

ANNUAL REPORT

**BLUE RIDGE  
BANKSHARES, INC.**

*Subsidiary*



**2015**

## TO OUR SHAREHOLDERS

Blue Ridge Bankshares, Inc. had an eventful year in 2015. The Company closed out the common stock offering discussed in last year's report in the 1<sup>st</sup> Quarter and also issued \$10 million of subordinated debt in the 4<sup>th</sup> Quarter, all while enjoying its 7<sup>th</sup> consecutive year of record net income. The Company earned just under \$2.5 million for the year. Earnings per share decreased from \$2.11 in 2014 to \$1.79 in 2015 due to the issuance of additional common shares. This decline was an expected result. The common raise was done with an eye to the future, knowing that in the short-term it would have a negative impact on earnings per share even if overall earnings increased.

The Company's subordinated debt was issued for multiple reasons. You will note in the financials the Company repaid its \$4.5 million of preferred stock issued in 2011 through the US Treasury's Small Business Lending Fund (SBLF) program. The Company was able to benefit greatly from the additional capital during the time it was held, particularly as the dividend rate on the preferred stock decreased to 1% as Blue Ridge Bank grew its qualified small business loan portfolio. However, the rate was set to increase to 9% in February 2016. The issuance of the subordinated debt allowed the Company the opportunity to use part of the proceeds to repay the 9%, non-tax-deductible dividend with a 6.75% tax-deductible rate, approximately cutting the cost of the capital in half on a tax-equivalent basis.

The remainder of the subordinated debt was issued to provide the Company additional capital to support continued prudent growth. Blue Ridge Bank has been fortunate to enjoy strong balance sheet growth in recent years while retaining solid asset quality ratios. The Board and management team plan to continue growing the Company in a measured manner that we think balances risk and opportunity to create additional shareholder value and better serve our communities and customers. The additional capital obtained through the subordinated debt issuance provides us capital to absorb that growth at very attractive rates by historical standards.

As you comb through this report you will certainly notice things and make your own observations, but I would like to draw your attention to a few specific areas. The Company's balance sheet grew by just over \$29.5 million in 2015, or 12.3%. One of the primary drivers of this growth was a continued increase in the Bank's held for investment loans, which grew by approximately \$20.4 million. On the liability side perhaps most noteworthy is growth in noninterest demand deposits, which grew by \$8.3 million, or 29.7%. While this is nice growth, we can do more. Last year's shareholder letter discussed the ways in which noninterest demand deposits are essential to our growth, profitability, and value. I will not rehash those points, but suffice to say noninterest demand deposits are the lifeblood of our business and a necessary focal point for sustainable growth and success.

I am often asked by shareholders and others about what is going on in the macroeconomy and in DC and how it affects us. There is no easy answer, but I will try to share some thoughts. We live in a world that is more interconnected every single day, and with continued central bank intervention at unprecedented levels that interconnectedness will not dissipate soon. Fortunately for us we operate in a part of the country that is not negatively impacted by the decline in oil prices, and two of our growth markets (Charlottesville and Harrisonburg) enjoy growing, diverse local economies anchored by institutions of higher education. We are clearly not immune to any macroeconomic weakness, but we like the profile of the local economies that we serve and in which we primarily operate. Perhaps the most important impact on our business model at the macroeconomic level is that of interest rates. The FOMC's increase in December created, at least for the time being, a flatter yield curve. The traditional banking profitability model suffers in a flatter yield curve environment. This means the emphasis on growing noninterest checking and noninterest income sources takes on even more importance than normal. We have no way to know for sure which way rates will go, and frankly I do not think anyone could have imagined a world in which developed countries such as Japan and Switzerland have negative yields on their 10-year debt and the European Central Bank continues driving interest rates further down into negative territory. Since we do not know with certainty what will happen with rates, we maintain a balance sheet interest rate risk profile that we think will prosper in various probable scenarios.

The impact out of our nation's capital continues to leave a lot to be desired. The avalanche of new regulations continues unabated, and while there has been some Congressional action to alleviate strain, the dysfunction among our politicians continues to stand in the way of major and much needed reform to well-intended but misguided legislation such as Dodd-Frank. Community banks did not create the credit crisis, but many of our politicians and regulators have yet to absorb that fact, or at least create policy that recognizes it. This is a big election year, and one that could have major consequences for the banking industry. I am sure the campaign season will be entertaining and filled with the normal hyperbole, but hopefully when the dust settles we have leaders in DC who are willing to come together and take common sense action on banking issues and check the theatrics at the door.

Despite the interesting interest rate policies employed by central bankers in today's world amidst macroeconomic concerns and significant domestic political uncertainty, I remain very optimistic about our Company's future. We have an outstanding team in place and during 2015 and early 2016 we added some additional pieces and created structures that will support continued advances in key strategic areas. There is always opportunity to be capitalized upon, and using determination and discipline the Board and management of this Company believe we can continue to drive shareholder value while expanding products, services, and opportunities for our customers.

I will always ask one thing of you as our shareholder. Please be an advocate for Blue Ridge Bank. Make sure your accounts are here, encourage friends and family to bank here, and always look for opportunities to promote Blue Ridge Bank. Your efforts, combined with ours, will solidify our position for the future and offer further enhancements to the value of your shares in our joint investment.

Please always feel free to contact me with any ideas or questions you have. I work for you. I can be reached by phone at 540-743-6521 or by e-mail at [bplum@mybrb.com](mailto:bplum@mybrb.com). I would love to hear from you.

Sincerely,

A handwritten signature in black ink that reads "Brian K. Plum". The signature is written in a cursive, flowing style.

Brian K. Plum  
President/CEO

**BLUE RIDGE BANKSHARES, INC.**  
**FINANCIAL HIGHLIGHTS**

<b>For The Year</b>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Net income	\$ 2,498,105	\$ 2,029,062	\$ 1,844,604	\$ 1,516,362	\$ 1,158,497
Net income available to common stockholders	2,453,105	1,984,062	1,637,349	1,318,942	1,075,372
Common stock dividends paid	611,430	412,934	318,223	282,574	263,636
Earnings per common share	1.79	2.11	1.75	1.40	1.14
Dividends per common share	0.46	0.44	0.34	0.30	0.28
<b>At Year End</b>					
Total assets	\$ 268,910,152	\$ 239,353,596	\$ 214,724,007	\$ 208,228,537	\$ 199,839,773
Total investments	37,957,139	37,056,056	47,712,416	56,372,941	63,096,827
Net loans	204,936,540	184,723,649	153,786,879	136,138,597	125,026,877
Deposits	196,491,845	183,898,642	168,345,328	168,737,648	163,439,704
Total stockholders' equity	24,100,824	24,786,488	19,229,543	18,494,435	17,437,711
Common stockholders' equity	24,100,824	20,286,488	14,729,543	13,994,435	12,937,711
Book value per common share	17.20	15.97	15.76	14.85	13.74
Number of common stock shares outstanding	1,401,511	1,270,555	934,539	942,221	941,913
<b>Key Ratios</b>					
Return on average assets	0.98%	0.89%	0.87%	0.74%	0.66%
Return on average equity	10.22%	9.22%	9.78%	8.44%	7.84%
Return on average common equity	11.05%	11.33%	11.40%	9.79%	8.58%
Total stockholders' equity to assets	8.96%	10.36%	8.96%	8.88%	8.73%
Common stockholders' equity to assets	8.96%	8.48%	6.86%	6.72%	6.47%
Increase in assets	12.35%	11.47%	3.12%	4.20%	32.45%
Change in earnings per common share	-15.17%	20.57%	25.00%	22.81%	-4.20%
Increase in book value per share	7.68%	1.30%	6.12%	8.10%	6.68%

*Financial Statements*

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

*December 31, 2015*

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## INDEPENDENT AUDITOR'S REPORT

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

### Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Blue Ridge Bankshares, Inc. and subsidiaries, which comprise the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of income, changes in stockholders' equity, comprehensive income, and cash flows for the years then ended, and the related notes to the financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

**Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Blue Ridge Bankshares, Inc. and subsidiaries as of December 31, 2015 and 2014, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia  
March 7, 2016



**BLUE RIDGE BANKSHARES, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
**December 31, 2015 and 2014**

<b>ASSETS</b>	<b>2015</b>	<b>2014</b>
Cash and due from banks (Note 2)	\$ 7,265,264	\$ 7,941,884
Federal funds sold	582,000	542,000
Investment securities		
Securities available for sale (at fair value) (Note 3)	21,089,617	19,937,946
Securities held to maturity (fair value of \$14,616,354 in 2015, \$15,374,995 in 2014) (Note 3)	14,226,788	14,965,603
Restricted investments	2,640,734	2,152,507
Total Investment Securities	<u>37,957,139</u>	<u>37,056,056</u>
Loans held for sale (Note 4)	9,314,638	-
Loans held for investment (Note 4)	207,284,260	186,844,767
Allowance for loan losses (Note 4)	<u>(2,347,720)</u>	<u>(2,121,118)</u>
Net Loans Held for Investment	204,936,540	184,723,649
Bank premises and equipment, net (Note 5)	2,039,816	2,206,817
Bank owned life insurance (Note 1)	2,414,246	2,349,745
Goodwill (Note 12)	366,300	366,300
Other assets	4,034,209	4,167,145
Total Assets	<u><u>\$ 268,910,152</u></u>	<u><u>\$ 239,353,596</u></u>
<b>LIABILITIES</b>		
Deposits		
Demand deposits		
Noninterest bearing	\$ 36,168,631	\$ 27,877,754
Interest bearing	48,514,321	43,447,388
Savings deposits	14,973,385	12,239,581
Time deposits (Note 6)	96,835,508	100,333,919
Total Deposits	<u>196,491,845</u>	<u>183,898,642</u>
Other borrowed funds (Note 7)	37,959,419	29,893,599
Subordinated debt, net of issuance costs (Note 8)	9,664,908	-
Other liabilities	693,156	774,867
Total liabilities	<u>244,809,328</u>	<u>214,567,108</u>
<b>STOCKHOLDERS' EQUITY</b>		
Preferred stock, \$50 par value, authorized - 250,000 shares; outstanding - 4,500 shares (Note 9)	-	225,000
Common stock, no par value, authorized - 5,000,000 shares; outstanding - 1,401,511 and 1,270,555, respectively (Note 10)	7,080,669	5,306,408
Contributed equity	42,887	4,275,000
Retained earnings	17,686,430	15,844,755
Accumulated other comprehensive income	<u>(200,956)</u>	<u>(264,675)</u>
	24,609,030	25,386,488
Unearned ESOP shares	<u>(508,206)</u>	<u>(600,000)</u>
Total Stockholders' Equity	<u>24,100,824</u>	<u>24,786,488</u>
Total Liabilities and Stockholders' Equity	<u><u>\$ 268,910,152</u></u>	<u><u>\$ 239,353,596</u></u>

The accompanying notes are an integral part of this statement.

**BLUE RIDGE BANKSHARES, INC.**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**December 31, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
<b>INTEREST INCOME</b>		
Interest and fees on loans held for investment	\$ 9,584,629	\$ 8,168,968
Interest and fees on loans held for sale	75,728	-
Interest on federal funds sold	3,655	3,269
Interest and dividends on taxable investment securities	721,115	817,229
Interest and dividends on nontaxable investment securities	284,107	301,015
Total Interest Income	<u>10,669,234</u>	<u>9,290,481</u>
<b>INTEREST EXPENSE</b>		
Interest on savings and interest bearing demand deposits	219,955	185,265
Interest on time deposits	1,262,851	1,086,901
Interest on borrowed funds	561,703	411,945
Total Interest Expense	<u>2,044,509</u>	<u>1,684,111</u>
Net Interest Income	<u>8,624,725</u>	<u>7,606,370</u>
<b>PROVISION FOR LOAN LOSSES</b>		
Net Interest Income after Provision for Loan Losses	<u>8,304,725</u>	<u>7,536,370</u>
<b>OTHER INCOME</b>		
Service charges on deposit accounts	304,153	279,807
Earnings on investment in life insurance	64,501	65,945
Securities gains	-	16,456
Small business investment company fund income	313,155	180,026
Other noninterest income	463,509	440,401
Total Other Income	<u>1,145,318</u>	<u>982,635</u>
<b>OTHER EXPENSES</b>		
Salaries and employee benefits	2,703,414	2,689,071
Occupancy and equipment expenses	567,429	553,514
Data processing	455,603	430,958
Advertising expense	367,385	324,043
Debit card expenses	149,878	134,197
Directors fees	124,000	131,500
Audits and examinations	89,099	59,220
Other taxes and assessments	460,376	419,367
Other contractual services	213,751	281,372
Other noninterest expense	772,876	675,349
Total Other Expenses	<u>5,903,811</u>	<u>5,698,591</u>
Income before Income Taxes	3,546,232	2,820,414
<b>INCOME TAX EXPENSE (Note 15)</b>	<u>1,048,127</u>	<u>791,352</u>
Net Income	2,498,105	2,029,062
Dividends to Preferred Stockholders	(45,000)	(45,000)
<b>Net Income Available to Common Stockholders</b>	<u>\$ 2,453,105</u>	<u>\$ 1,984,062</u>
Earnings per Share	<u>\$ 1.79</u>	<u>\$ 2.11</u>
Weighted Average Shares Outstanding	<u>1,370,656</u>	<u>938,286</u>

The accompanying notes are an integral part of this statement.

**BLUE RIDGE BANKSHARES, INC.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**December 31, 2015 and 2014**

	<b>2015</b>	<b>2014</b>
Net Income	\$ 2,498,105	\$ 2,029,062
Other comprehensive income:		
Gross unrealized gains (losses) arising during the period	98,542	230,791
Adjustment for income tax expense	(34,823)	(80,582)
	63,719	150,209
Less:		
Reclassification adjustment for gains included in net income	-	(16,456)
Adjustment for income tax expense	-	5,600
	-	(10,856)
Other comprehensive income, net of tax	63,719	139,353
Comprehensive income	\$ 2,561,824	\$ 2,168,415

The accompanying notes are an integral part of this statement.

**BLUE RIDGE BANKSHARES, INC.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**December 31, 2015 and 2014**

	<u>Preferred Stock</u>	<u>Common Stock</u>	<u>Contributed Equity</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Unearned ESOP Shares</u>	<u>Total</u>
<b>Balance, December 31, 2013</b>	\$ 225,000	\$ 859,944	\$ 4,275,000	\$ 14,273,627	\$ (404,028)	\$ -	\$ 19,229,543
<b>Comprehensive Net Income</b>							
Net income	-	-	-	2,029,062	-	-	2,029,062
Changes in unrealized gains on securities available for sale, net of deferred income tax liability of \$74,982	-	-	-	-	139,353	-	139,353
Total Comprehensive Income	-	-	-	-	-	-	2,168,415
Issuance of common stock (336,016 shares), net of capital raise expenses of \$258,320	-	4,446,464	-	-	-	-	4,446,464
Contingent ESOP liability	-	-	-	-	-	(600,000)	(600,000)
Preferred stock dividends	-	-	-	(45,000)	-	-	(45,000)
Common stock dividends	-	-	-	(412,934)	-	-	(412,934)
<b>Balance, December 31, 2014</b>	<u>225,000</u>	<u>5,306,408</u>	<u>4,275,000</u>	<u>15,844,755</u>	<u>(264,675)</u>	<u>(600,000)</u>	<u>24,786,488</u>
<b>Comprehensive Net Income</b>							
Net income	-	-	-	2,498,105	-	-	2,498,105
Changes in unrealized gains on securities available for sale, net of deferred income tax liability of \$34,823	-	-	-	-	63,719	-	63,719
Total Comprehensive Income	-	-	-	-	-	-	2,561,824
Issuance of common stock (130,956 shares), net of capital raise expenses of \$59,123	-	1,774,261	-	-	-	-	1,774,261
Redemption of preferred stock and contributed equity	(225,000)	-	(4,275,000)	-	-	-	(4,500,000)
Release of unearned ESOP shares	-	-	42,887	-	-	91,794	134,681
Preferred stock dividends	-	-	-	(45,000)	-	-	(45,000)
Common stock dividends	-	-	-	(611,430)	-	-	(611,430)
<b>Balance, December 31, 2015</b>	<u>\$ -</u>	<u>\$ 7,080,669</u>	<u>\$ 42,887</u>	<u>\$ 17,686,430</u>	<u>\$ (200,956)</u>	<u>\$ (508,206)</u>	<u>\$ 24,100,824</u>

The accompanying notes are an integral part of this statement.

**BLUE RIDGE BANKSHARES, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**December 31, 2015 and 2014**

	<b>2015</b>	<b>2014</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 2,498,105	\$ 2,029,062
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	320,000	70,000
Deferred income taxes	69,738	(81,069)
Net increase in loans held for sale	(9,314,638)	-
Securities gains	-	(16,456)
Depreciation	269,793	249,944
Investment amortization expense, net	203,566	321,469
Amortization of debt refinancing fees	76,167	76,166
Amortization of subordinated debt issuance costs	3,721	-
Decrease (Increase) in other assets	65,999	(312,307)
Decrease in accrued expenses	(81,712)	(4,908)
Increase in carrying value of life insurance investments	(64,501)	(65,945)
Release of unearned ESOP shares	134,681	-
Total adjustments	(8,317,186)	236,894
Net Cash (Used in) Provided by Operating Activities	(5,819,081)	2,265,956
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchases of securities available for sale	(5,358,301)	(5,344,809)
Purchases of securities held to maturity	-	(220,674)
Proceeds from calls, maturities, sales, paydowns and maturities of securities available for sale	4,199,501	15,573,360
Proceeds from calls, maturities, sales, paydowns and maturities of securities held for investment	625,179	552,905
(Increase) Decrease in federal funds sold	(40,000)	3,000
Net increase in loans held for investment	(20,532,891)	(31,006,770)
Purchase of bank premises and equipment	(102,792)	(626,118)
Capital calls of SBIC funds and other investments	(183,692)	(580,114)
Nonincome distributions from limited liability companies	146,068	368,624
(Increase) decrease in restricted investments	(472,486)	4,900
Net Cash Used in Investing Activities	(21,719,414)	(21,275,696)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net change in demand and savings deposits	16,091,614	6,886,073
Net change in time deposits	(3,498,411)	8,667,241
Federal Home Loan Bank advances	31,000,000	19,000,000
Federal Home Loan Bank repayments	(22,928,571)	(16,171,428)
Issuance of subordinated debt	10,000,000	-
Payment of subordinated debt issuance costs	(338,813)	-
Preferred stock dividends paid	(45,000)	(25,500)
Common stock dividends paid	(611,430)	(412,934)
Redemption of preferred stock	(4,500,000)	-
Issuance of common stock	1,774,261	4,446,464
Repayment of contingent ESOP liability	(81,775)	-
Net Cash Provided by Financing Activities	26,861,875	22,389,916
<b>CASH AND CASH EQUIVALENTS</b>		
Net increase in cash and cash equivalents	(676,620)	3,380,176
Cash and Cash Equivalents, Beginning of Year	7,941,884	4,561,708
Cash and Cash Equivalents, End of Year	\$ 7,265,264	\$ 7,941,884

The accompanying notes are an integral part of this statement.

**BLUE RIDGE BANKSHARES, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)**  
**December 31, 2015 and 2014**

<b>SUPPLEMENTAL INFORMATION</b>	<u><b>2015</b></u>	<u><b>2014</b></u>
Interest paid	\$ 2,035,732	\$ 1,675,825
Income taxes paid	750,000	800,000
Preferred stock dividends accrued, not paid	-	11,250
Real estate acquired by foreclosure	-	70,000

The accompanying notes are an  
integral part of this statement.

**BLUE RIDGE BANKSHARES, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2015**

**Note 1. Nature of Operations and Significant Accounting Policies:**

Nature of Operations:

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

Consolidation Policy:

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

Use of Estimates in the Preparation of Financial Statements:

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

Cash and Cash Equivalents:

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

Investment Securities:

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

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

**BLUE RIDGE BANKSHARES, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2015**

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

Loans:

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

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

Allowance for Loan Losses:

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

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

Qualitative and environmental factors include external risk factors that management believes affect the overall lending environment of the Company. Environmental factors that management of the Company routinely analyze include levels and trends in delinquencies and impaired loans, levels and trends in charge-offs and recoveries, trends in volume and terms of loans, effects of changes in risk selection and underwriting practices, experience, ability, depth of lending management and staff, national and local economic trends, conditions such as unemployment rates, housing statistics, banking industry conditions, and the effect of changes in credit concentrations. Determination of the allowance is inherently subjective as it requires significant estimates, including the amounts and timing of expected future cash flows on impaired loans, estimated losses on pools of homogeneous loans based on historical loss experience and consideration of current economic trends, all of which may be susceptible to significant change.



**BLUE RIDGE BANKSHARES, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2015**

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

There have been no significant changes to the methods used to determine the allowance for loan losses during the years ended December 31, 2015 and 2014.

Loan Charge-off Policies:

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

Bank Owned Life Insurance:

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

Small Business Investment Company (SBIC) Fund Income:

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

Advertising Costs:

Advertising costs are expensed as incurred.

Bank Premises and Equipment:

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

Income Taxes:

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

**BLUE RIDGE BANKSHARES, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2015**

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

Earnings Per Share:

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

Financial Instruments:

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

Reclassified Amounts:

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

Subsequent Events:

Subsequent events have been evaluated through March 7, 2016, the date the financial statements were available to be issued.

**Note 2. Cash and Due From Banks**

The Bank has compensating balance agreements with its correspondent bank and The Federal Reserve Bank of Richmond. The total included in cash and due from banks related to these agreements at December 31, 2015 and 2014 was \$275,000.

**Note 3. Investment Securities**

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>December 31, 2015</b>				
<b><u>Available for Sale</u></b>				
Mortgage backed securities	\$ 17,962,482	\$ 18,080	\$ 408,767	\$ 17,571,795
Corporate bonds	3,100,000	49,686	4,750	3,144,936
Equity securities	335,636	37,250	-	372,886
	<u>21,398,118</u>	<u>105,016</u>	<u>413,517</u>	<u>21,089,617</u>
<b><u>Held to Maturity</u></b>				
State and municipal	14,226,788	400,840	11,275	14,616,354
	<u>14,226,788</u>	<u>400,840</u>	<u>11,275</u>	<u>14,616,354</u>
Total Investment Securities	<u>\$ 35,624,906</u>	<u>\$ 505,856</u>	<u>\$ 424,792</u>	<u>\$ 35,705,971</u>

**BLUE RIDGE BANKSHARES, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2015**

**Note 3. Investment Securities (Continued)**

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>December 31, 2014</b>				
<b><u>Available for Sale</u></b>				
Mortgage backed securities	\$ 18,940,505	\$ 41,768	\$ 440,787	\$ 18,541,486
Corporate bonds	1,032,928	6,106	18,390	1,020,644
Equity securities	355,816	20,000	-	375,816
	<u>20,329,249</u>	<u>67,874</u>	<u>459,177</u>	<u>19,937,946</u>
<b><u>Held to Maturity</u></b>				
State and municipal	14,965,424	436,306	26,914	15,374,816
Mortgage backed securities	179	-	-	179
	<u>14,965,603</u>	<u>436,306</u>	<u>26,914</u>	<u>15,374,995</u>
Total Investment Securities	<u>\$ 35,294,852</u>	<u>\$ 504,180</u>	<u>\$ 486,091</u>	<u>\$ 35,312,941</u>

Proceeds from sales, calls and maturities of available for sale securities during 2015 and 2014 were \$4,199,500 and \$15,573,360, resulting in gains of \$0 and \$16,456 for 2015 and 2014, respectively.

During 2015 and 2014, held to maturity securities with book values of \$625,179 and \$552,905, respectively, were either called or matured resulting in no gain or loss for both years.

Investment securities with an approximate fair value of \$7,170,000 and \$7,345,000, at December 31, 2015 and 2014, respectively, were pledged to secure public deposits and for other purposes required by law and as collateral for the Bank's line of credit with the Federal Home Loan Bank of Atlanta.

The amortized cost and fair value of investment securities at December 31, 2015, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without prepayment penalties.

	<b>Securities Available for Sale</b>		<b>Securities Held to Maturity</b>	
	<b>Amortized Cost</b>	<b>Fair Value</b>	<b>Amortized Cost</b>	<b>Fair Value</b>
Amounts maturing:				
Within one year	\$ -	\$ -	\$ -	\$ -
After one year through five years	422,484	429,472	1,089,484	1,122,916
After five years through ten years	3,100,000	3,144,936	6,342,082	6,511,809
After ten years	17,539,998	17,142,321	6,795,222	6,981,629
	<u>21,062,482</u>	<u>20,716,729</u>	<u>14,226,788</u>	<u>14,616,354</u>
Equity investments with no maturity	335,636	372,888	-	-
Total	<u>\$ 21,398,118</u>	<u>\$ 21,089,617</u>	<u>\$ 14,226,788</u>	<u>\$ 14,616,354</u>

**BLUE RIDGE BANKSHARES, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2015**

**Note 3. Investment Securities (Continued):**

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

<u>December 31, 2015</u>	<u>Less than 12 Months</u>		<u>12 Months or Greater</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>	<u>Gross Unrealized Losses</u>
State and						
Municipal	\$ 1,433,825	\$ (11,275)	\$ -	\$ -	\$ 1,433,825	\$ (11,275)
Mortgage backed	3,651,215	(53,239)	12,719,106	(355,528)	16,370,321	(408,767)
Corporate bonds	747,500	(2,500)	497,750	(2,250)	1,245,250	(4,750)
<b>Total</b>	<b>\$ 5,832,540</b>	<b>\$ (67,014)</b>	<b>\$ 13,216,856</b>	<b>\$ (357,778)</b>	<b>\$ 19,049,396</b>	<b>\$ (424,792)</b>

  

<u>December 31, 2014</u>	<u>Less than 12 Months</u>		<u>12 Months or Greater</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>	<u>Gross Unrealized Losses</u>
State and						
Municipal	\$ 326,481	\$ (8,519)	\$ 1,235,857	\$ (18,395)	\$ 1,562,338	\$ (26,914)
Mortgage backed	3,588,514	(59,469)	10,671,946	(381,318)	14,260,460	(440,787)
Corporate bonds	-	-	481,610	(18,390)	481,610	(18,390)
<b>Total</b>	<b>\$ 3,914,995</b>	<b>\$ (67,988)</b>	<b>\$ 12,389,413</b>	<b>\$ (418,103)</b>	<b>\$ 16,304,408</b>	<b>\$ (486,091)</b>

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

At December 31, 2015, the Company had securities which have depreciated 2.23% in value from the amortized cost. Included in this total are fourteen securities that have been in a continuous loss position for more than twelve months. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition. As management has the ability and intent to hold debt securities until maturity, or for the foreseeable future if classified as available-for-sale, no declines are deemed to be other-than-temporary.

**BLUE RIDGE BANKSHARES, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2015**

**Note 4. Loans Receivable and Related Allowance for Loan Losses**

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

	<b>Individually Evaluated for Impairment</b>	<b>Collectively Evaluated for Impairment</b>	<b>Total</b>
<b>December 31, 2015</b>			
Residential loans	\$ 325	\$ 77,115	\$ 77,440
Commercial real estate loans			
Non owner-occupied & multi-family	369	36,747	37,116
Owner-occupied & farmland	-	27,873	27,873
Construction loans			
Residential construction	-	3,305	3,305
Commercial construction & raw land	-	13,890	13,890
Home equity loans	-	6,877	6,877
Consumer loans	-	16,309	16,309
Commercial/farm loans	-	10,414	10,414
Municipal/other loans	705	13,567	14,272
Unearned income on loans	-	(212)	(212)
Total	<u>\$ 1,399</u>	<u>\$ 205,885</u>	<u>\$ 207,284</u>
	<b>Individually Evaluated for Impairment</b>	<b>Collectively Evaluated for Impairment</b>	<b>Total</b>
<b>December 31, 2014</b>			
Residential loans	\$ 329	\$ 70,778	\$ 71,107
Commercial real estate loans			
Non owner-occupied & multi-family	373	41,805	42,178
Owner-occupied & farmland	-	24,556	24,556
Construction loans			
Residential construction	-	2,224	2,224
Commercial construction & raw land	-	11,449	11,449
Home equity loans	-	5,293	5,293
Consumer loans	-	4,536	4,536
Commercial/farm loans	-	14,391	14,391
Municipal/other loans	770	10,542	11,312
Unearned income on loans	-	(201)	(201)
Total	<u>\$ 1,472</u>	<u>\$ 185,373</u>	<u>\$ 186,845</u>

To allow management to better monitor risk and performance, the Bank's loan portfolio is disaggregated to a level that is consistent with applicable call report codes. In general, the loan portfolio is segmented into the following categories: (i) the commercial loan portfolio; (ii) the commercial real estate loan portfolio; (iii) the municipal loan portfolio; (iv) the consumer loan portfolio; and, (v) the residential loan portfolio; however, each category may consist of multiple call report codes.

**BLUE RIDGE BANKSHARES, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2015**

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

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

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

Factors considered by management in evaluating impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower’s prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

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

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

The Bank had \$1,399,000 and \$1,475,000 in impaired loans as of December 31, 2015 and 2014, respectively.

**BLUE RIDGE BANKSHARES, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2015**

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

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

To help ensure that risk ratings are accurate and reflect the present and future capacity of borrowers to repay a loan as agreed, the Bank has a structured loan rating process with both internal and external oversight. The Bank’s loan officers are responsible for the timely and accurate risk rating of the loans in their portfolios at origination and on an ongoing basis. The loan processing department confirms the appropriate risk grade at origination and monitors all subsequent changes to risk ratings. The Bank’s Loan Committee reviews risk grades when approving a loan and approves all risk rating changes, except those made within the pass risk ratings. The Bank engages an external consultant to conduct loan reviews on an annual basis of all relationships greater than \$1,300,000. The internal audit function of the Bank reviews a sample of new loans throughout the year. The Bank’s process requires the review and evaluation of an impaired loan to be updated at least quarterly. Loans in the Special Mention and Substandard categories that are collectively evaluated for impairment are given separate consideration in the determination of the allowance.

The following table presents the classes of the loan portfolio summarized by the aggregate Pass and the criticized categories of Special Mention, Substandard, and Doubtful within the internal risk rating system as of December 31, 2015 and 2014 (in thousands):

	<u>Pass</u>	<u>Special Mention</u>	<u>Substandard</u>	<u>Doubtful</u>	<u>Total</u>
<b>December 31, 2015</b>					
Commercial real estate loans					
Non owner-occupied & multi-family	\$ 35,873	\$ 1,153	\$ 90	\$ -	\$ 37,116
Owner-occupied & farmland	25,876	1,997	-	-	27,873
Construction loans					
Residential construction loans	3,305	-	-	-	3,305
Commercial construction & raw land loans	13,871	12	7	-	13,890
Commercial/farm loans	16,293	11	-	5	16,309
Municipal/other loans	13,566	706	-	-	14,272
	<u>108,784</u>	<u>3,879</u>	<u>97</u>	<u>5</u>	<u>112,765</u>
Less: Unearned revenue	(19)	-	-	-	(19)
Total	<u>\$108,765</u>	<u>\$ 3,879</u>	<u>\$ 97</u>	<u>\$ 5</u>	<u>\$ 112,746</u>

**BLUE RIDGE BANKSHARES, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2015**

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

	<u>Pass</u>	<u>Special Mention</u>	<u>Substandard</u>	<u>Doubtful</u>	<u>Total</u>
<b>December 31, 2014</b>					
Commercial real estate loans					
Non owner-occupied & multi-family	\$ 38,867	\$ 3,311	\$ -	\$ -	\$ 42,178
Owner-occupied & farmland	24,556	-	-	-	24,556
Construction loans					
Residential construction loans	2,224	-	-	-	2,224
Commercial construction & raw land loans	11,440	-	9	-	11,449
Commercial/farm loans	14,359	18	-	14	14,391
Municipal/other loans	10,541	771	-	-	11,312
	<u>101,987</u>	<u>4,100</u>	<u>9</u>	<u>14</u>	<u>106,110</u>
Purchased Loan Premiums	174	-	-	-	174
Less: Unearned revenue	(223)	-	-	-	(223)
Total	<u>\$101,938</u>	<u>\$ 4,100</u>	<u>\$ 9</u>	<u>\$ 14</u>	<u>\$ 106,061</u>

The following table presents (in thousands) the classes of the loan portfolio for which loan performance is the primary credit quality indicator as of December 31, 2015 and 2014:

	<u>Residential Loans</u>	<u>Home Equity Loans</u>	<u>Consumer Loans</u>	<u>Total</u>
<b>December 31, 2015</b>				
Performing loans	\$ 77,191	\$ 6,877	\$ 10,365	\$ 94,433
Non-performing loans	249	-	49	298
	<u>77,440</u>	<u>6,877</u>	<u>10,414</u>	<u>94,731</u>
Less: Unearned revenue	(120)	(14)	(59)	(193)
Total	<u>\$ 77,320</u>	<u>\$ 6,863</u>	<u>\$ 10,355</u>	<u>\$ 94,538</u>
<b>December 31, 2014</b>				
Performing loans	\$ 71,009	\$ 5,293	\$ 4,534	\$ 80,836
Non-performing loans	98	-	2	100
	<u>71,107</u>	<u>5,293</u>	<u>4,536</u>	<u>80,936</u>
Less: Unearned revenue	(106)	(9)	(37)	(152)
Total	<u>\$ 71,001</u>	<u>\$ 5,284</u>	<u>\$ 4,499</u>	<u>\$ 80,784</u>

An allowance for loan and lease losses (“ALLL”) is maintained to absorb losses from the loan portfolio. The ALLL is based on management’s continuing evaluation of the risk characteristics and credit quality of the loan portfolio, assessment of current economic conditions, diversification and size of the portfolio, adequacy of collateral, past and anticipated loss experience, and the amount of non-performing loans. Management further monitors the performance and credit quality of the loan portfolio by analyzing the age of the portfolio as determined by the length of time a recorded payment is past due. The following table presents the classes of the loan portfolio summarized by the aging categories of performing loans and nonaccrual loans as of December 31, 2015 and 2014 (in thousands):

(Continued)



**BLUE RIDGE BANKSHARES, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2015**

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

<b>December 31, 2015</b>	<b>Current</b>	<b>30-59 Days Past Due</b>	<b>60 - 89 Days Past Due</b>	<b>90 Days+ Past Due</b>	<b>Total Past Due</b>	<b>Non- Accrual</b>	<b>Total Loans</b>
Residential loans	\$ 76,969	\$ 222	\$ -	\$ -	\$ 222	\$ 249	\$ 77,440
Commercial real estate loans							
Non owner-occupied/multi-family	36,359	757	-	-	757	-	37,116
Owner-occupied & farmland	27,873	-	-	-	-	-	27,873
Construction loans							
Residential construction loans	3,305	-	-	-	-	-	3,305
Commercial construction & raw land loans	13,878	-	-	-	-	12	13,890
Home equity loans	6,877	-	-	-	-	-	6,877
Consumer loans	9,852	413	78	22	513	49	10,414
Commercial/farm loans	16,235	-	-	-	-	74	16,309
Municipal/other loans	14,272	-	-	-	-	-	14,272
Unearned income on loans	(212)	-	-	-	-	-	(212)
Total	<u>\$ 205,408</u>	<u>\$ 1,392</u>	<u>\$ 78</u>	<u>\$ 22</u>	<u>\$ 1,492</u>	<u>\$ 384</u>	<u>\$ 207,284</u>

<b>December 31, 2014</b>	<b>Current</b>	<b>30-59 Days Past Due</b>	<b>60 - 89 Days Past Due</b>	<b>90 Days+ Past Due</b>	<b>Total Past Due</b>	<b>Non- Accrual</b>	<b>Total Loans</b>
Residential loans	\$ 70,872	\$ 32	\$ -	\$ 105	\$ 137	\$ 98	\$ 71,107
Commercial real estate loans							
Non owner-occupied/multi-family	42,178	-	-	-	-	-	42,178
Owner-occupied & farmland	24,556	-	-	-	-	-	24,556
Construction loans							
Residential construction loans	2,224	-	-	-	-	-	2,224
Commercial construction & raw land loans	11,449	-	-	-	-	-	11,449
Home equity loans	5,293	-	-	-	-	-	5,293
Consumer loans	4,467	45	11	11	67	2	4,536
Commercial/farm loans	14,360	-	-	-	-	31	14,391
Municipal/other loans	11,296	-	16	-	16	-	11,312
Unearned income on loans	(201)	-	-	-	-	-	(201)
Total	<u>\$ 186,494</u>	<u>\$ 77</u>	<u>\$ 27</u>	<u>\$ 116</u>	<u>\$ 220</u>	<u>\$ 131</u>	<u>\$ 186,845</u>

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

**BLUE RIDGE BANKSHARES, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2015**

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

“Pass” rated credits are segregated from “Criticized” credits for the application of qualitative factors. Management has identified a number of qualitative factors which it uses to supplement the historical charge-off factor because these factors are likely to cause estimated credit losses associated with the existing loan pools to differ from historical loss experience. The qualitative factors are evaluated quarterly and updated using information obtained from internal, regulatory, and governmental sources. The Bank’s qualitative factors consist of: changes in lending policies and procedures, changes in international, national, regional, and local conditions, changes in the nature and volume of the portfolio and terms of loans, changes in the experience, depth, and ability of lending management, changes in the volume and severity of past due loans and other similar conditions, changes in the quality of the organization’s loan review system, changes in the value of underlying collateral for dependent loans, the existence and effect of any concentrations of credit and changes in the levels of such concentrations, and the effect of other external factors.

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

The following tables summarize the primary segments of the ALLL, segregated into the amount required for loans individually evaluated for impairment and the amount required for loans collectively evaluated for impairment as of December 31, 2015 and 2014. Activity in the allowance is presented for the each of the twelve months ended December 31, 2015 and 2014 (in thousands):

	<b>Commercial</b>	<b>Commercial Real Estate</b>	<b>Consumer</b>	<b>Residential</b>	<b>Municipal</b>	<b>Total</b>
ALLL Balance at December 31, 2014	\$ 415	\$ 746	\$ 208	\$ 484	\$ 268	\$ 2,121
Charge-offs	-	-	(113)	-	-	(113)
Recoveries	-	-	20	-	-	20
Provision	3	(66)	361	3	19	320
ALLL Balance at December 31, 2015	<u>\$ 418</u>	<u>\$ 680</u>	<u>\$ 476</u>	<u>\$ 487</u>	<u>\$ 287</u>	<u>\$ 2,348</u>
Individually evaluated for impairment	\$ -	\$ 45	\$ -	\$ 40	\$ 250	\$ 335
Collectively evaluated for impairment	\$ 418	\$ 635	\$ 476	\$ 447	\$ 37	\$ 2,013

**BLUE RIDGE BANKSHARES, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**Note 4. Loans Receivable and Related Allowance for Loan Losses (Continued)**

	<u>Commercial</u>	<u>Commercial Real Estate</u>	<u>Consumer</u>	<u>Residential</u>	<u>Municipal</u>	<u>Total</u>
ALLL Balance at December 31, 2013	\$ 306	\$ 1,073	\$ 56	\$ 322	\$ 314	\$ 2,071
Charge-offs	-	-	(24)	-	-	(24)
Recoveries	-	-	4	-	-	4
Provision	<u>109</u>	<u>(327)</u>	<u>172</u>	<u>162</u>	<u>(46)</u>	<u>70</u>
ALLL Balance at December 31, 2014	<u>\$ 415</u>	<u>\$ 746</u>	<u>\$ 208</u>	<u>\$ 484</u>	<u>\$ 268</u>	<u>\$ 2,121</u>
Individually evaluated for impairment	\$ -	\$ 52	\$ -	\$ 45	\$ 234	\$ 331
Collectively evaluated for impairment	\$ 415	\$ 694	\$ 208	\$ 439	\$ 34	\$ 1,790

The following is a summary of the changes in the allowance for loan losses for the years ended December 31, 2015 and 2014 (in thousands):

	<u>2015</u>	<u>2014</u>
Balance, beginning	\$ 2,121	\$ 2,071
Charge-offs	(113)	(24)
Recoveries	20	4
Provision	<u>320</u>	<u>70</u>
Balance, ending	<u>\$ 2,348</u>	<u>\$ 2,121</u>

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

At December 31, 2015 loans with a carrying amount of \$44.0 million were pledged to secure short-term and long-term borrowings with the Federal Home Loan Bank.

Loans held for sale consists of the Bank's commitment to purchase up to \$10,000,000 in residential mortgage loan fundings originated primarily in Virginia, Pennsylvania, New Jersey and Florida by another financial institution. The Bank reviews loan documentation for each specific mortgage prior to funding to ensure it conforms to the terms of the agreement. The mortgages funded through this program must have already obtained a purchase commitment (takeout) from another financial institution as part of the conditions of the Bank's funding. The Bank earns 30-day LIBOR plus 2.25% on all loans held in this category. The balance of loans held for sale was \$9,314,638 and \$0 at December 31, 2015 and 2014, respectively.

**BLUE RIDGE BANKSHARES, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**Note 4. Loans Receivable and Related Allowance for Loan Losses (Continued)**

Nonaccrual loans were approximately \$384,000 and \$131,000 at December 31, 2015 and 2014, respectively. The Bank is not committed to lend additional funds to borrowers whose loans are considered impaired or whose loans have been modified.

The Bank has a loan with a balance of approximately \$706,000 and \$771,000 at December 31, 2015 and 2014 that was involved in bankruptcy litigation. The loan was for the benefit of a municipality. Funds advanced for the loan were held in the custody of the company that declared bankruptcy, resulting in the municipality not taking in its direct possession the full note amount. The municipality has continued to make payments on the note and it was current at December 31, 2015 and 2014. The municipality believes the amortized balance of the obligation is approximately \$25,000 at December 31, 2015.

**Note 5. Bank Premises and Equipment**

Bank premises and equipment are summarized as follows:

	<b>2015</b>	<b>2014</b>
Buildings and land	\$ 2,188,154	\$ 2,161,858
Furniture, fixtures and equipment	2,167,081	2,164,393
Software	154,837	169,031
Total Cost	4,510,072	4,495,282
Less: Accumulated depreciation	2,470,256	2,288,465
Total, net of depreciation	\$ 2,039,816	\$ 2,206,817

Depreciation expense for 2015 and 2014 was \$269,793 and \$249,944, respectively.

**Note 6. Time Deposits**

The aggregate amounts of certificates of deposit, with a minimum denomination of \$250,000 were \$15,189,000 and \$11,694,000 at December 31, 2015 and 2014, respectively.

Time deposits include brokered deposits purchased through the Certificate of Deposit Account Registry Service (CDARS). The balance of these time deposits was approximately \$2,680,886 and \$9,478,000 at December 31, 2015 and 2014, respectively. As long as the Bank maintains its current rating through CDARS rating service, it may purchase deposits up to 15% of its assets as of the most recent quarter end. At December 31, 2015, the Bank could have purchased up to approximately \$40,000,000 in deposits through CDARS. The decision to utilize this funding depends on the Bank's liquidity needs and the pricing of CDARS deposits compared to other potential funding sources.

**BLUE RIDGE BANKSHARES, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**Note 6. Time Deposits (Continued)**

At December 31, 2015, the scheduled maturities of time deposits are as follows:

	<u><b>Maturities</b></u>
2016	\$ 49,298,841
2017	22,485,633
2018	8,100,748
2019	9,831,008
2020	6,398,651
2021 and beyond	720,627
Total	<u>\$ 96,835,508</u>

**Note 7. Borrowings**

The Bank has a line of credit from the Federal Home Loan Bank of Atlanta (FHLB) secured by the Bank's real estate loan portfolio and certain pledged securities. The FHLB will lend up to 25% of the Bank's total assets at the prior quarter end, subject to certain eligibility requirements, including adequate collateral. At December 31, 2015, the Bank had borrowings from FHLB that totaled \$37,657,000. The interest rate on the borrowings range from .34% to 3.95% depending on the structure and maturity. The borrowings at year-end also required the Bank to own \$1,815,300 of FHLB stock. This amount is included with restricted investments on the consolidated balance sheets.

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

The principal on FHLB borrowings matures as follows:

	<u><b>Maturities</b></u>
2016	\$ 17,700,000
2017	-
2018	14,957,000
2019	5,000,000
Total principal	<u>37,657,000</u>
Capitalized refinancing fees	(215,806)
FHLB borrowings, net	<u>\$ 37,441,194</u>

At December 31, 2015, the Bank had fixed rate advances from the Federal Home Loan Bank of Atlanta (FHLB) totaling \$29,585,572.

**BLUE RIDGE BANKSHARES, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**Note 7. Borrowings (Continued)**

In December 2014, the Company issued stock as part of a private placement capital raise. The Bank's Employee Stock Ownership Plan ("ESOP") purchased stock as part of this raise and borrowed \$600,000 from Community Bankers' Bank to fund the purchase. The loan carries an interest rate of 4.50% and is to be repaid in seven annual installments of principal and interest. The Company has guaranteed the loan, which carried a balance of \$518,225 and \$600,000 at December 31, 2015 and 2014, respectively. The balance is included in other borrowed funds on the consolidated balance sheet. Repayment of the loan comes from the Bank's annual discretionary contribution to the ESOP, as well as the Bank's matching component to employee's elective deferrals into the 401(k) plan, the proceeds of which are contributed to the ESOP. The shares purchased with the proceeds of this loan are being used as collateral and are therefore restricted. A prorated portion of the restricted shares are released each year as the loan is repaid. The Company also pledged securities from its AFS portfolio with an approximate fair value of \$289,000. These securities are included in restricted investments on the consolidated balance sheet.

In addition the Bank has established lines of credit for federal funds purchases of \$5,000,000 with its correspondent bank. The balance was zero at December 31, 2015 and December 31, 2014.

**Note 8. Subordinated Debt**

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

As part of the transaction, the Company incurred issuance costs totaling \$338,813. These costs are being amortized over the life of the Notes. The following table summarizes the balance of the Notes and related issuance costs at December 31, 2015:

Subordinated debt	\$ 10,000,000
Unamortized issuance costs	(335,092)
Subordinated debt, net	<u>\$ 9,664,908</u>

**BLUE RIDGE BANKSHARES, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**Note 9. Preferred Stock**

The Company is authorized to issue 250,000 shares of preferred stock at a par value of \$50 per share. In 2011, the Company issued 4,500 shares of Senior Non-Cumulative Perpetual Preferred Stock, Series A to the United States Department of Treasury as part of the Small Business Lending Fund (SBLF) program. The shares were issued at \$1,000 per share, which was also the liquidation value, for a total issuance of \$4,500,000. Dividend rates fluctuated with the amount of qualified small business lending as defined by the SBLF program. As of December 31, 2014, the dividend rate was 1.00%. In December 2015, the Company fully redeemed the shares using proceeds from the Subordinated Debt issuance described in Note 8.

**Note 10. Common Stock**

The Company has 5,000,000 shares of no par value authorized common stock of which 1,401,511 and 1,270,555 shares were issued and outstanding at December 31, 2015 and 2014, respectively.

**Note 11. Other Real Estate Owned (Foreclosed Assets)**

The Bank had the following amounts in Other Real Estate Owned at December 31, 2015 and 2014:

<b>Real Estate Held</b>	<b>Estimated Realizable Value</b>	
	<b>2015</b>	<b>2014</b>
Land	\$ -	\$ 140,000
1-4 Family	70,000	70,000
	\$ 70,000	\$ 210,000

The estimated realizable value is the net amount Bank management expects to realize from the sale of the foreclosed upon real estate. The net realizable amount takes into account realtor commissions and other anticipated costs associated with the disposition of real estate. The property currently held in Other Real Estate Owned was obtained during 2014. Adjustments to reduce the loan balance to net realizable value at the time the property was acquired were made to the Allowance for Loan Losses. Bank Management continues to monitor the properties for changes in value. Any decline in value would be charged to operations.

Expenses associated with the maintenance and upkeep of Other Real Estate Owned are recorded as Other Real Estate Expense. The balance of Other Real Estate Owned is included with other assets on the Company's consolidated balance sheets.

**Note 12. Goodwill**

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

**BLUE RIDGE BANKSHARES, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2015**

**Note 13. Disclosures About Fair Value of Financial Instruments**

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

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

The following table represents the estimates of fair value of financial instruments as of December 31, 2015 and 2014:

	2015		2014	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Cash and short-term investments	\$ 7,265,264	\$ 7,265,264	\$ 7,941,884	\$ 7,941,884
Federal funds sold	582,000	582,000	542,000	542,000
Investment securities	37,957,139	38,346,705	37,056,056	37,465,448
Loans held for sale	9,314,638	9,314,638	-	-
Net loans held for investment	204,936,540	211,798,362	184,723,649	192,789,000
Accrued interest receivable	873,295	873,295	786,782	786,782
Bank-owned life insurance	2,414,246	2,414,246	2,349,745	2,349,745
Financial Liabilities				
Deposits	196,491,845	196,578,000	183,898,642	184,899,000
Other borrowed funds	37,959,419	38,487,225	29,893,599	30,383,000
Subordinated debt, net	9,664,908	9,664,908	-	-
Accrued interest payable	149,590	149,590	175,842	175,842

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

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

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

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

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



**BLUE RIDGE BANKSHARES, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2015**

**Note 13. Disclosures About Fair Value of Financial Instruments (Continued)**

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

*Other borrowed funds:* The fair value of fixed maturity obligations is estimated by a discounted cash flow method using the interest rates currently offered for borrowings of similar remaining maturities.

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

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

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

**Note 14. Fair Value Measurements**

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

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

**BLUE RIDGE BANKSHARES, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**Note 14. Fair Value Measurements (Continued)**

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

*Securities:* Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities would include highly liquid government bonds, mortgage products and exchange traded equities. If quoted market prices are not available, then fair values are estimated by using pricing models or quoted prices of securities with similar characteristics. Level 2 securities would include U.S. agency securities, mortgage-backed agency securities, obligations of states and political subdivisions and certain corporate, asset backed and other securities. In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy. Currently, all of the Company's securities are considered to be Level 2 securities.

Fair values of assets and liabilities measured on a recurring basis at December 31, 2015 and 2014 are as follows:

	<b>Fair Value Measurements at Reporting Date Using</b>			
	<b>Fair Value</b>	<b>(Level 1)</b>	<b>(Level 2)</b>	<b>(Level 3)</b>
<b>December 31, 2015</b>				
Available for-sale securities	\$ 21,089,617	\$ -	\$ 21,089,617	\$ -
Bank-owned life insurance	2,414,246	-	2,414,246	-
Total	\$ 23,503,863	\$ -	\$ 23,503,863	\$ -
<b>December 31, 2014</b>				
Available for-sale securities	\$ 19,937,946	\$ -	\$ 19,937,946	\$ -
Bank-owned life insurance	2,349,745	-	2,349,745	-
Total	\$ 22,287,691	\$ -	\$ 22,287,691	\$ -

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

<b>December 31, 2015:</b>	
Total gains included in earnings for the year	\$ -
Change in unrealized gains or losses relating to assets still held at year end	\$ 98,542
<b>December 31, 2014:</b>	
Total gains included in earnings for the year	\$ 16,456
Change in unrealized gains or losses relating to assets still held at year end	\$ 214,335

**BLUE RIDGE BANKSHARES, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**Note 14. Fair Value Measurements (Continued)**

Fair values of assets measured on a non-recurring basis at December 31, 2015 and 2014 are as follows:

	<b>Fair Value Measurements at Reporting Date Using</b>			
	<b>Fair Value</b>	<b>(Level 1)</b>	<b>(Level 2)</b>	<b>(Level 3)</b>
<b>December 31, 2015</b>				
Other real estate owned	\$ 70,000	\$ -	\$ -	\$ 70,000
Total	\$ 70,000	\$ -	\$ -	\$ 70,000
<b>December 31, 2014</b>				
Other real estate owned	\$ 210,000	\$ -	\$ -	\$ 210,000
Total	\$ 210,000	\$ -	\$ -	\$ 210,000

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

	<b>Fair Value At December 31, 2015</b>	<b>Valuation Technique</b>	<b>Significant Unobservable Inputs</b>	<b>Range</b>
Other real estate owned	\$ 70,000	Discounted appraised value	Discounted for selling costs and age of appraisals	15%-35%

  

	<b>Fair Value At December 31, 2014</b>	<b>Valuation Technique</b>	<b>Significant Unobservable Inputs</b>	<b>Range</b>
Other real estate owned	\$ 210,000	Discounted appraised value	Discounted for selling costs and age of appraisals	15%-35%

**BLUE RIDGE BANKSHARES, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**Note 15. Income Taxes**

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

	<u>2015</u>	<u>2014</u>
Income taxes computed at the applicable federal income tax rate	\$ 1,218,557	\$ 962,147
Tax exempt municipal income	(153,461)	(151,767)
Income from life insurance	(21,930)	(22,421)
Other, net	4,961	3,393
Income Tax Expense	<u>\$ 1,048,127</u>	<u>\$ 791,352</u>

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

	<u>2015</u>	<u>2014</u>
Current tax expense	\$ 1,117,865	\$ 710,283
Deferred tax expense	(69,738)	81,069
Income Tax Expense	<u>\$ 1,048,127</u>	<u>\$ 791,352</u>

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

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

	<u>2015</u>	<u>2014</u>
Deferred tax assets	\$ 1,317,608	\$ 1,320,122
Deferred tax liabilities	(340,238)	(385,668)
Net Deferred Tax Asset	<u>\$ 977,370</u>	<u>\$ 934,454</u>

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

The federal and Virginia income tax returns of the Company for 2012 to 2015 are subject to examination by the Internal Revenue Service and the Virginia Department of Taxation.

**Note 16. Employee Benefits**

The Bank has a 401(k) Profit Sharing Plan that covers eligible employees. Employees may make voluntary contributions subject to certain limits based on federal tax laws. The Bank matches 100 percent of an employee's contribution up to five percent of his or her salary. The Bank's Board of Directors may make additional contributions at its discretion. Employees become eligible to participate after one year of continuous service and the benefits vest over a five-year period. For the years ended December 31, 2015 and 2014, total expenses attributable to this plan were \$92,621 and \$78,031, respectively.

**BLUE RIDGE BANKSHARES, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**Note 16. Employee Benefits (Continued)**

In 2013, the Company established an Employee Stock Ownership Plan (ESOP) that covers eligible employees. Benefits in the Plan vest over a five-year period. Contributions to the plan are made at the discretion of the Board of Directors, and may include both the matching component to employees' elective deferrals into the 401(k) plan and discretionary profit contributions. In December 2014, the ESOP borrowed \$600,000 and used the proceeds to purchase 42,857 common shares from the Company. Shares purchased with the borrowed funds are allocated and released to participants over the repayment period of the loan using a formula that considers current contributions to service the debt compared to total expected contributions over the amortization period of the loan. As of December 31, 2015, 6,557 shares had been released from the suspended shares resulting in a remaining balance of 36,300 unallocated ESOP shares. The fair value of unallocated shares as of December 31, 2015 was \$689,700. All shares issued to and held by the Plan are considered outstanding in the computation of earnings per share. The Plan or the Company is required to purchase shares from separated employees at a price determined by a third party appraisal.

The Company recognized discretionary expenses of \$65,000 and \$60,000 for contributions to the Plan in 2015 and 2014, respectively. Compensation expense with regards to allocated shares is determined based on the fair value of the stock at the date of allocation and totaled \$126,000 for 2015. Dividends on shares released are recorded as dividends paid on common stock in the statement of Stockholders' Equity (totaled \$3,000 in 2015) and dividends on unreleased shares are recorded as compensation expense (totaled \$18,000 in 2015). The Plan held 53,200 total shares of Company stock at December 31, 2015 and 2014.

**Note 17. Financial Instruments With Off-Balance-Sheet Risk**

In the normal course of business, to meet the credit needs of its customers, the Bank has made commitments to extend credit of \$19,465,000 and \$10,846,000 as of December 31, 2015 and 2014, respectively. These commitments represent a credit risk which is not recognized in the consolidated balance sheet. The Bank uses the same credit policies in making commitments as it does for the loans reflected in the balance sheet. Commitments to extend credit are generally made for a period of one year and interest rates are determined when funds are disbursed. Collateral and other security for the loans are determined on a case-by-case basis. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The distribution of commitments to extend credit approximates the distribution of loans outstanding.

**Note 18. Commitments and Contingencies**

In the ordinary course of business, the Bank has various outstanding commitments and contingent liabilities that are not reflected in the accompanying consolidated financial statements. The commitments include a total of \$1,039,132 for its interest in five Small Business Investment Company (SBIC) funds. The Bank funded \$1,160,868 of its total \$2,400,000 investment prior to December 31, 2015, and anticipates capital calls for the remaining amount to occur during the next one to three years. Management does not anticipate any loss resulting from these commitments.

**BLUE RIDGE BANKSHARES, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**Note 19. Lease Commitments**

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

The Bank leases real property in Albemarle County, Virginia for a branch that began operations in May 2012. The lease term commenced May 1, 2012 and continues for seven years with two optional five year extensions. Base annual rent, including utilities, is \$81,400, or \$6,783 per month, increasing at 2% annually.

The Bank leases real property in Harrisonburg, Virginia for a branch that began operations in April 2014. The lease term commenced April 1, 2014 and continues for fifteen years with two optional five year extensions. Base annual rent is \$43,470, or \$3,623 per month, adjusted annually for inflation as listed by the Consumer Price Index.

At December 31, 2015, the aggregate future minimum rental commitments (base rents) under this noncancellable operating lease are as follows:

	<b>Annual Payments</b>
For the year ending December 31,	
2016	\$ 161,170
2017	164,275
2018	135,060
2019	74,743
2020	74,743
Thereafter	446,603
Total	\$ 1,056,594

Rent expense for 2015 and 2014 was \$178,470 and \$153,568, respectively.

**Note 20. Concentration of Credit Risk**

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

**BLUE RIDGE BANKSHARES, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**December 31, 2015**

**Note 21. Transactions With Related Parties**

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

	<u>2015</u>	<u>2014</u>
Total loans, beginning of year	\$ 5,613,000	\$ 2,142,000
Changes in related parties	-	2,855,000
Advances	3,394,000	1,475,000
Curtailments	(2,763,000)	(859,000)
Total loans, end of year	<u>\$ 6,244,000</u>	<u>\$ 5,613,000</u>

The Bank held related party deposits of approximately \$3,163,000 and \$3,474,000 at December 31, 2015 and 2014, respectively.

**Note 22. Regulatory Matters**

The principal source of funds of Blue Ridge Bankshares, Inc. is dividends paid by its subsidiary bank. The various regulatory authorities impose restrictions on dividends paid by a state bank. A state bank cannot pay dividends (without the consent of state banking authorities) in excess of the total net profits (net income less dividends paid) of the current year to date and the combined retained net profits of the previous two years. As of January 1, 2016, Blue Ridge Bank could pay dividends to Blue Ridge Bankshares, Inc. of approximately \$5,734,000 without the permission of regulatory authorities. The ability to pay such a dividend would additionally be affected by the subsidiary bank's capital availability.

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum ratios (set forth in the following table) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2015, that the Bank meets all capital adequacy requirements to which it is subject.

**BLUE RIDGE BANKSHARES, INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
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**Note 22. Regulatory Matters (Continued)**

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

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under the Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2015						
Total risk based capital (To risk rated assets)						
Blue Ridge Bankshares	\$ 26,570	14.05%	\$ 15,124	8.0%	N/A	N/A
Blue Ridge Bank	\$ 30,774	16.45%	\$ 14,962	8.0%	\$ 18,703	10.0%
Tier I capital (To risk rated assets)						
Blue Ridge Bankshares	\$ 24,222	12.81%	\$ 11,343	6.0%	N/A	N/A
Blue Ridge Bank	\$ 28,436	15.20%	\$ 11,222	6.0%	\$ 14,962	8.0%
Common equity tier 1 capital (To risk rated assets)						
Blue Ridge Bankshares	\$ 24,222	12.81%	\$ 8,507	4.5%	N/A	N/A
Blue Ridge Bank	\$ 28,436	15.20%	\$ 8,416	4.5%	\$ 12,157	6.5%
Tier I capital (To average assets)						
Blue Ridge Bankshares	\$ 24,222	9.53%	\$ 10,165	4.0%	N/A	N/A
Blue Ridge Bank	\$ 28,436	10.86%	\$ 10,476	4.0%	\$ 13,095	5.0%
As of December 31, 2014						
Total risk based capital (To risk rated assets)						
Blue Ridge Bankshares	\$ 27,079	16.76%	\$ 12,922	8%	N/A	N/A
Blue Ridge Bank	\$ 26,491	16.47%	\$ 12,864	8%	\$ 16,080	10%
Tier I capital (To risk rated assets)						
Blue Ridge Bankshares	\$ 24,958	15.45%	\$ 6,461	4%	N/A	N/A
Blue Ridge Bank	\$ 24,480	15.22%	\$ 6,432	4%	\$ 9,648	6%
Tier I capital (To average assets)						
Blue Ridge Bankshares	\$ 24,958	10.99%	\$ 9,082	4%	N/A	N/A
Blue Ridge Bank	\$ 24,480	10.57%	\$ 9,262	4%	\$ 11,578	5%

(Continued)



**BLUE RIDGE BANKSHARES, INC.**  
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**Note 22. Regulatory Matters (Continued)**

On July 7, 2013 the Federal Reserve Board approved the Basel III Final Rule which began implementation January 1, 2015. The desired overall objective of Basel III is to improve the banking sector's ability to absorb shocks arising from financial and economic stress. The Final Rule changed minimum capital ratios and raised the Tier 1 Risk Weighted Assets to 6% from 4%. In addition, the new rules will require a bank to maintain a capital conservation buffer that starts at 0.625% beginning in 2016 and reaches 2.50% by 2019. The phase in of this buffer began in 2015 with complete compliance required by 2019. Generally, the Basel III Final Rule will require banks to maintain higher levels of common equity and regulatory capital.

**Note 23. Recent Accounting Pronouncements and Changes**

In January 2014, the FASB issued ASU 2014-04, Receivables (Topic 310) – Troubled Debt Restructurings by Creditors. ASU 2014-04 is intended to reduce diversity by clarifying when an in substance repossession or foreclosure occurs, that is, when a creditor should be considered to have received physical possession of residential real property collateralizing a consumer mortgage loan such that the loan receivable should be derecognized and the real estate property recognized. ASU 2014-04 is effective for annual periods beginning after December 15, 2014. Adoption by the Company did not have a material impact on the consolidated financial statements and related disclosures.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 is intended to clarify the principles for recognizing revenue and to develop a common revenue standard for U.S. GAAP. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2018. Adoption by the Company is not expected to have a material impact on the consolidated financial statements and related disclosures.

In June 2014, the FASB issued ASU 2014-11, Transfers and Servicing (Topic 860) – Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures. ASU 2014-11 is intended to clarify the accounting for and improve the disclosures related to repurchase-to-maturity transactions and repurchase financings. ASU 2014-11 is effective for annual periods beginning after December 15, 2014. Adoption by the Company did not have a material impact on the consolidated financial statements and related disclosures.

In January 2016, ASU No. 2016-01 Financial Instruments – Overall (Subtopic 825-10) was issued by the FASB. The amendments address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The amendments will be effective for fiscal years beginning after December 15, 2018. The Company is currently evaluating the impact of these amendments on its financial statements.

## BOARD OF DIRECTORS

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**Mensel D. Dean, Jr.**  
*Partner*  
*PBMares, LLP*

**Larry Dees**  
*Chairman of the Board*  
*Retired Certified Public Accountant*

**James E. Gander, II**  
*Farmer*

**John H. H. Graves**  
*President/CEO*  
*Luray Caverns Corporation*

**Robert S. Janney**  
*Attorney at Law*  
*Janney & Janney, PLC*

**Richard L. Masincup**  
*Retired Tax Auditor*

**Brian K. Plum**  
*President/CEO*  
*Blue Ridge Bank*

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

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

## OFFICERS AND EMPLOYEES

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### CORPORATE

#### Management and Administration

**Brian K. Plum**  
*President*  
*Chief Executive Officer*

**Benjamin T. Horne, IV**  
*Executive Vice President*  
*Chief Lending Officer*

**Amanda G. Story**  
*Chief Financial Officer*

**Dorothy M. Welch**  
*VP Strategic Engagement*

**Craig. H. Richards**  
*Director of Risk Management*

**Sharon S. Lamb**  
*Assistant Cashier*

**Sharon D. Nauman**  
*Accounting Assistant*

#### BSA and Compliance

**Ann M. Mann**, *Chief Compliance Officer*  
**Ashley N. Marshall**  
**Brandy L. Rothgeb**

#### Operations

**Cynthia D. Fravel**, *VP*  
**Kimberly D. Dinges**  
**Patricia B. Painter**  
**Pamela G. Seal**

#### Credit Administration

**Julie A. Catron**, *Assistant VP*  
**Crystal D. Alger**  
**Melissa A. Deeds**  
**James C. Rushing, III**

#### Retail Investments

**Adam J. Powell**, *Investment Advisor*

### BRANCHES

#### Luray

**Juanita A. Woodward**, *Office Manager*  
**Jason P. Blosser**, *Director of Dealer Lending*  
**Kimberly F. Good**, *Loan Officer*  
**Cheryl E. Petefish**, *Loan Officer*  
**Donna S. Dofflemyer**, *Loan Officer*  
**Carlie S. Billings**  
**Miranda D. Cave**  
**Jill M. Taylor**  
**Betty J. White**  
**Brittany L. Eslin**  
**Kathy A. Huffman**

#### Shenandoah

**Timothy W. Bailey**, *Assistant VP*  
**Rebecca K. Dovel**  
**Brittney D. Hinegardner**  
**Calla M. E. Gray**

#### Harrisonburg

**Jonathan B. Comer**, *Market President*  
**Aimme M. Knight**  
**Tina S. Bright**  
**Birdena J. Short**

#### Charlottesville

**Kelly A. Potter**, *Market President*  
**Lisa S. Engstler**  
**Cheryl M. Melton**

#### McGaheysville

**Crystal L. Breeden Burkner**, *Assistant Branch Manager*  
**Paula R. Morris**  
**Pamela M. Taylor**  
**Darlene M. Turner**