
Deposits		
Noninterest bearing demand	$ 74,682	$ 63,256
NOW, money market and savings	227,761	226,709
Time	97,054	97,433
Total deposits	399,497	387,398
Federal funds purchased	3,189	4,108
FHLB borrowings	12,000	2,000
Capital notes	10,000	10,000
Interest payable	58	65
Other liabilities	1,345	1,168
Total liabilities	$426,089	$404,739
Stockholders' equity		
Common stock $2.14 par value; authorized 10,000,000 shares; issued and outstanding 3,371,616 as of December 31, 2014 and 3,364,874 as of December 31, 2013	$ 7,215	$ 7,201

See Notes to Consolidated Financial Statements

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

	2014	2013
Preferred stock; authorized 1,000,000 shares; none issued and outstanding as of December 31, 2014 and December 31, 2013	—	—
Additional paid-in-capital	22,919	22,868
Retained earnings	5,031	2,124
Accumulated other comprehensive (loss)	(389)	(2,421)
Total stockholders' equity	$ 34,776	$ 29,772
Total liabilities and stockholders' equity	$460,865	$434,511

See Notes to Consolidated Financial Statements

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

	For the Year Ended December 31,	
	2014	**2013**
Interest Income		
Loans	$17,511	$16,924
Securities		
US Government and agency obligations	658	737
Mortgage backed securities	82	82
Municipals - taxable	244	308
Municipals - taxable exempt	111	229
Dividends	63	59
Other (Corporates)	43	59
Federal Funds sold	17	30
Total interest income	18,729	18,428
Interest Expense		
Deposits		
NOW, money market savings	486	494
Time Deposits	1,152	1,268
Federal Funds purchased	9	1
FHLB borrowings	76	76
Reverse repurchase agreements	2	—
Capital notes	600	600
Total interest expense	2,325	2,439
Net interest income	16,404	15,989
Provision for loan losses	55	540
Net interest income after provision for loan losses	16,349	15,449
Other operating income		
Mortgage income	1,716	1,255
Service charges, fees and commissions	1,352	1,350
Increase in cash value of life insurance	282	299
Other	94	118
Gain on sales of available-for-sale securities, net	143	456
Total other operating income	3,587	3,478

See Notes to Consolidated Financial Statements

BANK OF THE JAMES FINANCIAL GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(dollars in thousands, except per share amounts)

	2014	2013
Other operating expenses		
Salaries and employee benefits	7,940	7,161
Occupancy	1,214	1,205
Equipment	1,234	1,043
Supplies	387	362
Professional, data processing, and other outside expense	2,241	2,294
Marketing	472	367
Credit expense	220	229
Other real estate expenses	206	506
FDIC insurance expense	262	573
Other	812	838
Amortization of tax credit investment	247	247
Total other operating expenses	15,235	14,825
Income before income taxes	4,701	4,102
Income tax expense	1,288	1,042
Net Income	$ 3,413	$ 3,060
Weighted average shares outstanding - basic	3,365,410	3,353,784
Weighted average shares outstanding - diluted	3,365,410	3,354,958
Earnings per common share - basic	$ 1.01	$ 0.91
Earnings per common share - diluted	$ 1.01	$ 0.91

See Notes to Consolidated Financial Statements

BANK OF THE JAMES FINANCIAL GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(dollars in thousands)

	For the Year Ended December 31,	
	2014	**2013**
Net Income	$ 3,413	$ 3,060
Other comprehensive income (loss)		
Unrealized gains (losses) on securities available-for-sale	3,220	(4,072)
Tax effect	(1,094)	1,384
Reclassification adjustment for gains included in net income (1)	(143)	(456)
Tax effect (2)	49	155
Other comprehensive income (loss), net of tax	2,032	(2,989)
Comprehensive income	$ 5,445	$ 71

(1) Gains are included in “gain on sale of available-for-sale securities, net” on the consolidated statements of income.

(2) The tax effect on these reclassifications is reflected in “income tax expense” on the consolidated statements of income.

See Notes to Consolidated Financial Statements

BANK OF THE JAMES FINANCIAL GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(dollars in thousands except per share amounts)

	Total Shares Outstanding	Common Stock	Additional Paid-in Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 31, 2012	3,352,725	$ 7,175	$ 22,806	$ (936)	$ 568	$29,613
Net Income	—	—	—	3,060	—	3,060
Exercise of stock options	12,149	26	62	—	—	88
Other Comprehensive Loss	—	—	—	—	(2,989)	(2,989)
Balance at December 31, 2013	3,364,874	$ 7,201	$ 22,868	$ 2,124	$ (2,421)	$29,772
Net Income	—	—	—	3,413	—	3,413
Dividends paid on common stock ($0.15 per share)	—	—	—	(506)	—	(506)
Exercise of stock options	6,742	14	51	—	—	65
Other Comprehensive Income	—	—	—	—	2,032	2,032
Balance at December 31, 2014	3,371,616	$ 7,215	$ 22,919	$ 5,031	$ (389)	$34,776

See Notes to Consolidated Financial Statements

BANK OF THE JAMES FINANCIAL GROUP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(dollars in thousands)

	For the Year Ended December 31, 2014	2013
Cash flows from operating activities		
Net Income	$ 3,413	$ 3,060
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	756	720
Net amortization and accretion of premiums and discounts on securities	237	338
(Gain) on sales of available-for-sale securities	(143)	(456)
Provision for loan losses	55	540
Loss on sale of other real estate owned	21	13
Decrease (increase) in loans held-for-sale	891	(1,017)
Expense for deferred income taxes	362	278
Amortization of tax credit investment	247	247
(Increase) in cash value of life insurance	(282)	(299)
Loss on disposition of equipment	—	2
Decrease in interest receivable	114	197
Decrease in other assets	114	144
(Increase) decrease in income taxes receivable	(497)	176
(Decrease) in interest payable	(7)	(5)
Increase in other liabilities	177	485
Writedown on other real estate owned	167	368
Net cash provided by operating activities	$ 5,625	$ 4,791
Cash flows from investing activities		
Purchases of securities held-to-maturity	$ —	$ (485)
Proceeds from maturities and calls of securities held-to-maturity	1,000	—
Purchases of securities available-for-sale	(3,140)	(30,367)
Proceeds from maturities, calls and paydowns of securities available-for-sale	120	2,316
Proceeds from sale of securities available-for-sale	27,708	27,867
Redemption of Federal Home Loan Bank stock	(311)	110
Proceeds from sale of other real estate owned	474	716
Origination of loans, net of principal collected	(54,801)	(21,048)
Proceeds from sale of equipment	—	15
Purchases of premises and equipment	(1,342)	(821)
Net cash (used in) investing activities	$ (30,292)	$ (21,697)
Cash flows from financing activities		
Net increase (decrease) in deposits	$ 12,099	$ (11,617)
Net increase (decrease) in federal funds purchased	(919)	4,108
Net increase in Federal Home Loan Bank advances	10,000	—
Dividends paid to common stockholders	(506)	—
Proceeds from exercise of stock options	65	88
Net cash provided by (used in) financing activities	$ 20,739	$ (7,421)
(Decrease) in cash and cash equivalents	(3,928)	(24,327)
Cash and cash equivalents at beginning of period	$ 16,671	$ 40,998
Cash and cash equivalents at end of period	$ 12,743	$ 16,671
Non cash transactions		
Transfer of loans to other real estate owned	$ 473	$ 860
Loans made to finance the sale of other real estate owned	306	424
Fair value adjustment for securities	3,077	(4,528)
Cash transactions		
Cash paid for interest	$ 2,332	$ 2,444

Cash paid for taxes	1,425	1,275

See Notes to Consolidated Financial Statements

BANK OF THE JAMES FINANCIAL GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014 and 2013
(dollars in thousands, except per share data)

Note 1 – Organization

Bank of the James Financial Group, Inc. ("Financial" or the "Company"), a Virginia corporation, was organized in 2003 and is registered as a bank holding company under the Bank Holding Company Act of 1956, as amended. Financial is headquartered in Lynchburg, Virginia. Financial conducts its business activities through the branch offices and loan production offices of its wholly owned subsidiary bank, Bank of the James (the "Bank"), the Bank's wholly-owned subsidiary, BOTJ Insurance, Inc. ("BOTJ-Ins."), and through the Bank's two divisions, Bank of the James Mortgage division ("Mortgage division") and BOTJ Investment Services division ("Investment Services division"). The Mortgage division originates conforming and non-conforming home mortgages primarily in the Region 2000 area, which includes the counties of Amherst, Appomattox, Bedford and Campbell (which includes the Town of Altavista) and the cities of Bedford and Lynchburg, Virginia. Financial exists primarily for the purpose of holding the stock of its subsidiaries, the Bank and such other subsidiaries as it may acquire or establish. Financial also has one wholly-owned non-operating subsidiary.

Bank of the James was incorporated on October 23, 1998, and began banking operations on July 22, 1999. The Bank is a Virginia chartered bank and is engaged in lending and deposit gathering activities in Region 2000 and other markets in Central Virginia. It operates under the laws of Virginia and the Rules and Regulations of the Federal Reserve System and the Federal Deposit Insurance Corporation. The Bank's locations consist of five branches (one of which is a limited service branch) in Lynchburg, Virginia, one in Forest, Virginia which includes the Mortgage Division, one in Madison Heights, Virginia, one in the Town of Amherst, Virginia, one in the City of Bedford, Virginia, and one in the Town of Altavista, Virginia. The Bank also operates a mortgage loan production office in Roanoke, Virginia and a limited service branch/loan production office in Charlottesville, Virginia.

Note 2 - Summary of significant accounting policies

Consolidation

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

Basis of presentation and use of estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements, as well as the amounts of income and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, and valuation of other real estate owned.

Cash and cash equivalents

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

Note 2 - Summary of significant accounting policies (continued)

Securities

Certain debt securities that management has the positive intent and ability to hold to maturity are classified as "held-to-maturity" and recorded at amortized cost. Trading securities are recorded at fair value with changes in fair value included in earnings. Securities not classified as held-to-maturity or trading, including equity securities with readily determinable fair values, are classified as "available-for-sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income (loss). Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

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

For equity securities, impairment is considered to be other-than-temporary based on our ability and intent to hold the investment until a recovery of fair value. Other-than-temporary impairment of an equity security results in a write-down that must be included in net income. We regularly review each investment security for other-than-temporary impairment based on criteria that include the extent to which cost exceeds market price, the duration of that market decline, the financial health of and specific prospects for the issuer, our best estimate of the present value of cash flows expected to be collected from debt securities, our intention with regard to holding the security to maturity, and the likelihood that we would be required to sell the security before recovery.

Restricted investments

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

Loans

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

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the interest method.

Note 2 - Summary of significant accounting policies (continued)

Past due status

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

Non-accrual status

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

Charge-off

At the time a loan is placed on non-accrual status, it is generally reevaluated for expected loss and a specific reserve, if not already assigned, is established against the loan. Consumer term loans are typically charged-off no later than 120 days whereas consumer revolving credit loans are typically charged-off no later than 180 days. Although the goal for commercial and commercial real estate loans is for charge off no later than 180 days, a commercial or commercial real estate loan may not be fully charged off until there is reasonable certainty that no additional workout efforts, troubled debt restructurings or any other types of concession can or will be made by Financial.

Loans Held for Sale

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

Allowance for loan losses

The allowance for loan losses is established as losses that are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management’s periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower’s ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

Note 2 - Summary of significant accounting policies (continued)

The allowance consists of specific, historical and general components. The specific component relates to loans that are classified as doubtful or substandard. For such loans that are also classified as impaired, an allowance is established when the collateral value of the impaired loan or discounted cash flows is lower than the carrying value of that loan. The historical component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. A general component is maintained to cover uncertainties that could affect management's estimate of probable losses. The general component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio. The qualitative factors used to derive the general component of the allowance may include but are not limited to:

1. Known improvement or deterioration in certain classes of loans or collateral;
2. Trends in portfolio volume, maturity, or composition;
3. Volume and trends in delinquencies and non-accruals;
4. Local economic and industrial conditions;
5. Lending, charge-off, and collection policies; and
6. Experience, ability, and depth of lending staff.

A loan is considered impaired when, based on current information and events, it is probable that Financial will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis by evaluating the discounted cash flows or fair value of the underlying collateral, if the loan is collateral dependent.

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

- In accordance with current accounting rules (ASC 310), the Bank performs an individual impairment analysis on all loans having a principal balance greater than $100,000 (unless related to another classified relationship or a TDR) with a risk rating of substandard, doubtful, and loss (our internal risk ratings of 7 through 9). The Bank also performs individual loan analysis and assesses potential future losses associated with those relationships risk rated as special mention (our internal risk rating of 6).
- In accordance with current accounting rules (ASC 450), the Bank examines historical charge-off data by segment in order to determine a portion of the reserve related to homogeneous pools. The Bank updates its historical charge-off data quarterly and adjusts the reserve accordingly.
- The Bank applies various risk factors, including, for example, levels of trends in delinquencies, current and expected economic conditions, and levels of and trends in recoveries of prior charge-offs.
- The Bank applies factors to determine the method by which to determine the general reserve for inherent losses related to the loan pool, including, for example, loan concentrations, policy and procedure changes, national and local economic trends and conditions, and overall portfolio quality.

Note 2 - Summary of significant accounting policies (continued)

Troubled debt restructurings

In situations where, for economic or legal reasons related to a borrower's financial condition, management may grant a concession to the borrower that it would not otherwise consider, the related loan is classified as a troubled debt restructuring ("TDR"). Management strives to identify borrowers in financial difficulty early and work with them to modify their loan to more affordable terms before their loans reach nonaccrual status. These modified terms may include rate reductions, principal forgiveness, payment forbearance and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of collateral. In cases where borrowers are granted new terms that generally (although not required to be considered a TDR) provide for a reduction of either interest or principal, management measures any impairment on the restructuring as noted above for impaired loans. The Bank had $376 and $564 classified as TDRs as of December 31, 2014 and 2013, respectively.

Premises, equipment and depreciation

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

Bank owned life insurance

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

Other real estate owned

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

Transfers of financial assets

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Bank – put presumptively beyond reach of the transferor and its creditors, even in bankruptcy or other receivership, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge

Note 2 - Summary of significant accounting policies (continued)

or exchange the transferred assets, and (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

Income taxes

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

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

Interest and penalties associated with unrecognized tax benefits are classified as additional income taxes in the consolidated statements of income. At December 31, 2014 and 2013, there were no liabilities recorded for unrecognized tax benefits.

Stock options

Current accounting guidance requires the costs resulting from all share-based payments to employees be recognized in the financial statements. Stock-based compensation is estimated at the date of grant, using the Black-Scholes option valuation model for determining fair value.

There were no options granted in 2014 or 2013.

ASC 718 Compensation - Stock Compensation requires Financial to estimate forfeitures when recognizing compensation expense and that this estimate of forfeitures be adjusted over the requisite service period or vesting schedule based on the extent to which actual forfeitures differ from such estimates. Changes in estimated forfeitures are recognized through a cumulative catch-up adjustment, which is recognized in the period of change, and also will impact the amount of estimated unamortized compensation expense to be recognized in future periods.

As of December 31, 2014, all compensation expense related to the Company’s option plan had been recognized. The Company’s ability to grant additional option shares under the 1999 Plan has expired.

Note 2 - Summary of significant accounting policies (continued)

Earnings per common share

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

Reclassification

Management has made certain immaterial reclassifications to conform to the 2014 presentation.

Comprehensive income

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

Marketing

The Company expenses advertising costs as incurred. Advertising expenses were $472 and $367 for 2014 and 2013, respectively.

Note 3 - Restrictions on cash

To comply with Federal Reserve regulations, the Bank is required to maintain certain average cash reserve balances. The daily average cash reserve requirements were approximately $4,987 and $3,381 for the weeks including December 31, 2014 and 2013, respectively.

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Note 4 - Securities

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

	December 31, 2014			
	Amortized	Gross Unrealized		
	Cost	Gains	Losses	Fair Value
Held-to-maturity				
U.S. agency obligations	$ 2,528	$171	$ —	$ 2,699
Available-for-sale				
U.S. agency obligations	$ 14,090	$—	$ (592)	$13,498
Mortgage-backed securities	2,042	—	(60)	1,982
Municipals	7,832	114	(47)	7,899
Corporates	1,020	—	(4)	1,016
	$ 24,984	$114	$ (703)	$24,395

	December 31, 2013			
	Amortized	Gross Unrealized		
	Cost	Gains	Losses	Fair Value
Held-to-maturity				
U.S. agency obligations	$ 3,537	$203	$ —	$ 3,740
Available-for-sale				
U.S Treasuries	$ 3,907	$—	$ (296)	$ 3,611
U.S. agency obligations	22,544	—	(2,436)	20,108
Mortgage-backed securities	5,450	11	(150)	5,311
Municipals	15,845	35	(742)	15,138
Corporates	2,011	—	(88)	1,923
	$ 49,757	$ 46	$(3,712)	$46,091

Note 4 –Securities (continued)

Temporarily Impaired Securities

The following tables show the gross unrealized losses and fair value of the Bank's investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2014 and 2013:

December 31, 2014	Less than 12 months		More than 12 months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. agency obligations	$ 999	$ 1	$11,502	$ 591	$12,501	$ 592
Mortgage-backed securities	—	—	1,982	60	1,982	60
Corporates	—	—	1,016	4	1,016	4
Municipals	771	9	3,192	38	3,963	47
Total temporarily impaired securities	$ 1,770	$ 10	$17,692	$ 693	$19,462	$ 703

December 31, 2013	Less than 12 months		More than 12 months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasuries	$ 3,611	$ 296	$ —	$ —	$ 3,611	$ 296
U.S. agency obligations	14,087	1,473	5,021	963	19,108	2,436
Mortgage-backed securities	4,830	150	—	—	4,830	150
Municipals	11,163	574	1,479	168	12,642	742
Corporates	1,923	88	—	—	1,923	88
Total temporarily impaired securities	$35,614	$ 2,581	$ 6,500	$ 1,131	$42,114	$ 3,712

U.S. agency obligations. The unrealized losses on the 9 investments in U.S. agency obligations at December 31, 2014 were caused by an increase in interest rates. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost bases of the investments. Because the Bank does not intend to sell the investments and it is not more likely than not that the Bank will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Bank does not consider those investments to be other-than-temporarily impaired at December 31, 2014. Each of these 9 investments carries an S&P investment grade rating of AA.

Note 4 –Securities (continued)

Mortgage-backed securities. The unrealized loss on the single investment in a U.S. government agency mortgage-backed security at December 31, 2014 was caused by an increase in interest rates. The contractual terms of this investment does not permit the issuer to settle the security at a price less than the amortized cost basis of the investment. Because the Bank does not intend to sell this investment and it is not more likely than not that the Bank will be required to sell the investment before recovery of the amortized cost basis, which may be maturity, the Bank does not consider this investment to be other-than-temporarily impaired at December 31, 2014. This investment carries an S&P investment grade rating of AA.

Municipals. The unrealized losses on the 8 investments in municipal obligations at December 31, 2014 were caused by an increase in interest rates. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost bases of the investments. Because the Bank does not intend to sell the investments and it is not more likely than not that the Bank will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Bank does not consider those investments to be other-than-temporarily impaired at December 31, 2014. Each of these 8 investments carries an S&P investment grade rating of AA or above.

Corporates. The unrealized loss on the single investment in a domestic corporate issued security at December 31, 2014 was caused by an increase in interest rates. The contractual terms of this investment does not permit the issuer to settle the security at a price less than the amortized cost basis of the investment. Because the Bank does not intend to sell the investment and it is not more likely than not that the Bank will be required to sell the investment before recovery of the amortized cost basis, which may be maturity, the Bank does not consider this investment to be other-than-temporarily impaired at December 31, 2014. This investment carries an S&P investment grade rating of AA.

The amortized costs and fair values of securities at December 31, 2014, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Held-to-Maturity		Available-for-Sale	
	Amortized Cost	Fair Values	Amortized Cost	Fair Values
Due in one year or less	$ —	$ —	$ —	$ —
Due after one year through five years	2,528	2,699	479	515
Due after five years through ten years	—	—	12,549	12,218
Due after ten years	—	—	11,956	11,662
	$ 2,528	$2,699	$ 24,984	$24,395

The Bank received $27,708 in proceeds from sales of securities available-for-sale in 2014. Gross realized gains amounted to $160 and gross realized losses amounted to $17. The Bank received $27,867 in proceeds from sales of securities available-for-sale in 2013. Gross realized gains amounted to $514 and gross realized losses amounted to $58.

Note 4 –Securities (continued)

The amortized costs of securities pledged as collateral for public deposits and other short term borrowings were approximately $11,828 and $7,666 (fair value of $11,828 and $7,385) at December 31, 2014 and 2013, respectively.

Note 5 - Loans and allowance for loan losses

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

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

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

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

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

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

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

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

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

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

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

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

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

The Bank grants primarily commercial, real estate, and installment loans to customers throughout its market area, which consists primarily of Region 2000 which includes the counties of Amherst, Appomattox, Bedford and Campbell and the cities of Bedford and Lynchburg, Virginia. The real estate portfolio can be affected by the condition of the local real estate market. The commercial and installment loan portfolio can be affected by the local economic conditions.

A summary of loans, net is as follows:

	December 31,	
	2014	2013
Commercial	$ 63,259	$ 55,803
Commercial real estate	207,262	172,117
Consumer	76,380	71,165
Residential	52,462	46,095
Total loans (1)	399,363	345,180
Less allowance for loan losses	4,790	5,186
Net loans	$394,573	$339,994

(1) Includes net deferred loan costs of $330 and $561, respectively.

The amount of overdrafts reclassified as loans was $12 and $8 as of December 31, 2014 and 2013, respectively.

The Company’s officers, directors and their related interests have various types of loan relationships with the Bank. The total outstanding balances of these related party loans at December 31, 2014 and 2013 were $16,786 and $12,399 respectively. During 2014, new loans and advances amounted to $6,874 and repayments amounted to $2,487.

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

The following tables set forth information regarding impaired and non-accrual loans as of December 31, 2014 and 2013:

Loans on Non-Accrual Status

	As of December 31, 2014	2013
Commercial	$1,965	$1,585
Commercial Real Estate:		
Commercial Mortgages-Owner Occupied	212	537
Commercial Mortgages-Non-Owner Occupied	70	353
Commercial Construction	460	375
Consumer		
Consumer Unsecured	—	—
Consumer Secured	20	33
Residential:		
Residential Mortgages	689	183
Residential Consumer Construction	90	—
Totals	$3,506	$3,066

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

	Impaired Loans As of and for the Year Ended December 31, 2014				
2014	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Recorded Investment**	**Interest Income Recognized**
With No Related Allowance Recorded:					
Commercial	$ 2,017	$ 2,280	$ —	$ 2,641	$ 63
Commercial Real Estate					
Commercial Mortgages-Owner Occupied	2,835	2,835	—	1,687	152
Commercial Mortgage Non-Owner Occupied	1,078	1,128	—	1,041	75
Commercial Construction	460	1,194	—	606	—
Consumer					
Consumer Unsecured	—	—	—	—	—
Consumer Secured	21	21	—	21	1
Residential					
Residential Mortgages	934	1,058	—	702	58
Residential Consumer Construction	—	—	—	—	—
With an Allowance Recorded:					
Commercial	$ 1,406	$ 1,861	$ 713	$ 990	$ 29
Commercial Real Estate					
Commercial Mortgages-Owner Occupied	852	1,029	63	1,636	36
Commercial Mortgage Non-Owner Occupied	126	126	32	173	7
Commercial Construction	—	—	—	—	—
Consumer					
Consumer Unsecured	—	—	—	—	—
Consumer Secured	119	119	119	80	7
Residential					
Residential Mortgages	829	968	131	1,257	52
Residential Consumer Construction	—	—	—	—	—
Totals:					
Commercial	$ 3,423	$ 4,141	$ 713	$ 3,631	$ 92
Commercial Real Estate					
Commercial Mortgages-Owner Occupied	3,687	3,864	63	3,323	188
Commercial Mortgage Non-Owner Occupied	1,204	1,254	32	1,214	82
Commercial Construction	460	1,194	—	606	—
Consumer					
Consumer Unsecured	—	—	—	—	—
Consumer Secured	140	140	119	101	8
Residential					
Residential Mortgages	1,763	2,026	131	1,959	110
Residential Consumer Construction	—	—	—	—	—
	$ 10,677	$12,619	$ 1,058	$ 10,834	$ 480

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

	Impaired Loans As of and for the Year Ended December 31, 2013				
2013	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With No Related Allowance Recorded:					
Commercial	$ 3,265	$ 3,699	$ —	$ 2,898	$ 101
Commercial Real Estate					
Commercial Mortgages-Owner Occupied	539	593	—	1,566	38
Commercial Mortgage Non-Owner Occupied	1,003	1,003	—	3,686	47
Commercial Construction	751	1,274	—	746	8
Consumer					
Consumer Unsecured	—	—	—	—	—
Consumer Secured	21	21	—	245	1
Residential					
Residential Mortgages	470	517	—	1,304	24
Residential Consumer Construction	—	—	—	—	—
With An Allowance Recorded:					
Commercial	$ 573	$ 573	$ 406	$ 597	$ 38
Commercial Real Estate					
Commercial Mortgages-Owner Occupied	2,420	2,617	280	3,046	108
Commercial Mortgage Non-Owner Occupied	220	221	14	530	15
Commercial Construction	—	—	—	412	—
Consumer					
Consumer Unsecured	—	—	—	1	—
Consumer Secured	40	40	40	285	3
Residential					
Residential Mortgages	1,684	1,820	224	1,350	118
Residential Consumer Construction	—	—	—	—	—
Totals:					
Commercial	$ 3,838	$ 4,272	$ 406	$ 3,495	$ 139
Commercial Real Estate					
Commercial Mortgages-Owner Occupied	2,959	3,210	280	4,612	146
Commercial Mortgage Non-Owner Occupied	1,223	1,224	14	4,216	62
Commercial Construction	751	1,274	—	1,158	8
Consumer					
Consumer Unsecured	—	—	—	1	—
Consumer Secured	61	61	40	530	4
Residential					
Residential Mortgages	2,154	2,337	224	2,654	142
Residential Consumer Construction	—	—	—	—	—
	$ 10,986	$12,378	$ 964	$ 16,666	$ 501

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

Changes in Allowance Methodology

Beginning with the quarter ended December 31, 2014, the Company changed its methodology for determining the historical loss portion of general reserves assigned to unimpaired credits. In prior periods, a rolling three year historical "look-back" period was utilized in the determination of historical loss rates to apply to the segments of the loan portfolio in the determination of general reserves. At December 31, 2014, the Company changed this period to a four year rolling historical "look-back" period.

The Company believes the expanded four year "look-back" period is more indicative of the losses and risks inherent in the portfolio, given the ongoing economic cycle and as the Bank expands into new markets.

The following table represents the effect on the loan loss provision for the year ended December 31, 2014 as a result of the change in allowance methodology from that used in prior periods.

Portfolio Segment:	**Calculated Provision Based on Current Methodology** (in thousands)	**Calculated Provision Based on Prior Methodology** (in thousands)	**Difference** (in thousands)
Commercial	$ 334	$ 234	$ 100
Commercial Real Estate	(260)	(1,006)	746
Consumer	(83)	(259)	176
Residential	64	41	23
Total	$ 55	$ (990)	$ 1,045

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

The following tables set forth the allowance for loan losses activity for the years ended December 31, 2014 and 2013:

	Allowance for Loan Losses and Recorded Investment in Loans For the Year Ended December 31, 2014				
2014	**Commercial**	**Commercial Real Estate**	**Consumer**	**Residential**	**Total**
Allowance for Loan Losses:					
Beginning Balance	$ 1,015	$ 2,631	$ 935	$ 605	$ 5,186
Charge-offs	(165)	(187)	(79)	(120)	(551)
Recoveries	51	10	39	—	100
Provision	334	(260)	(83)	64	55
Ending Balance	$ 1,235	$ 2,194	$ 812	$ 549	$ 4,790
Ending Balance: Individually evaluated for impairment	$ 713	$ 95	$ 119	$ 131	$ 1,058
Ending Balance: Collectively evaluated for impairment	522	2,099	693	418	3,732
Totals:	$ 1,235	$ 2,194	$ 812	$ 549	$ 4,790
Loans:					
Ending Balance: Individually evaluated for impairment	$ 3,423	$ 5,351	$ 140	$ 1,763	$ 10,677
Ending Balance: Collectively evaluated for impairment	59,386	201,911	76,240	50,699	388,686
Totals:	$ 63,259	$ 207,262	$ 76,380	$ 52,462	$399,363

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

	Allowance for Loan Losses and Recorded Investment in Loans For the Year Ended December 31, 2013				
2013	**Commercial**	**Commercial Real Estate**	**Consumer**	**Residential**	**Total**
Allowance for Loan Losses:					
Beginning Balance	$ 987	$ 2,849	$ 1,057	$ 642	$ 5,535
Charge-offs	(19)	(932)	(126)	(28)	(1,105)
Recoveries	37	42	137	—	216
Provision	10	672	(133)	(9)	540
Ending Balance	$ 1,015	$ 2,631	$ 935	$ 605	$ 5,186
Ending Balance: Individually evaluated for impairment	$ 406	$ 294	$ 40	$ 224	$ 964
Ending Balance: Collectively evaluated for impairment	609	2,337	895	381	4,222
Totals:	$ 1,015	$ 2,631	$ 935	$ 605	$ 5,186
Loans:					
Ending Balance: Individually evaluated for impairment	$ 3,838	$ 4,933	$ 61	$ 2,154	$ 10,986
Ending Balance: Collectively evaluated for impairment	51,965	167,184	71,104	43,941	334,194
Totals:	$ 55,803	$ 172,117	$ 71,165	$ 46,095	$345,180

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

Age Analysis of Past Due Loans as of December 31, 2014

2014	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days & Accruing
Commercial	$ 21	$ 80	$1,965	$ 2,066	$ 61,193	$ 63,259	$ —
Commercial Real Estate:							
Commercial Mortgages-Owner Occupied	192	—	212	404	77,304	77,708	—
Commercial Mortgages-Non-Owner Occupied	86	—	70	156	119,019	119,175	—
Commercial Construction	—	—	460	460	9,919	10,379	—
Consumer:							
Consumer Unsecured	11	—	—	11	5,749	5,760	—
Consumer Secured	15	—	—	15	70,605	70,620	—
Residential:							
Residential Mortgages	626	48	525	1,199	43,745	44,944	—
Residential Consumer Construction	29	—	—	29	7,489	7,518	—
Total	$ 980	$ 128	$3,232	$ 4,340	$395,023	$399,363	$ —

Age Analysis of Past Due Loans as of December 31, 2013

2013	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days & Accruing
Commercial	$ 389	$ —	$1,586	$ 1,975	$ 53,828	$ 55,803	$ —
Commercial Real Estate:							
Commercial Mortgages-Owner Occupied	1,099	—	409	1,508	63,813	65,321	—
Commercial Mortgages-Non-Owner Occupied	96	—	85	181	94,542	94,723	—
Commercial Construction	—	—	375	375	11,698	12,073	—
Consumer:							
Consumer Unsecured	5	—	—	5	4,717	4,722	—
Consumer Secured	71	—	33	104	66,339	66,443	—
Residential:							
Residential Mortgages	704	—	183	887	39,909	40,796	—
Residential Consumer Construction	—	95	—	95	5,204	5,299	—
Total	$ 2,364	$ 95	$2,671	$ 5,130	$340,050	$345,180	$ —

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

	Credit Quality Information - by Class December 31, 2014					
2014	**Pass**	**Monitor**	**Special Mention**	**Substandard**	**Doubtful**	**Totals**
Commercial	$ 58,745	$ 725	$ 224	$ 3,565	$ —	$ 63,259
Commercial Real Estate:						
Commercial Mortgages-Owner Occupied	71,087	1,718	1,216	3,687	—	77,708
Commercial Mortgages-Non-Owner Occupied	112,560	1,586	3,971	1,058	—	119,175
Commercial Construction	9,919	—	—	460	—	10,379
Consumer						
Consumer Unsecured	5,673	—	—	87	—	5,760
Consumer Secured	69,527	554	136	403	—	70,620
Residential:						
Residential Mortgages	41,578	1,258	120	1,988	—	44,944
Residential Consumer Construction	7,428	—	—	90	—	7,518
Totals	$376,517	$5,841	$5,667	$ 11,338	$ —	$399,363

	Credit Quality Information - by Class December 31, 2013					
2013	**Pass**	**Monitor**	**Special Mention**	**Substandard**	**Doubtful**	**Totals**
Commercial	$ 48,827	$2,109	$ 979	$ 3,888	$ —	$ 55,803
Commercial Real Estate:						
Commercial Mortgages-Owner Occupied	58,740	2,355	1,356	2,870	—	65,321
Commercial Mortgages-Non-Owner Occupied	85,474	2,737	5,468	1,044	—	94,723
Commercial Construction	11,455	—	—	618	—	12,073
Consumer						
Consumer Unsecured	4,721	—	—	1	—	4,722
Consumer Secured	65,056	814	283	290	—	66,443
Residential:						
Residential Mortgages	36,962	786	589	2,459	—	40,796
Residential Consumer Construction	5,299	—	—	—	—	5,299
Totals	$316,534	$8,801	$8,675	$ 11,170	$ —	$345,180

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

Troubled Debt Restructurings (TDRs)

There were no loan modifications that would have been classified as Troubled Debt Restructurings (TDR) during the twelve months ended December 31, 2014 and 2013.

There were no loan modifications classified as TDRs within the last twelve months that defaulted (90 days past due) during the twelve months ended December 31, 2014 and 2013.

Note 6 - Other real estate owned

At December 31, 2014 and 2013, OREO was $956 and $1,451 respectively. OREO is primarily comprised of residential properties and non-residential properties associated with commercial relationships, and are located in Virginia. The following table represents the changes in OREO balance in 2014 and 2013.

OREO Changes

	Year Ended December 31,	
	2014	**2013**
Balance at the beginning of the year (net)	$ 1,451	$ 2,112
Transfers from Loans	473	860
Write-downs to OREO expense	(167)	(368)
Sales	(780)	(1,140)
(Loss) on sales	(21)	(13)
Balance at the end of the year (net)	$ 956	$ 1,451

The following table sets forth the OREO expenses in 2014 and 2013

OREO Expense

	Year Ended December 31,	
	2014	**2013**
Loss on sales	$ 21	$ 13
Write-downs	167	368
Expenses	18	125
Total	$ 206	$ 506

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Note 7 – Premises and equipment

Premises and equipment at December 31, 2014 and 2013 are summarized as follows:

	December 31,	
	2014	2013
Land	$ 3,014	$ 3,014
Building and improvements	5,261	5,361
Construction in progress	877	55
Furniture and equipment	5,477	5,185
Leasehold improvements	1,579	1,535
Software	1,981	1,724
	18,189	16,874
Less accumulated depreciation	8,927	8,198
Net premises and equipment	$ 9,262	$ 8,676

Total depreciation and amortization expense related to premises and equipment for the years ended December 31, 2014 and 2013 was $756 and $720, respectively.

Note 8 - Deposits

A summary of deposit accounts is as follows:

	December 31,	
	2014	2013
Demand		
Noninterest bearing	$ 74,682	$ 63,256
Interest bearing	104,786	96,001
Savings	122,975	130,708
Time, $250,000 or more	8,785	7,708
Other time	88,269	89,725
	$399,497	$387,398

Note 8 - Deposits (continued)

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

Year Ending December 31,	Amount
2015	$54,424
2016	11,035
2017	10,608
2018	9,917
2019	11,070
	$97,054

The Bank held related party deposits of $2,241 and $3,472 at December 31, 2014 and 2013, respectively.

Note 9 – Business Segments

The Company has two reportable business segments: (i) a traditional full service community banking segment and, (ii) a mortgage loan origination business. The community banking business segment includes Bank of the James which provides loans, deposits, investments and insurance to retail and commercial customers throughout Region 2000. The mortgage segment provides a variety of mortgage loan products principally within Region 2000. Mortgage loans are originated and sold in the secondary market through purchase commitments from investors. Because of the pre-arranged purchase commitments, there is minimal risk to the Company.

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

Note 9 – Business Segments (continued)

Information about reportable business segments and reconciliation of such information to the consolidated financial statements for years ended December 31, 2014 and 2013 was as follows:

Business Segments

	Community Banking	Mortgage	Total
For the year ended December 31, 2014			
Net interest income	$ 16,404	$ —	$ 16,404
Provision for loan losses	55	—	55
Net interest income after provision for loan losses	16,349	—	16,349
Noninterest income	1,857	1,730	3,587
Noninterest expenses	13,811	1,424	15,235
Income before income taxes	4,395	306	4,701
Income tax expense	1,184	104	1,288
Net income	$ 3,211	$ 202	$ 3,413
Total assets	$459,804	$ 1,061	$460,865
For the year ended December 31, 2013			
Net interest income	$ 15,989	$ —	$ 15,989
Provision for loan losses	540	—	540
Net interest income after provision for loan losses	15,449	—	15,449
Noninterest income	2,223	1,255	3,478
Noninterest expenses	13,853	972	14,825
Income before income taxes	3,819	283	4,102
Income tax expense	962	80	1,042
Net income	$ 2,857	$ 203	$ 3,060
Total assets	$432,522	$ 1,989	$434,511

Note 10 – Capital notes

During the third quarter of 2012, Financial closed the private placement of unregistered debt securities (the “2012 Offering”) pursuant to which Financial issued $10 million in principal of notes (the “2012 Notes”). The 2012 Notes have not been and will not be registered under the Securities Act of 1933 and may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements. The 2012 Notes bear interest at the rate of 6% per year with interest payable quarterly in arrears. The 2012 Notes mature on April 1, 2017, but are subject to prepayment in whole or in part on or after April 1, 2013 at Financial’s sole discretion on 30 days written notice to the holders. Financial used $7 million of the proceeds from the 2012 Offering in April 2012 to pay on maturity the principal due on notes issued in 2009.

Note 11 – Other borrowings

Other borrowings consist of the following at December 31, 2014 and 2013:

	As of December 31,	
	2014	2013
Short Term:		
Federal funds purchased		
Balance at end of year	$ 3,189	$4,108
Maximum month-end outstanding balance	5,976	4,108
Average outstanding balance during the year	963	204
Average interest rate during the year	0.93%	0.49%
Average interest rate at end of year	0.96%	0.50%
FHLB Borrowings:		
Federal Home Loan Bank advances		
Balance at end of year	$12,000	$2,000
Maximum month-end outstanding balance	12,000	2,000
Average outstanding balance during the year	2,082	2,000
Average interest rate during the year	3.65%	3.79%
Average interest rate at end of year	2.56%	3.79%

Short-term borrowings may consist of securities sold under agreements to repurchase, which are secured transactions with customers and generally mature the day following the date sold. Short-term borrowings may also include Federal funds purchased, which are unsecured overnight borrowings from other financial institutions.

Unsecured federal fund lines and their respective limits are maintained with the following institutions: Community Bankers' Bank, $11,000, Zions Bank, $4,000, PNC Bank, $6,000 and Suntrust Bank, $3,000. In addition, the Bank maintains a $5,000 reverse repurchase agreement with Suntrust whereby securities may be pledged as collateral in exchange for funds for a minimum of 30 days with a maximum of 90 days. The Bank also maintains a secured federal funds line with Community Bankers' Bank whereby it may pledge securities as collateral with no specified minimum or maximum amount or term.

The Bank is also a member of the Federal Home Loan Bank of Atlanta ("FHLBA"). The Bank's available credit through the FHLBA is $90,370 as of December 31, 2014, the most recent calculation. Of this amount the Bank has borrowed $12,000 under the following terms:

Note 11 – Other borrowings (continued)

Amount	Type	Rate	Ultimate Maturity Date
$ 2,000	Fixed rate credit	3.785%	4/15/2015
10,000	Daily rate credit	0.300%	N/A
$12,000	Total	0.880%	

These advances are secured by first liens on 1-4 family residential mortgages in the Company's portfolio.

Note 12 - Income taxes

The Company files income tax returns in the U.S. federal jurisdiction and the state of Virginia. With few exceptions, the Company is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years prior to 2011.

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

	December 31, 2014	December 31, 2013
Current federal income tax expense	$1,130	$ 954
Deferred federal income tax expense	362	278
Tax credits	(204)	(190)
Income tax expense	$1,288	$1,042

Income tax expense differed from amounts computed by applying the U.S. Federal income tax rate of 34% to income before income tax expense as a result of the following:

	2014	2013
Computed "expected" income tax expense	$1,599	$1,395
Increase (reduction) in income tax resulting from:		
Non-taxable income	(134)	(180)
Non-deductible expenses	27	17
Tax credits	(204)	(190)
Income tax expense	$1,288	$1,042

Note 12 - Income taxes (continued)

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

	2014	2013
Deferred tax assets		
Allowance for loan losses	$ 785	$ 977
Unrealized loss on available-for-sale securities	201	1,246
OREO	169	197
Non-accrual interest	484	399
Carryover of tax credits	—	240
Gross deferred tax assets	1,639	3,059
Deferred tax liabilities		
Depreciation	208	246
Other	194	169
Prepaid expenses	16	16
Gross deferred tax liabilities	418	431
Net deferred tax asset	$1,221	$2,628

Note 13 – Earnings per common share (EPS)

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

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

	2014	2013
Numerator:		
Net income available to stockholders	$ 3,413	$ 3,060
Basic EPS weighted average shares outstanding	3,365,410	3,353,784
Effect of dilutive securities:		
Incremental shares attributable to stock options	—	1,174
Diluted EPS weighted-average shares outstanding	3,365,410	3,354,958
Basic earnings per common share	$ 1.01	$ 0.91
Diluted earnings per common share	$ 1.01	$ 0.91

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

At December 31, 2014, 69,372 option shares were excluded from the 2014 earnings per share calculation because their effects were anti-dilutive. At December 31, 2013, 111,371 option shares were excluded from the 2013 earnings per share calculation because their effects were anti-dilutive.

Note 14 – Retirement plans

Defined contribution benefit plan. The Company adopted a 401(k) defined contribution plan on October 1, 2000, which is administered by the Virginia Bankers' Association. Participants have the right to contribute up to a maximum of 19% of pretax annual compensation or the maximum allowed under Section 401(g) of the Internal Revenue Code, whichever is less. The Company contributed $148 and $125 to the plan on behalf of the employees for the years ended December 31, 2014 and 2013, respectively.

Supplemental Executive Retirement Plan . A Supplemental Executive Retirement Plan (SERP) was established to provide participating executives (as determined by the Company's Board of Directors) with benefits that cannot be provided under the 401(k) as a result of limitations imposed by the Internal Revenue Code. The SERP will also provide benefits to eligible employees or their survivors, as applicable, if they die, retire, or are terminated under certain circumstances. SERP expense totaled $207 and $171 for the years ended December 31, 2014 and 2013, respectively.

The Company funds the plan through a modified endowment contract. Income recorded for the plan represents life insurance income as recorded based on the projected increases in cash surrender values of life insurance policies. As of December 31, 2014 and 2013, the life insurance policies had cash surrender values of approximately $9,512 and $9,230, respectively.

Note 15 – Stock option plan

On October 21, 1999, the Board of Directors adopted the "1999 Stock Option Plan" for officers and employees. The ability to grant shares under the 1999 Stock Option Plan expired on October 21, 2009. The plan expired with 25,832 shares not granted.

Note 15 – Stock option plan (continued)

Stock option plan activity for the year ended December 31, 2014 is summarized below:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (in years)	Intrinsic Value
Options outstanding, January 1, 2014	111,371	$ 10.73		
Exercised	(6,742)	9.55		
Forfeited	(35,257)	9.57		
Options outstanding, December 31, 2014	69,372	11.44	0.96	$ —
Options exercisable, December 31, 2014	69,372	$ 11.44	0.96	$ —

The intrinsic value of options exercised during 2014 and 2013 respectively was $5 and $25. The intrinsic value represents the amount by which the current market value of the underlying stock exceeds the exercise price. This amount changes based on changes in the market value of the Company's common stock. There is no additional unrecognized compensation expense related to option awards associated with the 1999 Stock Option Plan.

The following is summarized information concerning currently outstanding and exercisable options as adjusted for all stock dividends previously declared and paid:

	Options Outstanding and Exercisable		
Range of Exercise Prices ($)	**Number of Options**	**Remaining Contractual Life**	**Weighted Average Exercise Price ($)**
10.84	2,620	0.1 years	10.84
11.45 to 12.79	66,752	0.99 years	11.46
10.84 to 12.79	69,372	0.96 years	11.44

Note 16 – Stockholders' equity

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

In October, 2014, Financial's board of directors authorized a share repurchase program. The plan, which expires in October, 2015, authorizes Financial to buy back up to 100,000 shares of common stock on such terms and conditions as the Company deems favorable. As of March 20, 2015, Financial has not repurchased any shares under the plan.

All per share amounts have been adjusted to reflect all prior stock dividends and splits.

Note 17 - Regulatory matters

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital to average assets (as defined). Management believes, as of December 31, 2014 that the Bank meets all capital adequacy requirements to which it is subject. The Bank's actual regulatory capital amounts and ratios for December 31, 2014 and 2013 are also presented in the table below.

As of December 31, 2014, the most recent notification from the Federal Reserve Bank of Richmond categorized the Bank as well capitalized under the regulatory framework for prompt corrective action.

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Note 17 - Regulatory matters (continued)

To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier I risk-based and Tier I leverage ratios as set forth in the following table. There are no conditions or events since that notification that management believes have changed the Bank’s category.

The capital ratios for the Bank for 2014 and 2013 are set forth in the following table:

	December 31, 2014					
	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital						
(to risk-weighted assets)	$48,165	13.04%	$29,548	> 8.00%	$36,935	> 10.00%
Tier I capital						
(to risk-weighted assets)	$43,546	11.79%	$14,774	> 4.00%	$22,161	> 6.00%
Tier I capital (leverage)						
(to average assets)	$43,546	9.63%	$18,091	> 4.00%	$22,614	> 5.00%

	December 31, 2013					
	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital						
(to risk-weighted assets)	$43,796	13.18%	$26,582	> 8.00%	$32,228	> 10.00%
Tier I capital						
(to risk-weighted assets)	$39,630	11.93%	$13,291	> 4.00%	$19,937	> 6.00%
Tier I capital (leverage)						
(to average assets)	$39,630	9.11%	$17,409	> 4.00%	$21,762	> 5.00%

The above tables set forth the capital position and analysis for the Bank only. Because total assets on a consolidated basis are less than $500,000, Financial is not subject to the consolidated capital requirements imposed by the Bank Holding Company Act. Consequently, Financial does not calculate its financial ratios on a consolidated basis. If calculated, the capital ratios for the Company on a consolidated basis would no longer be comparable to the capital ratios of the Bank because the proceeds of the private placement do not qualify as equity capital on a consolidated basis.

Note 18 – Contingent liabilities

The Bank rents, under non-cancelable leases, four of its banking facilities, one mortgage production office, and one commercial loan production office. The original lease for 615 Church Street expired on July 31, 2009. On August 1, 2009, the Bank elected to enter into a new 10 year lease for this property. The Bank has 4.5 years remaining on this lease.

The Bank entered into a lease agreement for 828 Main Street with Jamesview Investments, LLC of which a Board member is a 100% owner. The initial term of the lease is 10 years with two five year renewal options for a total of 20 years. The Bank has 9.5 years remaining on this lease including option periods. The total expense to be incurred by the Bank over the entire course of the lease, including options to extend, is estimated to be $4,277.

In December 2005, the Bank entered into a lease agreement for 4935 Boonsboro Road. The initial term of the lease was 5 years with two five year renewal options for a total of 15 years. The Bank has 6 years remaining on this lease including one remaining option period.

In September 2013, the Bank entered into a lease agreement for 1430 Rolkin Court in Charlottesville, VA. Lease payments did not begin on the property until the upfit was completed on January 1, 2014. The initial term of the lease is 5 years with one five year renewal option for a total of 10 years. The Bank has 9 years remaining on this lease including the one option period.

Rental expenses under operating leases were $542 and $516 for the years ended December 31, 2014 and 2013, respectively.

The current minimum annual rental commitments under the non-cancelable leases in effect at December 31, 2014 are as follows:

Year Ending	Amount
2015	503
2016	461
2017	468
2018	475
2019	260
Thereafter	—
	$2,167

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

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

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

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

The Bank requires collateral or other security to support financial instruments when it is deemed necessary. The Bank evaluates each customer's credit-worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the counterparty. Types of collateral vary but may include marketable securities, accounts receivable, inventory, and property, plant and equipment.

At December 31, 2014, the Bank had rate lock commitments to originate mortgage loans through its Mortgage Division amounting to approximately $4,534 and loans held for sale of $1,030. The Bank has entered into corresponding commitments with third party investors to sell each of these loans that close. No other obligation exists. As a result of these contractual relationships with these investors, the Bank is not exposed to losses nor will it realize gains related to its rate lock commitments due to changes in interest rates.

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

	Contract Amounts at December 31,	
	2014	2013
Commitments to extend credit	$83,312	$70,944
Standby letters of credit	$ 4,252	$ 1,140

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

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support private borrowing arrangements. The credit risk involved in issuing standby letters of credit is generally less than that involved in extending loans to customers because the Bank generally holds deposits equal to the commitment. Management does not anticipate any material losses as a result of these transactions.

Note 20 – Concentration of credit risk

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

The Bank maintains a significant portion of its cash balances with one financial institution. Uninsured cash balances were approximately $2,463 and $5,529, which consisted of the total balances in two accounts at the Federal Home Loan Bank of Atlanta and the balance (net of $250 FDIC coverage) held in one account at Community Bankers' Bank, at December 31, 2014 and 2013, respectively. The decrease from 2013 to 2014 is primarily due to a decrease in the required balance related to the Bank's account with Community Bankers' Bank.

Note 21 – Fair value measurements

Determination of Fair Value

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with the Fair Value Measurements and Disclosures topic of FASB ASC, the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

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

Note 21 – Fair value measurements (continued)

Fair Value Hierarchy

In accordance with this guidance, the Company groups its financial assets and financial liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

- Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Following is 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, quoted prices of securities with similar characteristics, or discounted cash flow.

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

Note 21 – Fair value measurements (continued)

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

		Carrying Value at December 31, 2014		
Description	Balance as of December 31, 2014	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. agency obligations	$ 13,498	$ —	$ 13,498	$ —
Mortgage-backed securities	1,982	—	1,982	—
Municipals	7,899	—	7,899	—
Corporates	1,016	—	1,016	—
Total available-for-sale securities	$ 24,395	$ —	$ 24,395	$ —

		Carrying Value at December 31, 2013		
Description	Balance as of December 31, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S treasuries	$ 3,611	$ —	$ 3,611	$ —
U.S. agency obligations	20,108		20,108	
Mortgage-backed securities	5,311	—	5,311	—
Municipals	15,138	—	15,138	—
Corporates	1,923	—	1,923	—
Total available-for-sale securities	$ 46,091	$ —	$ 46,091	$ —

Note 21 – Fair value measurements (continued)

Loans held for sale

Loans held for sale are measured at lower of cost or fair value. Under ASC 820, market value is to represent fair value. Management obtains quotes or bids on all or part of these loans directly from the purchasing financial institutions. Premiums received or to be received on the quotes or bids are indicative of the fact that cost is lower than fair value. Because quotes and bids on loans held for sale are available in active markets, loans held for sale are considered to be Level 2.

Impaired loans

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

Loans are designated as impaired when, in the judgment of management based on current information and events, it is probable that all amounts due according to the contractual terms of the loan agreement will not be collected when due. The measurement of loss associated with impaired loans can be based on either the observable market price of the loan or the fair value of the collateral. Fair value is measured based on the value of the collateral securing the loans. Collateral may be in the form of real estate or business assets including equipment, inventory, and accounts receivable. The vast majority of the collateral is real estate. The value of real estate collateral is determined utilizing an income or market valuation approach based on an appraisal conducted by an independent, licensed appraiser outside of the Bank using observable market data The value of business equipment is based upon an outside appraisal if deemed significant, or the net book value on the applicable business's financial statements if not considered significant using observable market data. Likewise, values for inventory and accounts receivables collateral are based on financial statement balances or aging reports. Any fair value adjustments are recorded in the period incurred as provision for loan losses on the Consolidated Statements of Income. The carrying values of all impaired loans are considered to be Level 3.

Other Real Estate Owned

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

Real estate acquired through foreclosure is transferred to other real estate owned ("OREO"). The measurement of loss associated with OREO is based on the fair value of the collateral less anticipated selling costs compared to the unpaid loan balance. The value of OREO collateral is determined utilizing an income or market valuation approach based on an appraisal conducted by an independent, licensed appraiser outside of the Bank using observable market data.

Note 21 – Fair value measurements (continued)

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

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

		Carrying Value at December 31, 2014		
Description	**Balance as of December 31, 2014**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Impaired loans*	$ 3,045	$ —	$ —	$ 3,045
Loans held for sale	$ 1,030	$ —	$ 1,030	$ —
Other real estate	$ 956	$ —	$ —	$ 956

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

		Carrying Value at December 31, 2013		
Description	**Balance as of December 31, 2013**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Impaired loans*	$ 4,307	$ —	$ —	$ 4,307
Loans held for sale	$ 1,921	$ —	$ 1,921	$ —
Other real estate	$ 1,451	$ —	$ —	$ 1,451

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

Note 21 – Fair value measurements (continued)

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

	Quantitative information about Level 3 Fair Value Measurements for December 31, 2014 *(dollars in thousands)*			
	Fair Value	Valuation Technique(s)	Unobservable Input	Range (Weighted Average)
Impaired loans	$3,045	Discounted appraised value	Selling cost	5% - 10%(6%)
			Discount for lack of marketability and age of appraisal	0% - 45%(15%)
OREO	$ 956	Discounted appraised value	Selling cost	5% - 10%(6%)
			Discount for lack of marketability and age of appraisal	0% - 25%(15%)

Financial Instruments

Cash, cash equivalents and federal funds sold

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

Securities

Fair values of securities, excluding restricted investments in Federal Reserve Bank stock, Federal Home Loan Bank stock, and Community Bankers' Bank stock are based on quoted prices available in an active market. If quoted prices are available, these securities are classified within Level 1 of the valuation hierarchy. Level 1 securities would include highly liquid government bonds, mortgage products and exchange traded equities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flow.

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

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

Restricted securities noted above are classified as such because their ownership is restricted to certain types of entities and there is no established market for their resale. When the stock is repurchased, the shares are repurchased at the stock's book value; therefore, the carrying amount of restricted securities approximate fair value. Restricted securities are considered to be Level 2.

Loans

For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. Fair values for certain fixed rate loans are based on quoted market prices of similar loans

Note 21 – Fair value measurements (continued)

adjusted for differences in loan characteristics. Fair values for other loans such as commercial real estate and commercial and industrial loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Fair values of impaired loans are estimated as described above. The carrying values of all loans are considered to be Level 3.

Loans held for sale are measured at the lower of cost or fair value. Fair values of loans held for sale are estimated as described above. The carrying values of all loans held for sale are considered to be Level 2.

Bank owned life insurance (BOLI)

The carrying amount approximates fair value. The carrying values of all BOLI is considered to be Level 2.

Deposits

Fair values disclosed for demand deposits (e.g., interest and noninterest checking, savings, and money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). Fair values for fixed rate certificates of deposit are estimated using discounted cash flow analyses that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits. The carrying values of all deposits are considered to be Level 2.

FHLB borrowings

The fair value of FHLB borrowings is estimated using discounted cash flow analysis based on the rates currently offered for borrowings of similar remaining maturities and collateral requirements. The carrying values of all FHLB borrowings are considered to be Level 2.

Short-term borrowings

The carrying amounts of federal funds purchased, borrowings under repurchase agreements, and other short-term borrowings maturing within ninety days approximate fair value. The carrying values of all short term borrowings are considered to be Level 2.

Capital notes

Fair values of capital notes are based on market prices for debt securities having similar maturity and interest rate characteristics. The carrying values of all capital notes are considered to be Level 2.

Accrued interest

The carrying amounts of accrued interest approximate fair value. The carrying values of all accrued interest is considered to be Level 2.

Off-balance sheet credit-related instruments

Fair values for off-balance sheet, credit-related financial instruments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties’ credit standing. Fair value of off-balance sheet credit-related instruments were deemed to be immaterial at December 31, 2014 and 2013 and therefore are not included in the table below.

Note 21 – Fair value measurements (continued)

The estimated fair values, and related carrying or notional amounts, of Financial's financial instruments are as follows:

	Carrying Amounts	Fair Value Measurements at December 31, 2014 using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance
Assets					
Cash and due from banks	$ 12,743	$ 12,743	$ —	$ —	$ 12,743
Securities					
Available-for-sale	24,395	—	24,395	—	24,395
Held-to-maturity	2,528	—	2,699	—	2,699
Restricted stock	1,739	—	1,739	—	1,739
Loans, net	394,573	—	—	401,281	401,281
Loans held for sale	1,030	—	1,030	—	1,030
Interest receivable	1,246	—	1,246	—	1,246
BOLI	9,512	—	9,512	—	9,512
Liabilities					
Deposits	$399,497	$ —	$400,351	$ —	$400,351
FHLB borrowings	12,000	10,000	2,005	—	12,005
Fed funds purchased	3,189	3,189	—	—	3,189
Capital notes	10,000	—	10,023	—	10,023
Interest payable	58	—	58	—	58

	Carrying Amounts	Fair Value Measurements at December 31, 2013 using: (Level 1)	(Level 2)	(Level 3)	Balance
Assets					
Cash and due from banks	$ 16,671	$ 16,671	$ —	$ —	$ 16,671
Securities					
Available-for-sale	46,091	—	46,091	—	46,091
Held-to-maturity	3,537	—	3,740	—	3,740
Restricted stock	1,428	—	1,428	—	1,428
Loans, net	339,994	—	—	346,658	346,658
Loans held for sale	1,921	—	1,921	—	1,921
Interest receivable	1,360	—	1,360	—	1,360
BOLI	9,230	—	9,230	—	9,230
Liabilities					
Deposits	$387,398	$ —	$388,363	$ —	$388,363
FHLB borrowings	2,000	—	2,018	—	2,018
Fed funds purchased	4,108	4,108	—	—	4,108
Capital notes	10,000	—	10,091	—	10,091
Interest payable	65	—	65	—	65

Note 21 – Fair value measurements (continued)

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Bank's entire holdings of a particular financial instrument. Because no market exists for a significant portion of the Bank's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment, and therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Fair value estimates are based on existing on-balance-sheet and off-balance-sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. Significant assets that are not considered financial assets include deferred income taxes and bank premises and equipment; a significant liability that is not considered a financial liability is accrued post-retirement benefits. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in the estimates.

Financial assumes interest rate risk (the risk that general interest rate levels will change) as a result of its normal operations. As a result, the fair values of Financial's financial instruments will change when interest rate levels change, and that change may be either favorable or unfavorable to the Company. Management attempts to match maturities of assets and liabilities to the extent believed necessary to minimize interest rate risk. However, borrowers with fixed rate obligations are less likely to prepay in a rising rate environment and more likely to prepay in a falling rate environment. Conversely, depositors who are receiving fixed rates are more likely to withdraw funds before maturity in a rising rate environment and less likely to do so in a falling rate environment.

Management monitors rates and maturities of assets and liabilities and attempts to minimize interest rate risk by adjusting terms of new loans and deposits and by investing in securities with terms that mitigate the Company's overall interest rate risk.

Note 22 - Impact of recently issued accounting standards

In January 2014, the FASB issued ASU 2014-01, "Investments—Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects (a consensus of the FASB Emerging Issues Task Force)." The amendments in this ASU permit reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense (benefit). The amendments in this ASU should be applied retrospectively to all periods presented. A reporting entity that uses the effective yield method to account for its investments in qualified affordable housing projects before the date of adoption may continue to apply the effective yield method for those preexisting investments. The amendments in this ASU are effective for public business entities for annual periods and interim reporting periods within those annual periods, beginning after December 15, 2014. Early adoption is permitted. The Company is currently assessing the impact that ASU 2014-01 will have on its consolidated financial statements.

Note 22 - Impact of recently issued accounting standards (continued)

In January 2014, the FASB issued ASU 2014-04, "Receivables—Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure (a consensus of the FASB Emerging Issues Task Force)." The amendments in this ASU clarify that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendments require interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. The amendments in this ASU are effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. The Company is currently assessing the impact that ASU 2014-04 will have on its consolidated financial statements.

In April 2014, the FASB issued ASU 2014-08, "Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity." The amendments in this ASU change the criteria for reporting discontinued operations while enhancing disclosures in this area. Under the new guidance, only disposals representing a strategic shift in operations should be presented as discontinued operations. Those strategic shifts should have a major effect on the organization's operations and financial results and include disposals of a major geographic area, a major line of business, or a major equity method investment. The new guidance requires expanded disclosures about discontinued operations that will provide financial statement users with more information about the assets, liabilities, income, and expenses of discontinued operations. Additionally, the new guidance requires disclosure of the pre-tax income attributable to a disposal of a significant part of an organization that does not qualify for discontinued operations reporting. The amendments in the ASU are effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. Early adoption is permitted. The Company does not expect the adoption of ASU 2014-08 to have a material impact on its consolidated financial statements.

In June 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers: Topic 606." This ASU applies to any entity using U.S. GAAP that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards. The guidance supersedes the revenue recognition requirements in Topic 605, "Revenue Recognition,, most industry-specific guidance, and some cost guidance included in Subtopic 605-35, "Revenue Recognition—Construction-Type and Production-Type Contracts." The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To be in alignment with the core principle, an entity must apply a five step process including: identification of the contract(s) with a customer, identification of performance obligations in the contract(s), determination of the transaction price, allocation of the transaction price to the performance obligations, and recognition of revenue when (or as) the entity satisfies a performance obligation. Additionally, the existing requirements for the

Note 22 - Impact of recently issued accounting standards (continued)

recognition of a gain or loss on the transfer of nonfinancial assets that are not in a contract with a customer have also been amended to be consistent with the guidance on recognition and measurement. The amendments in this ASU are effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early adoption is not permitted. The Company is currently assessing the impact that ASU 2014-09 will have on its consolidated financial statements.

In June 2014, the FASB issued ASU No. 2014-11, "Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures." This ASU aligns the accounting for repurchase-to-maturity transactions and repurchase agreements executed as a repurchase financing with the accounting for other typical repurchase agreements. The new guidance eliminates sale accounting for repurchase-to-maturity transactions and supersedes the guidance under which a transfer of a financial asset and a contemporaneous repurchase financing could be accounted for on a combined basis as a forward agreement. The amendments in the ASU also require a new disclosure for transactions economically similar to repurchase agreements in which the transferor retains substantially all of the exposure to the economic return on the transferred financial assets throughout the term of the transaction. Additional disclosures will be required for the nature of collateral pledged in repurchase agreements and similar transactions accounted for as secured borrowings. The amendments in this ASU are effective for the first interim or annual period beginning after December 15, 2014; however, the disclosure for transactions accounted for as secured borrowings is required to be presented for annual periods beginning after December 15, 2014, and interim periods beginning after March 15, 2015. Early adoption is not permitted. The Company is currently assessing the impact that ASU 2014-11 will have on its consolidated financial statements.

In August 2014, the FASB issued ASU No. 2014-14, "Receivables – Troubled Debt Restructurings by Creditors (Subtopic 310-40): Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure." The amendments in this ASU apply to creditors that hold government-guaranteed mortgage loans and are intended to eliminate the diversity in practice related to the classification of these guaranteed loans upon foreclosure. The new guidance stipulates that a mortgage loan be derecognized and a separate other receivable be recognized upon foreclosure if (1) the loan has a government guarantee that is not separable from the loan prior to foreclosure, (2) at the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under that claim, and (3) at the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed. Upon foreclosure, the other receivable should be measured on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. The amendments in this ASU are effective for annual periods and interim periods within those annual periods beginning after December 15, 2014. Entities may adopt the amendments on a prospective basis or modified retrospective basis as of the beginning of the annual period of adoption; however, the entity must apply the same method of transition as elected under ASU 2014-14. Early adoption is permitted provided the entity has already adopted ASU 2014-14. The Company is currently assessing the impact that ASU 2014-14 will have on its consolidated financial statements.

In August 2014, the FASB issued ASU No. 2014-15, "Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern." This update is intended to provide guidance about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. Management is required under the new guidance to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date the financial statements are issued when preparing financial statements for each interim and annual

Note 22 - Impact of recently issued accounting standards (continued)

reporting period. If conditions or events are identified, the ASU specifies the process that must be followed by management and also clarifies the timing and content of going concern footnote disclosures in order to reduce diversity in practice. The amendments in this ASU are effective for annual periods and interim periods within those annual periods beginning after December 15, 2016. Early adoption is permitted. The Company does not expect the adoption of ASU 2014-15 to have a material impact on its consolidated financial statements.

Note 23 – Condensed financial statements of parent company

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

Balance Sheet

	December 31,	
	2014	2013
Assets		
Cash	$ 1,375	$ 2,430
Taxes receivable	225	175
Investment in subsidiaries	43,157	37,210
Other assets	19	26
Total assets	$44,776	$39,841
Liabilities and stockholders' equity		
Capital notes	$10,000	$10,000
Other liabilities	—	69
Total liabilities	10,000	10,069
Common stock $2.14 par value	$ 7,215	$ 7,201
Additional paid-in-capital	22,919	22,868
Retained earnings	5,031	2,124
Accumulated other comprehensive (loss)	(389)	(2,421)
Total stockholders' equity	$34,776	$29,772
Total liabilities and stockholders' equity	$44,776	$39,841

BANK OF THE JAMES FINANCIAL GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014 and 2013
(dollars in thousands, except per share data)

Note 23 – Condensed financial statements of parent company (continued)

Statements of Income

	Years Ended December 31,	
	2014	2013
Income	$ —	$ —
Operating expenses		
Interest on capital notes	600	600
Legal and professional fees	103	101
Other expense	58	53
Total expenses	761	754
Income tax (benefit)	(259)	(256)
(Loss) before equity in undistributed income of subsidiaries	(502)	(498)
Equity in undistributed income of subsidiaries	3,915	3,558
Net income	$ 3,413	$ 3,060

BANK OF THE JAMES FINANCIAL GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2014 and 2013
(dollars in thousands, except per share data)

Note 23 – Condensed financial statements of parent company (continued)

Statements of Cash Flows

	Years Ended December 31,	
	2014	2013
Cash flows from operating activities		
Net income	$ 3,413	$ 3,060
Adjustments to reconcile net income to net cash used in operating activities		
(Increase) decrease in income taxes receivable	(50)	1
Decrease in other assets	7	9
Increase (decrease) in other liabilities	(69)	69
Equity in undistributed net (income) of Bank of the James	(3,915)	(3,558)
Net cash (used in) operating activities	$ (614)	$ (419)
Cash flows from financing activities		
Proceeds from exercise of stock options	65	88
Dividends paid to common stockholders	(506)	—
Net cash (used in) provided by financing activities	$ (441)	$ 88
(Decrease) in cash and cash equivalents	$ (1,055)	$ (331)
Cash and cash equivalents at beginning of period	2,430	2,761
Cash and cash equivalents at end of period	$ 1,375	$ 2,430

Note 24 - Subsequent events

In preparing these financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through the date the financial statements were issued.

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

There has been no change in the independent accountants engaged to audit the financial statements of the Company and its subsidiaries during the last two fiscal years ended December 31, 2014. There have been no disagreements with such independent accountants during the last two fiscal years ended December 31, 2014, on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure.

Item 9A. Controls and Procedures

Financial's management, including Financial's principal executive officer and principal financial officer, conducted an evaluation of the effectiveness of the Company's "disclosure controls and procedures," as such term is defined in Rule 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended, (the "Exchange Act") as of December 31, 2014. Based upon their evaluation, the principal executive officer and principal financial officer concluded that, as of the end of the period covered by this report, Financial's disclosure controls and procedures were effective for the purpose of ensuring that the information required to be disclosed in the reports that Financial files or submits under the Exchange Act with the Securities and Exchange Commission (the "SEC") (1) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (2) is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that the Company's disclosure controls and procedures will detect or uncover every situation involving the failure of persons within the Company or its subsidiary to disclose material information required to be set forth in the Company's periodic reports.

Management's annual report on internal control over financial reporting is incorporated herein by reference to Financial's audited Consolidated Financial Statements set forth in Item 8 of this Annual Report on Form 10-K.

There have been no significant changes during the quarter ended December 31, 2014, in the Company's internal controls over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) or in other factors that could have significantly affected those controls subsequent to the date of our most recent evaluation of internal controls over financial reporting, including any corrective actions with regard to significant deficiencies and material weaknesses.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Part of the response to this Item will be included in the information set forth under the headings "Nominees and Continuing Directors," "Corporate Governance and the Board of Directors Matters," and "Section 16(a) Beneficial Ownership Reporting Compliance" in Financial's definitive Proxy Statement for its 2015 Annual Meeting of Shareholders, which Proxy Statement will be filed with the SEC within 120 days of the end of the Financial's 2014 fiscal year (the "2015 Proxy Statement"), and such information is hereby incorporated by reference.

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

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Item 11. Executive Compensation

The response to this Item will be included in the information set forth under the headings "Compensation of Directors and Executive Officers," "Compensation of Directors and Executive Officers — Outstanding Equity Awards at Fiscal Year End," "Corporate Governance and the Board of Directors Matters," and "Committees of the Board of Directors of Financial" in the 2015 Proxy Statement and such information is hereby incorporated by reference.

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

Certain information required by this Item 12 is included under "Securities Authorized for Issuance Under Equity Compensation Plans" in Part II, Item 5 of this annual report on Form 10-K. The information required by this Item will be included in the information set forth under the heading "Corporate Governance and the Board of Directors Matters – Independence of Directors" and "Security Ownership of Management" in the 2015 Proxy Statement and is hereby incorporated by reference.

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

The response to this Item will be included in the information set forth under the heading "Transactions with Related Parties" in the 2015 Proxy Statement and is hereby incorporated by reference.

Item 14. Principal Accounting Fees and Services

The response to this Item will be included in the information set forth under the heading "Independent Public Accountants" in the 2015 Proxy Statement and is hereby incorporated by reference.

PART IV

Item 15. Exhibits, Financial Statement Schedules

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

(2) Financial Statement Schedules. Not applicable.

(3) Exhibits. The following exhibits are filed as a part of this Form 10-K:

No.	Description
2.1	Agreement and Plan of Share Exchange dated October 9, 2003 between Bank of the James Financial Group, Inc. and Bank of the James, dated as of October 9, 2003 (incorporated by reference to Exhibit 2.1 to Form 8-K12g-3 filed on January 13, 2004)
3.1	Amended and Restated Articles of Incorporation of Bank of the James Financial Group, Inc. (incorporated by reference to Exhibit 3 (i) to Form 8-K filed on August 12, 2009)
3.2	Bylaws of Bank of the James (incorporated by reference to Exhibit 3.2 to Form 8-K filed May 24, 2013)
4.1	Specimen Common Stock Certificate of Bank of the James Financial Group, Inc. (incorporated by reference to Exhibit 4.1 to Form 10-KSB filed on March 26, 2004)
10.2	Amended and Restated Stock Option Plan (incorporated by reference to Form S-8 filed on August 14, 2004)

10.6	Lease between Jamesview Investments LLC and Bank of the James dated October 9, 2003 (incorporated by reference to Exhibit 10.6 to Form 10-KSB filed on March 26, 2004)
21.1	List of subsidiaries (filed herewith)
31.1	Certification pursuant to Rule 13a-14(a)/15d-14(a) (filed herewith)
31.2	Certification pursuant to Rule 13a-14(a)/15d-14(a) (filed herewith)
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of The Sarbanes-Oxley Act Of 2002 (filed herewith)
101	Pursuant to Rule 405 of Regulation S-T, the following materials from Bank of the James Financial Group, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2014, formatted in eXtensible Business Reporting Language (XBRL): (i) Consolidated Balance Sheets as of December 31, 2014 and 2013; (ii) Consolidated Statements of Income For the Years ended December 31, 2014 and 2013; (iii) Consolidated Statements of Cash Flows for the Years ended December 31, 2014 and 2013 (iv) Consolidated Statements of Stockholders' Equity and Comprehensive Income For the Years ended December 31, 2014 and 2013; (v) Notes to Consolidated Financial Statements.

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SIGNATURES

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities as of March 20, 2015.

Signature	Capacity
/S/ Robert R. Chapman III Robert R. Chapman III	President (Principal Executive Officer) and Director
/S/ J. Todd Scruggs J. Todd Scruggs	Secretary and Treasurer (Principal Financial Officer and Principal Accounting Officer) and Director
/S/ Thomas W. Pettyjohn, Jr. Thomas W. Pettyjohn, Jr.	Director, Chairman
/S/ Lewis C. Addison Lewis C. Addison	Director
/S/ John R. Alford, Jr. John R. Alford, Jr.	Director
/S/ William C. Bryant III William C. Bryant III	Director
Donna Schewel Clark	Director
/S/ Julie P. Doyle Julie P. Doyle	Director
/S/ James F. Daly James F. Daly	Director
/S/ Watt R. Foster, Jr. Watt R. Foster, Jr.	Director
/S/ Donald M. Giles Donald M. Giles	Director
/S/ Augustus A. Petticolas, Jr. Augustus A. Petticolas, Jr.	Director

EXHIBIT INDEX

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Exhibit 21.1

List of Subsidiaries

Subsidiary	Jurisdiction or State of Incorporation	Names Under Which Subsidiary Does Business
Bank of the James	Virginia	Bank of the James Bank of the James Mortgage Bank of the James Mortgage, a Division of Bank of the James BOTJ Investment Services
BOTJ Insurance, Inc.	Virginia	BOTJ Insurance, Inc.
BOTJ Investment Group, Inc.	Virginia	Inactive

Exhibit 31.1

Certification—Principal Executive Officer

I, Robert R. Chapman III, President of Bank of the James Financial Group, Inc. certify that:

(1) I have reviewed this Form 10-K of Bank of the James Financial Group, Inc.;

(2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

(3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

(4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

(5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 20, 2015

By /S/ Robert R. Chapman III
Robert R. Chapman III
President (Principal Executive Officer) and Director

Exhibit 31.2

Certification—Principal Financial Officer and Principal Accounting Officer

I, J. Todd Scruggs, Secretary and Treasurer of Bank of the James Financial Group, Inc., certify that:

(1) I have reviewed this Form 10-K of Bank of the James Financial Group, Inc.;

(2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

(3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

(4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

(5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 20, 2015

By /S/ J. Todd Scruggs
J. Todd Scruggs
Secretary and Treasurer (Principal Financial Officer and Principal Accounting Officer) and Director

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Robert R. Chapman III, Chief Executive Officer of Bank of the James Financial Group, Inc., a Virginia corporation (the "Company") and J. Todd Scruggs , Secretary and Treasurer (Principal Financial Officer and Principal Accounting Officer), each certify in his capacity as an officer of the Company that he has reviewed the annual report on Form 10-K for the year ended December 31, 2014 (the "Report") and to the best of his knowledge:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of the Company as of the dates and for the periods covered by the Report.

BANK OF THE JAMES FINANCIAL GROUP, INC.

Date: March 20, 2015

By /S/ Robert R. Chapman III
Robert R. Chapman III
President and Director (Principal Executive Officer)

Date: March 20, 2015

By /S/ J. Todd Scruggs
J. Todd Scruggs
Secretary and Treasurer (Principal Financial Officer and Principal Accounting Officer)