Section 1: 10-Q (10-Q)

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

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE
QUARTERLY PERIOD ENDED JUNE 30, 2020

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

COMMISSION FILE NUMBER: 0-22955

BAY BANKS OF VIRGINIA, INC.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

VIRGINIA	**54-1838100**
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	**(I.R.S. EMPLOYER IDENTIFICATION NO.)**

1801 BAYBERRY COURT, SUITE 101
RICHMOND, VIRGINIA 23226
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES) (ZIP CODE)

(804) 325-3775
(REGISTRANT’S TELEPHONE NUMBER, INCLUDING AREA CODE)

N/A
(FORMER NAME, FORMER ADDRESS, AND FORMER FISCAL YEAR, IF CHANGED SINCE LAST REPORT)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
None		

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ☒ yes ☐ no

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

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

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

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

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

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date: 13,334,049 shares of common stock on August 3, 2020.

FORM 10-Q

For the interim period ending June 30, 2020

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

BAY BANKS OF VIRGINIA, INC.
CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except share data)	*(unaudited)* June 30, 2020	December 31, 2019 (1)
ASSETS		
Cash and due from banks	$ 10,778	$ 6,096
Interest-earning deposits	28,667	34,358
Federal funds sold	467	1,359
Certificates of deposit	2,506	2,754
Available-for-sale securities, at fair value	92,560	99,454
Restricted securities	5,327	5,706
Loans receivable, net of allowance for loan losses of $12,007 and $7,562, respectively	1,040,848	916,628
Loans held for sale	2,521	1,231
Premises and equipment, net	18,330	20,141
Accrued interest receivable	4,128	3,035
Other real estate owned, net	1,903	1,916
Bank owned life insurance	19,985	19,752
Goodwill	—	10,374
Mortgage servicing rights	687	935
Core deposit intangible	1,228	1,518
Other assets	8,291	6,666
Total assets	$ 1,238,226	$ 1,131,923
LIABILITIES		
Noninterest-bearing demand deposits	$ 185,201	$ 137,933
Savings and interest-bearing demand deposits	413,025	382,607
Time deposits	408,672	389,900
Total deposits	1,006,898	910,440
Securities sold under repurchase agreements	1,035	6,525
Federal Home Loan Bank advances	35,000	45,000
Federal Reserve Bank advances	33,160	—
Subordinated notes, net of issuance costs	31,056	31,001
Other liabilities	11,387	12,772
Total liabilities	1,118,536	1,005,738
SHAREHOLDERS' EQUITY		
Common stock ($5 par value; authorized - 30,000,000 shares; outstanding - 13,334,049 and 13,261,801 shares, respectively) (2)	66,670	66,309
Additional paid-in capital	36,729	36,658
Unearned employee stock ownership plan shares	(1,394)	(1,525)
Retained earnings	16,519	24,660
Accumulated other comprehensive income, net	1,166	83
Total shareholders' equity	119,690	126,185
Total liabilities and shareholders' equity	$ 1,238,226	$ 1,131,923

(1) Derived from audited December 31, 2019 Consolidated Financial Statements.
(2) Preferred stock is authorized; however, none was outstanding as of June 30, 2020 and December 31, 2019.

See Notes to Consolidated Financial Statements.

BAY BANKS OF VIRGINIA, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

(Dollars in thousands, except per share data)	For the Three Months Ended June 30, 2020	For the Three Months Ended June 30, 2019	For the Six Months Ended June 30, 2020	For the Six Months Ended June 30, 2019
INTEREST INCOME				
Loans, including fees	$ 11,290	$ 11,458	$ 22,642	$ 22,919
Securities:				
Taxable	573	577	1,225	1,172
Tax-exempt	89	97	183	214
Federal funds sold	—	18	2	25
Interest-bearing deposit accounts	8	152	112	288
Certificates of deposit	14	19	28	39
Total interest income	11,974	12,321	24,192	24,657
INTEREST EXPENSE				
Deposits	2,411	3,088	5,260	5,896
Securities sold under repurchase agreements	1	4	3	7
Subordinated notes	510	138	1,021	275
Federal Home Loan Bank advances	90	614	324	1,319
Federal Reserve Bank advances	20	—	20	—
Total interest expense	3,032	3,844	6,628	7,497
Net interest income	8,942	8,477	17,564	17,160
Provision for loan losses	2,027	62	4,804	376
Net interest income after provision for loan losses	6,915	8,415	12,760	16,784
NONINTEREST INCOME				
Trust management	203	206	396	420
Service charges and fees on deposit accounts	137	246	373	484
Wealth management	228	262	475	469
Interchange fees, net	130	121	228	222
Other service charges and fees	28	27	61	56
Secondary market sales and servicing	731	267	933	339
Increase in cash surrender value of bank owned life insurance	116	121	233	240
Net gains (losses) on sales and calls of available-for-sale securities	3	(2)	29	(2)
Net gains (losses) on disposition of other assets	1	(1)	(7)	(1)
Net gains (losses) gains on rabbi trust assets	114	40	(150)	130
Referral fees	496	—	966	—
Other	7	8	46	28
Total noninterest income	2,194	1,295	3,583	2,385
NONINTEREST EXPENSE				
Salaries and employee benefits	3,839	3,892	7,466	7,893
Occupancy	705	837	1,456	1,705
Data processing	498	609	1,035	1,197
Bank franchise tax	257	230	514	446
Telecommunications and other technology	371	262	780	469
FDIC assessments	147	162	295	378
Foreclosed property	28	19	35	62
Consulting	70	147	141	262
Advertising and marketing	26	109	93	176
Directors’ fees	188	213	381	377
Audit and accounting	170	189	310	393
Legal	154	27	346	110
Core deposit intangible amortization	142	173	291	353
Net other real estate owned losses	81	72	80	66
Goodwill impairment	10,374	—	10,374	—
Other	403	651	1,163	1,335
Total noninterest expense	17,453	7,592	24,760	15,222
(Loss) income before income taxes	(8,344)	2,118	(8,417)	3,947
Income tax (benefit) expense	(217)	395	(276)	732
Net (loss) income	$ (8,127)	$ 1,723	$ (8,141)	$ 3,215
Basic and diluted (loss) earnings per share	$ (0.62)	$ 0.13	$ (0.62)	$ 0.25

See Notes to Consolidated Financial Statements.

BAY BANKS OF VIRGINIA, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
(unaudited)

(Dollars in thousands)	For the Three Months Ended		For the Six Months Ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Net (loss) income	$ (8,127)	$ 1,723	$ (8,141)	$ 3,215
Other comprehensive income:				
Unrealized holding gain on available-for-sale securities arising during the period	277	793	1,400	1,814
Deferred income tax expense on net unrealized gain on available-for-sale securities	(58)	(167)	(294)	(382)
Reclassification of net (gains) losses on sales and calls of available-for-sale securities recognized in net (loss) income	(3)	2	(29)	2
Income tax expense on net realized gain on available-for-sale securities	1	—	6	—
Total other comprehensive income	217	628	1,083	1,434
Comprehensive (loss) income	$ (7,910)	$ 2,351	$ (7,058)	$ 4,649

See Notes to Consolidated Financial Statements.

BAY BANKS OF VIRGINIA, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(unaudited)

	For the Six Months Ended June 30, 2020						
(Dollars in thousands)	Shares of Common Stock	Common Stock	Additional Paid-in Capital	Employee Stock Ownership Plan Shares	Retained Earnings	Accumulated Other Comprehensive Income, net	Total Shareholders' Equity
Balance at beginning of period	13,261,801	$ 66,309	$ 36,658	$ (1,525)	$ 24,660	$ 83	$ 126,185
Net loss	—	—	—	—	(8,141)	—	(8,141)
Other comprehensive income, net	—	—	—	—	—	1,083	1,083
Stock options exercised, net	16,689	83	5	—	—	—	88
Director and executive stock grant	11,734	59	46	—	—	—	105
Restricted stock awards	47,105	236	(236)	—	—	—	—
Shares repurchased pursuant to ESOP	(3,280)	(17)	(9)	—	—	—	(26)
ESOP collateral release	—	—	—	131	—	—	131
Share-based compensation expense	—	—	265	—	—	—	265
Balance at end of period	13,334,049	$ 66,670	$ 36,729	$ (1,394)	$ 16,519	$ 1,166	$ 119,690

	For the Six Months Ended June 30, 2019						
(Dollars in thousands)	Shares of Common Stock	Common Stock	Additional Paid-in Capital	Unearned Employee Stock Ownership Plan Shares	Retained Earnings	Accumulated Other Comprehensive Income (Loss), net	Total Shareholders' Equity
Balance at beginning of period	13,201,682	$ 66,008	$ 36,972	$ (1,734)	$ 17,557	$ (1,327)	$ 117,476
Net income	—	—	—	—	3,215	—	3,215
Other comprehensive income, net	—	—	—	—	—	1,434	1,434
Stock options exercised, net	5,173	26	(17)	—	—	—	9
Director stock grant	18,396	92	56	—	—	—	148
Restricted stock awards	107,233	536	(536)	—	—	—	—
ESOP collateral release	—	—	—	66	—	—	66
Share-based compensation expense	—	—	224	—	—	—	224
Cumulative effect adjustment of adoption of accounting principle	—	—	—	—	45	—	45
Balance at end of period	13,332,484	$ 66,662	$ 36,699	$ (1,668)	$ 20,817	$ 107	$ 122,617

(Dollars in thousands)	For the Three Months Ended June 30, 2020 Shares of Common Stock	Common Stock	Additional Paid-in Capital	Unearned Employee Stock Ownership Plan Shares	Retained Earnings	Accumulated Other Comprehensive Income, net	Total Shareholders' Equity
Balance at beginning of period	13,346,789	$ 66,734	$ 36,536	$ (1,463)	$ 24,646	$ 949	$ 127,402
Net loss	—	—	—	—	(8,127)	—	(8,127)
Other comprehensive income, net	—	—	—	—	—	217	217
Stock options exercised, net	1,175	6	1	—	—	—	7
Director and executive stock grant	—	—	—	—	—	—	—
Restricted stock awards	(13,915)	(70)	70	—	—	—	—
Shares repurchased pursuant to ESOP	—	—	—	—	—	—	—
ESOP collateral release	—	—	—	69	—	—	69
Share-based compensation expense	—	—	122	—	—	—	122
Balance at end of period	13,334,049	$ 66,670	$ 36,729	$ (1,394)	$ 16,519	$ 1,166	$ 119,690

(Dollars in thousands)	For the Three Months Ended June 30, 2019 Shares of Common Stock	Common Stock	Additional Paid-in Capital	Unearned Employee Stock Ownership Plan Shares	Retained Earnings	Accumulated Other Comprehensive Income (Loss), net	Total Shareholders' Equity
Balance at beginning of period	13,313,537	$ 66,568	$ 36,493	$ (1,697)	$ 19,094	$ (521)	$ 119,937
Net income	—	—	—	—	1,723	—	1,723
Other comprehensive income, net	—	—	—	—	—	628	628
Director stock grant	17,634	88	54	—	—	—	142
Restricted stock awards	1,313	6	(6)	—	—	—	—
ESOP collateral release	—	—	—	29	—	—	29
Share-based compensation expense	—	—	158	—	—	—	158
Balance at end of period	13,332,484	$ 66,662	$ 36,699	$ (1,668)	$ 20,817	$ 107	$ 122,617

See Notes to Consolidated Financial Statements.

BAY BANKS OF VIRGINIA, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

(Dollars in thousands)	For the Six Months Ended June 30, 2020	For the Six Months Ended June 30, 2019
Cash Flows From Operating Activities		
Net (loss) income	$ (8,141)	$ 3,215
Adjustments to reconcile net income to net cash provided by operating activities:		
Goodwill impairment charge	10,374	—
Depreciation and amortization	730	871
Net premium amortization on available-for-sale securities	243	276
Amortization of subordinated notes issuance costs	55	9
Amortization of core deposit intangible	291	353
Accretion of fair value adjustment on acquired time deposits	(43)	(65)
Accretion of fair value adjustments on acquired loans	(283)	(636)
Provision for loan losses	4,804	376
Share-based compensation expense	265	224
Deferred income tax benefit	(590)	—
Increase in other real estate owned valuation allowance	86	61
(Gains) losses on sale of other real estate owned	(6)	5
Net loss on the disposition of fixed and other assets	7	1
Decrease in value of mortgage servicing rights	248	61
Increase in cash surrender value of bank owned life insurance	(233)	(240)
Net (gains) losses on sales and calls of available-for-sale securities	(29)	2
Originations of loans held for sale (HFS)	(80,967)	(13,982)
Proceeds from HFS loan sales	80,592	14,004
Gain on HFS sold loans	(915)	(247)
Increase in other assets and accrued interest receivable	(883)	(4,707)
(Decrease) increase in other liabilities	(1,429)	4,119
Net cash provided by operating activities	4,176	3,700
Cash Flows From Investing Activities		
Proceeds from maturities, calls, and principal paydowns of available-for-sale securities	18,060	6,599
Purchases of available-for-sale securities	(10,018)	(4,000)
Purchases of restricted securities, net	379	831
Maturities of certificates of deposit	248	248
Decrease in federal funds sold	892	29
Net increase in loans	(129,288)	(15,613)
Proceeds from sale of other real estate owned	480	515
Net (purchases) disposals of premises and equipment	(215)	705
Net cash used in investing activities	(119,462)	(10,686)
Cash Flows From Financing Activities		
Increase in demand, savings, and other interest-bearing demand deposits	77,686	16,882
Net increase in time deposits	18,815	16,613
Stock options exercised, net	88	9
Net (decrease) increase in securities sold under repurchase agreements and other borrowings	(5,446)	824
Shares repurchased pursuant to ESOP	(26)	—
Decrease in Federal Home Loan Bank advances	(10,000)	(30,000)
Increase in Federal Reserve Bank advances	33,160	—
Net cash provided by financing activities	114,277	4,328
Net decrease in cash and due from banks	(1,009)	(2,658)
Cash and cash equivalents (including interest-earning deposits) at beginning of period	40,454	26,666
Cash and cash equivalents (including interest-earning deposits) at end of period	$ 39,445	$ 24,008
Supplemental Schedule of Cash Flow Information		
Cash paid for:		
Interest	$ 6,312	$ 7,473
Income taxes	—	—
Non-cash investing and financing activities:		
Unrealized gain on available-for-sale securities	1,400	1,814
Loans transferred to other real estate owned	547	152
Changes in deferred taxes resulting from other comprehensive income transactions	(294)	(352)
Cumulative effect adjustment of adoption of accounting principle	—	(45)
Employee stock ownership plan transactions	(131)	(66)
Director and executive stock grant	105	148

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements (Unaudited)

Note 1: Basis of Presentation

Bay Banks of Virginia, Inc. (the "Company") is the holding company for Virginia Commonwealth Bank (the "Bank"), for VCB Financial Group, Inc. (the "Financial Group"), and for Steptoes Holdings, LLC ("Steptoes Holdings"). The consolidated financial statements of the Company include the accounts of Bay Banks of Virginia, Inc., the Bank, the Financial Group, and Steptoes Holdings. All significant intercompany accounts and transactions are eliminated upon consolidation.

The Bank is a state-chartered bank, headquartered in Richmond, Virginia, and a member of the Federal Reserve System. It serves businesses, professionals, and consumers through 18 banking offices, located in the greater Richmond region, the Northern Neck region, Middlesex County, and the Hampton Roads region of Virginia. The Bank offers a wide range of deposit and loan products to its retail and commercial customers. A substantial amount of the Bank's deposits are interest-bearing. The majority of the Bank's loan portfolio is secured by real estate.

The Financial Group provides management services for personal and corporate trusts, including estate planning, estate settlement, trust administration, and investment and wealth management services from its Richmond and Kilmarnock, Virginia offices. Products and services include revocable and irrevocable living trusts, testamentary trusts, custodial accounts, investment planning, brokerage services, insurance investment managed accounts, and managed and self-directed individual retirement accounts.

On April 1, 2017, the Company completed a merger with Virginia BanCorp, Inc. ("Virginia BanCorp"), a bank holding company conducting substantially all of its operations through its subsidiary, Virginia Commonwealth Bank. Immediately following the Company's merger with Virginia BanCorp, Virginia BanCorp's subsidiary bank was merged with and into the Company's banking subsidiary, Bank of Lancaster (collectively, the "Merger"). Bank of Lancaster then changed its name to Virginia Commonwealth Bank.

The accounting and reporting policies of the Company conform to accounting principles generally accepted in the United States of America ("GAAP") and to the general practices within the banking industry. In management's opinion, all adjustments necessary for a fair presentation of the consolidated financial statements have been included.

Certain amounts presented in the consolidated financial statements of prior periods have been reclassified to conform to current year presentations. The reclassifications had no effect on net income, net income per share, or shareholders' equity as previously reported.

All dollar amounts included in the tables in these notes are in thousands, except per share data, unless otherwise stated.

Note 2: Amendments to the Accounting Standards Codification

In December 2019, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2019-12, *Income Taxes (Topic 740)*, which is guidance for the simplification of accounting for income taxes. This ASU removes certain exceptions to the general principals of Accounting Standards Codification ("ASC") 740, *Income Taxes*, and simplifies existing guidance to improve consistent application of GAAP. The exceptions removed by this ASU are the exception to the incremental approach for intraperiod tax allocation when there is a loss from continuing operations and income or a gain from other items and the exception to the general methodology for calculating income taxes in an interim period when a year-to-date loss exceeds the anticipated loss for the year. This ASU simplifies the accounting by requiring that an entity recognize a franchise tax that is partially based on income as an income-based tax and account for any incremental amount incurred as a non-income-based tax; requiring that an entity evaluate when a step-up in the tax basis of goodwill should be considered part of the business combination in which the book goodwill was originally recognized and when it should be considered a separate transaction; requiring that an entity reflect the effect of an enacted change in tax laws or rates in the annual effective tax rate computation in the interim period that includes the enactment date; and making minor codification improvements for income taxes related to employee stock ownership plans and investments in qualified affordable housing projects accounted for using the equity method. This ASU is effective for interim and annual reporting periods beginning after December 15, 2020. The Company is currently evaluating the effect that this ASU will have on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820)*, which is guidance for the modifications to fair value measurement disclosure requirements. This ASU removes, modifies, and adds disclosure requirements for ASC 820, *Fair Value Measurement* ("ASC 820"). The disclosure requirement for the valuation process of Level 3 fair value measurements was removed from ASC 820. This ASU clarifies that the measurement uncertainty disclosure is to communicate information about the uncertainty in measurement as of the reporting date. The disclosure requirements added to ASC 820 were the changes in unrealized gains and losses for the period included in other comprehensive income for the recurring Level 3 fair value measurements held at the end of the reporting period and the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. This ASU was effective for interim and annual reporting periods beginning after December 15, 2019. The additional disclosure requirements are to be applied prospectively and the other modifications will be applied retrospectively. The adoption of this ASU in the first quarter of 2020 did not have a material effect on the Company's consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326)*, which is new guidance for the accounting for credit losses on instruments within its scope. This ASU introduces a new model for current expected credit losses ("CECL"), which applies to financial assets subject to credit losses and measured at amortized cost and certain off-balance sheet credit exposures, including loans, held-to-maturity debt securities, loan commitments, financial guarantees, net investments in leases, reinsurance, and trade receivables. The CECL model requires an entity to estimate the credit losses expected over the life of an exposure (or pool of exposures). The estimate of expected credit losses should consider historical information, current information, and reasonable and supportable forecasts, including estimates of prepayments. In addition, this standard will replace the current available-for-sale debt securities other-than-temporary impairment model with an estimate of expected credit losses only when the fair value falls below the amortized cost of the asset. Credit losses on available-for-sale debt securities will be limited to the difference between the security's amortized cost basis and its fair value. The available-for-sale debt security model will also require the use of an allowance to record estimated credit losses and subsequent recoveries. This ASU also addresses purchased financial assets with credit deterioration. Disclosure requirements are expanded regarding an entity's assumptions, models, and methods for estimating the allowance for loan losses. On October 16, 2019, the FASB voted to extend the effective date of ASU 2016-13 for smaller reporting companies reporting to the Securities and Exchange Commission (the "SEC") (including the Company) and non-SEC registrants; therefore, this ASU is effective for interim and annual reporting periods beginning after December 15, 2022. The Company has a CECL cross-functional working group that implemented a third-party CECL software in 2019 and will continue to assess and implement the requirements of ASU 2016-13 by the adoption date.

Note 3: Securities

The aggregate amortized costs and fair values of available-for-sale securities as of the dates stated were as follows.

June 30, 2020	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
U.S. Government agencies and mortgage backed securities	$ 54,516	$ 1,389	$ (3)	$ 55,902
State and municipal obligations	16,951	720	—	17,671
Corporate bonds	19,171	14	(198)	18,987
Total available-for-sale securities	$ 90,638	$ 2,123	$ (201)	$ 92,560

December 31, 2019	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
U.S. Government agencies and mortgage backed securities	$ 67,491	$ 284	$ (178)	$ 67,597
State and municipal obligations	16,238	341	(3)	16,576
Corporate bonds	15,165	116	—	15,281
Total available-for-sale securities	$ 98,894	$ 741	$ (181)	$ 99,454

Securities with fair values of $3.5 million and $11.1 million were pledged as collateral for securities sold under repurchase agreements as of June 30, 2020 and December 31, 2019, respectively. As of June 30, 2020 and December 31, 2019, all of the securities pledged for repurchase agreements were state and municipal obligations. All of the repurchase agreements had remaining contractual maturities that were overnight and continuous. Securities sold under repurchase agreements were $1.0 million and $6.5 million as of June 30, 2020 and December 31, 2019, respectively, and are included in liabilities on the consolidated balance sheets. The securities pledged to each agreement are reviewed daily and can be changed at the option of the Bank with minimal risk of loss due to fair value changes.

The following tables present securities in an unrealized loss position as of June 30, 2020 and December 31, 2019, by period of the unrealized loss and number of securities. The unrealized loss positions were primarily related to interest rate movements and not the credit quality of the issuers. All agency securities and state and municipal securities are investment grade or better, and their losses are considered temporary. Management does not intend to sell nor expect to be required to sell these securities, and all amortized cost bases are expected to be recovered.

		Less than 12 months		12 months or more		Total	
June 30, 2020	Number of Securities	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Government agencies and mortgage backed securities	3	$ 180	$ (3)	$ —	$ —	$ 180	$ (3)
Corporate bonds	10	10,849	(198)	—	—	10,849	(198)
Total temporarily impaired securities	13	$ 11,029	$ (201)	$ —	$ —	$ 11,029	$ (201)

December 31, 2019	Number of Securities	Less than 12 months Fair Value	Less than 12 months Unrealized Loss	12 months or more Fair Value	12 months or more Unrealized Loss	Total Fair Value	Total Unrealized Loss
U.S. Government agencies and mortgage backed securities	38	$ 12,356	$ (53)	$ 16,930	$ (125)	$ 29,286	$ (178)
State and municipal obligations	1	610	(3)	—	—	610	(3)
Total temporarily impaired securities	39	$ 12,966	$ (56)	$ 16,930	$ (125)	$ 29,896	$ (181)

The following table presents the amortized cost and fair value by contractual maturity of available-for-sale securities as of the dates stated. Expected maturities may differ from contractual maturities, as issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	June 30, 2020		December 31, 2019	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 11,776	$ 11,743	$ 10,528	$ 10,563
Due after one year but less than five years	52,149	53,567	49,586	49,921
Due after five years but less than ten years	21,902	22,350	33,332	33,535
Due after ten years	4,811	4,900	5,448	5,435
Total available-for-sale securities	$ 90,638	$ 92,560	$ 98,894	$ 99,454

Restricted Securities

The Company's investment in Federal Home Loan Bank of Atlanta ("FHLB") stock totaled $2.5 million and $2.9 million as of June 30, 2020 and December 31, 2019, respectively. The Company also has an investment in the Federal Reserve Bank of Richmond ("FRB") stock, which totaled $2.6 million as of June 30, 2020 and December 31, 2019, and a stock investment in the Bank's primary correspondent bank totaling $220 thousand as of June 30, 2020 and December 31, 2019. The investments in both FHLB and FRB stock are required investments related to the Bank's membership with the FHLB and FRB. These securities do not have a readily determinable fair value as their ownership is restricted, and they lack an active market for trading. Additionally, pursuant to charter provisions related to the FHLB and FRB stock, all repurchase transactions of such stock must occur at par. Accordingly, these securities are carried at cost.

Note 4: Loans

Loans are reported at their recorded investment, which is the outstanding principal balance net of any unearned income and costs, such as deferred fees and costs, charge-offs, and discounts or premiums on acquired or purchased loans. Interest on loans is recognized in earnings over the contractual term of the loan and is calculated using the effective interest method on principal amounts outstanding. Loan fees and certain direct origination costs are deferred and recognized as an adjustment of the related loan yield over the contractual term of the loan, adjusted for early pay-offs or principal curtailments, as applicable.

All interest accrued but not collected for loans that are placed on nonaccrual or charged-off are reversed against interest income at the time the loans are placed on nonaccrual or charged-off. Any subsequent interest received on these loans is recognized as interest income under the cash basis method of accounting or applied as a reduction of the principal balance of the loan until the loan qualifies for return to accrual status. Generally, a loan is returned to accrual status when all principal and interest amounts contractually due are brought current and future payments are reasonably assured, or the loan becomes well-secured and in the process of collection.

The following table presents a summary of loans as of the dates stated.

	June 30, 2020	December 31, 2019
Mortgage loans on real estate:		
Residential first mortgages	$ 293,449	$ 293,913
Commercial mortgages (non-owner occupied)	273,814	196,143
Construction, land and land development	128,463	126,010
Commercial mortgages (owner occupied)	73,550	82,829
Residential revolving and junior mortgages	28,833	31,893
Commercial and industrial	193,740	181,730
Paycheck Protection Program	55,496	—
Consumer	7,855	11,985
Total loans	1,055,200	924,503
Net unamortized deferred loan fees	(2,345)	(313)
Allowance for loan losses	(12,007)	(7,562)
Loans receivable, net	$ 1,040,848	$ 916,628

As of June 30, 2020 and December 31, 2019, the Company had $379.9 million and $369.5 million, respectively, of loans pledged to the FHLB as collateral for borrowings. After adjustments by the FHLB, the total lendable collateral was $294.6 million and $288.8 million as of June 30, 2020 and December 31, 2019, respectively.

Beginning on April 3, 2020, the Company has actively participated in the Paycheck Protection Program ("PPP") under the Coronavirus Aid, Relief, and Economic Security Act. Through the PPP, which is administered by the Small Business Administration ("SBA"), the federal government partnered with banks, including the Bank, to provide over $650 billion to small businesses to support payrolls and other operating expenses. PPP loans have a two-year term if originated prior to June 5, 2020 or a five-year term if originated on or subsequent to June 5, 2020 and earn interest at 1% per year. Banks originating PPP loans earn a processing fee of 1%, 3%, or 5% of the loan amount, depending on the size of the loan. The Company believes that the majority of these loans will be forgiven in accordance with the terms of the program, and will be paid in full pursuant to the U.S. government guarantee. As of June 30, 2020, the Company's PPP loan balances were $55.5 million, and the Company had received $2.3 million of processing fees for originating 677 loans. The Company is accounting for the PPP processing fees in accordance with ASC 310-20, *Receivable-Nonrefundable Fees and Other Costs*, which requires fees to be deferred and amortized as a component of loan yield over the contractual life of the loan, accelerated for prepayments. Of the $2.3 million of processing fees received in the second quarter of 2020, approximately $246 thousand were recognized as interest income in the three months ending June 30, 2020.

The Company modified 387 loans totaling approximately $162.7 million of principal balances in the six months ended June 30, 2020 in response to the COVID-19 pandemic's impact on certain of its borrowers ("COVID-19 Loan Modifications"). The COVID-19 Loan Modifications allow for the short-term deferral of principal payments or of principal and interest payments and were made on a good faith basis to borrowers who were current in their payments prior to the modifications. As a result of regulatory and accounting guidance regarding such modifications, the loans are not designated as Troubled Debt Restructurings ("TDRs") as of June 30, 2020.

The following table presents, as of June 30, 2020, the loan balances and number by loan type and the percentage these loans comprise within each loan type for which modifications were made.

Loan Type	Loan Count	Principal Balance	% of Loan Type
Mortgage loans on real estate:			
Residential first mortgages	138	$ 29,004	10%
Commercial mortgages (non-owner occupied)	44	61,564	22%
Construction, land and land development	17	26,206	20%
Commercial mortgages (owner occupied)	52	21,484	29%
Residential revolving and junior mortgages	10	1,552	5%
Commercial and industrial	119	22,702	12%
Consumer	7	144	2%
Total	387	$ 162,656	

Regulatory and accounting guidance allows the Company to report loans with COVID-19 Loan Modifications as contractually current during the period of the respective deferral, unless on nonaccrual. As a result, all loans with COVID-19 Modifications, with the exception of $1.4 million loans on nonaccrual, are reported as current as of June 30, 2020 in the tables that follow.

The following tables present the recorded investment for past due, based upon contractual terms, and nonaccrual loans as of the dates stated. A loan past due 90 days or more is generally placed on nonaccrual unless it is both well-secured and in the process of collection. Loans presented below as 90 days or more past due and still accruing include purchased credit-impaired ("PCI") loans.

June 30, 2020	30-89 Days Past Due	90 Days or More Past Due and Still Accruing	Nonaccrual	Total Past Due and Nonaccrual	Current	Total Loans
Mortgage loans on real estate:						
Residential first mortgages	$ 395	$ 102	$ 2,853	$ 3,350	$ 290,099	$ 293,449
Commercial mortgages (non-owner occupied)	—	128	3,760	3,888	269,926	273,814
Construction, land and land development	2,694	—	902	3,596	124,867	128,463
Commercial mortgages (owner occupied)	—	22	296	318	73,232	73,550
Residential revolving and junior mortgages	—	—	719	719	28,114	28,833
Commercial and industrial	833	—	3,573	4,406	189,334	193,740
Paycheck Protection Program	—	—	—	—	55,496	55,496
Consumer	7	—	176	183	7,672	7,855
Total loans	$ 3,929	$ 252	$ 12,279	$ 16,460	$ 1,038,740	$ 1,055,200

December 31, 2019	30-89 Days Past Due	90 Days or More Past Due and Still Accruing	Nonaccrual	Total Past Due and Nonaccrual	Current	Total Loans
Mortgage loans on real estate:						
Residential first mortgages	$ 3,904	$ 16	$ 1,403	$ 5,323	$ 288,590	$ 293,913
Commercial mortgages (non-owner occupied)	126	—	433	559	195,584	196,143
Construction, land and land development	77	—	417	494	125,516	126,010
Commercial mortgages (owner occupied)	173	—	587	760	82,069	82,829
Residential revolving and junior mortgages	52	—	724	776	31,117	31,893
Commercial and industrial	570	—	670	1,240	180,490	181,730
Consumer	139	—	242	381	11,604	11,985
Total loans	$ 5,041	$ 16	$ 4,476	$ 9,533	$ 914,970	$ 924,503

The following tables include an aging analysis, based upon contractual terms, of the recorded investment of PCI loans included in the tables above as of the dates stated.

June 30, 2020	30-89 Days Past Due	90 Days or More Past Due and Still Accruing	Nonaccrual	Total Past Due and Nonaccrual	Current	Total PCI Loans
Mortgage loans on real estate:						
Residential first mortgages	$ 29	$ 102	$ —	$ 131	$ 2,440	$ 2,571
Commercial mortgages (non-owner occupied)	—	128	—	128	—	128
Construction, land and land development	—	—	—	—	1,352	1,352
Commercial mortgages (owner occupied)	—	22	—	22	215	237
Residential revolving and junior mortgages	—	—	—	—	—	—
Commercial and industrial	—	—	—	—	—	—
Paycheck Protection Program	—	—	—	—	—	—
Consumer	—	—	—	—	39	39
Total purchased credit-impaired loans	$ 29	$ 252	$ —	$ 281	$ 4,046	$ 4,327

December 31, 2019	30-89 Days Past Due	90 Days or More Past Due and Still Accruing	Nonaccrual	Total Past Due and Nonaccrual	Current	Total PCI Loans
Mortgage loans on real estate:						
Residential first mortgages	$ 239	$ 16	$ —	$ 255	$ 2,836	$ 3,091
Commercial mortgages (non-owner occupied)	126	—	—	126	—	126
Construction, land and land development	—	—	—	—	1,357	1,357
Commercial mortgages (owner occupied)	25	—	—	25	229	254
Residential revolving and junior mortgages	—	—	—	—	—	—
Commercial and industrial	—	—	—	—	—	—
Consumer	—	—	—	—	42	42
Total purchased credit-impaired loans	$ 390	$ 16	$ —	$ 406	$ 4,464	$ 4,870

The following table presents the changes in accretable yield for PCI loans for the periods stated.

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Balance at beginning of period	$ 754	$ 1,106	$ 973	$ 1,083
Accretion of acquisition accounting adjustment	(66)	(98)	(139)	(184)
Reclassifications from nonaccretable balance, net	2	10	5	55
Other changes, net	12	(160)	(137)	(96)
Balance at end of period	$ 702	$ 858	$ 702	$ 858

Internal Risk Ratings

Loans in the Company's loan portfolio are risk rated on a periodic basis by experienced credit personnel.

Risk rating categories are as follows:

Pass – Several pass credit risk ratings apply to loans in this category. These ratings are assigned based on varying levels of risk, ranging from credits that are secured by cash or marketable securities to management attention credits that have all characteristics of an acceptable credit risk but warrant more than the normal level of monitoring.

Special Mention – Adverse trends in the borrower's financial position are evident and warrant management's close attention for loans risk rated special mention. Any collateral securing loans in this category may not be fully adequate to secure the loan balance.

Substandard – A loan in this category has a well-defined weakness in the primary repayment source that jeopardizes the timely collection of the loan. There is a distinct possibility that a loss may result if the weakness is not corrected.

Doubtful – Default has already occurred and it is likely that foreclosure or repossession procedures have begun or will begin in the near future. Weaknesses make collection or liquidation in full, based on currently existing information, highly questionable and improbable.

Loss – Uncollectible and of such little value that continuance as an asset is not warranted.

The following tables present the Company's risk rating of loans by loan type as of the dates stated.

June 30, 2020	Residential First Mortgages	Commercial Mortgages (Non-Owner Occupied)	Construction, Land and Land Development	Commercial Mortgages (Owner Occupied)	Residential Revolving and Junior Mortgages	Commercial and Industrial	Paycheck Protection Program	Consumer	Total Loans
Grade:									
Pass	$ 288,033	$ 228,604	$ 105,104	$ 62,052	$ 27,593	$ 171,772	$ 55,496	$ 7,122	$ 945,776
Special mention	1,902	41,321	20,787	11,269	521	18,395	—	545	94,740
Substandard	3,514	3,889	2,572	229	719	3,573	—	188	14,684
Doubtful	—	—	—	—	—	—	—	—	—
Total loans	$ 293,449	$ 273,814	$ 128,463	$ 73,550	$ 28,833	$ 193,740	$ 55,496	$ 7,855	$ 1,055,200

December 31, 2019	Residential First Mortgages	Commercial Mortgages (Non-Owner Occupied)	Construction, Land and Land Development	Commercial Mortgages (Owner Occupied)	Residential Revolving and Junior Mortgages	Commercial and Industrial	Consumer	Total Loans
Grade:								
Pass	$ 290,322	$ 195,584	$ 123,916	$ 81,936	$ 31,084	$ 177,608	$ 11,729	$ 912,179
Special mention	1,091	—	—	149	86	2,289	—	3,615
Substandard	2,500	559	2,094	744	723	1,833	256	8,709
Doubtful	—	—	—	—	—	—	—	—
Total loans	$ 293,913	$ 196,143	$ 126,010	$ 82,829	$ 31,893	$ 181,730	$ 11,985	$ 924,503

In March of 2020, the Company downgraded approximately $88.5 million of loans to borrowers in industries highly affected by the COVID-19 pandemic, such as hotels, restaurants, retail, churches, and assisted-living facilities. The majority of the risk rating downgrades due to COVID-19 were from pass grades to special mention, and the majority were in commercial and construction loan types. During the second quarter of 2020, risk ratings for certain loans in these highly affected industries were adjusted as additional information became available.

Note 5: Allowance for Loan Losses

The allowance for loan losses ("ALL") reflects management's estimate of probable loan losses inherent in the loan portfolio as of the balance sheet date. Management uses a disciplined process and methodology to establish the ALL each quarter-end. To determine the total ALL, the Company estimates the reserves needed for each homogenous type of the loan category and for any loans analyzed individually for impairment. Depending on the nature of each loan type, considerations include historical loss experience, adverse situations that may affect a borrower's ability to repay, credit scores, past due history, estimated value of any underlying collateral, prevailing local and national economic conditions, and internal policies and procedures including credit risk management and underwriting. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as conditions change.

The ALL consists of specific, general, and unallocated components. The specific component is determined by identifying impaired loans (as described below) then evaluating each one individually to calculate the amount of impairment. Impaired loans measured individually for impairment generally include (1) any loan risk rated substandard or worse with balances of $400 thousand or more, and (2) all loans designated as TDRs. For the general component of the ALL, the Company collectively evaluates loans not evaluated individually for a specific reserve, plus impaired loans risk rated substandard or worse with balances less than $400 thousand. All loans evaluated collectively are grouped into types, and historical loss experience is calculated and applied to each loan type and the resultant reserve is adjusted for qualitative factors. Qualitative factors include changes in local and national economic indicators, such as unemployment rates, interest rates, gross domestic product growth, and real estate market trends; the level of past due and nonaccrual loans; risk ratings on individual loans; strength of credit policies and procedures; loan officer experience; borrower credit scores; and other intrinsic risks related to the types and geographic locations of loans. These qualitative adjustments reflect management's judgment of risks inherent in the types. An unallocated component is maintained, if needed, to cover uncertainties that could affect management's estimate of probable losses.

Loans Evaluated for Impairment

The following table presents the ALL by loans evaluated for impairment individually and collectively by loan type as of the dates stated. PPP loans are included in the commercial and industrial loan balances.

June 30, 2020	Mortgage Loans on Real Estate	Commercial and Industrial	Consumer	Total
Allowance for loan losses applicable to:				
Loans individually evaluated for impairment	$ 1,454	$ 386	$ 110	$ 1,950
Loans collectively evaluated for impairment	7,409	2,240	408	10,057
Purchased credit-impaired loans	—	—	—	—
Total allowance for loan losses	$ 8,863	$ 2,626	$ 518	$ 12,007
Loan balances applicable to:				
Loans individually evaluated for impairment	$ 10,613	$ 3,415	$ 110	$ 14,138
Loans collectively evaluated for impairment	783,208	245,821	7,706	1,036,735
Purchased credit-impaired loans	4,288	—	39	4,327
Total loans	$ 798,109	$ 249,236	$ 7,855	$ 1,055,200
December 31, 2019				
Allowance for loan losses applicable to:				
Loans individually evaluated for impairment	$ 878	$ 49	$ 112	$ 1,039
Loans collectively evaluated for impairment	4,494	1,522	507	6,523
Purchased credit-impaired loans	—	—	—	—
Total allowance for loan losses	$ 5,372	$ 1,571	$ 619	$ 7,562
Loan balances applicable to:				
Loans individually evaluated for impairment	$ 5,502	$ 455	$ 112	$ 6,069
Loans collectively evaluated for impairment	720,458	181,275	11,831	913,564
Purchased credit-impaired loans	4,828	—	42	4,870
Total loans	$ 730,788	$ 181,730	$ 11,985	$ 924,503

PPP loans are fully guaranteed by the U.S. government; therefore, the Company recorded no allowance for loan losses for these loans as of June 30, 2020. In future periods, the Company may be required to establish an allowance for loan losses for these loans, which would result in a provision for loan losses charged to earnings.

The following tables present an analysis of the change in the ALL by loan type for the periods presented.

For the Three Months Ended June 30, 2020	Mortgage Loans on Real Estate	Commercial and Industrial	Consumer	Total
Beginning of period	$ 7,255	$ 2,400	$ 517	$ 10,172
Charge-offs	(188)	—	(73)	(261)
Recoveries	8	—	61	69
Provision	1,788	226	13	2,027
Ending of period	$ 8,863	$ 2,626	$ 518	$ 12,007

For the Three Months Ended June 30, 2019	Mortgage Loans on Real Estate	Commercial and Industrial	Consumer	Total
Beginning of period	$ 5,259	$ 1,406	$ 1,193	$ 7,858
Charge-offs	(105)	—	(411)	(516)
Recoveries	18	—	57	75
Provision (recovery of)	(120)	131	51	62
Ending of period	$ 5,052	$ 1,537	$ 890	$ 7,479

For the Six Months Ended June 30, 2020	Mortgage Loans on Real Estate	Commercial and Industrial	Consumer	Total
Beginning of period	$ 5,372	$ 1,571	$ 619	$ 7,562
Charge-offs	(250)	—	(257)	(507)
Recoveries	12	—	136	148
Provision	3,729	1,055	20	4,804
Ending of period	$ 8,863	$ 2,626	$ 518	$ 12,007

For the Six Months Ended June 30, 2019	Mortgage Loans on Real Estate	Commercial and Industrial	Consumer	Total
Beginning of period	$ 4,967	$ 1,374	$ 1,561	$ 7,902
Charge-offs	(159)	—	(819)	(978)
Recoveries	43	1	135	179
Provision	201	162	13	376
Ending of period	$ 5,052	$ 1,537	$ 890	$ 7,479

Provision for loan losses was $4.8 million for the first half of 2020 compared to $376 thousand for the first half of 2019. Provision for the first half of 2020 was primarily attributable to qualitative loss factors for increases in state unemployment rates, including Virginia, a qualitative loss factor to provide for losses estimated to have been incurred as of June 30, 2020, as a result of challenges certain borrowers are facing due to the pandemic, evidenced, in part, by loan deferrals and modifications granted to these borrowers, gross loan growth of approximately $73.2 million, excluding PPP loans, and higher specific reserves.

Impaired Loans

The following table presents the recorded investment and the borrowers' unpaid principal balances for impaired loans, excluding PCI loans, with the associated ALL amount, if applicable, by loan type as of the dates stated.

	As of June 30, 2020			As of December 31, 2019		
	Recorded Investment	Borrowers' Unpaid Principal Balance	Related Allowance	Recorded Investment	Borrowers' Unpaid Principal Balance	Related Allowance
With no related allowance:						
Residential first mortgages	$ 716	$ 716	$ —	$ 510	$ 510	$ —
Commercial mortgages (non-owner occupied)	3,255	3,255	—	—	—	—
Construction, land and land development	16	16	—	17	17	—
Commercial mortgages (owner occupied)	414	414	—	419	419	—
Residential revolving and junior mortgages	—	—	—	—	—	—
Commercial and industrial	1,033	1,033	—	—	—	—
Consumer	—	—	—	—	—	—
Total impaired loans with no related allowance	5,434	5,434	—	946	946	—
With an allowance recorded:						
Residential first mortgages	3,605	3,605	699	2,857	2,857	676
Commercial mortgages (non-owner occupied)	433	433	65	433	433	58
Construction, land and land development	769	769	532	171	171	44
Commercial mortgages (owner occupied)	1,039	1,039	52	1,048	1,048	53
Residential revolving and junior mortgages	366	366	106	47	47	47
Commercial and industrial	2,382	2,382	386	455	455	49
Consumer	110	110	110	112	112	112
Total impaired loans with allowance recorded	8,704	8,704	1,950	5,123	5,123	1,039
Total impaired loans:						
Residential first mortgages	4,321	4,321	699	3,367	3,367	676
Commercial mortgages (non-owner occupied)	3,688	3,688	65	433	433	58
Construction, land and land development	785	785	532	188	188	44
Commercial mortgages (owner occupied)	1,453	1,453	52	1,467	1,467	53
Residential revolving and junior mortgages	366	366	106	47	47	47
Commercial and industrial	3,415	3,415	386	455	455	49
Consumer	110	110	110	112	112	112
Total impaired loans	$ 14,138	$ 14,138	$ 1,950	$ 6,069	$ 6,069	$ 1,039

The following table presents the average recorded investment and interest income recognized for impaired loans, excluding PCI loans, by loan type for the periods presented.

	For the Three Months Ended			
	June 30, 2020		June 30, 2019	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance:				
Residential first mortgages	$ 520	$ 7	$ 1,389	$ 18
Commercial mortgages (non-owner occupied)	1,627	22	—	—
Construction, land and land development	16	—	330	4
Commercial mortgages (owner occupied)	414	7	405	7
Residential revolving and junior mortgages	—	—	—	—
Commercial and industrial	517	11	—	—
Consumer	—	—	—	—
Total impaired loans with no allowance	3,094	47	2,124	29
With an allowance recorded:				
Residential first mortgages	3,555	19	3,055	34
Commercial mortgages (non-owner occupied)	433	4	435	4
Construction, land and land development	468	3	225	10
Commercial mortgages (owner occupied)	1,040	14	1,061	14
Residential revolving and junior mortgages	367	1	501	3
Commercial and industrial	1,238	40	—	—
Consumer	110	—	120	2
Total impaired loans with allowance recorded	7,211	81	5,397	67
Total impaired loans:				
Residential first mortgages	4,075	26	4,444	52
Commercial mortgages (non-owner occupied)	2,060	26	435	4
Construction, land and land development	484	3	555	14
Commercial mortgages (owner occupied)	1,454	21	1,466	21
Residential revolving and junior mortgages	367	1	501	3
Commercial and industrial	1,755	51	—	—
Consumer	110	—	120	2
Total impaired loans	$ 10,305	$ 128	$ 7,521	$ 96

	For the Six Months Ended			
	June 30, 2020		June 30, 2019	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance:				
Residential first mortgages	$ 455	$ 12	$ 1,391	$ 36
Commercial mortgages (non-owner occupied)	1,085	22	—	—
Construction, land and land development	16	1	332	9
Commercial mortgages (owner occupied)	416	14	399	13
Residential revolving and junior mortgages	—	—	—	—
Commercial and industrial	344	11	—	—
Consumer	—	—	—	—
Total impaired loans with no allowance	2,316	60	2,122	58
With an allowance recorded:				
Residential first mortgages	3,154	37	3,065	65
Commercial mortgages (non-owner occupied)	433	9	437	27
Construction, land and land development	369	6	241	15
Commercial mortgages (owner occupied)	1,043	27	1,063	28
Residential revolving and junior mortgages	367	2	501	6
Commercial and industrial	978	41	—	—
Consumer	111	—	120	5
Total impaired loans with allowance recorded	6,455	122	5,427	146
Total impaired loans:				
Residential first mortgages	3,609	49	4,456	101
Commercial mortgages (non-owner occupied)	1,518	31	437	27
Construction, land and land development	385	7	573	24
Commercial mortgages (owner occupied)	1,459	41	1,462	41
Residential revolving and junior mortgages	367	2	501	6
Commercial and industrial	1,322	52	—	—
Consumer	111	—	120	5
Total impaired loans	$ 8,771	$ 182	$ 7,549	$ 204

The following table presents a reconciliation of nonaccrual loans to impaired loans as of the dates stated.

	June 30, 2020	December 31, 2019
Nonaccrual loans	$ 12,279	$ 4,476
Nonaccrual loans collectively evaluated for impairment	(1,009)	(1,895)
Nonaccrual impaired loans	11,270	2,581
TDRs on accrual	2,868	3,270
Other impaired loans on accrual	—	218
Total impaired loans	$ 14,138	$ 6,069

Troubled Debt Restructurings

In some situations, for economic or legal reasons related to a borrower's financial condition, the Company may grant a concession to a borrower that it would not otherwise consider. Concessions include new terms that provide for a reduction of the face amount or maturity amount of the debt as stated in the original agreement, a reduction (absolute or contingent) of the stated interest rate for the remaining original life of the loan, and/or an extension of the maturity date or dates at a stated interest rate lower than the current market rate for new debt with similar risk. Concessions granted to a borrower experiencing financial difficulties results in a loan that is subsequently classified as a troubled debt restructuring or TDR. Management strives to identify borrowers in financial difficulty early and work with them to modify their loan to more affordable terms before their loan reaches nonaccrual status to minimize the economic loss and to avoid foreclosure or repossession of underlying collateral, if any. TDRs are considered impaired loans and are individually evaluated for impairment for the ALL.

No loans designated as TDRs subsequently defaulted in the twelve months following the restructuring.

The following table presents pre- and post-modification balances for loans designated as TDRs for the periods stated.

	For the Three Months Ended					
	June 30, 2020			June 30, 2019		
	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Residential first mortgages (1)	1	$ 391	$ 391	—	$ —	$ —
Commercial Mortgages (Owner Occupied) (2)	—	$ —	$ —	1	$ 48	$ 52

(1) Modification was an interest payment deferral.
(2) Modification was an extension of the loan term.

	For the Six Months Ended June 30, 2020			For the Six Months Ended June 30, 2019		
	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Residential first mortgages (1)	1	$ 391	$ 391	—	$ —	$ —
Commercial Mortgages (Owner Occupied) (2)	—	$ —	$ —	1	$ 48	$ 52

(1) Modification was an interest payment deferral.
(2) Modification was an extension of the loan term.

The following table presents a roll-forward of accruing and nonaccrual TDRs for the period presented.

	Accruing	Nonaccrual	Total
Balance as of December 31, 2019	$ 3,270	$ 1,352	$ 4,622
Charge-offs	(183)	—	(183)
Payments and other adjustments	(219)	(18)	(237)
New TDR designation	—	391	391
Release TDR designation	—	—	—
Transfer	—	—	—
Balance as of June 30, 2020	$ 2,868	$ 1,725	$ 4,593

Note 6: Other Real Estate Owned, net

The following table presents the number and carrying values of properties included in other real estate owned (“OREO”) as of the dates stated.

	June 30, 2020		December 31, 2019	
	Number of Properties	Carrying Value	Number of Properties	Carrying Value
Residential	5	$ 581	4	$ 302
Land	9	1,062	13	1,354
Commercial properties	1	260	1	260
Total other real estate owned, net	15	$ 1,903	18	$ 1,916

One residential mortgage loan of $110 thousand was in the process of foreclosure as of June 30, 2020.

Note 7: Goodwill

The Company’s goodwill resulted from the Merger ($7.6 million) and from the acquisition of five branches during the years 1994 through 2000 ($2.8 million). The Company’s goodwill is tested for potential impairment on at least an annual basis as of September 30, or when a triggering event occurs, in accordance with ASC 350, *Intangibles-Goodwill and Other*. For the quarter ended June 30, 2020, management identified that a triggering event occurred in the second quarter of 2020, as a result of the detrimental effect the COVID-19 pandemic has had to the macroeconomic environment, challenges the low interest rate environment has on the banking industry, and, in particular, the decrease in the market value of the Company’s stock. As a result, management performed an impairment analysis and concluded that the Company’s goodwill was impaired, resulting in an impairment charge of $10.4 million. The goodwill impairment charge was presented as a component of noninterest expense in the Company’s consolidated statements of operations for the three and six months ended June 30, 2020.

Note 8: Leases

For the three and six months ended June 30, 2020, operating lease expense totaled $226 thousand and $452 thousand, respectively.

The following table presents the right-of-use ("ROU") assets and lease liabilities as of the date stated. ROU assets and lease liabilities are included in other assets and other liabilities, respectively, in the Company's consolidated balance sheets.

	June 30, 2020
Operating lease right-of-use assets	$ 3,901
Current operating lease liabilities	868
Noncurrent lease liabilities	3,320
Total operating lease liabilities	$ 4,188

The following table presents the weighted average remaining lease term and discount rate associated with operating leases as of the date stated.

	June 30, 2020
Weighted average remaining lease term - operating leases	8 years
Weighted average discount rate - operating leases	3.12%

The following table presents a maturity analysis of operating lease liabilities for the five years ending subsequent to June 30, 2020 and in total thereafter.

2020	$ 482
2021	995
2022	619
2023	370
2024	380
Thereafter	1,908
Total	4,754
Less interest	(566)
Lease liability	$ 4,188

The following table presents supplemental cash flow information related to operating leases for the periods stated.

	For the Six Months Ended	
	June 30, 2020	June 30, 2019
Cash paid for amount included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ 484	$ 496
Right-of-use assets obtained in exchange for new operating lease liabilities	—	1,304

Note 9: Earnings per Share

The following table shows the calculation of basic and diluted earnings per share and the weighted average number of shares outstanding used in computing earnings per share and the effect on the weighted average number of shares outstanding of dilutive potential common stock. Basic earnings per share amounts are computed by dividing net income (the numerator) by the weighted average number of common shares outstanding (the denominator). Diluted earnings per share amounts assume the conversion, exercise, or issuance of all potential common stock instruments, unless the effect is to reduce the loss or increase earnings per common share. Potential dilutive common stock instruments include exercisable stock options and restricted shares. For both computations, the weighted average number of the Company's employee stock ownership plan ("ESOP") shares not committed to be released to participant accounts are not assumed to be outstanding. The weighted average ESOP shares excluded from the computation were 171,535 and 175,897 for the three and six months ended June 30, 2020, respectively. The weighted average ESOP shares excluded from the computation were 204,675 and 207,462 for the three and six months ended June 30, 2019, respectively. For the three and six months ended June 30, 2020, all outstanding stock options and restricted shares were not included in the computation of diluted earnings per share because their effects would have been anti-dilutive. For both the three and six months ended June 30, 2019, options on and restricted shares totaling 76,784 shares were not included in the computation of diluted earnings per share because their effects would have been anti-dilutive.

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2020	2019	2020	2019
Net (loss) income	$ (8,127)	$ 1,723	$ (8,141)	$ 3,215
Weighted average shares outstanding, basic	13,080,689	13,059,824	13,068,598	13,030,528
Dilutive shares:				
Stock options	—	32,425	—	33,189
Restricted shares	—	12,694	—	7,087
Weighted average shares outstanding, dilutive	13,080,689	13,104,943	13,068,598	13,070,804
Basic and diluted (loss) earnings per share	$ (0.62)	$ 0.13	$ (0.62)	$ 0.25

Note 10: Borrowings

FRB Borrowings

In the second quarter of 2020, the Company began participating in the Federal Reserve Bank of Richmond's ("FRB") PPP Liquidity Facility ("PPPLF"), which allows banks to pledge PPP loans as collateral in exchange for advances. The PPPLF advances are at 100% of the PPP loan value and term, have a fixed cost of 35 basis points, and receive favorable regulatory capital treatment. As of June 30, 2020, these FRB borrowings were comprised of six PPPLF advances, totaling $33.2 million with maturities ranging from 379 days to 385 days.

FHLB Borrowings

As of June 30, 2020 and December 31, 2019, the Bank had $35.0 and $45.0 million, respectively, of outstanding FHLB borrowings, consisting of three advances. Advances on the FHLB line are secured by a blanket lien on qualified one-to-four family real estate, commercial real estate, and multifamily residential loans. Immediately available credit, as of June 30, 2020, was $228.7 million against a total line of credit of $294.7 million. As of June 30, 2020, the Bank had $31.0 million of letters of credit issued by the FHLB for the benefit of the Virginia Department of the Treasury as collateral for public deposits held by the Bank to comply with the Security of Public Deposits Act. The $31.0 million is not an outstanding borrowing as of June 30, 2020, but does reduce the available credit under the FHLB credit line.

The following table presents information regarding the FHLB advances outstanding as of June 30, 2020.

	Balance	Originated	Stated Interest Rate	Maturity Date
Fixed rate hybrid	$ 10,000	8/7/2019	1.79%	8/7/2020
Convertible	10,000	2/28/2020	0.56%	2/28/2030
Fixed rate credit	15,000	6/22/2020	0.21%	7/22/2020
Total FHLB borrowings	$ 35,000			

Subordinated Notes

On May 28, 2015, the Company issued an aggregate of $7.0 million of subordinated notes (the "2025 Notes") with a maturity date of May 28, 2025 and that bear interest, payable on the first of March and September of each year, at a fixed interest rate of 6.50% per year. The Company has the right to redeem the 2025 Notes, in whole or in part, without premium or penalty, at any interest payment date after May 28, 2020, but in all cases in a principal amount with integral multiples of $1,000, plus interest accrued and unpaid through the date of redemption. The 2025 Notes are unsecured, subordinated obligations of the Company and rank junior in right of payment to the Company's existing and future senior indebtedness. The 2025 Notes qualify as Tier 2 capital for regulatory reporting; however, the amount qualifying as capital is reduced by 20% annually beginning at the quarter end after the first redemption date, which occurred in the second quarter of 2020. The aggregate carrying value of the 2025 Notes, including capitalized, unamortized debt issuance costs, was $6.9 million at both June 30, 2020 and December 31, 2019. For the three and six months ended June 30, 2020, the effective interest rate on the 2025 Notes was 6.82%. For the three and six months ended June 30, 2019, the effective interest rate on the 2025 Notes was 6.84% and 6.85%, respectively.

On October 7, 2019, the Company issued $25.0 million in fixed-to-floating rate subordinated notes due 2029 (the "2029 Notes"). The 2029 Notes qualify as Tier 2 capital for regulatory reporting. The 2029 Notes bear interest at 5.625% per year, beginning October 7, 2019 through October 14, 2024, payable semi-annually in arrears. From October 15, 2024 through October 14, 2029, or up to an early redemption date, the interest rate shall reset quarterly to an interest rate per year equal to the then current three-month Secured Overnight Funding Rate ("SOFR") (as defined in the 2029 Notes) plus 433.5 basis points, payable quarterly in arrears. The 2029 Notes are unsecured, subordinated obligations of the Company and rank junior in right of payment to the Company's existing and future senior indebtedness and rank in parity with the 2025 Notes. The 2029 Notes qualify as Tier 2 capital for regulatory reporting. Beginning on October 15, 2024 through maturity, the 2029 Notes may be redeemed, at the Company's option, on any scheduled interest payment date. The 2029 Notes will mature on October 15, 2029. The aggregate carrying value of the 2029 Notes, including capitalized, unamortized debt issuance costs, was $24.1 million at both June 30, 2020 and December 31, 2019. For the three and six months ended June 30, 2020, the effective interest rate on the 2029 Notes was 6.22%.

ESOP Debt

The aggregate carrying value of debt secured by shares of Company stock held in the ESOP, issued and outstanding, in the Company's ESOP was $1.4 million and $1.5 million as of June 30, 2020 and December 31, 2019, respectively, and is included in other liabilities on the consolidated balance sheets. As of June 30, 2020, the debt is comprised of three fixed rate amortizing notes, which carry an interest rate of 3.25% with maturity dates ranging from March 1, 2025 to November 1, 2026, and two variable rate amortizing notes (interest rate of 5.50% as of June 30, 2020) with maturity dates ranging from June 14, 2024 to December 31, 2027. Shares that collateralize these loans are not allocated to ESOP participants' accounts.

Note 11: Fair Value Measurements

The Company uses fair value to record certain assets and liabilities and to determine fair value disclosures. Authoritative accounting guidance (ASC 820, *Fair Value Measurements* ("ASC 820")) clarifies that fair value of certain assets and liabilities is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value also assumes that the reporting entity would sell the asset or transfer the liability in the principal or most advantageous market.

ASC 820 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. The three levels of the fair value hierarchy based on these two types of inputs are as follows:

Level 1 – Valuation is based on quoted prices in active markets for identical assets and liabilities.

Level 2 – Valuation is based on observable inputs including quoted prices in active markets for similar assets and liabilities, quoted prices for identical or similar assets and liabilities in less active markets, and model-based valuation techniques for which significant assumptions can be derived primarily from or corroborated by observable data in the market.

Level 3 – Valuation is based on model-based techniques that use one or more significant inputs or assumptions that are unobservable in the market.

The following describes the valuation techniques used by the Company to measure certain financial assets and liabilities recorded at fair value on a recurring basis in the financial statements:

Available-for-sale securities: Available-for-sale securities are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted market prices when available (Level 1). If quoted market prices are not available, fair values are measured utilizing independent valuation techniques of identical or similar securities for which significant assumptions are derived primarily from or corroborated by observable market data. Third-party vendors compile prices from various sources and may determine the fair value of identical or similar securities by using pricing models that consider observable market data (Level 2). 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. The Company engages a third-party to determine the fair value of its available-for-sale securities.

Rabbi trust assets: The Company established a rabbi trust for the benefit of participants in the Company's deferred compensation benefit plan. The assets held by the rabbi trust are invested at the direction of the individual participants and are generally invested in marketable investment securities, such as common stocks and mutual funds or short-term investments (e.g., cash) (Level 1). Rabbi trust assets are included in other assets on the consolidated balance sheets.

Mortgage servicing right ("MSR") assets: The Company currently owns MSR assets from two residential loan portfolios, one serviced for Fannie Mae and one serviced for Freddie Mac. The MSR assets are recorded at fair value on a recurring basis, with changes in fair value recorded in the consolidated statements of operations.

A third-party model is used to determine fair value, which establishes pools of performing loans, calculates cash flows for each pool, and applies a discount rate to each pool. Loans are segregated into 12 pools based on each loan's term and seasoning (age). All loans have fixed interest rates. Cash flows are then estimated by utilizing assumed service costs and prepayment speeds. Monthly service costs were assumed to be $6.00 and $6.50 per loan as of June 30, 2020 and December 31, 2019, respectively. Prepayment speeds are determined primarily based on the average interest rate of the loans in each pool. The prepayment scale used is the Public Securities Association ("PSA") model, where "100% PSA" means prepayments are zero in the first month, then increase by 0.2% of the loan balance each month until reaching 6.0% in month 30. Thereafter, the 100% PSA model assumes an annual prepayment of 6.0% of the remaining loan balance. The average PSA speed assumption in the fair value model is 384% and 187% as of June 30, 2020 and December 31, 2019, respectively. A discount rate of 12.0% and 12.5% was then applied to each pool as of June 30, 2020 and December 31, 2019, respectively. The discount rate is intended to represent the estimated market yield for the highest quality grade of comparable servicing. MSR assets are classified as Level 3.

The following tables present the balances of financial assets and liabilities measured at fair value on a recurring basis as of the dates stated.

	Balance as of June 30, 2020	Fair Value Measurements as of June 30, 2020 Using Level 1	Level 2	Level 3
Available-for-sale securities:				
U. S. Government agencies and mortgage backed securities	$ 55,902	$ 4,000	$ 51,902	$ —
State and municipal obligations	17,671	—	17,671	—
Corporate bonds	18,987	1,000	13,309	4,678
Total available-for-sale securities	$ 92,560	$ 5,000	$ 82,882	$ 4,678
MSR assets	$ 687	$ —	$ —	$ 687
Rabbi trust assets	$ 857	$ 857	$ —	$ —

	Balance as of December 31, 2019	Fair Value Measurements as of December 31, 2019 Using Level 1	Level 2	Level 3
Available-for-sale securities:				
U. S. Government agencies and mortgage backed securities	$ 67,597	$ 7,024	$ 60,573	$ —
State and municipal obligations	16,576	—	16,576	—
Corporate bonds	15,281	2,000	10,631	2,650
Total available-for-sale securities	$ 99,454	$ 9,024	$ 87,780	$ 2,650
MSR assets	$ 935	$ —	$ —	$ 935
Rabbi trust assets	$ 1,082	$ 1,082	$ —	$ —

The following table presents the change in financial assets valued using Level 3 inputs for the periods stated.

	MSR Assets	Corporate Bonds
Balance as of January 1, 2020	$ 935	$ 2,650
Purchases	—	—
Transfers from Level 2 to Level 3	—	2,028
Fair value adjustments	(248)	—
Sales	—	—
Balance as of June 30, 2020	$ 687	$ 4,678

As of June 30, 2020, six corporate bonds totaling $4.7 million were reported at their respective purchase prices and as Level 3 assets in the fair value hierarchy as there were no observable market prices for similar investments.

Certain assets are measured at fair value on a nonrecurring basis in accordance with GAAP. Adjustments to the fair value of these assets usually result from the application of lower-of-cost-or-market accounting or write-downs of individual assets.

The following describes the valuation techniques used by the Company to measure certain assets recorded at fair value on a nonrecurring basis in the financial statements.

Impaired Loans: Loans are designated as impaired when, in the judgment of management based on current information and events, it is probable that all amounts due will not be collected according to the contractual terms of the loan agreement. The measurement of loss associated with impaired loans can be based on either the discounted cash flows of the loan or the fair value of the collateral, if any, less estimated costs to sell, if the loan is collateral-dependent. Collateral may be in the form of real estate or business assets including equipment, inventory, and accounts receivable. Any given loan may have multiple types of collateral; however, the majority of the Company's loan collateral is real estate. The value of real estate collateral is generally determined utilizing a market valuation approach based on an appraisal conducted by an independent, licensed appraiser outside of the Company using observable market data (Level 2). However, if the collateral value is significantly adjusted due to differences in the comparable properties or is discounted by the Company because of lack of marketability, then the fair value is considered Level 3. The value of business equipment is based upon an outside appraisal if deemed significant or the net book value on the applicable business' financial statements if not considered significant. Likewise, values for inventory and accounts receivables collateral are based on financial statement balances or aging reports (Level 3). Fair value adjustments are recorded in the period incurred as provision for loan losses on the consolidated statements of operations.

Other Real Estate Owned, net: OREO is measured at fair value less estimated costs to sell, generally based on an appraisal conducted by an independent, licensed appraiser, or using other methods such as a brokered price opinion of a third-party real estate agent. If the collateral value is significantly adjusted due to differences in the comparable properties, or is discounted by the Company because of lack of marketability, then the fair value is considered Level 3. Fair value adjustments, if any, are recorded in the period incurred and included in other noninterest expense on the consolidated statements of operations.

The following tables summarize assets that were measured at fair value on a nonrecurring basis as of the dates stated.

	Balance as of June 30, 2020	Fair Value Measurements as of June 30, 2020 Using Level 1	Level 2	Level 3
Impaired loans, net	$ 6,754	$ —	$ —	$ 6,754
Other real estate owned, net	1,903	—	—	1,903

	Balance as of December 31, 2019	Fair Value Measurements as of December 31, 2019 Using Level 1	Level 2	Level 3
Impaired loans, net	$ 4,084	$ —	$ —	$ 4,084
Other real estate owned, net	1,916	—	—	1,916

The following tables present quantitative information about Level 3 fair value measurements as of the dates stated.

	Balance as of June 30, 2020	Valuation Technique	Unobservable Input	Range (Weighted Average)
Impaired loans, net	$ 6,754	Discounted appraised value	Selling Cost	7%
			Lack of Marketability	13%-93% (27%)
		Discounted cash flows	Discount rate	5%-7% (6%)
		Enterprise Value ("EV")	EV Multiple	7.0-12.8 (7.1)
Other real estate owned, net	1,903	Discounted appraised value	Selling Cost	7%-41% (11%)
			Lack of Marketability	25%-65% (31%)

Of the $6.8 million of impaired loans as of June 30, 2020, $3.4 million were evaluated for impairment using an EV valuation technique, as the Company owns a percentage of nationally syndicated loans to two publicly-traded companies. EV is estimated using a multiple of earnings before income taxes, depreciation, and amortization ("EBITDA"). EBITDA estimates were developed based on historical and projected performance of these companies while the EV multiple was derived based on publicly-available data of these borrower's respective peer companies and industries.

	Balance as of December 31, 2019	Valuation Technique	Unobservable Input	Range (Weighted Average)
Impaired loans, net	$ 4,084	Discounted appraised value	Selling Cost	7%
			Lack of Marketability	13%-100% (24%)
		Discounted cash flows	Discount rate	6%-7% (6%)
Other real estate owned, net	1,916	Discounted appraised value	Selling Cost	6%-10% (8%)
			Lack of Marketability	18%-100% (47%)

The carrying values of cash and due from banks, interest-earning deposits, federal funds sold or purchased, noninterest-bearing deposits, savings and interest-bearing deposits, and securities sold under repurchase agreements are payable on demand, or are of such short duration, that carrying value approximates fair value (Level 1).

The carrying values of certificates of deposit, loans held for sale, and accrued interest receivable are payable on demand, or are of such short duration, that carrying value approximates fair value (Level 2).

The carrying value of restricted securities approximates fair value based on the redemption provisions of the issuer.

The fair value of performing loans is estimated by discounting the future cash flows using two sets of data sources. First, recent originations, occurring over the prior twelve months, were evaluated, and second, market data showing originations over the prior three months were evaluated. The selected rate was the greater of the two sources. For all loans other than a selective consumer loan portfolio, credit loss severity rates were calculated using the probability of default and the loss given default percentages derived from market data. For the selective consumer loan portfolio, historical delinquency data were obtained by the servicer of the portfolio. The fair value of impaired loans is measured as described within the Impaired Loans section of this note. The fair value of loans does consider the lack of liquidity and uncertainty in the market that might affect the valuation.

Time deposits are presented at estimated fair value by discounting the future cash flows using recent issuance rates over the prior three months and a market rate analysis of recent offering rates.

The fair value of the Company's subordinated notes is estimated by utilizing recent issuance rates for subordinated debt offerings of similar issuer size.

The fair value of FHLB advances is estimated by discounting the future cash flows using current interest rates offered for similar advances (Level 2). FRB advances as of June 30, 2020 consist of advances from the PPPLF which are fixed in rate at 35 basis points per year and have maturity dates that the Company considers to be short-term in nature. As a result, the Company believes that the carrying value of FRB advances approximates fair value (Level 1).

Commitments to extend and standby letters o f credit are generally not sold or traded. The estimated fair values of off-balance sheet credit commitments, including standby letters of credit and guarantees written, are not readily available due to the lack of cost-effective and reliable measurement methods for these instruments.

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

The following tables summarize financial assets and liabilities at carrying values and estimated fair values on a nonrecurring basis as of the dates stated.

	Carrying Value as of June 30, 2020	Fair Value as of June 30, 2020	Fair Value Measurements as of June 30, 2020 Using		
			Level 1	Level 2	Level 3
Financial Assets:					
Cash and due from banks	$ 10,778	$ 10,778	$ 10,778	$ —	$ —
Interest-earning deposits	28,667	28,667	28,667	—	—
Federal funds sold	467	467	467	—	—
Certificates of deposit	2,506	2,506	—	2,506	—
Restricted securities	5,327	5,327	—	—	5,327
Loans receivable, net	1,040,848	1,022,333	—	—	1,022,333
Loans held for sale	2,521	2,521	—	2,521	—
Accrued interest receivable	4,128	4,128	—	4,128	—
Financial Liabilities:					
Noninterest-bearing demand deposits	$ 185,201	$ 185,201	$ 185,201	$ —	$ —
Savings and interest-bearing demand deposits	413,025	413,025	413,025	—	—
Time deposits	408,672	415,417	—	—	415,417
Securities sold under repurchase agreements	1,035	1,035	1,035	—	—
FHLB advances	35,000	34,791	—	34,791	—
FRB advances	33,160	33,160	33,160	—	—
Subordinated notes, net	31,056	31,110	—	—	31,110

	Carrying Value as of December 31, 2019	Fair Value as of December 31, 2019	Fair Value Measurements as of December 31, 2019 Using		
			Level 1	Level 2	Level 3
Financial Assets:					
Cash and due from banks	$ 6,096	$ 6,096	$ 6,096	$ —	$ —
Interest-earning deposits	34,358	34,358	34,358	—	—
Federal funds sold	1,359	1,359	1,359	—	—
Certificates of deposit	2,754	2,754	—	2,754	—
Restricted securities	5,706	5,706	—	—	5,706
Loans receivable, net	916,628	910,678	—	—	910,678
Loans held for sale	1,231	1,231	—	1,231	—
Accrued interest receivable	3,035	3,035	—	3,035	—
Financial Liabilities:					
Noninterest-bearing demand deposits	$ 137,933	$ 137,933	$ 137,933	$ —	$ —
Savings and interest-bearing demand deposits	382,607	382,607	382,607	—	—
Time deposits	389,900	392,562	—	—	392,562
Securities sold under repurchase agreements	6,525	6,525	6,525	—	—
FHLB advances	45,000	44,936	—	44,936	—
Subordinated notes, net	31,001	32,552	—	—	32,552

Note 12: Changes in Accumulated Other Comprehensive Income (Loss), net

The components of accumulated other comprehensive income (loss), net of deferred income taxes, are presented in the following tables for the periods presented.

	For the Three Months Ended June 30, 2020		
	Net Unrealized Gains on Available-for-Sale Securities	Pension and Post-retirement Benefit Plans	Accumulated Other Comprehensive Income, net
Balance as of April 1, 2020	$ 1,303	$ (354)	$ 949
Change in net unrealized holding gain on available-for-sale securities, net of deferred tax expense of $58	219	—	219
Reclassification for previously unrealized net gains recognized in net income, net of tax expense of $1	(2)	—	(2)
Balance as of June 30, 2020	$ 1,520	$ (354)	$ 1,166

	For the Three Months Ended June 30, 2019		
	Net Unrealized Gains (Losses) on Available-for-Sale Securities	Pension and Post-retirement Benefit Plans	Accumulated Other Comprehensive Income (Loss), net
Balance as of April 1, 2019	$ (446)	$ (75)	$ (521)
Change in net unrealized holding gain on available-for-sale securities, net of deferred tax expense of $167	626	—	626
Reclassification for previously unrealized net losses recognized in net income, net of tax expense of $0	2	—	2
Balance as of June 30, 2019	$ 182	$ (75)	$ 107

	For the Six Months Ended June 30, 2020		
	Net Unrealized Gains on Available-for-Sale Securities	Pension and Post-retirement Benefit Plans	Accumulated Other Comprehensive Income, net
Balance as of January 1, 2020	$ 437	$ (354)	$ 83
Change in net unrealized holding gain on available-for-sale securities, net of deferred tax expense of $294	1,106	—	1,106
Reclassification for previously unrealized net gains recognized in net income, net of tax expense of $6	(23)	—	(23)
Balance as of June 30, 2020	$ 1,520	$ (354)	$ 1,166

	For the Six Months Ended June 30, 2019		
	Net Unrealized Gains (Losses) on Available-for-Sale Securities	Pension and Post-retirement Benefit Plans	Accumulated Other Comprehensive Income (Loss), net
Balance as of January 1, 2019	$ (1,252)	$ (75)	$ (1,327)
Change in net unrealized holding gain on available-for-sale securities, net of deferred tax expense of $382	1,432	—	1,432
Reclassification for previously unrealized net losses recognized in net income, net of tax expense of $0	2	—	2
Balance as of June 30, 2019	$ 182	$ (75)	$ 107

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion is intended to assist in understanding the results of operations and the financial condition of Bay Banks of Virginia, Inc. (the "Company"), the holding company for Virginia Commonwealth Bank (the "Bank") and VCB Financial Group, Inc. This discussion should be read in conjunction with the consolidated financial statements and the notes thereto included in Item 1 of this Quarterly Report on Form 10-Q and in the Company's Annual Report on Form 10-K for the year ended December 31, 2019 (the "2019 Form 10-K").

STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This report contains statements concerning the Company's expectations, plans, objectives, future financial performance, and other statements that are not historical facts. These statements may constitute "forward-looking statements" as defined by federal securities laws. These statements may address issues that involve estimates and assumptions made by management, risks and uncertainties, and actual results could differ materially from historical results or those anticipated by such statements. These forward-looking statements include statements about the Company's plans, obligations, expectations and intentions, and other statements that are not historical facts. Words such as "anticipates," "believes," "intends," "should," "expects," "will," and variations of similar expressions are intended to identify forward-looking statements. Factors that could have a material adverse effect on the operations and future prospects of the Company include, but are not limited to: the effect of the COVID-19 pandemic, including its potential adverse effect on economic conditions, and the Company's employees, customers, loan losses, and financial performance; changes in interest rates, general economic conditions, the legislative/regulatory climate, monetary and fiscal policies of the U.S. Government, including policies of the U.S. Treasury and the Board of Governors of the Federal Reserve System (the "Federal Reserve"); the quality or composition of the loan and investment portfolios; demand for loan products; deposit flows; competition; expansion activities; demand for financial services in the Company's market area; accounting principles, policies, and guidelines; changes in banking, tax, and other laws and regulations and interpretations or guidance thereunder; and other factors detailed in the Company's publicly filed documents, including the factors described in Item 1A., "Risk Factors," in the 2019 Form 10-K and in this Quarterly Report on Form 10-Q. These risks and uncertainties should be considered in evaluating the forward-looking statements contained herein, and readers are cautioned not to place undue reliance on such statements, which speak only as of the date they are made.

GENERAL

All dollar amounts included in the tables of this discussion are in thousands, except per share data, unless otherwise stated. There were no changes to the Critical Accounting Policies disclosed in Item 7 of the 2019 Form 10-K.

The principal source of earnings for the Company is net interest income. Net interest income is the amount by which interest income exceeds interest expense. Net interest margin is net interest income expressed as a percentage of average interest-earning assets. Changes in the volume and/or mix of interest-earning assets and interest-bearing liabilities, the associated yields and rates, the level of noninterest-bearing deposits, and the volume of nonperforming assets have an effect on net interest income, net interest margin, and net income.

OVERVIEW OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

- Net (loss) income for the three months ended June 30, 2020 and 2019 was ($8.1) million and $1.7 million, respectively. Diluted (loss) earnings per share was ($0.62) for the three months ended June 30, 2020 compared to $0.13 for the three months ended June 30, 2019. Net (loss) income for the six months ended June 30, 2020 and 2019 was ($8.1) million and $3.2 million, respectively. The net loss in both the three and six months ended June 30, 2020 included a $10.4 million charge for the impairment of goodwill. In addition to the goodwill impairment charge, net loss for the three and six months ended June 30, 2020 included loan loss provision expense of $2.0 million and $4.8 million, respectively, a significant portion of which related to estimated reserve needs as a result of the COVID-19 pandemic. The $10.4 million goodwill impairment charge resulted from a second quarter impairment assessment triggered primarily by the adverse effect the deterioration of the macroeconomic environment due to the COVID-19 pandemic has had on the Company's market value relative to its book value.
- (Loss) income before income taxes was ($8.3 million) and $2.1 million for the three months ended June 30, 2020 and 2019, respectively, a decrease of $10.5 million. (Loss) income before income taxes was ($8.4 million) and $3.9 million for the six months ended June 30, 2020 and 2019, respectively, a decrease of $12.4 million.
- Return (loss) on average assets (annualized) decreased to (2.64%) and (1.37%) for the three and six months ended June 30, 2020, respectively, from 0.62% and 0.59% for the comparable 2019 periods.
- Return (loss) on average equity (annualized) decreased to (25.40%) and (12.77)% for the three and six months ended June 30, 2020, respectively, from 5.72% and 5.39% for the comparable 2019 periods.

- Total assets increased $106.3 million to $1.24 billion as of June 30, 2020 from $1.13 billion as of December 31, 2019.
- Loans, net of allowance for loan losses were $1.04 billion as of June 30, 2020 compared to $916.6 million as of December 31, 2019, an increase of $124.2 million, including $55.5 million of Paycheck Protection Program (“PPP”) loans originated in the second quarter of 2020. Excluding PPP loans, net loan growth for the first half of 2020 was $68.7 million, an annualized rate of 15%.
- Beginning on April 3, 2020, the Company actively participated in the PPP under the Coronavirus Aid, Relief, and Economic Security Act, closing nearly 680 loans totaling $55.5 million and receiving $2.3 million in processing fees in the second quarter of 2020. Of the processing fees received, $246 thousand were recognized in interest income in the second quarter of 2020. Through the PPP, the federal government partnered with banks, including the Bank, to provide over $650 billion to small businesses to support payrolls and other operating expenses.
- Allowance for loan losses increased $4.4 million to $12.0 million, or 1.14% of gross loans, as of June 30, 2020 from $7.6 million, or 0.82% of gross loans, as of December 31, 2019. The 32 basis point increase in the ratio of allowance for loan losses to total gross loans for the first half of 2020 was primarily due to qualitative loss factors applied to the majority of the Company’s loan portfolio for higher state unemployment rates, particularly in Virginia, and a qualitative loss factor to provide for losses estimated to have been incurred as of June 30, 2020, as a result of challenges certain borrowers are facing due to the pandemic, evidenced, in part, by loan deferrals and modifications granted to these borrowers.
- Total deposits increased by $96.5 million, or 10.6%, to $1.00 billion as of June 30, 2020 from $910.4 million as of December 31, 2019. Of the $96.5 million increase in deposits in the first half of 2020, $47.3 million and $30.4 million was attributable to higher noninterest-bearing account balances and savings and interest-bearing demand deposit accounts, respectively, the growth of which was partially attributable to PPP loans, which were funded in these accounts.
- The ratio of nonperforming assets to total assets increased to 1.15% as of June 30, 2020 from 0.56% as of December 31, 2019. This increase was primarily attributable to higher nonaccrual loan balances of $7.8 million, mainly commercial and industrial loans and commercial mortgages (non-owner occupied) to borrowers adversely affected by the COVID-19 pandemic.
- Capital levels and regulatory capital ratios for the Bank were above regulatory minimums for well-capitalized banks as of June 30, 2020, with a total capital ratio and tier 1 leverage ratio of 13.38% and 10.25%, respectively.

RESULTS OF OPERATIONS

NET INTEREST INCOME AND NET INTEREST MARGIN

The following table presents average interest-earning assets and interest-bearing liabilities, taxable-equivalent yields on such assets, and rates (costs) paid on such liabilities, net interest margin ("NIM"), and net interest spread, as of and for the periods stated. Yields and costs are annualized.

	Average Balances, Income and Expense, Yields and Rates As of and For the Three Months Ended June 30,								
	2020			2019			2020 Compared to 2019		
							Income/ Expense	Variance Attributable to (8)	
	Average Balance	Income/ Expense	Yield/ Cost	Average Balance	Income/ Expense	Yield/ Cost	Variance	Rate	Volume
INTEREST-EARNING ASSETS:									
Taxable securities	$ 81,241	$ 573	2.84%	$ 69,617	$ 577	3.32%	$ (4)	$ (100)	$ 96
Tax-exempt securities (1)	14,570	113	3.11%	17,001	123	2.90%	(10)	7	(18)
Total securities	95,811	686	2.88%	86,618	700	3.24%	(14)	(93)	79
Gross loans (2) (3)	1,025,249	11,289	4.43%	917,474	11,458	5.01%	(169)	(1,511)	1,342
Interest-earning deposits and federal funds sold	34,472	8	0.09%	29,719	170	2.29%	(162)	(189)	27
Certificates of deposits	2,716	14	2.07%	3,716	19	2.05%	(5)	0	(5)
Total interest-earning assets	$1,158,248	$ 11,997	4.17%	$1,037,527	$ 12,347	4.77%	$ (350)	$(1,793)	$ 1,443
Noninterest-earning assets	72,001			67,884					
Total average assets	$1,230,249			$1,105,411					
INTEREST-BEARING LIABILITIES:									
Savings deposits	$ 60,961	$ 22	0.15%	$ 57,670	$ 45	0.31%	$ (23)	$ (26)	$ 3
Demand deposits	80,104	21	0.11%	74,045	35	0.19%	(14)	(17)	3
Time deposits (4)	412,279	1,915	1.87%	383,783	2,048	2.14%	(133)	(285)	152
Money market deposits	267,682	453	0.68%	240,831	960	1.60%	(507)	(614)	107
Total deposits	821,026	2,411	1.18%	756,329	3,088	1.64%	(677)	(941)	264
Securities sold under repurchase agreements	1,187	1	0.34%	6,594	4	0.24%	(3)	—	(3)
Subordinated notes and ESOP debt	32,463	509	6.31%	8,586	138	6.45%	371	(12)	383
FHLB advances	37,472	90	0.97%	85,846	614	2.87%	(524)	(179)	(345)
FRB advances	22,684	20	0.35%	—	—	0.00%	20	20	—
Total interest-bearing liabilities	$ 914,832	$ 3,031	1.33%	$ 857,355	$ 3,844	1.80%	$ (813)	$(1,111)	$ 298
Noninterest-bearing deposits	175,881			115,547					
Other noninterest-bearing liabilities	11,576			11,950					
Total average liabilities	1,102,289			984,852					
Average shareholders' equity	127,960			120,559					
Total average liabilities and shareholders' equity	$1,230,249			$1,105,411					
Net interest income and NIM (5)		$ 8,966	3.11%		$ 8,503	3.29%	$ 463	$ (682)	$ 1,145
Total cost of funds (6)			1.12%			1.58%			
Net interest spread (7)			2.83%			2.97%			

(1) Income and yield on tax-exempt securities assumes a federal income tax rate of 21%.
(2) Includes loan fees and nonaccrual loans.
(3) Includes accretion of fair value discounts on loans acquired in the Merger of $93 thousand and $197 thousand for the three months ended June 30, 2020 and 2019, respectively.
(4) Includes amortization of fair value adjustments on time deposits assumed in the Merger of $19 thousand and $31 thousand for the three months ended June 30, 2020 and 2019, respectively.
(5) Net interest margin is net interest income divided by average interest-earning assets.
(6) Cost of funds is total interest expense divided by total average interest-bearing liabilities and noninterest-bearing deposits.
(7) Net interest spread is the yield on average interest-earning assets less the cost of average interest-bearing liabilities.
(8) Change in income/expense due to both volume and rates has been allocated in proportion to the absolute dollar amounts of the change in each.

Interest income, on a taxable-equivalent basis, for the three months ended June 30, 2020 was $12.0 million, a decrease of $350 thousand from the second quarter of 2019, primarily attributable to lower yields on loans and lower accretion of acquired loan discounts in the 2020 period. The decline in yields and accretion income was partially offset by higher average interest-earning assets of $1.16 billion in the 2020 period compared to $1.04 billion in the 2019 period, an increase of $120.7 million ($107.8 million attributable to gross loans). Yields on average interest-earning assets were 4.17% and 4.77% for the second quarters of 2020 and 2019, respectively. Yields on average interest-earning assets in the second quarter of 2020 were negatively affected by lower yields on loans originated, the repricing of variable rate loans due to the decline in market index rates, the addition of lower yielding PPP loans, which had a negative 3 basis point effect on yield, and lower accretion of acquired loan discounts, which also had a negative 3 basis point effect.

On April 1, 2017, the Company completed a merger with Virginia BanCorp, Inc. ("Virginia BanCorp"), a bank holding company conducting substantially all of its operations through its subsidiary, Virginia Commonwealth Bank. Immediately following the Company's merger with Virginia BanCorp, Virginia BanCorp's subsidiary bank was merged with and into the Company's banking subsidiary, Bank of Lancaster (collectively, the "Merger"). Bank of Lancaster then changed its name to Virginia Commonwealth Bank. Loans acquired in the Merger were discounted to estimated fair value (for credit losses and interest rates) as of the effective date of the Merger. A portion of the acquisition accounting adjustments (discounts) to record the acquired loans at estimated fair value is being recognized (accreted) into interest income over the estimated remaining life of the loans for those loans that were deemed to be, as of the Merger date, purchased performing and over the period of expected cash flows from the loans that were deemed to be purchased credit-impaired ("PCI"), as of the Merger date. The amount of accretion income recognized within a period is based on many factors, including among other factors, loan prepayments and curtailments; therefore, amounts recognized are subject to volatility. Accretion of discounts on acquired loans was $93 and $197 thousand in the second quarters of 2020 and 2019, respectively.

Average interest-earning assets comprised 94.1% and 93.8% of the Company's average assets for the three months ended June 30, 2020 and 2019, respectively.

Interest expense for the three months ended June 30, 2020 was $3.0 million, a decrease of $813 thousand from the second quarter of 2019, primarily attributable to lower cost of funds, which was 1.12% in the 2020 period compared to 1.58% in the 2019 period. Average interest-bearing liabilities increased by $57.5 million to $914.8 million in the 2020 period from $857.4 million in the 2019 period. Cost of deposits was 0.97% for the second quarter of 2020, down 45 basis points from 1.42% for the second quarter of 2019, reflective of the Company's efforts to reduce deposit rates, and higher average balances noninterest-bearing demand deposit accounts in the 2020 period of $60.3 million, partially attributable to PPP loans funded in these accounts.

Net interest income, on a taxable-equivalent basis, for the three months ended June 30, 2020 was $9.0 million, an increase of $463 thousand from the three months ended June 30, 2019.

Net interest margin was 3.11% for the second quarter of 2020 compared to 3.29% for the second quarter of 2019. The decrease in NIM was primarily attributable to lower yields on loans originated in the second quarter of 2020, including PPP loans, and the repricing of variable rate loans, partially offset by lower cost of funds.

Average Balances, Income and Expense, Yields and Rates
As of and For the Six Months Ended June 30,

	2020			2019			2020 Compared to 2019		
	Average Balance	Income/ Expense	Yield/ Cost	Average Balance	Income/ Expense	Yield/ Cost	Income/ Expense Variance	Variance Attributable to (8) Rate	Volume
INTEREST-EARNING ASSETS:									
Taxable securities	$ 84,619	$ 1,225	2.91%	$ 69,937	$ 1,172	3.38%	$ 53	$ (194)	$ 247
Tax-exempt securities (1)	14,925	232	3.12%	18,123	271	3.01%	(39)	9	(48)
Total securities	99,544	1,457	2.94%	88,060	1,443	3.30%	14	(185)	199
Gross loans (2) (3)	981,937	22,642	4.64%	912,568	22,919	5.06%	(277)	(2,024)	1,747
Interest-earning deposits and federal funds sold	34,584	114	0.66%	26,470	312	2.38%	(198)	(294)	96
Certificates of deposits	2,735	28	2.06%	3,731	39	2.11%	(11)	(1)	(10)
Total interest-earning assets	1,118,800	24,241	4.36%	1,030,829	24,713	4.83%	$ (472)	$(2,504)	$ 2,031
Noninterest-earning assets	68,206			66,079					
Total average assets	$1,187,006			$1,096,908					
INTEREST-BEARING LIABILITIES:									
Savings deposits	$ 59,060	$ 57	0.19%	$ 57,586	$ 87	0.30%	$ (30)	$ (32)	$ 2
Demand deposits	76,280	45	0.12%	74,652	70	0.19%	(25)	(27)	2
Time deposits (4)	409,559	3,981	1.95%	376,745	3,873	2.07%	108	(230)	338
Money market deposits	262,405	1,177	0.90%	238,628	1,866	1.58%	(689)	(875)	186
Total deposits	807,304	5,260	1.31%	747,611	5,896	1.59%	(636)	(1,164)	528
Securities sold under repurchase agreements	2,714	3	0.22%	6,406	7	0.22%	(4)	—	(4)
Subordinated notes and ESOP debt	32,487	1,021	6.32%	8,592	275	6.45%	746	(21)	767
FHLB advances	39,368	324	1.66%	92,884	1,319	2.86%	(995)	(233)	(762)
FRB advances	11,342	20	0.35%	—	—	0.00%	20	20	-
Total interest-bearing liabilities	893,215	6,628	1.49%	855,493	7,497	1.77%	$ (869)	$(1,398)	$ 529
Noninterest-bearing deposits	154,467			112,250					
Other noninterest-bearing liabilities	11,364			9,829					
Total average liabilities	1,059,046			977,572					
Average shareholders' equity	127,960			119,336					
Total average liabilities and shareholders' equity	$1,187,006			$1,096,908					
Net interest income and NIM (5)		$ 17,613	3.17%		$ 17,216	3.37%	$ 397	$(1,105)	$ 1,502
Total cost of funds (6)			1.27%			1.56%			
Net interest spread (7)			2.86%			3.06%			

(1) Income and yield on tax-exempt securities assumes a federal income tax rate of 21%.
(2) Includes loan fees and nonaccrual loans.
(3) Includes accretion of fair value discounts on loans acquired in the Merger of $282 thousand and $636 thousand for the six months ended June 30, 2020 and 2019, respectively.
(4) Includes amortization of fair value adjustments on time deposits assumed in the Merger of $43 thousand and $65 thousand for the six months ended June 30, 2020 and 2019, respectively.
(5) Net interest margin is net interest income divided by average interest-earning assets.
(6) Cost of funds is total interest expense divided by total average interest-bearing liabilities and noninterest-bearing deposits.
(7) Net interest spread is the yield on average interest-earning assets less the cost of average interest-bearing liabilities.
(8) Change in income/expense due to both volume and rates has been allocated in proportion to the absolute dollar amounts of the change in each.

Interest income, on a taxable-equivalent basis, for the six months ended June 30, 2020 was $24.2 million, a decrease of $472 thousand from the six months ended June 30, 2019, primarily attributable to lower yields on loans and lower accretion of acquired loan discounts in the 2020 period. Yields on average interest-earning assets were 4.36% and 4.83% for the first halves of 2020 and 2019, respectively. The lower yield on average interest-earning assets in the 2020 period was primarily due to lower yields on loans originated, the repricing of variable rate loans, the addition of lower yielding PPP loans, which had a negative 2 basis point effect on yield, and lower accretion of acquired loan discounts (of $354 thousand), which had a negative 6 basis point effect. Partially offsetting these negative effects was higher average balances of gross loans of $69.4 million in the 2020 period compared to the 2019 period.

Average interest-earning assets comprised 94.3% and 94.0% of the Company's average assets for the six months ended June 30, 2020 and 2019, respectively.

Interest expense for the six months ended June 30, 2020 was $6.6 million, a decrease of $869 thousand from the six months ended June 30, 2019, primarily attributable to lower cost of funds of 1.27% in the 2020 period compared to 1.56% in the 2019 period, partially offset by higher average interest-bearing liabilities of $37.7 million in the 2020 period compared to the 2019 period. Lower cost of funds in the first half of 2020 was primarily reflective of the company's efforts to reduce deposit rates since mid-2019, lower borrowing costs, particularly Federal Home Loan Bank of Atlanta ("FHLB") advances, and higher average balances of noninterest-bearing demand accounts of $42.2 million in the 2020 period.

Net interest income, on a taxable-equivalent basis, for the six months ended June 30, 2020 was $17.6 million, an increase of $397 thousand from $17.2 million for the six months ended June 30, 2019.

NIM was 3.17% for the first half of 2020 compared to 3.37% for the first half of 2019. Lower NIM in the 2020 period was primarily due to lower yields on average interest-earning assets, primarily loans, and lower accretion of acquired loan discounts, partially offset by lower cost of funds.

The Company expects NIM to continue to be negatively affected in the periods subsequent to June 30, 2020, as a result of declines in market interest rates, most notably the federal funds rate, which has been lowered 200 basis points since June 30, 2019.

PROVISION FOR LOAN LOSSES

Provision for loan losses was $2.0 million and $62 thousand for the second quarters of 2020 and 2019, respectively, while provision for loan losses was $4.8 million and $376 thousand for the first halves of 2020 and 2019, respectively.

Of the second quarter of 2020 amount, approximately $1.4 million was attributable to qualitative loss factors to provide for losses estimated to have been incurred as of June 30, 2020, as a result of challenges certain borrowers are facing due to the pandemic, evidenced, in part, by loan deferrals and modifications granted to these borrowers. The remaining provision for loan losses in the second quarter of 2020 was due to gross loan growth of $27.0 million, excluding PPP loans, and higher specific reserves. No provision for loan losses was recorded on PPP loans as these loans are subject to a full U.S. government guarantee.

Provision for loans losses for the first half of 2020 was primarily attributable to qualitative loss factors due to the COVID-19 pandemic, gross loan growth of approximately $73.2 million, excluding PPP loans, and higher specific reserves.

NONINTEREST INCOME

The following table presents a summary of noninterest income and the dollar and percentage change for the periods presented.

	Three Months Ended			
	June 30, 2020	**June 30, 2019**	**$ Change**	**% Change**
Trust management	203	206	(3)	(1.5%)
Service charges and fees on deposit accounts	137	246	(109)	(44.3%)
Wealth management	228	262	(34)	(13.0%)
Interchange fees, net	130	121	9	7.4%
Other service charges and fees	28	27	1	3.7%
Secondary market sales and servicing	731	267	464	173.8%
Increase in cash surrender value of bank owned life insurance	116	121	(5)	(4.1%)
Net gains (losses) on sales and calls of available-for-sale securities	3	(2)	5	(250.0%)
Net gains (losses) on disposition of other assets	1	(1)	2	(200.0%)
Net gains on rabbi trust assets	114	40	74	185.0%
Referral fees	496	—	496	100.0%
Other	7	8	(1)	(12.5%)
Total noninterest income	$ 2,194	$ 1,295	$ 899	69.4%

	Six Months Ended			
	June 30, 2020	June 30, 2019	$ Change	% Change
Trust management	396	420	(24)	(5.7%)
Service charges and fees on deposit accounts	373	484	(111)	(22.9%)
Wealth management	475	469	6	1.3%
Interchange fees, net	228	222	6	2.7%
Other service charges and fees	61	56	5	8.9%
Secondary market sales and servicing	933	339	594	175.2%
Increase in cash surrender value of bank owned life insurance	233	240	(7)	(2.9%)
Net gains (losses) on sales and calls of available-for-sale securities	29	(2)	31	n/m
Net losses on disposition of other assets	(7)	(1)	(6)	n/m
Net (losses) gains on rabbi trust assets	(150)	130	(280)	(215.4%)
Referral fees	966	—	966	100.0%
Other	46	28	18	64.3%
Total noninterest income	$ 3,583	$ 2,385	$ 1,198	50.2%

Higher noninterest income in the three months ended June 30, 2020, compared to the three months ended June 30, 2019, was primarily due to higher secondary market sales and servicing income of $464 thousand, driven by an increase in the demand for purchase money and refinance mortgages, and $496 thousand of fee income for referring loan customers to a third-party financial institution to execute interest rate swaps, while the second quarter of 2019 included no income from such activities. Partially offsetting these increases were lower service charges and fees on deposit accounts in the second quarter of 2020 of $109 thousand, primarily due to a lower volume of fee-based transactions.

Higher noninterest income in the six months ended June 30, 2020, compared to the six months ended June 30, 2019, was primarily attributable to $966 thousand of fee income for referring loan customers to a third-party financial institution to execute interest rate swaps, while the 2019 period included no income from such activities. Additionally, the first half of 2020 period included higher secondary market sales and servicing income of approximately $594 thousand. Partially offsetting these increases was a $150 net unrealized loss in the 2020 period compared to a $130 net unrealized gain in the 2019 period on rabbi trust assets for the benefit of participants in the Company’s deferred compensation plan.

NONINTEREST EXPENSE

The following table presents a summary of noninterest expense and the dollar and percentage change for the periods presented.

	Three Months Ended			
	June 30, 2020	June 30, 2019	$ Change	% Change
Salaries and employee benefits	$ 3,839	$ 3,892	$ (53)	(1.4%)
Occupancy	705	837	(132)	(15.8%)
Data processing	498	609	(111)	(18.2%)
Bank franchise tax	257	230	27	11.7%
Telecommunications and other technology	371	262	109	41.6%
FDIC assessments	147	162	(15)	(9.3%)
Foreclosed property	28	19	9	47.4%
Consulting	70	147	(77)	(52.4%)
Advertising and marketing	26	109	(83)	(76.1%)
Directors’ fees	188	213	(25)	(11.7%)
Audit and accounting	170	189	(19)	(10.1%)
Legal	154	27	127	n/m
Core deposit intangible amortization	142	173	(31)	(17.9%)
Net other real estate owned losses	81	72	9	12.5%
Goodwill impairment	10,374	—	10,374	100.0%
Other	403	651	(248)	(38.1%)
Total noninterest expense	$ 17,453	$ 7,592	$ 9,861	129.9%

	Six Months Ended			
	June 30, 2020	June 30, 2019	$ Change	% Change
Salaries and employee benefits	7,466	7,893	(427)	(5.4%)
Occupancy	1,456	1,705	(249)	(14.6%)
Data processing	1,035	1,197	(162)	(13.5%)
Bank franchise tax	514	446	68	15.2%
Telecommunications and other technology	780	469	311	66.3%
FDIC assessments	295	378	(83)	(22.0%)
Foreclosed property	35	62	(27)	(43.5%)
Consulting	141	262	(121)	(46.2%)
Advertising and marketing	93	176	(83)	(47.2%)
Directors' fees	381	377	4	1.1%
Audit and accounting	310	393	(83)	(21.1%)
Legal	346	110	236	214.5%
Core deposit intangible amortization	291	353	(62)	(17.6%)
Net other real estate owned losses	80	66	14	21.2%
Goodwill impairment	10,374	—	10,374	100.0%
Other	1,163	1,335	(172)	(12.9%)
Total noninterest expense	$ 24,760	$ 15,222	$ 9,538	62.7%

Higher noninterest expense in the three months ended June 30, 2020, compared to the three months ended June 30, 2019, was primarily attributable to the goodwill impairment charge of $10.4 million. Excluding the $10.4 million goodwill impairment charge, noninterest expenses decreased $513 thousand, or 6.7%, on a comparative period basis, reflective of the Company's ongoing efforts to reduce operating costs.

Higher noninterest expense in the six months ended June 30, 2020, compared to the six months ended June 30, 2019, was primarily attributable to the goodwill impairment charge of $10.4 million. Excluding the goodwill impairment charge, noninterest expenses decreased $836 thousand, 5.5%, on a comparative period basis, reflective of the Company's ongoing efforts to reduce operating costs. Partially offsetting these reductions, were higher expenses in telecommunications and other technology due to infrastructure investments. The Company consolidated one branch in the first quarter of 2020 and one in the first quarter of 2019.

The following table presents income tax (benefit) expense and effective income tax rates for the periods presented.

	Three Months Ended		Six Months Ended	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Income tax (benefit) expense	$ (217)	$ 395	$ (276)	$ 732
Effective income tax rate	2.6%	18.6%	3.3%	18.6%

The income tax benefit and effective income tax rate for the three and six months ended June 30, 2020 were a result of income tax expense before the goodwill impairment charge of $10.4 million, offset by an income tax benefit (reversal of a deferred tax liability) of $590 thousand related to a portion of the goodwill.

ASSET QUALITY

Loans charged-off during the second quarter of 2020, net of recoveries, totaled $192 thousand compared to $441 thousand for the second quarter of 2019. This resulted in a decrease in the annualized net charge-off ratio to 0.08% for the second quarter of 2020 compared to 0.19% for the second quarter of 2019. For the first half of 2020, the annualized net charge off ratio was 0.07% compared to 0.18% for the first half of 2019. The higher net charge ratios for the 2019 periods were primarily attributable to charge-offs of a select portfolio of acquired consumer debt consolidation loans, as previously reported.

The ratio of allowance for loan losses to gross loans was 1.14% as of June 30, 2020 compared to 0.82% as of December 31, 2019, an increase of 32 basis points. The majority of this increase is attributable to qualitative loss factors for increases in state unemployment rates, including Virginia, and a qualitative loss factor to provide for losses estimated to have been incurred as of June 30, 2020, as a result of challenges certain borrowers are facing due to the pandemic, evidenced, in part, by loan deferrals and modifications granted to these borrowers.

In the first quarter of 2020, the Company downgraded risk ratings on $88.5 million of loans to businesses in industries highly affected by the COVID-19 pandemic. During the second quarter of 2020, risk ratings for certain loans in these segments were adjusted as additional information became available. Management believes that these, or a portion of these, loans may require further downgrades and/or other loans to borrowers adversely affected by the COVID-19 pandemic may require risk rating downgrades. Additionally, loan modifications granted do not necessarily represent that these borrowers will be able to pay amounts deferred or any amounts owed to the Company. The length of the economic slow-down, including the pace at which the economy recovers once governmental mandates are lifted, could have a material adverse effect on the Company's asset quality and the amount of ALL required.

The following table presents industry segments the Company believes may be negatively affected by the pandemic and the balances of loans and numbers in each segment. Loans to borrowers in these segments totaled approximately $148.2 million, or 14.1% of the Company's gross loans as of June 30, 2020.

Industry Segment	Loan Count	Principal Balance
Hotels and motels	22	$ 61,770
Restaurants and related services	53	20,557
Retail and retail services	98	56,213
Churches, assisted living, and other	25	9,645
Total	198	$ 148,185

The following table presents certain asset quality measures as of the dates stated.

	June 30, 2020	December 31, 2019
Loans past due 90 days or more and still accruing (1)	$ —	$ —
Nonaccrual loans (1)	12,279	4,476
Total nonperforming loans	12,279	4,476
Other real estate owned, net	1,903	1,916
Total nonperforming assets	$ 14,182	$ 6,392
Allowance for loan losses	$ 12,007	$ 7,562
Gross loans	1,052,855	924,190
Total assets	1,238,226	1,131,923
Allowance for loan losses to gross loans	1.14%	0.82%
Allowance for loan losses to nonperforming loans	97.8%	168.9%
Nonperforming assets to total assets	1.15%	0.56%
Nonperforming loans to gross loans	1.17%	0.48%

(1) Excludes PCI loans.

The increase in nonperforming assets from December 31, 2019 to June 30, 2020 was primarily attributable to $7.8 million of higher nonaccrual loan balances, mainly commercial and industrial loans and commercial mortgages (non-owner occupied) to borrowers adversely affected by the COVID-19 pandemic.

FINANCIAL CONDITION

Total assets increased by $106.3 million to $1.24 billion as of June 30, 2020 from $1.13 billion as of December 31, 2019, primarily due to net loan growth of $124.2 million in the first half of 2020.

The following tables present information about the securities portfolio on a taxable-equivalent basis as of the dates stated. As of June 30, 2020 and December 31, 2019, available-for-sale securities represented 8.2% and 8.8% of total assets, respectively.

	June 30, 2020			
	Amortized Cost	Fair Value	Weighted Average Life in Years	Weighted Average Yield
U.S. Government agencies and mortgage backed securities	$ 54,516	$ 55,902	5.3	2.04%
State and municipal obligations	16,951	17,671	4.7	3.11%
Corporate bonds	19,171	18,987	6.0	5.28%
Total available-for-sale securities	90,638	92,560	5.4	2.81%
Restricted securities	5,327	5,327	n/a	5.34%
Total securities	$ 95,965	$ 97,887		2.94%

	December 31, 2019			
	Amortized Cost	Fair Value	Weighted Average Life in Years	Weighted Average Yield
U.S. Government agencies and mortgage backed securities	$ 67,491	$ 67,597	6.1	2.18%
State and municipal obligations	16,238	16,576	5.4	3.16%
Corporate bonds	15,165	15,281	3.8	5.61%
Total available-for-sale securities	98,894	99,454	5.1	2.92%
Restricted securities	5,706	5,706	n/a	6.30%
Total securities	$ 104,600	$ 105,160		3.18%

The following table presents the composition of loans in dollar amounts and as a percentage of total loans as of the dates stated.

	June 30, 2020		December 31, 2019	
	Amount	Percent of Total	Amount	Percent of Total
Mortgage loans on real estate:				
Residential first mortgages	$ 293,449	27.9%	$ 293,913	31.8%
Commercial mortgages (non-owner occupied)	273,814	25.9%	196,143	21.2%
Construction, land and land development	128,463	12.2%	126,010	13.6%
Commercial mortgages (owner occupied)	73,550	7.0%	82,829	9.0%
Residential revolving and junior mortgages	28,833	2.7%	31,893	3.4%
Commercial and industrial	193,740	18.3%	181,730	19.7%
Paycheck Protection Program	55,496	5.3%	—	0.0%
Consumer	7,855	0.7%	11,985	1.3%
Total loans	1,055,200	100.0%	924,503	100.0%
Net unamortized deferred loan fees	(2,345)		(313)	
Allowance for loan losses	(12,007)		(7,562)	
Loans receivable, net	$ 1,040,848		$ 916,628	

During the six months ended June 30, 2020, gross loans increased by $128.7 million, or 13.9%, from December 31, 2019. The largest components of this increase were a $77.7 million increase in commercial mortgages (non-owner occupied) and $55.5 million of PPP loans originated in the second quarter of 2020. Net unamortized deferred loan fees increased approximately $2.0 million during the first half of 2020, primarily attributable to $2.3 million of PPP loan processing fees received in the second quarter of 2020, of which $246 thousand was recognized in interest income in the period.

The following table presents the Company’s ALL by loan type and the percent of loans in each category to total loans as of the dates stated.

	June 30, 2020		December 31, 2019	
	Amount	Percent of loans in each category to total loans	Amount	Percent of loans in each category to total loans
Mortgage loans on real estate	$ 8,863	75.7%	$ 5,372	79.0%
Commercial and industrial	2,626	18.3%	1,571	19.7%
Paycheck Protection Program	—	5.3%	—	0.0%
Consumer	518	0.7%	619	1.3%
Total allowance for loan losses	$ 12,007	100.0%	$ 7,562	100.0%

Allowance for loan losses increased $4.4 million from December 31, 2019 to $12.0 million as of June 30, 2020. The majority of the increase in the first half of 2020 was primarily due to qualitative loss factors applied to the majority of the company’s loan portfolio for higher state unemployment rates, particularly in Virginia, and a qualitative loss factor to estimate reserve needs for modified loans, as noted previously. Also contributing to the increase in the allowance for loan losses since December 31, 2019 was gross loan growth (excluding PPP loans), and higher specific reserves. Due to the full U.S. government guarantee on PPP loans, the Company has recorded no allowance for loan losses for the $55.5 million of PPP loans outstanding as of June 30, 2020. In future periods, the Company may be required to establish an allowance for loan losses for these loans, which would result in a provision for loan losses charged to earnings.

As of June 30, 2020, other real estate owned (“OREO”) was $1.9 million, consisting of 15 properties (9 of which were land lots), compared to $1.9 million of OREO (18 properties) as of December 31, 2019.

As of June 30, 2020, total deposits were $1.00 billion compared to $910.4 million at December 31, 2019, a $96.5 million increase. Of the increase, $47.3 million and $30.4 million was attributable to higher noninterest-bearing deposit account balances and savings and interest-bearing demand deposit accounts. Higher noninterest-bearing deposit balances were partially attributable to PPP loans, which were funded in these accounts.

Maturities of large denomination time deposits (equal to or greater than $100 thousand) as of June 30, 2020 are presented in the following table.

	Within 3 Months	3-6 Months	6-12 Months	Over 12 Months	Total	Percent of Total Deposits
Time deposits	$ 50,722	$ 65,783	$ 29,961	$ 114,474	$ 260,940	25.9%

As of June 30, 2020, the Company had three fixed rate FHLB advances totaling of $25.0 million and one variable rate FHLB advance totaling $10.0 million outstanding. As of December 31, 2019, the Company had three fixed rate FHLB advances totaling $35.0 million and one variable rate FHLB advance of $10.0 million outstanding. Beginning in the second quarter of 2020, the Company accessed the Federal Reserve Bank of Richmond's ("FRB") PPP Liquidity Facility ("PPPLF"), which provides funding for PPP loans at a fixed rate of 35 basis points per year over the term the funded PPP loan is outstanding. PPP loans securing the PPPLF are afforded preferential regulatory capital treatment. As of June 30, 2020 the Company had PPPLF advances totaling $33.2 million. The following table presents various information regarding FHLB and FRB advances as of and for the periods presented.

	Three Months Ended June 30, 2020				Twelve Months Ended December 31, 2019			
	Period-End Balance	Highest Month-End Balance	Average Balance	Weighted Average Rate	Period-End Balance	Highest Month-End Balance	Average Balance	Weighted Average Rate
FHLB advances	$ 35,000	$ 45,000	$ 37,472	0.97%	$ 45,000	$ 100,000	$ 76,181	2.74%
FRB advances	33,160	33,557	22,684	0.35%	—	—	—	0.00%

LIQUIDITY

Liquidity represents an institution's ability to meet present and future financial obligations (such as commitments to fund loans or meet depositors' requirements) through either the sale or maturity of existing assets or the acquisition of additional funds through liability management. Liquid assets include cash, interest-earning deposits with other banks, federal funds sold, and investments and loans maturing within one year. The Company's ability to obtain deposits and purchase funds at favorable rates are major factors for liquidity. Management believes that the Company maintains overall liquidity that is sufficient to satisfy its depositors' requirements and its customers' credit needs.

As of June 30, 2020, cash and cash equivalents totaled $39.4 million; investment securities maturing in one year or less totaled $11.8 million; and loans maturing in one year or less totaled $109.3 million. This resulted in a liquidity ratio as of June 30, 2020 of 13.0% compared to 21.5% as of December 31, 2019. The Company determines this ratio by dividing the sum of cash and cash equivalents, and investment securities and loans maturing in one year or less, by total assets.

As of June 30, 2020, the Company had a secured borrowing line with the FHLB of $294.7 million, with $228.7 million available, and unsecured federal funds lines of credit with various correspondent banks totaling $41.0 million. Federal funds lines of credit are uncommitted and can be cancelled at any time by the lending bank. As noted previously, the Company pledged PPP loans for FRB advances of an equal amount. Additional borrowing availability under the PPPLF, with the pledging of PPP loans, was approximately $22.3 million, as of June 30, 2020.

As of June 30, 2020, other than the potential effect on liquidity of the COVID-19 pandemic, the Company was not aware of any other known trends, events, or uncertainties that have or are reasonably likely to have a material effect on liquidity. Management has and continues to monitor the effects of the COVID-19 pandemic on the Company's liquidity. For example, management monitors for unusual changes in deposit balances, access to funding sources, draws, amortization of loan balances, and the various liquidity programs offered by the FRB in response to the pandemic. As of June 30, 2020, management believes the COVID-19 pandemic has not had an adverse effect on the Company's liquidity.

CAPITAL RESOURCES

Capital resources represent funds, earned or obtained, over which a financial institution can exercise greater long-term control in comparison with deposits and borrowed funds. The adequacy of the Company's capital is reviewed by management on an ongoing basis with reference to size, composition, and quality of the Company's resources, and consistency with regulatory requirements and industry standards. Management seeks to maintain a capital structure that will assure an adequate level of capital to support anticipated asset growth and to absorb potential losses yet allows management to effectively leverage its capital to maximize return to shareholders. The Company's capital, also known as shareholders' equity, is comprised primarily of outstanding common stock, additional paid-in capital, and retained earnings.

Shareholders' equity is primarily affected by net income and net unrealized gains or losses on available-for-sale securities, net of taxes. The available-for-sale securities portfolio is reported at fair value with unrealized gains or losses, net of taxes, recognized as accumulated other comprehensive income on the Company's consolidated balance sheets. Another factor affecting accumulated other comprehensive income is changes in the fair value of the Company's pension and post-retirement benefit plans and changes in said plan obligations. Shareholders' equity before accumulated other comprehensive income, net of taxes, was $118.5 million as of June 30, 2020 compared to $126.1 million as of December 31, 2019. The decrease of $7.6 million was primarily attributable to the $8.1 million net loss for the six months ended June 30, 2020, including the $9.8 million after-tax goodwill impairment charge. Accumulated other comprehensive income, net of taxes, increased by $1.1 million from December 31, 2019 to June 30, 2020, due to an increase in net unrealized gains, net of taxes, in the Company's available-for-sale securities portfolio.

Book value per share of the Company's common stock, including accumulated other comprehensive income, net of tax, decreased to $8.98 as of June 30, 2020 from $9.51 as of December 31, 2019. This decrease was primarily attributable to the net loss of $8.1 million for the six months ended June 30, 2020.

The Company and the Bank are subject to minimum regulatory capital ratios as defined by the Federal Reserve. As of June 30, 2020, the Company and the Bank's capital ratios continue to be in excess of regulatory minimums and the Bank was "well capitalized" by these guidelines.

The Bank is subject to capital rules adopted by federal bank regulators implementing the Basel III regulatory capital reforms adopted by the Basel Committee, and certain changes required by the Dodd-Frank Act. These rules require the Bank to comply with the following minimum capital ratios: (i) a Common Equity Tier 1 capital ratio of 4.5% of risk-weighted assets; (ii) a Tier 1 capital ratio of 6.0% of risk-weighted assets; (iii) a total capital ratio of 8.0% of risk-weighted assets; and (iv) a leverage ratio of 4.0% of average adjusted assets. The following additional capital requirements related to the capital conservation buffer (promulgated by the Basel III regulatory capital rules) require the Bank to maintain (i) a minimum ratio of Common Equity Tier 1 to risk-weighted assets of at least 4.5%, plus a 2.5% "capital conservation buffer" (resulting in a minimum ratio of Common Equity Tier 1 to risk-weighted assets of at least 7.0%), (ii) a minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0%, plus the 2.5% capital conservation buffer (resulting in a minimum Tier 1 capital ratio of 8.5%), (iii) a minimum ratio of total capital to risk-weighted assets of at least 8.0%, plus the 2.5% capital conservation buffer (resulting in a minimum total capital ratio of 10.5%), and (iv) a minimum leverage ratio of 4.0%, calculated as the ratio of Tier 1 capital to average assets. The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of Common Equity Tier 1 to risk-weighted assets above the minimum but below the conservation buffer will be subject to constraints on dividends, equity repurchases, and discretionary compensation paid to certain officers, based on the amount of the shortfall. As of June 30, 2020 and December 31, 2019, capital ratios of the Bank were in excess of the regulatory conservation buffer levels.

The following tables present capital ratios for the Bank, minimum capital ratios required with conservation buffer, and ratios defined as "well capitalized" by the Bank's regulators as of the dates stated.

As of June 30, 2020	**Actual Ratio**	**Minimum Capital Requirement Ratio with Conservation Buffer**	**Minimum to be Well Capitalized**
Total risk-based capital	13.38%	10.50%	10.00%
Tier 1 capital	12.18%	8.50%	8.00%
Common equity tier 1	12.18%	7.00%	6.50%
Tier 1 leverage ratio	10.25%	4.00%	5.00%

As of December 31, 2019	**Actual Ratio**	**Minimum Capital Requirement Ratio with Conservation Buffer**	**Minimum to be Well Capitalized**
Total risk-based capital	13.07%	10.50%	10.00%
Tier 1 capital	12.26%	8.50%	8.00%
Common equity tier 1	12.26%	7.00%	6.50%
Tier 1 leverage ratio	10.42%	4.00%	5.00%

OFF BALANCE SHEET COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Company offers various financial products to our customers to meet their credit and liquidity needs. These instruments may involve elements of liquidity, credit, and interest rate risk in excess of the amount recognized in the Company's consolidated balance sheets. The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit and stand-by letters of credit is represented by the contractual amount of these instruments. Subject to normal credit standards and risk monitoring procedures, the Company makes contractual commitments to extend credit. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments may expire without being completely drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Conditional commitments are issued by the Company in the form of performance stand-by letters of credit, which guarantee the performance of a customer to a third party. The credit risk of issuing letters of credit is essentially the same as that involved in extending loans to customers.

The following table presents off balance sheet commitments as of the dates stated.

	June 30, 2020	December 31, 2019
Total loan commitments outstanding	$ 150,816	$ 164,751
Stand-by letters of credit	7,231	6,118

CONTRACTUAL OBLIGATIONS

There have been no material changes outside the ordinary course of business to the contractual obligations disclosed in the Company's 2019 Form 10-K.

RECENT ACCOUNTING PRONOUNCEMENTS

Refer to Note 2, Amendments to the Accounting Standards Codification, in the Notes to the Consolidated Financial Statements contained in Item 1 of this report, for information related to the adoption of amendments to the Accounting Standards Codification.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not required.

ITEM 4. CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

As of the end of the period to which this report relates, the Company has carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Rule 13a-14 of the Securities Exchange Act of 1934 (the "Exchange Act"). In designing and evaluating its disclosure controls and procedures, management recognized that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that objectives of the disclosure controls and procedures are met. The design of any disclosure control and procedure is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential conditions. Based upon the evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective in ensuring that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified by the Securities and Exchange Commission's reports and forms, and that such information is accumulated and communicated to management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding disclosure, as of June 30, 2020.

CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING

There was no change to the Company's internal control over financial reporting during the three months ended June 30, 2020 that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In the ordinary course of its operations, the Company is a party to various legal proceedings. Based upon information currently available, management believes that such legal proceedings, in the aggregate, will not have a material adverse effect on the business, financial condition, or results of operations of the Company.

ITEM 1A. RISK FACTORS

Other than as set forth below, there have been no material changes to the risk factors disclosed in the 2019 Form 10-K.

The ongoing COVID-19 pandemic and measures intended to prevent its spread may adversely affect the Company's business, financial condition, and operations; the extent of such impacts are highly uncertain and difficult to predict.

Global health and economic concerns relating to the COVID-19 outbreak and government actions taken to reduce the spread of the virus have had a material adverse impact on the macroeconomic environment, and the outbreak has significantly increased economic uncertainty. The pandemic has resulted in federal, state and local authorities, including those who govern the markets in which the Company operates, implementing numerous measures to try to contain the virus. These measures, including shelter-in-place orders and business limitations and shutdowns, have significantly contributed to rising unemployment and negatively affected consumer and business spending.

The COVID-19 outbreak has adversely affected and is likely to continue to adversely affect the Company's employees and operations and the operations of its customers and business partners. In particular, the Company may experience adverse effects due to a number of operational factors impacting the Company or the Company's customers or business partners, including but not limited to:

- credit losses resulting from financial stress experienced by the Bank's borrowers, especially those operating in industries most impacted by government measures to contain the spread of the virus;
- operational failures, disruptions, or inefficiencies due to changes in Company's normal business practices necessitated by the Company's internal measures to protect the Company's employees and government-mandated measures intended to slow the spread of the virus;
- possible business disruptions experienced by the Company's vendors and business partners in carrying out work that supports the Company's operations;
- decreased demand for the Company's products and services due to economic uncertainty, volatile market conditions, and temporary business closures;
- any financial liability, credit losses, litigation costs, or reputational damage resulting from the Bank's origination of PPP loans; and
- heightened levels of cyber and payment fraud, as cyber criminals try to take advantage of the disruption and increased online activity brought about by the pandemic.

The extent to which the pandemic affects the Company's business, liquidity, financial condition, and operations will depend on future developments, which are highly uncertain and are difficult to predict, including, but not limited to, its duration and severity, the actions to contain it or treat its impact, and how quickly and to what extent normal economic and operating conditions can resume. In addition, the rapidly changing and unprecedented nature of COVID-19 heightens the inherent uncertainty of forecasting future economic conditions and their impact on the Bank's loan portfolio, thereby increasing the risk that the assumptions, judgments, and estimates used to determine the allowance for loan losses and other estimates are incorrect. Further, the Bank's loan modification program could delay or make it difficult to identify the extent of asset quality deterioration during the short-term deferral period. As a result of these and other conditions, the ultimate impact of the pandemic is highly uncertain and subject to change, and the Company cannot predict the full extent of the effects on the Company's business, the Company's operations, or the global economy as a whole. To the extent any of the foregoing risks or other factors that develop as a result of COVID-19 materialize, it could exacerbate the risk factors discussed in the Company's Annual Report on Form 10-K for the year ended December 31, 2019, or otherwise materially and adversely affect the Company's business, liquidity, financial condition, and results of operations.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None to report.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None to report.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None to report.

ITEM 6. EXHIBITS

10.1	Bay Banks of Virginia, Inc. 2020 Stock Incentive Plan.
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following materials from the Company’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2020, formatted in Inline Extensible Business Reporting Language (iXBRL): (i) Consolidated Balance Sheets as of June 30, 2020 and December 31, 2019, (ii) Consolidated Statements of Operations for the three and six months ended June 30, 2020 and 2019, (iii) Consolidated Statements of Comprehensive (Loss) Income for the three and six months ended June 30, 2020 and 2019, (iv) Consolidated Statements of Changes in Shareholders’ Equity for the three and six months ended June 30, 2020 and 2019, (v) Consolidated Statements of Cash Flows for the six months ended June 30, 2020 and 2019, and (vi) Notes to Consolidated Financial Statements.
104	The cover page from the Company’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2020, formatted in Inline XBRL (included with Exhibit 101).

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Bay Banks of Virginia, Inc.
(Registrant)

August 7, 2020

By: /s/ Randal R. Greene
Randal R. Greene
President and Chief Executive Officer
(Principal Executive Officer)

By: /s/ Judy C. Gavant
Judy C. Gavant
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

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Section 2: EX-10.1 (EX-10.1 BAY BANKS OF VIRGINIA, INC. 2020 STOCK INCENTIVE PLAN)

Exhibit 10.1

BAY BANKS OF VIRGINIA, INC.

2020 STOCK INCENTIVE PLAN

1. Purpose; Eligibility.

(a) General Purpose. The purpose of the Bay Banks of Virginia, Inc. 2020 Stock Incentive Plan is to further the long-term stability and financial success of the Company by attracting and retaining personnel, including employees, directors and Consultants, through the use of stock and stock-based incentives. The Company believes that ownership of Company Stock will stimulate the efforts of those persons upon whose judgment, interest and efforts the Company and its Affiliates depend for the successful conduct of their businesses and will further the alignment of those persons' interests with the interests of the Company's shareholders.

(b) Eligible Award Recipients. Any employee, director or Consultant of the Company or an Affiliate who, in the judgment of the Committee, has contributed or can be expected to contribute to the profits or growth of the Company or the Affiliate is eligible to become a Participant. The Committee shall have the power and complete discretion, as provided in Section 15, to select eligible Participants and to determine for each Participant the terms, conditions and nature of an Award and the number of shares to be allocated as part of the Award; provided, however, that any Award made to a member of the Committee must be approved by the Board.

(c) Available Awards. Awards of Options, Restricted Stock, Restricted Stock Units, and Stock Awards may be granted under the Plan. Options granted under the Plan may be Incentive Stock Options or Nonstatutory Stock Options.

(d) Date of Adoption, Effective Date. The Plan was adopted by the Board of Directors of the Company on April 23, 2020, and will become effective, subject to the approval of the shareholders of the Company in accordance with applicable law, on June 15, 2020, or on such other date of approval (the applicable approval date, the "Effective Date").

(e) No Additional Grants Under the 2013 Stock Incentive Plan. No additional awards will be made under the Bay Banks of Virginia, Inc. 2013 Stock Incentive Plan on or after the Effective Date of the Plan.

2. Certain Definitions. The following terms have the meanings indicated:

(a) Act. The Securities Exchange Act of 1934, as amended.

(b) Affiliate. A corporation or other entity that, directly or through one or more intermediaries, controls, is controlled by or is under common control with, the Company. For purposes of an Incentive Stock Option, “Affiliate,” refers to a “parent corporation” or “subsidiary corporation” within the meaning of Treasury Regulations under Section 424 of the Code.

(c) Applicable Withholding Taxes. The aggregate amount of federal, state and local income and payroll taxes that the Company or an Affiliate is required to withhold (not in excess of the maximum applicable statutory withholding rate) in connection with any exercise of an Option, or the award, lapse of restrictions or payment with respect to any Award.

(d) Award. The award of an Option, Restricted Stock, Restricted Stock Unit, or Stock Award under the Plan.

(e) Award Agreement. Any agreement, contract, certificate or other written instrument or document (which may be in electronic form) evidencing the terms and conditions of an Award granted under the Plan. Each Award Agreement shall be subject to the terms and conditions of the Plan.

(f) Board. The Board of Directors of the Company.

(g) Cause. With respect to any employee or Consultant: (1) if the employee or Consultant is a party to an employment agreement, change in control employment agreement, or other services agreement with the Company or its Affiliates and such agreement provides for a definition of Cause, the definition contained therein; or (2) if no such agreement exists, or if such agreement does not define Cause, the definition of Cause contained in the Award Agreement.

In all other cases, Cause shall mean:

(i) Continual or deliberate neglect by the Participant in the performance of his material duties and responsibilities as established from time to time by the Company, or the Participant's repeated failure or refusal to follow reasonable instructions or policies of the Company after being advised in writing of such failure or refusal and being given a reasonable opportunity and period (as determined by the Company) to remedy such failure or refusal;

(ii) Conviction of, indictment for (or its procedural equivalent), entering of a guilty plea or plea of no contest with respect to a felony, a crime of moral turpitude or any other crime with respect to which imprisonment is a possible punishment, or the commission of an act of embezzlement or fraud against the Company or an Affiliate;

(iii) Violation in any material respect of any code or standard of conduct generally applicable to employees of the Company or an Affiliate after being advised in writing of such violation and being given a reasonable opportunity and period (as determined by the Company) to remedy such violation;

(iv) Dishonesty of the Participant with respect to the Company, or breach of a fiduciary duty owed to the Company; or

(v) The willful engaging by the Participant in conduct that is reasonably likely to result, in the good faith judgment of the Company, in material injury to the Company, monetarily, reputationally or otherwise.

The Committee, in its absolute discretion, shall determine the effect of all matters and questions relating to whether a Participant has been discharged for Cause. Notwithstanding the foregoing, with respect to any director, a determination that the director has engaged in conduct that is covered by the definition of Cause shall be made by a majority of the disinterested Board members.

(h) Change in Control. A Change in Control shall occur if, after the Date of Grant of an Award: (i) any person, including a "group" as defined in Section 13(d)(3) of the Act, becomes the owner or beneficial owner of securities of the Company having fifty percent (50%) or more of the combined voting power of the then outstanding securities of the Company that may be cast for the election of the Company's directors other than a result of an issuance of securities initiated by the Company, or open market purchases approved by the Board, as long as the majority of the Board approving the purchases is a majority at the time the purchases are made; (ii) as the direct or indirect result of, or in connection with, a tender or exchange offer, a merger or other business combination, a sale of assets, a contested election of directors, or any combination of these events, the persons who were directors of the Company before such events cease to constitute a majority of the Company's Board, or any successor's board, within the twelve (12) month period of the last of such transactions; or (iii) the Company sells to an unaffiliated third party at least forty percent (40%) of the gross fair market value of the assets of the Company or securities of the Company having fifty (50%) or more of the combined voting power of the then outstanding Company securities that may be cast for the election of the Company's directors. For purposes of this Agreement, a Change in Control occurs on the date on which an event described in clause (i), (ii) or (iii) of the preceding sentence occurs. If a Change in Control occurs on account of a series of transactions or events, the Change in Control occurs on the date of the last of such transactions or events.

(i) Code. The Internal Revenue Code of 1986, as amended. Any reference to a section of the Code shall be deemed to include a reference to any regulations promulgated thereunder.

(j) Committee. The Committee appointed by the Board of Directors to administer the Plan pursuant to Section 15 of the Plan, or if no such Committee has been appointed, the Board.

(k) Company. Bay Banks of Virginia, Inc., a Virginia corporation.

(l) Company Stock. Common stock of the Company. If the par value of the Company Stock is changed, or in the event of a change in the capital structure of the Company (as provided in Section 12) the shares resulting from such a change shall be deemed to be Company Stock within the meaning of the Plan.

(m) Consultant. A person or entity rendering consulting or advisory services to the Company or an Affiliate who is not an "employee" for purposes of employment tax withholding under the Code or a director of the Company or an Affiliate.

(n) Date of Grant. The effective date of an Award granted by the Committee.

(o) Disability or Disabled. As to an Incentive Stock Option, a Disability within the meaning of Section 22(e)(3) of the Code. As to all other Awards, the Committee shall determine whether a Disability exists and such determination shall be conclusive.

(p) Fair Market Value.

(i) If the Company Stock is listed on any established stock exchange or quoted on any established stock market system (including the OTC Bulletin Board or OTC Markets Group), Fair Market Value shall be the closing price for the Company Stock on the date as of which Fair Market Value is determined for any purpose under the Plan (or if no trades were reported the closing price on the immediately preceding date on which the Company Stock was traded) as reported by such exchange or stock market system or such other source as the Committee deems reliable; provided, however, the Committee may elect to use, subject to applicable requirements of the Code and Treasury Regulations, the average closing price over a designated number of up to thirty (30) consecutive days to determine the Fair Market Value if the daily volume of trading in the Company Stock is not, in the sole discretion of the Committee, sufficient to be a reliable indicator of Fair Market Value.

(ii) If the Company Stock is not then listed on any established stock exchange or quoted on any established stock market system (including the OTC Bulletin Board or OTC Markets Group) or if, in the opinion of the Committee, the method set forth in (i) is otherwise inapplicable or inappropriate for any reason, Fair Market Value shall be the fair market value of a share of Company Stock as determined pursuant to a reasonable application of a reasonable method adopted by the Committee in good faith for such purpose, which shall be conclusive and binding on all persons; provided, however, that the Fair Market Value of Company Stock subject to an Incentive Stock Option shall be determined in good faith within the meaning of Treasury Regulation § 1.422-2(e)(2) and the Fair Market Value of Company Stock subject to a Nonstatutory Stock Option or a Stock Appreciation Right shall be determined in accordance with Treasury Regulation § 1.409A-1(b)(5)(iv).

(q) Good Reason. If the Participant is a party to an employment agreement, change in control employment agreement, or other services agreement with the Company or an Affiliate and such agreement provides for a definition of Good Reason, the definition contained in the agreement. If no such agreement exists or if such agreement does not define Good Reason, the definition of Good Reason contained in the Award Agreement. In all other cases, Good Reason shall mean the occurrence of one or more of the following without the Participant's express written consent, which circumstances are not remedied by the Company within thirty (30) days of its receipt of a written notice from the Participant describing the applicable circumstances (which notice must be provided by the Participant within ninety (90) days of the Participant's knowledge of the applicable circumstances): (i) any material, adverse change in the Participant's duties, responsibilities, authority, title, status or reporting structure;

(ii) a material reduction in the Participant's base salary or bonus opportunity unless any such base salary or bonus opportunity reduction is proportionate to reductions in base salaries or bonus opportunities of other similarly situated employees of the Company; or (iii) a geographical relocation of the Participant's principal office location by more than fifty (50) miles.

(r) Incentive Stock Option. An Option intended to meet the requirements of, and that qualifies for, favorable federal income tax treatment under, Section 422 of the Code, and is so designated.

(s) Nonstatutory Stock Option. An Option that does not meet the requirements of Section 422 of the Code, or that is otherwise not intended to be an Incentive Stock Option.

(t) Option. A right to purchase Company Stock granted under the Plan, at a price determined in accordance with the Plan.

(u) Participant. Any eligible Award recipient who is granted an Award under the Plan.

(v) Performance Award. An Award for which exercise, full enjoyment or receipt thereof by the Participant is contingent on satisfaction or achievement of a performance objective. The terms and conditions of each Performance Award, including the performance objective and performance period, shall be set forth in the applicable Award Agreement with the Participant or in a subplan of the Plan which is incorporated by reference into the Award Agreement.

(w) Plan. The Bay Banks of Virginia, Inc. 2020 Stock Incentive Plan.

(x) Restricted Stock. Company Stock awarded upon the terms and subject to the restrictions set forth in Section 6.

(y) Restricted Stock Unit. An Award, designated as a Restricted Stock Unit under the Plan, that represents the right to receive Company Stock and/or cash in lieu thereof upon the terms and subject to the restrictions set forth in Section 7 and which, unless otherwise expressly provided, is valued by reference to the Fair Market Value of a share of Company Stock.

(z) Rule 16b-3. Rule 16b-3 promulgated under the Act, including any corresponding subsequent rule or any amendments to Rule 16b-3 enacted after the effective date of the Plan.

(aa) Stock Award. Company Stock awarded upon the terms and subject to the restrictions set forth in Section 8.

(bb) 10% Shareholder. A person who owns, directly or indirectly and within the meaning of Section 422 or 424 of the Code, stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or any parent or subsidiary of the Company. Indirect ownership of stock shall be determined in accordance with Section 424(d) of the Code.

3. Shares Subject to the Plan.

(a) Subject to adjustment as provided in Section 12 of the Plan, a total of 625,000 shares of Company Stock may be issued pursuant to Awards under the Plan. Subject to adjustment as provided in Section 12, no more than an aggregate of 625,000 shares of Company Stock may be issued pursuant to the exercise of Incentive Stock Options granted under the Plan (including shares issued pursuant to the exercise of Incentive Stock Options that are the subject to disqualifying dispositions within in the meaning of Sections 421 and 422 of the Code).

(b) Any shares of Company Stock subject to an Award that is canceled, forfeited or expires prior to exercise, vesting or settlement, either in full or in part, shall again become available for issuance under the Plan; provided that shares subject to an Award shall not again be made available for issuance or delivery under the Plan if such shares are tendered or withheld in payment of an Option exercise price or to satisfy any amount of tax withholding with respect to the Award.

(c) The maximum number of shares of Company Stock with respect to which Awards may be granted in any calendar year to any Participant shall not exceed 50,000 shares in the aggregate. If an Award is to be settled in cash, the number of shares of Company Stock on which the Award is based shall count toward the individual share limit set forth in this Section 3(c).

(d) Notwithstanding anything in the Plan to the contrary, the maximum number of shares of Company Stock with respect to which Awards may be granted in any calendar year to any non-employee director of the Company or an Affiliate shall not exceed 10,000 shares. If an Award is to be settled in cash, the number of shares of Company Stock on which the Award is based shall count toward the individual share limit set forth in this Section 3(d).

4. Stock Options.

(a) Option Grant. Whenever the Committee deems it appropriate to grant Options, an Award Agreement shall be given to the Participant stating the number of shares for which Options are granted, the exercise price per share, whether the options are Incentive Stock Options or Nonstatutory Stock Options, and the conditions to which the grant and exercise of the Options are subject. The Award Agreement shall set forth all restrictions on disposition and transfer applicable to the Option shares. Incentive Stock Options may be granted to employees of the Company or an Affiliate. Non-employee directors and Consultants shall not be eligible to receive Incentive Stock Options. No Option (or portion thereof) that is intended to be an Incentive Stock Option shall be invalid for failure to so qualify, but instead such Option (or portion thereof) shall constitute a Nonstatutory Stock Option.

(b) Exercise Price; No Option Repricing. The Committee shall establish the exercise price of Options. The exercise price of an Option shall be not less than 100% of the Fair Market Value of such shares on the Date of Grant, provided that if the Participant is a 10% Shareholder, the exercise price of an Incentive Stock Option shall not be less than 110% of the Fair Market Value of such shares on the Date of Grant. Notwithstanding any provision of the Plan to the contrary, neither the Committee nor the Board shall have the right or authority to amend or modify the exercise price of any outstanding Option, or to cancel an outstanding Option, at a time when the exercise price of the Option is greater than the Fair Market Value of a share of Company Stock in exchange for cash, another Award, or other securities, except in connection with a change in capital structure or corporate transaction involving the Company in accordance with Section 12 or Section 14, respectively.

(c) Term. The Committee shall establish the term of each Option in the Participant's Award Agreement. The term of an Option shall not be longer than ten (10) years from the Date of Grant, except that an Incentive Stock Option granted to a 10% Shareholder shall not have a term in excess of five (5) years. No Option may be exercised after the expiration of its term or, except as set forth in the Participant's Award Agreement, after the termination of the Participant's employment with the Company and/or its Affiliates.

(d) Time of Exercise.

(i) During Participant's Employment or Service. Options may be exercised during their terms in whole or in part at such times as may be specified by the Committee in the Participant's Award Agreement. The Committee may impose such vesting conditions and other requirements as the Committee deems appropriate.

(ii) After Participant's Termination of Employment or Service. The Committee shall set forth in the Participant's Award Agreement when, and under what circumstances, an Option may be exercised after termination of the Participant's employment or period of service; provided that no Incentive Stock Option may be exercised after the earlier of (a) (i) three (3) months from the Participant's termination of employment with the Company for reasons other than Disability or death, or (ii) one (1) year from the Participant's termination of employment on account of Disability or death; or (b) the expiration of the Option's term. The Award Agreement may provide for various conditions with respect to the exercise of the Option after termination of employment, including, but not limited to, compliance with noncompetition and confidentiality covenants.

(iii) After Participant's Death. If a Participant dies and if the Participant's Award Agreement provides that part or all of the Option may be exercised after the Participant's death, then such portion may be exercised by the executor or administrator of the Participant's estate, by a person who acquired the right to exercise the Option by bequest or inheritance or by a person designated to exercise the Option upon the Participant's death during the time period specified in the Award Agreement, but not later than the expiration of the Option's term.

The Committee may, in its sole discretion, amend a previously granted Incentive Stock Option to provide for more liberal exercise provisions, provided, however, that if the Incentive Stock Option as amended no longer meets the requirements of Section 422 of the Code, and, as a result the Option no longer qualifies for favorable federal income tax treatment under Section 422 of the Code, the amendment shall not become effective without the written consent of the Participant.

(e) Limit on Exercise of Incentive Stock Options. An Incentive Stock Option, by its terms, shall be exercisable in any calendar year only to the extent that the aggregate Fair Market Value (determined at the Date of Grant) of the Company Stock with respect to which Incentive Stock Options are exercisable by the Participant for the first time during the calendar year does not exceed $100,000 (the “Limitation Amount”). Incentive Stock Options granted under the Plan and all other plans of the Company and its Affiliates shall be aggregated for purposes of determining whether the Limitation Amount has been exceeded. The Board may impose such conditions as it deems appropriate on an Incentive Stock Option to ensure that the foregoing requirement is met. If Incentive Stock Options that first become exercisable in a calendar year exceed the Limitation Amount, the excess Options will be treated as Nonstatutory Stock Options to the extent permitted by law.

5. Method of Exercise of Options.

(a) Exercise. Options may be exercised by giving written notice of the exercise to the Company, stating the Option being exercised and the number of shares the Participant has elected to purchase under the Option.

(b) Payment. In no event shall any shares be issued pursuant to the exercise of an Option until the Participant has made full payment for the shares of Company Stock (including payment of the exercise price and any Applicable Withholding Taxes). Company Stock purchased upon the exercise of an Option granted under the Plan shall be paid for as follows, provided that the Committee may impose such limitations and restrictions on payments with shares of Company Stock (including without limitation by “net share exercise”) as the Committee, in its discretion, deems advisable:

(i) in cash or by check, payable to the order of the Company;

(ii) by delivery of Company Stock that the Participant has previously acquired and owned (valued at Fair Market Value on the date of exercise), provided that such method of payment is then permitted under applicable law and the Company Stock was owned by the Participant for such period of time, if any, required to avoid a charge to earnings for financial accounting purposes;

(iii) if provided in an Award Agreement, by withholding and retention by the Company of sufficient shares of Company Stock issuable in connection with the exercise to cover the exercise price (a “net share exercise”) for an option not intended to be an Incentive Stock Option and, if required by the Committee, Applicable Withholding Taxes;

(iv) by delivery of a properly executed exercise notice together with irrevocable instructions to a creditworthy broker to deliver promptly to the Company, from the sale or loan proceeds with respect to the sale of Company Stock or a loan secured by Company Stock, the amount necessary to pay the exercise price and, if required by the Committee, Applicable Withholding Taxes; or

(v) by any combination of the above permitted forms of payment.

(c) Delivery of Shares. The Company may place on any certificate representing Company Stock issued upon the exercise of an Option (or equivalent book-entry share) any legend deemed desirable by the Company's counsel to comply with federal or state securities laws. The Company may require of the Participant a customary indication of his or her investment intent. A Participant shall not possess shareholder rights with respect to shares acquired upon the exercise of an Option until the Participant has made any required payment, including payment of Applicable Withholding Taxes, and the Company has issued a certificate (or made an equivalent book-entry notation in the records of the Company's stock transfer agent) for the shares of Company Stock acquired.

(d) Disqualifying Disposition. If a Participant disposes of shares acquired upon exercise of an Incentive Stock Option within two (2) years from the date the Option is granted or within one (1) year after the issuance of such shares to the Participant, the Participant shall notify the Company of such disposition and provide information regarding the date of disposition, sale price, number of shares disposed of, and any other information relating thereto that the Company may reasonably request.

6. Restricted Stock Awards.

(a) Grant. Whenever the Committee deems it appropriate to grant a Restricted Stock Award, an Award Agreement shall be given to the Participant stating the number of shares of Restricted Stock for which the Award is granted, the Date of Grant, and the terms and conditions to which the Award is subject. Certificates representing the shares shall be issued (or an equivalent book-entry notation shall be made in the records of the Company's transfer agent) in the name of the Participant, subject to the restrictions imposed by the Plan and the Committee. Alternatively, the Committee may determine that the Restricted Stock shall be held by the Company rather than delivered to the Participant pending the release of the applicable restrictions. A Restricted Stock Award may be made by the Committee in its discretion without cash consideration.

(b) Restrictions on Transferability and Vesting. The Committee may place such restrictions on the transferability and vesting of Restricted Stock as the Committee deems appropriate, including restrictions relating to continued service and/or achievement of performance objectives. Restricted Stock may not be sold, assigned, transferred, disposed of, pledged, hypothecated or otherwise encumbered until the restrictions on such shares shall have lapsed or shall have been removed pursuant to subsection (c) below.

(c) Lapse of Restrictions on Transferability. The Committee shall establish as to each Restricted Stock Award the terms and conditions upon which the restrictions on transferability set forth in paragraph (b) above shall lapse. Such terms and conditions may include, without limitation, the passage of time, the meeting of performance objectives, the lapsing of such restrictions as a result of the Disability or death of the Participant, the occurrence of a Change in Control, or certain terminations of employment in connection with a Change in Control or otherwise.

(d) Rights of the Participant and Restrictions. A Participant shall hold shares of Restricted Stock subject to the restrictions set forth in the Award Agreement and in the Plan. In other respects, unless otherwise provided in the Award Agreement, the Participant shall have all the rights of a shareholder with respect to the shares of Restricted Stock, including, but not limited to, the right to vote such shares and the right to receive all cash dividends and other distributions paid thereon; provided that the Award Agreement shall provide that any cash dividends and stock dividends with respect to Restricted Stock shall be withheld by the Company for the Participant's account unless and until the underlying shares of Restricted Stock vest. The cash dividends or stock dividends so withheld by the Committee and attributable to any particular share of Restricted Stock shall be distributed to the Participant in cash or, at the discretion of the Committee, in shares of Company Stock having a Fair Market Value equal to the amount of such dividends, if applicable, upon the release of restrictions on such share and, if such share is forfeited, the Participant shall have no right to such dividends. To the extent stock certificates are delivered to the Participant, the certificates representing Restricted Stock shall bear a legend referring to the restrictions set forth in the Plan and the Participant's Award Agreement.

7. Restricted Stock Unit Awards.

(a) Grant. Whenever the Committee deems it appropriate to grant a Restricted Stock Unit Award, an Award Agreement shall be given to the Participant stating the number of Restricted Stock Units in the Award, the Date of Grant, and the terms and conditions to which the Award is subject. No shares of Company Stock shall be issued at the time a Restricted Stock Unit is granted, and the Company will not be required to set aside a fund for the payment of any such award. A Restricted Stock Unit Award may be made by the Committee in its discretion without cash consideration.

(b) Restrictions on Vesting. The Committee may place such restrictions on the vesting and settlement of Restricted Stock Units as the Committee deems appropriate, including restrictions relating to continued employment or service and/or achievement of performance objectives. Restricted Stock Units may not be sold, assigned, transferred, disposed of, pledged, hypothecated or otherwise encumbered.

(c) Rights of the Participant. A Participant shall have no voting rights with respect to Restricted Stock Units. At the discretion of the Committee, to the extent set forth in the Award Agreement each Restricted Stock Unit (representing one share of Company Stock) may be credited with cash and stock dividends paid by the Company in respect of one share of Company Stock. Dividends credited to a Participant's account and attributable to any particular Restricted Stock Unit shall be distributed in cash or, at the discretion of the Committee, in shares of Company Stock having a Fair Market Value equal to the amount of such accumulated dividends to the Participant upon settlement of such Restricted Stock Unit. If such Restricted Stock Unit is forfeited, the Participant shall have no right to such accumulated dividends.

(d) Settlement. Unless otherwise provided in the Award Agreement, a Participant's Restricted Stock Units which vest shall be immediately settled by the issuance and delivery to the Participant of one share of Company Stock for each vested Restricted Stock Unit or the payment of cash in an amount equal to the number of shares for which the Restricted Stock Unit vested multiplied by the Fair Market Value of a share of Company Stock on the vesting date, or a combination thereof as determined by the Committee.

8. Stock Awards. Whenever the Committee deems it appropriate to grant a Stock Award, such Stock Award may be granted and, if desired by the Committee, an Award Agreement shall be given to the Participant stating the number of shares of unrestricted Company Stock for which the Award is granted, the Date of Grant, and the terms and conditions to which the Award is subject, if any. Certificates representing the shares shall be issued (or an equivalent book-entry notation shall be made in the records of the Company's transfer agent) in the name of the Participant, subject to any terms imposed by the Plan and the Committee, as soon as practicable after the Date of Grant. A Stock Award may be made by the Committee in its discretion without cash consideration and may be granted as settlement of a Performance Award.

9. Applicable Withholding Taxes. Each Participant shall agree, as a condition of receiving an Award, to pay to the Company or the Affiliate, or make arrangements satisfactory to the Company or the Affiliate regarding the payment of, all Applicable Withholding Taxes with respect to the Award. Until the Applicable Withholding Taxes have been paid or arrangements satisfactory to the Company or the Affiliate have been made, no stock certificates or book-entry shares (or, in the case of Restricted Stock, Restricted Stock Units and Stock Awards, no stock certificates or book-entry shares free of a restrictive legend) shall be issued to the Participant. As an alternative to making a cash payment to the Company or the Affiliate to satisfy Applicable Withholding Tax obligations, the Committee may establish procedures permitting the Participant to elect to (a) deliver shares of already owned Company Stock or (b) have the Company retain that number of shares of Company Stock from the shares otherwise deliverable under the Award, in either case with respect to which the Company has a statutory obligation to withhold taxes, up to the maximum tax rate applicable to the Participant, as determined by the Committee. Any such election shall be made only in accordance with procedures established by the Committee to avoid a charge to earnings for financial accounting purposes and in accordance with Rule 16b-3.

10. Nontransferability of Awards.

(a) General Rule. In general, Awards, by their terms, shall not be transferable by the Participant except by will or by the laws of descent and distribution or except as described below. Incentive Stock Options shall be exercisable, during the Participant's lifetime, only by the Participant.

(b) Limited Transferability. Notwithstanding the provisions of Section 10(a) and subject to federal and state securities laws, the Committee may on a case-by-case basis grant or amend Nonstatutory Stock Options that permit a Participant to transfer the Options to one or more immediate family members, to a trust for the benefit of immediate family members, or to a partnership, limited liability company, or other entity the only partners, members, or interest-holders of which are among the Participant's immediate family members. Consideration may not be paid for the transfer of Options. The transferee of an Option shall be subject to all conditions applicable to the Option prior to its transfer. The agreement granting the Option shall set forth the transfer conditions and restrictions. The Committee may impose on any transferable Option and on stock issued upon the exercise of an Option such limitations and conditions as the Committee deems appropriate in its sole discretion.

11. Duration, Amendment or Modification of the Plan.

(a) Duration. If not sooner terminated by the Board, the Plan shall terminate at the close of business on April 22, 2030. Awards outstanding on the date of such termination shall remain valid in accordance with their terms.

(b) Amendment and Modification. The Board may at any time terminate, suspend, amend or modify the Plan. Any such amendment or modification may be without shareholder approval, except to the extent that such shareholder approval is required by the Code, pursuant to the rules under Section 16 of the Act, by any national securities exchange or system on which shares of Company Stock is then listed or quoted, by any regulatory body having jurisdiction with respect thereto, or under any other applicable laws, rules or regulations. Awards outstanding on the date of such action shall remain valid in accordance with their terms.

(c) Amendments to Awards. Subject to the terms and provisions and within the limitations of the Plan, the Committee may waive any conditions or rights under, amend any terms of or alter, suspend, discontinue, cancel or terminate, any outstanding Award on either a prospective or retroactive basis; provided that any such waiver, amendment, alteration, suspension, discontinuance, cancellation or termination that would adversely affect the rights of any Participant or other holder of an outstanding Award shall not be effective without the consent of the affected Participant or holder.

12. Change in Capital Structure.

(a) Effect of Change in Capital Structure. In the event of changes in the outstanding shares of Company Stock or in the capital structure of the Company by reason of any stock or extraordinary cash dividend, stock split, reverse stock split, an extraordinary corporate transaction such as any recapitalization, reorganization, merger, spin-off of a subsidiary, or other relevant change in capitalization occurring after the Date of Grant of any Award, the number and kind of shares of stock or securities of the Company to be issued under the Plan (under outstanding Awards and Awards to be granted in the future), the per Participant maximums provided for in Section 3, the exercise price of Options, and other relevant provisions shall be equitably adjusted by the Committee, whose determination shall be binding on all persons, as to the number, price or kind of consideration subject to such Awards to the extent necessary to preserve the economic intent of such Award. If the adjustment would produce fractional shares with respect to any Award, the Committee may adjust appropriately the number of shares covered by the Award so as to eliminate the fractional shares.

(b) Authority. Notwithstanding anything in the Plan to the contrary, the Committee may take the foregoing actions without the consent of any Participant, and the Committee's determination shall be conclusive and binding on all persons for all purposes. The Committee shall make its determinations consistent with Rule 16b-3 and the applicable provisions of the Code.

13. Termination of Employment. The Committee shall have the full power and authority to determine the terms and conditions that shall apply to any Award upon the termination of employment of a Participant, and may provide such terms and conditions in the Award Agreement or in such rules and policies as it may prescribe. If the terms of an Award provide that the Award will be exercisable, or become vested, or that payment will be made thereunder only if the Participant completes a stated period of employment or service, the Committee may decide to what extent leaves of absence for governmental or military service, illness, temporary disability or other reasons shall not be deemed interruptions of continuous employment or service.

14. Change in Control.

(a) Effect of a Change in Control of the Company. In the event of a Change in Control of the Company, the Committee, as constituted before such Change in Control, shall provide for an outstanding Award to become fully vested, settled, and/or exercisable in the event the Award is not assumed, or new rights substituted therefore, by the acquiring or surviving corporation in such Change in Control; and shall cause any such assumption or substitution to provide that the assumed or substituted Award shall become fully, vested, settled, and/or exercisable in the event of an involuntary termination of employment without Cause or for Good Reason in connection with the Change in Control. In addition, the Committee shall make such adjustments to Awards then outstanding as the Committee deems appropriate to reflect such Change in Control and to retain the economic value of the Award.

(b) Successors. The obligations of the Company under the Plan and any Award Agreements shall be binding upon any successor corporation or organization resulting from the merger, consolidation or other reorganization of the Company, or upon any successor corporation or organization succeeding to all or substantially all of the assets and business of the Company and its Affiliates, taken as a whole.

15. Administration of the Plan.

(a) The Committee. The Plan shall be administered by the Committee, which shall be appointed by the Board. The Committee shall consist of "independent" directors for purposes of any relevant stock exchange listing standards. To the extent required by Rule 16b-3, all Awards shall be made by members of the Committee who are "Non-Employee Directors" as that term is defined in Rule 16b-3, or by the Board. In the event the Board determines that a member of the Committee (or any applicable subcommittee) was not an "independent director" under applicable stock exchange listing standards, and/or was not a "non-employee director" as defined in Rule 16b-3, as applicable, on the Date of Grant, such determination shall not invalidate the Award and the Award shall remain valid in accordance with its terms. Any authority granted to the Committee may also be exercised by the full Board.

(b) Authority of the Committee. Subject to the express provisions of the Plan, the Committee shall have full and final authority to impose such limitations or conditions upon an Award as the Committee deems appropriate to achieve the objectives of the Award and the Plan. Without limiting the foregoing and in addition to the powers set forth elsewhere in the Plan, the Committee shall have the power and complete discretion to determine: (i) which eligible persons shall receive an Award and the nature of the Award; (ii) the number of shares of Company Stock to be covered by each Award; (iii) whether Options shall be Incentive Stock Options or Nonstatutory Stock Options; (iv) the Fair Market Value of Company Stock; (v) the time or times when an Award shall be granted; (vi) whether an Award shall become vested over a period of time, according to a performance-based vesting schedule or otherwise, and when it shall be fully vested; (vii) the terms and conditions under which restrictions imposed upon an Award shall lapse; (viii) whether a Change in Control has occurred; (ix) factors relevant to the lapse of restrictions, vesting, exercise and settlement of Awards; (x) when Options may be exercised; (xi) whether to approve a Participant's election with respect to Applicable Withholding Taxes; (xii) conditions relating to the length of time before disposition of Company Stock received in connection with an Award is permitted; (xiii) notice provisions relating to the sale of Company Stock acquired under the Plan; (xiv) the manner in which Section 24 of the Plan, "Minimum Vesting Provisions," shall be implemented; and (xiv) any additional requirements relating to Awards that the Committee deems appropriate.

(c) Action by the Committee. The Committee may adopt rules and regulations for carrying out the Plan. The Committee shall have the express discretionary authority to construe and interpret the Plan and the Award Agreements, to resolve any ambiguities, to define any terms, and to make any other determinations required by the Plan or an Award Agreement. The interpretation and construction of any provisions of the Plan or an Award Agreement by the Committee shall be final and conclusive. The Committee may consult with counsel, who may be counsel to the Company, and shall not incur any liability for any action taken in good faith in reliance upon the advice of counsel.

(d) Delegation. The Committee, in its discretion, may delegate to one or more officers of the Company all or part of the Committee's authority and duties with respect to grants and awards to individuals who are not subject to the reporting and other provisions of Section 16 of the Act. The Committee may revoke or amend the terms of a delegation at any time but such action shall not invalidate any prior actions of the Committee's delegate or delegates that were consistent with the terms of the Plan.

16. Notice. All notices and other communications required or permitted to be given under the Plan shall be in writing and shall be deemed to have been duly given if delivered personally, electronically, or mailed first class, postage prepaid, as follows: (a) if to the Company - at its principal business address to the attention of the Secretary; (b) if to any Participant - at the last address of the Participant known to the sender at the time the notice or other communication is sent.

17. Section 409A. The Plan is intended to provide compensation that is exempt from or that complies with Code Section 409A and Treasury Regulations thereunder ("Section 409A"), and the Plan's terms and the terms of any Award Agreement, including any definition in the Plan or any Award Agreement, shall be administered and construed in a manner that is compliant with or exempt from the application of Section 409A, as appropriate. For purposes of Section 409A, each payment under the Plan shall be deemed to be a separate payment.

Notwithstanding any provision of the Plan or an Award Agreement to the contrary, to the extent that any payment is subject to Section 409A, if the Participant is a "specified employee" within the meaning of Section 409A as of the date of the Participant's termination of employment and the Company determines, in good faith, that immediate payment of any amounts or benefits under the Plan would cause a violation of Section 409A, then any amounts or benefits payable under the Plan upon the Participant's "separation from service" within the meaning of Section 409A which (i) are subject to the provisions of Section 409A; (ii) are not otherwise exempt from Section 409A; and (iii) would otherwise be payable during the first six-month period following such separation from service, shall be paid on the first business day next following the earlier of (1) the date that is six (6) months and one day following the Participant's separation from service or (2) the date of the Participant's death.

18. Tax Consequences. Nothing in the Plan or an Award Agreement shall constitute a representation by the Company to a Participant regarding the tax consequences of any Award received by a Participant under the Plan. Although the Company may endeavor to (i) qualify an Award for favorable federal tax treatment or (ii) avoid adverse tax treatment (*e.g.*, under Section 409A), the Company makes no representation to that effect and expressly disavows any covenant to maintain favorable tax treatment. The Company shall be unconstrained in its corporate activities without regard to the potential negative tax impact on holders of Awards under the Plan.

19. Clawback. Notwithstanding any other provisions in the Plan, any Award which is subject to recovery under any law, government regulation or stock exchange listing requirement (including but not limited to Section 954 of the Dodd-Frank Act), will be subject to such deductions and clawback as may be required to be made pursuant to such law, government regulation or stock exchange listing requirement (or any policy adopted by the Company or any Affiliate pursuant to any such law, government regulation or stock exchange listing requirement). This Section 19 shall not limit the Company's right to revoke or cancel an Award or take other action against a Participant for any other reason, including, but not limited to, misconduct.

20. Interpretation and Governing Law. The terms of the Plan and Awards granted pursuant to the Plan shall be governed, construed and administered in accordance with the laws of the Commonwealth of Virginia, excluding any choice of law rules or principles that might otherwise refer construction or interpretation of any provision of the Plan or an Agreement to the substantive law of another jurisdiction. The Plan and Awards are subject to all present and future applicable provisions of the Code and, to the extent applicable, they are subject to all present and future rulings of the Securities and Exchange Commission with respect to Rule 16b-3. If any provision of the Plan or an Award conflicts with any such Code provision or ruling, the Committee shall cause the Plan to be amended, and shall modify the Award, so as to comply, or if for any reason amendments cannot be made, that provision of the Plan or the Award shall be void and of no effect.

21. Banking, Statutory and Regulatory Provisions. The Plan and all Awards granted under the Plan shall be subject to any condition, limitation, or prohibition under any Virginia or federal statutory or regulatory policy or rule to which the Company or an Affiliate is subject.

22. No Employment or Other Service Rights. Nothing in the Plan or any instrument executed or Award granted under the Plan shall confer upon any Participant any right to continue to serve the Company or an Affiliate in the capacity in effect at the time the Award was granted or shall affect the right of the Company or an Affiliate to terminate (i) the employment of an employee with or without notice and with or without Cause, (ii) the service of a director pursuant to the bylaws of the Company or an Affiliate, and any applicable provisions of the corporate law of Virginia in the case of the Company or the corporate law of the jurisdiction in which an Affiliate is incorporated, as the case may be, or (iii) the service of a Consultant for any reason at any time. Further, the grant of an Award shall not obligate the Company or any Affiliate to pay an employee any particular amount of remuneration or to make further grants to the employee at any time thereafter.

23. Forfeiture Events. The Committee may specify in an Award Agreement that the Participant's rights, payments and benefits with respect to an Award shall be subject to reduction, cancellation, forfeiture or recoupment upon the occurrence of certain events, in addition to applicable vesting conditions of an Award. Such events may include, without limitation, breach of non-competition, non-solicitation, confidentiality or other restrictive covenants that are contained in the Award Agreement or otherwise applicable to the Participant, termination of the Participant's employment or service for Cause, or other conduct by the Participant that is detrimental to the business or reputation of the Company and/or its Affiliates. In addition, if a Participant's employment or service is terminated for Cause, then as of the date of the misconduct, any Option held by the Participant shall terminate, and any unvested Restricted Stock and Restricted Stock Units held by the Participant shall be forfeited.

24. Minimum Vesting Provisions. Notwithstanding any other provision of the Plan, Awards shall have a minimum vesting/exercise schedule of at least one (1) year (subject to earlier vesting/exercisability solely in the event of death, Disability or as provided in Section 14 in connection with a Change in Control), except that a shorter vesting/exercise schedule may apply to (i) Awards granted to non-employee members of the Board of the board of directors of an Affiliate as a fee or retainer for service, including annual or other grants made pursuant to a director compensation policy or arrangement; and (ii) other Awards for not more than 10% of the shares of Company Stock authorized for issuance under the Plan.

25. Deferral of Awards. The Committee may establish one or more programs under the Plan to permit selected Participants the opportunity to elect to defer receipt of consideration upon exercise of an Award, satisfaction of performance criteria, or other event that absent the election would entitle the Participant to payment or receipt of shares of Company Stock or other consideration under an Award. The Committee may establish the election procedures, the timing of such elections, the mechanisms for payments of, and accrual of interest or other earnings, if any, on amounts, shares or other consideration so deferred, and such other terms, conditions, rules and procedures that the Committee deems advisable for the administration of any such deferral program.

26. Non-Uniform Treatment. The Committee shall be entitled to make non-uniform and selective determinations, amendments and adjustments, and to enter into non-uniform and selective Award Agreements.

27. Beneficiary Designation. A Participant may designate a beneficiary to receive any Options that may be exercised after death or to receive any other Award that may be paid after his death, as provided for in the Award Agreement. Such designation and any change or revocation of such designation shall be made in writing in the form and manner prescribed by the Committee (or its delegee). In the event that the designated beneficiary dies prior to the Participant, or in the event that no beneficiary has been designated, any Awards that may be exercised or paid following the Participant's death shall be transferred or paid in accordance with the Participant's will or the laws of descent and distribution.

28. Creditors. The interests of any Participant under the Plan or any Award Agreement are not subject to the claims of creditors and may not, in any way, be assigned, alienated or encumbered.

29. Unfunded Status of the Plan. The Plan, insofar as it provides for Awards, shall be unfunded, and the Company shall not be required to segregate any assets that may at any time be represented by Awards under the Plan. Any liability of the Company to any person with respect to any Award shall be based solely upon any contractual obligations that may be created pursuant to the Plan. No such obligation of the Company shall be deemed to be secured by any pledge of, or other encumbrance on, any property of the Company.

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Section 3: EX-31.1 (EX-31.1)

Exhibit 31.1

CERTIFICATIONS

I, Randal R. Greene, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Bay Banks of Virginia, Inc.;

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

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

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

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

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

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

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

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

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

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

Date: August 7, 2020

/s/ Randal R. Greene
Randal R. Greene
President and Chief Executive Officer

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Section 4: EX-31.2 (EX-31.2)

Exhibit 31.2

CERTIFICATIONS

I, Judy C. Gavant, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Bay Banks of Virginia, Inc.;

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

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

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

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

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

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

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

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

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

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

Date: August 7, 2020

/s/ Judy C. Gavant
Judy C. Gavant
Executive Vice President and Chief Financial Officer

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Section 5: EX-32.1 (EX-32.1)

Exhibit 32.1

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

In connection with the Quarterly Report on Form 10-Q for the period ended June 30, 2020 of Bay Banks of Virginia, Inc. (the "Company"), as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned Chief Executive Officer and Chief Financial Officer of the Company hereby certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that based on their knowledge and belief: (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the periods covered in the Report.

/s/ Randal R. Greene
Randal R. Greene, President and Chief Executive Officer

/s/ Judy C. Gavant
Judy C. Gavant, Executive Vice President and Chief Financial Officer

August 7, 2020

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