Invesco Municipal Opportunity Trust
Form N-CSRS
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED

MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number 811-06567

Invesco Municipal Opportunity Trust

(Exact name of registrant as specified in charter)

1555 Peachtree Street, N.E., Atlanta, Georgia **30309**

(Address of principal executive offices) **(Zip code)**

Sheri Morris 1555 Peachtree Street, N.E., Atlanta, Georgia 30309

(Name and address of agent for service)

Registrant s telephone number, including area code: (404) 439-3217

Date of fiscal year end: 2/28

Date of reporting period: 8/31/16

Item 1. Report to Stockholders.

Semiannual Report to Shareholders **August 31, 2016**

Invesco Municipal Opportunity Trust

NYSE: VMO

Unless otherwise noted, all data provided by Invesco.

Letters to Shareholders

Bruce Crockett

Dear Fellow Shareholders:

As independent chair of the Invesco Funds Board, I can assure you that the members of the Board are strong advocates for the interests of investors in Invesco s mutual funds. We work hard to represent your interests through oversight of the quality of the investment management services your funds receive and other matters important to your investment. This includes but is not limited to: monitoring how the portfolio management teams of the Invesco funds are performing in light of changing economic and market conditions; assessing each portfolio management team s investment performance within the context of the fund s investment strategy; and monitoring for potential conflicts of interests that may impact the nature of the services that your funds receive.

We believe one of the most important services we provide our fund shareholders is the annual review of the funds advisory and sub-advisory contracts with Invesco Advisers and its affiliates. This review is required by the Investment Company Act of 1940 and focuses on the nature and quality of the services Invesco provides as the adviser to the Invesco funds and the reasonableness of the fees that it charges for those services. Each year, we spend months carefully reviewing information received from Invesco and a variety of independent sources, such as performance and fee data prepared by Lipper Inc., an independent, third-party firm widely recognized as a leader in its field. We also meet with our independent legal counsel and other independent advisers to review and help us assess the information that we have received. Our goal is to assure that you receive quality investment management services for a reasonable fee.

As always, please contact me at bruce@brucecrockett.com with any questions or concerns you may have. On behalf of the Board, we look forward to continuing to represent your interests and serving your needs.

Sincerely,

Bruce L. Crockett

Independent Chair

Invesco Funds Board of Trustees

Philip Taylor

Dear Shareholders:

This semiannual report includes information about your Trust, including performance data and a complete list of its investments as of the close of the reporting period.

The investment professionals at Invesco invest with high conviction and a long-term perspective. At Invesco, investing with high conviction means trusting our research-driven insights, having confidence in our investment processes and building portfolios that reflect our beliefs. Our goal is to look past market noise in an effort to find attractive opportunities at attractive prices. Of course, investing with high conviction can t guarantee a profit or ensure investment success; no investment strategy or risk analysis can. To learn more about how we invest with high conviction, visit **invesco.com/HighConviction.**

Our website, **invesco.com/us,** offers timely information about your Trust. Also, you can obtain updates to help you stay informed about the markets, the economy and investing by connecting with Invesco on Twitter, LinkedIn or Facebook. Additionally, you can access our blog at blog.invesco.us.com. Our goal is to provide you the information you want, when and where you want it.

Finally, I m pleased to share with you Invesco s commitment to both the Principles for Responsible Investment and to considering environmental, social and governance issues in our robust investment process. I invite you to learn more at **invesco.com/esg.**

For questions about your account, contact an Invesco client services representative at 800 341 2929. For

Invesco-related questions or comments, please email me directly at phil@invesco.com.

All of us at Invesco look forward to serving your investment management needs. Thank you for investing with us.

Sincerely,

Philip Taylor

Senior Managing Director, Invesco Ltd.

Trust Performance

Performance summary

Cumulative total returns, 2/29/16 to 8/31/16

Trust at NAV	5.57%
Trust at Market Value	10.65
S&P Municipal Bond Index (Broad Market Index)	3.35
S&P Municipal Bond 5+ Year Investment Grade Index (Style-Specific Index)	3.98
Lipper Closed-End General and Insured Muncipal Leveraged Debt Funds Index^{n} (Peer Group Index)	5.92
Market Price Premium to NAV as of 8/31/16	0.90

Source(s): FactSet Research Systems Inc.; ^{n}Lipper Inc.

The performance data quoted represent past performance and cannot guarantee comparable future results; current performance may be lower or higher. Investment return, net asset value (NAV) and common share market price will fluctuate so that you may have a gain or loss when you sell shares. Please visit invesco.com/us for the most recent month-end performance. Performance figures reflect Trust expenses, the reinvestment of distributions (if any) and changes in NAV for performance based on NAV and changes in market price for performance based on market price.

Since the Trust is a closed-end management investment company, shares of the Trust may trade at a discount or premium from the NAV. This characteristic is separate and distinct from the risk that NAV could decrease as a result of investment activities and may be a greater risk to investors expecting to sell their shares after a short time. The Trust cannot predict whether shares will trade at, above or below NAV. The Trust should not be viewed as a vehicle for trading purposes. It is designed primarily for risk-tolerant long-term investors.

The **S&P Municipal Bond Index** is a broad, market value-weighted index that seeks to measure the performance of the US municipal bond market.

The **S&P Municipal Bond 5+ Year Investment Grade Index** is composed of market value-weighted investment-grade US municipal bonds that seek to measure the performance of US municipals with maturities equal to or greater than five years.

The **Lipper Closed-End General and Insured Municipal Leveraged Debt Funds Index** is an unmanaged index considered representative of general and insured municipal leveraged debt funds tracked by Lipper. These funds either invest primarily in municipal debt issues rated in the top four credit ratings or invest primarily in municipal debt issues insured as to timely payment. These funds can be leveraged via use of debt, preferred equity, and/or reverse repurchase agreements.

The Trust is not managed to track the performance of any particular index, including the index(es) described here, and consequently, the performance of the Trust may deviate significantly from the performance of the index(es).

A direct investment cannot be made in an index. Unless otherwise indicated, index results include reinvested dividends, and they do not reflect sales charges. Performance of the peer group, if applicable, reflects fund expenses; performance of a market index does not.

Important Notice Regarding Share Repurchase Program

In September 2016, the Trustees of the Trust approved a share repurchase program that allows the Trust to repurchase up to 25% of the 20-day

average trading volume of the Trust s common shares when the Trust is trading at a 10% or greater discount to its net asset value. The Trust will repurchase

shares pursuant to this program if the Adviser reasonably believes that such repurchases may enhance shareholder value.

Dividend Reinvestment Plan

The dividend reinvestment plan (the Plan) offers you a prompt and simple way to reinvest your dividends and capital gains distributions (Distributions) into additional shares of your Invesco closed-end Trust (the Trust). Under the Plan, the money you earn from Distributions will be reinvested automatically in more shares of the Trust, allowing you to potentially increase your investment over time. All shareholders in the Trust are automatically enrolled in the Plan when shares are purchased.

Plan benefits

n **Add to your account:**
You may increase your shares in your Trust easily and automatically with the Plan.

n **Low transaction costs:**
Shareholders who participate in the Plan may be able to buy shares at below-market prices when the Trust is trading at a premium to its net asset value (NAV). In addition, transaction costs are low because when new shares are issued by the Trust, there is no brokerage fee, and when shares are bought in blocks on the open market, the per share fee is shared among all participants.

n **Convenience:**
You will receive a detailed account statement from Computershare Trust Company, N.A. (the Agent), which administers the Plan. The statement shows your total Distributions, date of investment, shares acquired, and price per share, as well as the total number of shares in your reinvestment account. You can also access your account at invesco.com/us.

n **Safekeeping:**
The Agent will hold the shares it has acquired for you in safekeeping.

Who can participate in the Plan

If you own shares in your own name, your purchase will automatically enroll you in the Plan. If your shares are held in street name in the name of your brokerage firm, bank, or other financial institution you must instruct that entity to participate on your behalf. If they are unable to participate on your behalf, you may request that they reregister your shares in your own name so that you may enroll in the Plan.

How to enroll

If you haven t participated in the Plan in the past or chose to opt out, you are still eligible to participate. Enroll by visiting invesco.com/us, by calling toll-free 800 341 2929 or by notifying us in writing at Invesco Closed-End Funds, Computershare Trust Company, N.A., P.O. Box 30170, College Station, TX 77842-3170. If you are writing to us, please include the Trust name and account number and ensure that all shareholders listed on the account sign these written instructions. Your participation in the Plan will begin with the next Distribution payable after the Agent receives your authorization, as long as they receive it before the record date, which is generally 10 business days before the Distribution is paid. If your authorization arrives after such record date, your participation in the Plan will begin with the following Distribution.

How the Plan works

If you choose to participate in the Plan, your Distributions will be promptly reinvested for you, automatically increasing your shares. If the Trust is trading at a share price that is equal to its NAV, you ll pay that amount for your reinvested shares. However, if the Trust is trading above or below NAV, the price is determined by one of two ways:

1. Premium: If the Trust is trading at a premium a market price that is higher than its NAV you ll pay either the NAV or 95 percent of the market price, whichever is greater. When the Trust trades at a premium, you may pay less for your reinvested shares than an investor purchasing shares on the stock exchange. Keep in mind, a portion of your price reduction may be taxable because you are receiving shares at less than market price.
2. Discount: If the Trust is trading at a discount a market price that is lower than its NAV you ll pay the market price for your reinvested shares.

Costs of the Plan

There is no direct charge to you for reinvesting Distributions because the Plan s fees are paid by the Trust. If the Trust is trading at or above its NAV, your new shares are issued directly by the Trust and there are no brokerage charges or fees. However, if the Trust is trading at a discount, the shares are purchased on the open market, and you will pay your portion of any per share fees. These per share fees are typically less than the standard brokerage charges for individual transactions because shares are purchased for all participants in blocks, resulting in lower fees for each individual participant. Any service or per share fees are added to the purchase price. Per share fees include any applicable brokerage commissions the Agent is required to pay.

Tax implications

The automatic reinvestment of Distributions does not relieve you of any income tax that may be due on Distributions. You will receive tax information annually to help you prepare your federal income tax return.

Invesco does not offer tax advice. The tax information contained herein is general and is not exhaustive by nature. It was not intended or written to be used, and it cannot be used, by any taxpayer for avoiding penalties that may be imposed on the taxpayer under US federal tax laws. Federal and state tax laws are complex and constantly changing. Shareholders should always consult a legal or tax adviser for information concerning their individual situation.

How to withdraw from the Plan

You may withdraw from the Plan at any time by calling 800 341 2929, by visiting invesco.com/us or by writing to Invesco Closed-End Funds, Computershare Trust Company, N.A., P.O. Box 30170, College Station, TX 77842-3170. Simply indicate that you would like to withdraw from the Plan, and be sure to include your Trust name and account number. Also, ensure that all shareholders listed on the account sign these written instructions. If you withdraw, you have three options with regard to the shares held in the Plan:

1. If you opt to continue to hold your non-certificated whole shares (Investment Plan Book Shares), they will be held by the Agent electronically as Direct Registration Book-Shares (Book-Entry Shares) and fractional shares will be sold at the then-current market price. Proceeds will be sent via check to your address of record after deducting applicable fees, including per share fees such as any applicable brokerage commissions the Agent is required to pay.
2. If you opt to sell your shares through the Agent, we will sell all full and fractional shares and send the proceeds via check to your address of record after deducting a $2.50 service fee and per share fees. Per share fees include any applicable brokerage commissions the Agent is required to pay.
3. You may sell your shares through your financial adviser through the Direct Registration System (DRS). DRS is a service within the securities industry that allows Trust shares to be held in your name in electronic format. You retain full ownership of your shares, without having to hold a share certificate. You should contact your financial adviser to learn more about any restrictions or fees that may apply.

The Trust and Computershare Trust Company, N.A. may amend or terminate the Plan at any time. Participants will receive at least 30 days written notice before the effective date of any amendment. In the case of termination, Participants will receive at least 30 days written notice before the record date for the payment of any such Distributions by the Trust. In the case of amendment or termination necessary or appropriate to comply with applicable law or the rules and policies of the Securities and Exchange Commission or any other regulatory authority, such written notice will not be required.

To obtain a complete copy of the current Dividend Reinvestment Plan, please call our Client Services department at 800 341 2929 or visit invesco.com/us.

Schedule of Investments

August 31, 2016

(Unaudited)

	Interest Rate	Maturity Date	Principal Amount (000)	Value
Municipal Obligations 163.37%[a]				
Alabama 3.07%				
Alabama (State of) Special Care Facilities Financing Authority (Ascension Health Senior Credit Group); Series 2016 B, Ref. RB[b]	5.00%	11/15/2046	$ 6,045	$ 7,398,355
Alabaster (City of) Board of Education;				
Series 2014 A, Limited Special Tax GO Wts. (INS-AGM)[c]	5.00%	09/01/2039	1,580	1,887,547
Series 2014 A, Limited Special Tax GO Wts. (INS-AGM)[c]	5.00%	09/01/2044	1,580	1,881,195
Bessemer Governmental Utility Services Corp.; Series 2008 A, Ref. Water Supply RB (INS-AGC)[b][c]	5.00%	06/01/2039	3,250	3,346,493
Birmingham (City of) Airport Authority; Series 2010, RB (INS-AGM)[c]	5.25%	07/01/2030	3,350	3,827,677
Birmingham (City of) Water Works Board; Series 2011, Water RB (INS-AGM)[b][c]	5.00%	01/01/2036	1,815	2,080,516
Huntsville (City of) Special Care Facilities Financing Authority (Redstone Village); Series 2007, Retirement Facility RB	5.50%	01/01/2043	1,600	1,605,296
Lower Alabama Gas District (The); Series 2016 A, Gas Project RB[b]	5.00%	09/01/2046	3,300	4,487,109
Mobile (City of) Industrial Development Board (Mobile Energy Services Co.); Series 1995, Ref. Solid Waste Disposal RB	6.95%	01/01/2020	5	0
Selma (City of) Industrial Development Board; Series 2009 A, Gulf Opportunity Zone RB	6.25%	11/01/2033	3,050	3,527,020
				30,041,208
Alaska 0.68%				
Alaska (State of) Industrial Development & Export Authority (Providence Health Services); Series 2011 A, RB[b]	5.50%	10/01/2041	5,730	6,685,592
Arizona 3.52%				
Arizona (State of) Health Facilities Authority (Catholic Healthcare West); Series 2011 B-2, RB (INS-AGM)[c]	5.00%	03/01/2041	435	487,309
Arizona (State of) Health Facilities Authority (Scottsdale Lincoln Hospital); Series 2014, Ref. RB	5.00%	12/01/2042	2,735	3,272,181
Arizona (State of) Transportation Board;				
Series 2008 B, Highway RB[b][d][e]	5.00%	07/01/2018	2,005	2,164,638

Series 2008 B, Highway RB(d)(e)	5.00%	07/01/2018	610	658,568
Series 2008 B, Highway RB(b)(d)(e)	5.00%	07/01/2018	3,925	4,237,509
Series 2011 A, Ref. Sub. Highway RB(b)	5.00%	07/01/2036	4,095	4,769,078
Glendale (City of) Industrial Development Authority (Midwestern University);				
Series 2010, RB	5.00%	05/15/2035	750	842,790
Series 2010, RB	5.13%	05/15/2040	1,500	1,692,315
Goodyear (City of) McDowell Road Commercial Corridor Improvement District; Series 2007, Special Assessment Improvement RB (INS-AMBAC)(c)	5.25%	01/01/2032	2,775	2,813,711
Phoenix (City of) Industrial Development Authority (Career Success Schools);				
Series 2009, Education RB	7.00%	01/01/2029	735	738,190
Series 2009, Education RB	7.00%	01/01/2039	835	819,194
Series 2009, Education RB	7.13%	01/01/2045	790	781,831
Phoenix (City of) Industrial Development Authority (Legacy Traditional Schools); Series 2014 A, Education Facility RB(f)	6.50%	07/01/2034	630	751,168
Phoenix (City of) Industrial Development Authority (Rowan University); Series 2012, Lease RB	5.00%	06/01/2042	3,870	4,400,577
Pima (County of) Industrial Development Authority (Tucson Electric Power Co.); Series 2010 A, IDR	5.25%	10/01/2040	550	618,525
Salt River Project Agricultural Improvement & Power District; Series 2009 A, Electric System RB(b)	5.00%	01/01/2028	2,680	2,940,308
Yuma (City of) Industrial Development Authority (Regional Medical Center); Series 2014 A, Hospital RB	5.00%	08/01/2029	2,015	2,417,315
				34,405,207
Arkansas 0.17%				
Pulaski (County of) Public Facilities Board; Series 2014, Healthcare RB	5.00%	12/01/2042	1,420	1,676,736

See accompanying Notes to Financial Statements which are an integral part of the financial statements.

	Interest Rate	Maturity Date	Principal Amount (000)	Value
California 16.47%				
Alameda Corridor Transportation Authority; Series 2016 B, Ref. Second Sub. Lien RB	5.00%	10/01/2036	$ 2,485	$ 3,030,681
Anaheim (City of) Public Financing Authority (Anaheim Public Improvements); Series 1997 C, Sub. Lease CAB RB (INS-AGM)[(c)(g)]	0.00%	09/01/2020	2,630	2,486,086
Bay Area Governments Association (California Redevelopment Agency Pool); Series 2004 A, Tax Allocation RB (INS-SGI)[(c)]	5.25%	09/01/2029	160	160,341
Bay Area Toll Authority (San Francisco Bay Area); Series 2008 F-1, Toll Bridge RB[(b)(d)(e)]	5.00%	04/01/2018	5,905	6,318,645
Beverly Hills Unified School District (Election of 2008); Series 2009, Unlimited Tax CAB GO Bonds[(g)]	0.00%	08/01/2028	1,050	826,119
California (State of) Department of Water Resources (Central Valley);				
Series 2008 AE, Water System RB[(b)]	5.00%	12/01/2024	1,200	1,292,592
Series 2008 AE, Water System RB[(b)]	5.00%	12/01/2025	1,450	1,561,621
Series 2008 AE, Water System RB[(b)]	5.00%	12/01/2026	1,450	1,561,346
Series 2008 AE, Water System RB[(b)]	5.00%	12/01/2027	900	968,949
Series 2008 AE, Water System RB[(b)]	5.00%	12/01/2028	1,450	1,560,824
California (State of) Health Facilities Financing Authority (Catholic Healthcare West); Series 2009 A, RB	6.00%	07/01/2034	1,400	1,600,550
California (State of) Housing Finance Agency;				
Series 2008 K, Home Mortgage RB[(h)]	5.30%	08/01/2023	2,405	2,454,952
Series 2008 K, Home Mortgage RB[(h)]	5.45%	08/01/2028	5,700	5,792,796
California (State of) Pollution Control Finance Authority;				
Series 2012, Water Furnishing RB[(f)(h)]	5.00%	07/01/2027	1,740	1,984,835
Series 2012, Water Furnishing RB[(f)(h)]	5.00%	07/01/2030	2,025	2,304,025
Series 2012, Water Furnishing RB[(f)(h)]	5.00%	07/01/2037	4,445	5,018,805
California (State of) Statewide Communities Development Authority (Kaiser Permanente); Series 2009 A, RB	5.00%	04/01/2019	1,750	1,944,933
California (State of) Statewide Communities Development Authority (Loma Linda University Medical Center);				
Series 2014, RB	5.25%	12/01/2044	1,080	1,246,990
Series 2016 A, RB[(f)]	5.00%	12/01/2046	1,715	1,965,527
California (State of) Statewide Communities Development Authority (Pooled Financing Program); Series 2004 A, Water & Wastewater RB (INS-AGM)[(c)]	5.25%	10/01/2019	105	105,413
California (State of);				
Series 2009, Various Purpose Unlimited Tax GO Bonds	5.75%	04/01/2031	1,575	1,773,497
Series 2009 A, Ref. Economic Recovery Unlimited Tax GO Bonds[(d)(e)]	5.25%	07/01/2019	1,590	1,797,145
Series 2009 A, Ref. Economic Recovery Unlimited Tax GO Bonds[(d)(e)]	5.25%	07/01/2019	910	1,028,555
Series 2010, Various Purpose Unlimited Tax GO Bonds	5.50%	03/01/2040	5,090	5,851,209
Series 2012, Ref. Unlimited Tax GO Bonds	5.25%	02/01/2030	730	884,169
Series 2012, Ref. Unlimited Tax GO Bonds	5.00%	02/01/2032	2,300	2,745,027

Series 2012, Various Purpose Unlimited Tax GO Bonds	5.25%	04/01/2035	4,665	5,631,868
Series 2012, Various Purpose Unlimited Tax GO Bonds	5.00%	04/01/2042	3,430	4,084,821
Series 2013, Ref. Various Purpose Unlimited Tax GO Bonds	5.25%	09/01/2030	1,000	1,256,620
Coachella (City of) Redevelopment Agency (Merged Project Areas); Series 2006 A, Sub. Tax Allocation RB(d)(e)	5.25%	09/01/2016	3,390	3,390,000
Daly City (City of) Housing Development Finance Agency (Franciscan Mobile Home Park Acquisition); Series 2007 C, Ref. Third Tier Mobile Home Park RB	6.50%	12/15/2047	590	607,269
Desert Community College District (Election of 2004); Series 2007 B, Unlimited Tax GO Bonds(d)(e)	5.00%	08/01/2017	500	520,800
East Bay Municipal Utility District; Series 2010 A, Ref. Sub. Water System RB(b)	5.00%	06/01/2036	5,795	6,651,559
Foothill-Eastern Transportation Corridor Agency; Series 2015, Ref. CAB Toll Road RB (INS-AGM)(c)(g)	0.00%	01/15/2034	5,235	3,002,901
Golden State Tobacco Securitization Corp.;				
Series 2007 A-1, Sr. Tobacco Settlement Asset-Backed RB	4.50%	06/01/2027	5,720	5,811,463
Series 2007 A-1, Sr. Tobacco Settlement Asset-Backed RB	5.00%	06/01/2033	7,000	7,068,950
Series 2013 A, Enhanced Tobacco Settlement Asset-Backed RB	5.00%	06/01/2030	1,725	2,076,762
Series 2015 A, Ref. Tobacco Settlement Asset-Backed RB	5.00%	06/01/2040	5,000	6,095,300
Kern (County of) Board of Education; Series 2006 A, Ref. COP (INS-NATL)(c)	5.00%	06/01/2031	1,000	1,002,940

See accompanying Notes to Financial Statements which are an integral part of the financial statements.

	Interest Rate	Maturity Date	Principal Amount (000)	Value
California (continued)				
Los Angeles (City of) Department of Water & Power;				
Series 2012 B, Waterworks RB	5.00%	07/01/2037	$ 1,000	$ 1,195,710
Series 2012-B, Waterworks RB[(b)]	5.00%	07/01/2043	6,500	7,728,110
Los Angeles (County of) Public Works Financing Authority; Series 1996 A, Ref. Sr. Lien RB (INS-AGM)[(c)]	5.50%	10/01/2018	665	694,852
Morongo Band of Mission Indians (The) (Enterprise Casino); Series 2008 B, RB[(f)]	5.50%	03/01/2018	110	115,669
Palomar Pomerado Health; Series 2009, COP	6.75%	11/01/2039	1,450	1,620,462
Sacramento (County of); Series 2010, Sr. Airport System RB	5.00%	07/01/2040	2,750	3,117,647
San Diego (County of) Regional Airport Authority; Series 2010 A, Sub. RB	5.00%	07/01/2034	525	595,607
San Diego Community College District (Election of 2006); Series 2011, Unlimited Tax GO Bonds[(b)]	5.00%	08/01/2036	8,460	9,927,049
San Francisco (City & County of) Airport Commission (San Francisco International Airport);				
Series 2010 F, Second Series RB	5.00%	05/01/2040	1,000	1,130,650
Series 2011 F, Ref. Second Series RB[(h)]	5.00%	05/01/2025	1,210	1,414,478
Series 2011 F, Ref. Second Series RB[(h)]	5.00%	05/01/2026	2,420	2,822,978
San Francisco (City & County of) Public Utilities Commission (Water System Improvement Program); Subseries 2011 A, Water RB[(b)]	5.00%	11/01/2036	5,250	6,202,140
San Francisco (City & County of) Public Utilities Commission; Series 2012, Water RB	5.00%	11/01/2033	3,800	4,571,818
Santa Margarita Water District (Community Facilities District No. 2013-1); Series 2013, Special Tax RB	5.50%	09/01/2032	870	1,036,649
Southern California Public Power Authority (Milford Wind Corridor Phase II); Series 2011-1, RB[(b)]	5.25%	07/01/2029	1,950	2,317,751
Vernon (City of);				
Series 2009 A, Electric System RB[(d)(e)]	5.13%	08/01/2019	850	930,121
Series 2009 A, Electric System RB	5.13%	08/01/2021	1,970	2,194,954
West Contra Costa Unified School District;				
Series 2005, Unlimited Tax CAB GO Bonds (INS-NATL)[(c)(g)]	0.00%	08/01/2025	1,485	1,225,036
Series 2005, Unlimited Tax CAB GO Bonds (INS-NATL)[(c)(g)]	0.00%	08/01/2026	1,350	1,079,082
West Sacramento (City of) Financing Authority; Series 2006 A, Special Tax RB (INS-SGI)[(c)]	5.00%	09/01/2026	2,480	3,020,491
William S. Hart Union High School District (Election of 2008); Series 2009 A, Unlimited Tax CAB GO Bonds[(g)]	0.00%	08/01/2032	4,650	2,794,510
				161,202,649

Colorado 5.56%

Colorado (State of) Board of Governors; Series 2012 A, University Enterprise System RB (CEP-Colorado Higher Education Intercept Program)[b]	5.00%	03/01/2041	3,500	4,112,045
Colorado (State of) Educational & Cultural Facilities Authority (Academy of Charter Schools); Series 2004, Charter School RB (INS-SGI)[c]	5.50%	05/01/2036	5,000	5,017,900
Colorado (State of) Educational & Cultural Facilities Authority (Challenge to Excellence Charter School); Series 2007, Ref. Charter School RB (INS-AGC)[c]	5.00%	06/01/2037	2,500	2,577,475
Colorado (State of) Health Facilities Authority (Adventist Health System/Sunbelt Obligated Group); Series 2016 A, Ref. Hospital RB	5.00%	11/15/2041	5,350	6,501,266
Colorado (State of) Health Facilities Authority (Catholic Health Initiatives); Series 2009 A, RB	5.00%	07/01/2039	1,500	1,623,525
Colorado (State of) Health Facilities Authority (Catholic Health); Series 2006 C5, RB[b][d][e]	5.00%	05/01/2018	7,400	7,942,790
Colorado (State of) Health Facilities Authority (Evangelical Lutheran); Series 2005, Health Facilities RB	5.00%	06/01/2035	2,790	2,796,919
Colorado (State of) Health Facilities Authority (SCL Health System); Series 2013 A, RB[b]	5.50%	01/01/2035	3,000	3,676,110
Colorado (State of) Health Facilities Authority (Volunteers of America Care);				
Series 2007 A, Health & Residential Care Facilities RB	5.25%	07/01/2027	420	420,176
Series 2007 A, Health & Residential Care Facilities RB	5.30%	07/01/2037	650	650,182
Colorado (State of) Regional Transportation District (Denver Transit Partners Eagle P3);				
Series 2010, Private Activity RB	6.50%	01/15/2030	1,850	2,182,519
Series 2010, Private Activity RB	6.00%	01/15/2034	1,500	1,737,945
Series 2010, Private Activity RB	6.00%	01/15/2041	700	809,613
Denver (City & County of);				
Series 2012 B, Airport System RB	5.00%	11/15/2037	2,500	2,988,550
Series 2013 A, Sub. Airport System RB[h]	5.25%	11/15/2043	3,000	3,478,590

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	Interest Rate	Maturity Date	Principal Amount (000)	Value
Colorado (continued)				
Denver (City of) Convention Center Hotel Authority;				
Series 2006, Ref. Sr. RB (INS-SGI)[c]	5.00%	12/01/2030	$ 2,000	$ 2,009,680
Series 2006, Ref. Sr. RB (INS-SGI)[c]	5.00%	12/01/2035	1,400	1,406,230
Montezuma (County of) Hospital District; Series 2007, Ref. RB	5.90%	10/01/2037	820	832,489
Montrose (County of) Memorial Hospital Board of Trustees; Series 2003, Enterprise RB	6.00%	12/01/2033	1,500	1,506,180
Salida (City of) Hospital District; Series 2006, RB	5.25%	10/01/2036	2,093	2,094,863
				54,365,047
Connecticut 0.51%				
Connecticut (State of) (Bradley International Airport); Series 2000 A, Special Obligation Parking RB (INS-ACA)[c][h]	6.60%	07/01/2024	3,800	3,814,630
Connecticut (State of) Development Authority (Aquarion Water Co.); Series 2011, Water Facilities RB[h]	5.50%	04/01/2021	1,000	1,149,940
				4,964,570
District of Columbia 3.61%				
District of Columbia (Provident Group Howard Properties LLC); Series 2013, Student Dormitory RB	5.00%	10/01/2045	2,660	2,713,227
District of Columbia (Sibley Memorial Hospital);				
Series 2009, Hospital RB[d][e]	6.38%	10/01/2019	3,115	3,640,750
Series 2009, Hospital RB[d][e]	6.50%	10/01/2019	1,990	2,333,414
District of Columbia Water & Sewer Authority;				
Series 2007 A, Public Utility Sub. Lien RB[d][e]	5.50%	10/01/2017	8,000	8,431,600
Series 2008 A, Ref. Public Utility Sub. Lien RB[b][d][e]	5.00%	10/01/2018	1,225	1,336,157
Series 2008 A, Ref. Public Utility Sub. Lien RB[b][d][e]	5.00%	10/01/2018	2,350	2,563,239
District of Columbia;				
Series 2006 B-1, Ballpark RB (INS-NATL)[c]	5.00%	02/01/2031	2,940	2,951,466
Series 2008 E, Unlimited Tax GO Bonds (INS-BHAC)[b][c]	5.00%	06/01/2026	380	407,451
Series 2008 E, Unlimited Tax GO Bonds (INS-BHAC)[b][c]	5.00%	06/01/2027	380	406,900
Series 2008 E, Unlimited Tax GO Bonds (INS-BHAC)[b][c]	5.00%	06/01/2028	760	812,151
Metropolitan Washington Airports Authority (Dulles Metrorail and Capital Improvement); Series 2014 A, Ref. Sr. Lien Dulles Toll Road RB	5.00%	10/01/2053	8,635	9,771,625
				35,367,980
Florida 11.88%				
Alachua (County of) (North Florida Retirement Village, Inc.); Series 2007, IDR	5.88%	11/15/2036	1,000	1,019,180
Alachua (County of) Health Facilities Authority (Terraces at Bonita Springs); Series 2011 A, RB	8.13%	11/15/2041	1,000	1,200,090
Broward (County of);				
Series 2012 A, Water & Sewer Utility RB	5.00%	10/01/2037	4,125	4,966,665
Series 2013 C, Airport System RB	5.25%	10/01/2038	3,000	3,647,520
Series 2015 A, Airport System RB[h]	5.00%	10/01/2045	2,780	3,279,677

Cape Coral (City of); Series 2011, Ref. Water & Sewer RB (INS-AGM)[c]	5.00%	10/01/2041	870	1,017,091
Citizens Property Insurance Corp. (High Risk Account); Series 2010 A-1, Sr. Sec. RB	5.25%	06/01/2017	2,970	3,072,406
Collier (County of) Industrial Development Authority (The Arlington of Naples);				
Series 2014 A, Continuing Care Community RB[f]	7.75%	05/15/2035	1,650	1,970,248
Series 2014 B-2, TEMPS-70[SM] Continuing Care Community RB[f]	6.50%	05/15/2020	1,645	1,648,356
Davie (Town of) (Nova Southeastern University); Series 2013 A, Educational Facilities RB	6.00%	04/01/2042	1,800	2,194,848
Escambia (County of) Health Facilities Authority (Florida Health Care Facility Loan Veterans Health Administration Program); Series 2000, RB (INS-AMBAC)[c]	5.95%	07/01/2020	340	363,681
Florida (State of) Board of Education; Series 2007 B, Lottery RB (INS-BHAC)[c]	5.00%	07/01/2027	6,000	6,282,120
Florida (State of) Department of Transportation;				
Series 2008 A, Ref. Turnpike RB[b]	5.00%	07/01/2026	2,540	2,655,595
Series 2008 A, Ref. Turnpike RB[b]	5.00%	07/01/2027	2,580	2,696,874
Series 2008 A, Ref. Turnpike RB[b]	5.00%	07/01/2028	2,805	2,930,860
Series 2008 A, Ref. Turnpike RB[b]	5.00%	07/01/2032	2,500	2,613,250

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	Interest Rate	Maturity Date	Principal Amount (000)	Value
Florida (continued)				
Florida (State of) Ports Financing Commission (State Transportation Trust Fund); Series 2011 B, Ref. RB(h)	5.13%	06/01/2027	$ 1,080	$ 1,266,419
Hillsborough (County of) Aviation Authority;				
Series 2008 A, RB (INS-AGC)(b)(c)(h)	5.38%	10/01/2033	1,500	1,622,715
Series 2008 A, RB (INS-AGC)(b)(c)(h)	5.50%	10/01/2038	3,325	3,608,390
JEA; Series 2012 Three B, Electric System RB(b)	5.00%	10/01/2039	4,000	4,650,760
Martin (County of) Health Facilities Authority (Martin Memorial Medical Center); Series 2012, RB	5.00%	11/15/2027	1,895	2,151,962
Miami Beach (City of) Health Facilities Authority (Mount Sinai Medical Center); Series 2014, Ref. RB	5.00%	11/15/2044	1,180	1,373,319
Miami-Dade (County of) (Miami International Airport-Hub of the Americas); Series 2009 B, Aviation RB(d)(e)	5.00%	10/01/2019	650	734,253
Miami-Dade (County of) Expressway Authority;				
Series 2010 A, Ref. Toll System RB	5.00%	07/01/2040	5,000	5,682,500
Series 2010 A, Ref. Toll System RB (INS-AGM)(c)	5.00%	07/01/2035	720	821,182
Miami-Dade (County of) Health Facilities Authority (Miami Children s Hospital);				
Series 2010 A, Ref. Hospital RB	6.00%	08/01/2030	360	419,080
Series 2010 A, Ref. Hospital RB	6.13%	08/01/2042	825	966,339
Miami-Dade (County of);				
Series 2010, Water & Sewer System RB (INS-AGC)(c)	5.00%	10/01/2039	1,000	1,143,130
Series 2012 A, Ref. Aviation RB(h)	5.00%	10/01/2028	1,500	1,739,055
Series 2012 A, Ref. Aviation RB(h)	5.00%	10/01/2030	1,080	1,269,259
Series 2012 A, Ref. Sub. Special Obligation RB	5.00%	10/01/2028	1,000	1,199,210
Series 2012 B, Ref. Sub. Special Obligation RB	5.00%	10/01/2032	1,450	1,720,802
Series 2012 B, Ref. Sub. Special Obligation RB	5.00%	10/01/2035	2,295	2,704,749
Series 2012 B, Ref. Sub. Special Obligation RB (INS-AGM)(c)	5.00%	10/01/2035	2,450	2,887,423
Overoaks Community Development District;				
Series 2004 A, Capital Improvement Special Assessment RB(i)	6.13%	05/01/2035	160	2
Series 2010 A-2, Capital Improvement RB	6.13%	05/01/2035	155	155,166
Series 2010 B, Capital Improvement RB	5.13%	05/01/2017	140	139,994
Palm Beach (County of) Health Facilities Authority (The Waterford); Series 2007, RB(d)(e)	5.88%	11/15/2017	1,400	1,488,872
Palm Beach (County of) Solid Waste Authority;				
Series 2009, Improvement RB (INS-BHAC)(b)(c)	5.50%	10/01/2023	4,150	4,741,832
Series 2009, Improvement RB (INS-BHAC)(c)	5.50%	10/01/2023	600	685,566
Series 2011, Ref. RB(b)	5.00%	10/01/2031	4,650	5,473,562
Putnam (County of) Development Authority (Seminole Electric Cooperative); Series 2007 A, Ref. PCR (INS-AMBAC)(c)(e)	5.35%	05/01/2018	5,000	5,352,500
Reunion East Community Development District;				
Series 2005, Special Assessment RB(i)	5.80%	05/01/2036	197	2
Series 2015-2, Special Assessment RB	6.60%	05/01/2036	250	259,295

Seminole Indian Tribe of Florida; Series 2007 A, Special Obligation RB[f]	5.75%	10/01/2022	1,000	1,044,930
Seven Oaks Community Development District II; Series 2004 A, Special Assessment RB	5.88%	05/01/2035	960	961,738
South Miami (City of) Health Facilities Authority (Baptist Health South Florida Obligated Group);				
Series 2007, Hospital RB[b]	5.00%	08/15/2032	7,510	7,770,071
Series 2007, Hospital RB[b]	5.00%	08/15/2042	4,000	4,131,920
Series 2007, Hospital RB	5.00%	08/15/2042	4,000	4,131,920
St. Johns (County of) Industrial Development Authority (Glenmoor);				
Series 2014 A, Ref. Health Care RB[j]	5.38%	01/01/2049	750	509,970
Series 2014 B, Ref. Sub. Health Care RB	2.50%	01/01/2049	278	3
Sterling Hill Community Development District; Series 2003 A, Capital Improvement Special Assessment RB	6.20%	05/01/2035	1,014	709,699
Sumter (County of) Industrial Development Authority (Central Florida Health Alliance); Series 2014 A, Hospital RB	5.13%	07/01/2034	1,000	1,167,200
				116,243,250

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	Interest Rate	Maturity Date	Principal Amount (000)	Value
Georgia 4.07%				
Atlanta (City of) (Beltline);				
Series 2009 B, Tax Allocation RB	6.75%	01/01/2020	$ 270	$ 305,394
Series 2009 B, Tax Allocation RB	6.75%	01/01/2020	485	548,579
Series 2009 B, Tax Allocation RB	7.38%	01/01/2031	265	298,862
Atlanta (City of);				
Series 1999 A, Water & Wastewater RB (INS-NATL)[c]	5.50%	11/01/2022	3,000	3,662,430
Series 2009 A, Water & Wastewater RB	5.25%	11/01/2017	1,675	1,764,797
Series 2009 A, Water & Wastewater RB[d][e]	6.00%	11/01/2019	1,600	1,865,728
Series 2009 A, Water & Wastewater RB[d][e]	6.00%	11/01/2019	1,750	2,040,640
Series 2009 A, Water & Wastewater RB[d][e]	6.00%	11/01/2019	1,600	1,865,728
Series 2010 A, General Airport RB (INS-AGM)[c]	5.00%	01/01/2035	2,000	2,240,600
Series 2015, Ref. Water & Wastewater RB[b]	5.00%	11/01/2040	10,040	12,220,387
Fulton (County of) Development Authority (Georgia Tech Athletic Association); Series 2012, Ref. RB	5.00%	10/01/2042	1,340	1,567,492
Georgia (State of) Municipal Electric Authority; Series 1997 A, Power RB (INS-NATL)[c]	6.50%	01/01/2020	3,970	4,313,961
Metropolitan Atlanta Rapid Transit Authority; Series 2007 B, Ref. Third Indenture Sales Tax RB[d][e]	5.00%	07/01/2017	660	684,578
Newton (County of) Industrial Development Authority (GPC Foundation Real Estate Newton, LLC Academic Building Newton Campus); Series 2005, RB (INS-AGC)[c]	5.00%	06/01/2034	2,000	2,007,220
Private Colleges & Universities Authority (Emory University); Series 2009 B, RB[b]	5.00%	09/01/2029	3,200	3,596,256
Private Colleges & Universities Authority (Mercer University);				
Series 2012 A, RB	5.25%	10/01/2027	455	531,103
Series 2012 A, RB	5.00%	10/01/2032	250	285,167
				39,798,922
Hawaii 2.50%				
Hawaii (State of) Department of Budget & Finance (Hawaii Pacific Health Obligated Group);				
Series 2010 B, Special Purpose RB	5.63%	07/01/2030	1,000	1,147,240
Series 2010 B, Special Purpose RB	5.75%	07/01/2040	370	422,044
Series 2013 A, Ref. Special Purpose RB	5.50%	07/01/2043	3,000	3,625,890
Hawaii (State of);				
Series 2010 A, Airport System RB	5.00%	07/01/2039	3,525	3,975,143
Series 2014 EO, Unlimited Tax GO Bonds	5.00%	08/01/2034	5,000	6,146,550
Series 2015 A, Airport System RB[h]	5.00%	07/01/2045	2,795	3,285,103
Honolulu (City & County of);				
Series 2012 A, Unlimited Tax GO Bonds	5.00%	11/01/2036	1,000	1,210,090
Series 2015 A, Ref. Jr. Wastewater System RB[b]	5.00%	07/01/2030	3,775	4,684,284
				24,496,344
Idaho 0.70%				

Idaho (State of) Health Facilities Authority (St. Luke s Health System);				
Series 2008 A, RB	6.50%	11/01/2023	1,000	1,120,250
Series 2008 A, RB	6.75%	11/01/2037	1,400	1,565,662
Idaho (State of) Health Facilities Authority (Valley Vista Care Corp.); Series 2007, Ref. RB	6.13%	11/15/2027	870	893,864
Idaho (State of) Housing & Finance Association (Federal Highway Trust Fund); Series 2008 A, Grant & RAB(d)(e)	5.25%	07/15/2018	1,240	1,347,037
Regents of the University of Idaho; Series 2011, Ref. General RB(e)	5.25%	04/01/2021	1,660	1,943,163
				6,869,976
Illinois 18.93%				
Bartlett (Village of) (Quarry Redevelopment); Series 2007, Ref. Sr. Lien Tax Increment Allocation RB	5.60%	01/01/2023	1,750	1,782,725
Bourbonnais (Village of) (Olivet Nazarene University);				
Series 2010, Industrial Project RB	5.50%	11/01/2040	945	1,054,497
Series 2013, Industrial Project RB	5.50%	11/01/2042	1,050	1,165,290
Chicago (City of) (Midway Airport);				
Series 2013 A, Ref. Second Lien RB(h)	5.50%	01/01/2031	4,000	4,776,280
Series 2014 A, Ref. Second Lien RB(h)	5.00%	01/01/2041	1,575	1,803,218

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	Interest Rate	Maturity Date	Principal Amount (000)	Value
Illinois (continued)				
Chicago (City of) (O Hare International Airport);				
Series 2008 A, Third Lien General Airport RB (INS-AGM)[(b)(c)]	5.00%	01/01/2033	$ 1,400	$ 1,470,322
Series 2012 B, Ref. Passenger Facility Charge RB[(h)]	5.00%	01/01/2030	4,320	4,904,496
Series 2013, Sr. Lien Customer Facility Charge RB	5.75%	01/01/2038	3,150	3,772,597
Series 2015 C, RB[(h)]	5.00%	01/01/2046	1,075	1,239,292
Series 2015 D, RB	5.00%	01/01/2046	755	897,423
Chicago (City of) Metropolitan Water Reclamation District (Green Bonds); Series 2016 E, Unlimited Tax GO Bonds[(b)]	5.00%	12/01/2045	2,215	2,670,626
Chicago (City of) Transit Authority;				
Series 2011, Sales Tax Receipts RB[(b)]	5.25%	12/01/2036	6,900	7,691,223
Series 2014, Sales Tax Receipts RB	5.00%	12/01/2044	4,735	5,433,507
Chicago (City of);				
Series 1996 A-2, Ref. Unlimited Tax GO Bonds (INS-AMBAC)[(c)]	5.50%	01/01/2018	480	491,194
Series 2002 B, Unlimited Tax GO Bonds	5.50%	01/01/2037	860	905,107
Series 2005 D, Ref. Unlimited Tax GO Bonds	5.50%	01/01/2040	535	561,183
Series 2007 A, Ref. Project Unlimited Tax GO Bonds (INS-AGM)[(c)]	5.00%	01/01/2037	2,650	2,669,663
Series 2007 E, Ref. Unlimited Tax GO Bonds	5.50%	01/01/2042	425	445,205
Series 2008 A, Unlimited Tax GO Bonds (INS-AGC)[(b)(c)]	5.25%	01/01/2024	1,000	1,042,390
Series 2008 A, Unlimited Tax GO Bonds (INS-AGC)[(b)(c)]	5.25%	01/01/2025	3,875	4,038,215
Series 2011, Tax Increment Allocation Revenue COP	7.13%	05/01/2021	445	478,780
Series 2011, Tax Increment Allocation Revenue COP	7.13%	05/01/2021	875	941,421
Series 2011 A, Sales Tax RB	5.25%	01/01/2038	2,400	2,586,864
Series 2012, Second Lien Wastewater Transmission RB	5.00%	01/01/2042	4,085	4,501,670
Series 2012 A, Unlimited Tax GO Bonds	5.00%	01/01/2033	2,485	2,668,542
Series 2014, Ref. Motor Fuel Tax RB (INS-AGM)[(c)]	5.00%	01/01/2031	1,400	1,593,900
Series 2014, Second Lien Waterworks RB	5.00%	11/01/2044	1,105	1,269,159
Series 2015 A, Unlimited Tax GO Bonds	5.50%	01/01/2033	4,310	4,569,591
Cook (County of); Series 2012 C, Ref. Unlimited Tax GO Bonds	5.00%	11/15/2033	2,300	2,586,304
Illinois (State of) Finance Authority (Art Institute of Chicago); Series 2012 A, RB	5.00%	03/01/2034	1,000	1,155,510
Illinois (State of) Finance Authority (Centegra Health System); Series 2014 A, RB	5.00%	09/01/2042	1,810	2,054,060
Illinois (State of) Finance Authority (Christian Homes, Inc.);				
Series 2007, Ref. RB[(d)(e)]	5.75%	05/15/2017	880	912,481
Series 2007, Ref. RB[(d)(e)]	5.75%	05/15/2017	415	429,923
Series 2007, Ref. RB	5.75%	05/15/2026	1,005	1,020,849
Illinois (State of) Finance Authority (Kish Health System Obligated Group); Series 2008, Ref. Hospital RB[(d)(e)]	5.50%	10/01/2018	1,850	2,035,555
Illinois (State of) Finance Authority (Loyola University of Chicago); Series 2012 B, RB	5.00%	07/01/2042	1,000	1,138,370

Illinois (State of) Finance Authority (Northwestern Memorial Hospital);				
Series 2009 A, RB[b]	5.38%	08/15/2024	3,070	3,420,318
Series 2009 A, RB[b]	5.75%	08/15/2030	1,900	2,178,369
Illinois (State of) Finance Authority (OSF Healthcare System);				
Series 2007 A, RB[d][e]	5.75%	11/15/2017	4,500	4,778,910
Series 2015 A, Ref. RB	5.00%	11/15/2045	3,015	3,556,554
Illinois (State of) Finance Authority (Park Place of Elmhurst);				
Series 2016, RB	2.00%	05/15/2055	299	37,163
Series 2016 B, RB	5.63%	05/15/2020	1,692	1,712,965
Illinois (State of) Finance Authority (Resurrection Health Care Corp.);				
Series 1999 A, RB[d][e]	5.50%	05/15/2018	385	416,585
Series 1999 A, RB[d][e]	5.50%	05/15/2018	5,615	6,075,655
Series 2009, Ref. RB[d][e]	6.13%	05/15/2019	25	28,594
Series 2009, Ref. RB[d][e]	6.13%	05/15/2019	730	834,945
Illinois (State of) Finance Authority (Riverside Health System); Series 2009, RB	6.25%	11/15/2035	1,650	1,901,642
Illinois (State of) Finance Authority (Roosevelt University); Series 2007, RB	5.50%	04/01/2037	1,000	1,010,610

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	Interest Rate	Maturity Date	Principal Amount (000)	Value
Illinois (continued)				
Illinois (State of) Finance Authority (Rush University Medical Center Obligated Group); Series 2009 A, RB[d][e]	7.25%	11/01/2018	$ 2,845	$ 3,249,957
Illinois (State of) Finance Authority (Rush University Medical Center); Series 2015 A, Ref. RB	5.00%	11/15/2038	2,610	3,107,414
Illinois (State of) Finance Authority (Sherman Health System); Series 2007 A, RB[d][e]	5.50%	08/01/2017	7,500	7,832,100
Illinois (State of) Finance Authority (Swedish Covenant Hospital);				
Series 2010 A, Ref. RB	5.75%	08/15/2029	1,105	1,243,622
Series 2010 A, Ref. RB	6.00%	08/15/2038	2,750	3,091,468
Illinois (State of) Finance Authority (The University of Chicago Medical Center); Series 2011 C, RB[b]	5.50%	08/15/2041	1,530	1,753,655
Illinois (State of) Finance Authority (University of Chicago); Series 2013 A, RB[b]	5.25%	10/01/2052	4,080	4,815,175
Illinois (State of) Finance Authority; Series 2009, RB[d][e]	6.13%	05/15/2019	20	22,875
Illinois (State of) Metropolitan Pier & Exposition Authority (McCormick Place Expansion);				
Series 2010 A, RB	5.50%	06/15/2050	2,750	2,969,780
Series 2012 A, RB	5.00%	06/15/2042	1,500	1,631,655
Series 2012 B, RB	5.00%	12/15/2028	1,110	1,241,679
Series 2015 A, RB	5.50%	06/15/2053	1,500	1,764,630
Illinois (State of) Metropolitan Pier & Exposition Authority; Series 2002, Dedicated State Tax CAB RB (INS-AGM)[c][g]	0.00%	12/15/2029	3,500	2,194,780
Illinois (State of) Sports Facilities Authority;				
Series 2014, Ref. RB (INS-AGM)[c]	5.25%	06/15/2031	1,530	1,785,969
Series 2014, Ref. RB (INS-AGM)[c]	5.25%	06/15/2032	1,395	1,623,083
Illinois (State of) Toll Highway Authority;				
Series 2013 A, RB[b]	5.00%	01/01/2038	4,625	5,440,388
Series 2014 C, RB[b]	5.00%	01/01/2039	6,240	7,443,010
Series 2015 A, RB[b]	5.00%	01/01/2040	3,000	3,609,510
Illinois (State of);				
Series 2012 A, Unlimited Tax GO Bonds	5.00%	01/01/2031	1,560	1,681,524
Series 2013, Unlimited Tax GO Bonds	5.50%	07/01/2038	3,025	3,509,242
Series 2014, Unlimited Tax GO Bonds	5.25%	02/01/2034	1,650	1,853,181
Series 2014, Unlimited Tax GO Bonds	5.00%	05/01/2035	1,880	2,058,826
Series 2014, Unlimited Tax GO Bonds	5.00%	05/01/2036	1,540	1,681,095
Peoria (County of); Series 2011, Unlimited Tax GO Bonds[b]	5.00%	12/15/2041	3,900	4,446,507
Railsplitter Tobacco Settlement Authority; Series 2010, RB	5.50%	06/01/2023	6,030	7,088,868
Regional Transportation Authority; Series 1994 B, RB (INS-AMBAC)[c]	8.00%	06/01/2017	2,595	2,734,896
	7.00%	12/01/2042	650	679,660

Will (County of) & Kankakee (City of) Regional Development Authority (Senior Estates Supportive Living); Series 2007, MFH RB[h]				
				185,264,291
Indiana 4.44%				
Indiana (State of) Finance Authority (Ascension Health Senior Credit); Series 2006 B-6, RB[b][d][e]	5.00%	11/15/2016	9,200	9,285,928
Indiana (State of) Finance Authority (CWA Authority); Series 2011 B, Second Lien Wastewater Utility RB	5.25%	10/01/2031	3,625	4,293,740
Indiana (State of) Finance Authority (Deaconess Hospital Obligated Group); Series 2009 A, Hospital RB[d][e]	6.75%	03/01/2019	1,360	1,563,755
Indiana (State of) Finance Authority (I-69 Section 5);				
Series 2014, RB[h]	5.25%	09/01/2034	1,105	1,224,285
Series 2014, RB[h]	5.25%	09/01/2040	3,195	3,516,641
Series 2014, RB[h]	5.00%	09/01/2046	1,895	2,039,778
Indiana (State of) Finance Authority (Ohio River Bridges East End Crossing);				
Series 2013, Private Activity RB[h]	5.00%	07/01/2040	6,405	7,271,340
Series 2013 A, Private Activity RB[h]	5.00%	07/01/2048	730	816,702
Indiana (State of) Finance Authority (Ohio Valley Electric Corp.);				
Series 2012 A, Midwestern Disaster Relief RB	5.00%	06/01/2032	1,535	1,666,396
Series 2012 A, Midwestern Disaster Relief RB	5.00%	06/01/2039	4,265	4,614,986

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	Interest Rate	Maturity Date	Principal Amount (000)	Value
Indiana (continued)				
Indiana (State of) Municipal Power Agency;				
Series 2013 A, Power Supply System RB	5.25%	01/01/2038	$ 2,000	$ 2,387,800
Series 2016 A, Ref. Power Supply System RB	5.00%	01/01/2042	2,135	2,589,392
Valparaiso (City of) (Pratt Paper, LLC); Series 2013, Exempt Facilities RB(h)	5.88%	01/01/2024	1,430	1,684,340
Vigo (County of) Hospital Authority (Union Hospital, Inc.); Series 2007, RB(f)	5.75%	09/01/2042	500	512,925
				43,468,008
Iowa 1.10%				
Iowa (State of) (IJOBS Program);				
Series 2009 A, Special Obligation RB(b)(d)(e)(k)	5.00%	06/01/2019	975	1,090,967
Series 2009 A, Special Obligation RB(b)(d)(e)(k)	5.00%	06/01/2019	730	816,826
Iowa (State of) Finance Authority (Alcoa Inc.); Series 2012, Midwestern Disaster Area RB	4.75%	08/01/2042	2,500	2,617,975
Iowa (State of) Finance Authority (Iowa Fertilizer Co.); Series 2013, Midwestern Disaster Area RB	5.00%	12/01/2019	2,980	3,103,461
Iowa (State of) Finance Authority (Iowa Health System); Series 2008 A, Health Facilities RB(d)(e)	5.25%	08/15/2019	1,500	1,701,075
Iowa (State of) Tobacco Settlement Authority; Series 2005 C, Asset-Backed RB	5.63%	06/01/2046	1,425	1,428,719
				10,759,023
Kansas 1.26%				
Kansas (State of) Development Finance Authority (Adventist Health System/Sunbelt Obligated Group);				
Series 2009 C, Hospital RB	5.50%	11/15/2023	1,250	1,418,775
Series 2009 C, Hospital RB	5.50%	11/15/2029	335	382,851
Series 2009 C, Hospital RB(b)	5.75%	11/15/2038	3,400	3,908,164
Kansas (State of) Municipal Energy Agency (Jameson Energy Center); Series 2013, Power Project RB	5.75%	07/01/2038	2,000	2,415,660
Wichita (City of) (Presbyterian Manors, Inc.); Series 2013 IV-A, Health Care Facilities RB	6.38%	05/15/2043	1,500	1,687,425
Wyandotte (County of) & Kansas City (City of) Unified Government; Series 2014 A, Ref. & Improvement Utility System RB	5.00%	09/01/2044	2,080	2,491,591
				12,304,466
Kentucky 3.05%				
Kentucky (State of) Economic Development Finance Authority (Louisville Arena Authority, Inc.);				
Subseries 2008 A-1, RB (INS-AGC)(c)	5.75%	12/01/2028	2,000	2,126,400
Subseries 2008 A-1, RB (INS-AGC)(c)	6.00%	12/01/2042	1,000	1,071,510
Kentucky (State of) Economic Development Finance Authority (Next Generation Kentucky Information Highway);				
Series 2015 A, Sr. RB	5.00%	07/01/2040	1,695	1,972,929

Series 2015 A, Sr. RB	5.00%	01/01/2045	1,800	2,086,002
Kentucky (State of) Economic Development Finance Authority (Owensboro Medical Health System, Inc.);				
Series 2010 A, Hospital RB	6.38%	06/01/2040	1,950	2,246,361
Series 2010 A, Hospital RB	6.50%	03/01/2045	4,550	5,254,795
Series 2010 B, Ref. Hospital RB	6.38%	03/01/2040	1,985	2,286,680
Kentucky (State of) Property & Building Commission (No. 93);				
Series 2009, Ref. RB[(d)(e)]	5.25%	02/01/2019	1,870	2,072,559
Series 2009, Ref. RB[(d)(e)]	5.25%	02/01/2019	2,100	2,327,472
Series 2009, Ref. RB (INS-AGC)[(c)]	5.25%	02/01/2024	240	264,571
Series 2009, Ref. RB (INS-AGC)[(c)]	5.25%	02/01/2025	270	297,367
Kentucky (State of) Public Transportation Infrastructure Authority (Downtown Crossing); Series 2013 A, First Tier Toll RB	5.75%	07/01/2049	1,000	1,192,560
Louisville (City of) & Jefferson (County of) Metropolitan Government (Norton Healthcare, Inc.);				
Series 2006, Health System RB	5.25%	10/01/2036	5,405	5,427,809
Series 2013 A, Health System RB	5.50%	10/01/2033	1,000	1,221,570
				29,848,585

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	Interest Rate	Maturity Date	Principal Amount (000)	Value
Louisiana 2.47%				
Lafayette (City of) Public Trust Financing Authority (Ragin Cajun Facilities, Inc. Housing & Parking);				
Series 2010, RB (INS-AGM)[c]	5.25%	10/01/2030	$ 550	$ 629,800
Series 2010, RB (INS-AGM)[c]	5.50%	10/01/2035	960	1,103,606
Louisiana (State of) Public Facilities Authority (Louisiana Pellets Inc.); Series 2015 A, Waste Disposal Facilities RB[h]	8.00%	07/01/2039	2,585	1,495,810
Louisiana (State of) Public Facilities Authority (Ochsner Clinic Foundation); Series 2002 B, RB[d][e]	5.50%	05/15/2026	2,000	2,706,160
Louisiana Citizens Property Insurance Corp.; Series 2009 C-2, Assessment RB[d][e]	6.75%	06/01/2018	2,650	2,932,357
New Orleans (City of);				
Series 2014, Ref. Sewerage Service RB	5.00%	06/01/2044	940	1,108,956
Series 2014, Ref. Water System RB	5.00%	12/01/2044	1,000	1,168,240
St. Charles (Parish of) (Valero Energy Corp.); Series 2010, Gulf Opportunity Zone RB[e]	4.00%	06/01/2022	1,750	1,950,042
St. John the Baptist (Parish of) (Marathon Oil Corp.); Series 2007 A, RB	5.13%	06/01/2037	4,125	4,223,299
Tobacco Settlement Financing Corp.;				
Series 2013 A, Ref. Asset-Backed RB	5.50%	05/15/2030	1,085	1,239,656
Series 2013 A, Ref. Asset-Backed RB	5.25%	05/15/2031	1,085	1,230,357
Series 2013 A, Ref. Asset-Backed RB	5.25%	05/15/2032	2,065	2,380,553
Series 2013 A, Ref. Asset-Backed RB	5.25%	05/15/2033	1,735	1,986,176
				24,155,012
Maryland 1.43%				
Baltimore (County of) (Oak Crest Village Inc. Facility); Series 2007 A, RB	5.00%	01/01/2037	505	510,818
Maryland (State of) Health & Higher Educational Facilities Authority (Maryland Institute College of Art); Series 2006, RB	5.00%	06/01/2040	770	772,564
Maryland (State of) Health & Higher Educational Facilities Authority (Mercy Medical Center); Series 2007 A, RB[d][e]	5.50%	07/01/2017	2,715	2,817,844
Maryland (State of) Health & Higher Educational Facilities Authority (Peninsula Regional Medical Center); Series 2015, Ref. RB	5.00%	07/01/2045	2,015	2,372,078
Maryland (State of) Stadium Authority (Baltimore City Public Schools); Series 2016, RB	5.00%	05/01/2046	3,645	4,475,805
Maryland Economic Development Corp. (Terminal); Series 2010 B, RB	5.75%	06/01/2035	1,815	2,031,384
Maryland Economic Development Corp. (Transportation Facilities); Series 2010 A, RB	5.38%	06/01/2025	930	1,044,074
				14,024,567
Massachusetts 1.62%				
	5.00%	01/01/2035	2,010	2,276,446

Massachusetts (State of) Department of Transportation (Contract Assistance); Series 2010 B, Metropolitan Highway Systems RB				
Massachusetts (State of) Development Finance Agency (Partners Healthcare); Series 2012 L, RB	5.00%	07/01/2031	1,230	1,443,762
Massachusetts (State of) Development Finance Agency (Tufts Medical Center);				
Series 2011 I, RB	7.25%	01/01/2032	1,050	1,284,286
Series 2011 I, RB	6.75%	01/01/2036	275	328,763
Massachusetts (State of) Health and Education Facilities Authority (Berklee College of Music);				
Series 2007, RB[(d)(e)]	5.00%	10/01/2017	2,605	2,730,743
Series 2007, RB	5.00%	10/01/2032	195	204,038
Massachusetts (State of) School Building Authority; Series 2011 B, Sr. Dedicated Sales Tax RB[(b)]	5.00%	10/15/2035	6,450	7,617,708
				15,885,746
Michigan 2.34%				
Lansing (City of) Board of Water & Light; Series 2011 A, Utility System RB	5.00%	07/01/2037	750	867,382
Michigan (State of) Building Authority (Facilities Program); Series 2016 I, Ref. RB	5.00%	04/15/2041	3,650	4,461,504
Michigan (State of) Finance Authority (Detroit Water & Sewerage Department);				
Series 2014 C-1, Ref. Local Government Loan Program RB	5.00%	07/01/2044	1,585	1,786,866
Series 2014 C-3, Ref. Local Government Loan Program RB (INS-AGM)[(c)]	5.00%	07/01/2033	2,000	2,370,820
Series 2014 C-6, Ref. Local Government Loan Program RB	5.00%	07/01/2033	790	923,565
Series 2014 D-2, Ref. Local Government Loan Program RB (INS-AGM)[(c)]	5.00%	07/01/2028	2,000	2,416,080
Series 2014 D-4, Ref. Local Government Loan Program RB	5.00%	07/01/2029	790	936,798

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	Interest Rate	Maturity Date	Principal Amount (000)	Value
Michigan (continued)				
Michigan (State of) Finance Authority (MidMichigan Health Credit Group); Series 2014, Ref. Hospital RB	5.00%	06/01/2039	$ 2,885	$ 3,391,289
Monroe County Economic Development Corp. (Detroit Edison Co.); Series 1992 AA, Ref. RB (INS-NATL)(c)	6.95%	09/01/2022	1,000	1,310,920
Oakland University; Series 2012, General RB	5.00%	03/01/2042	3,000	3,441,270
Wayne State University Board of Governors;				
Series 2008, Ref. General RB(d)(e)	5.00%	11/15/2018	385	421,945
Series 2008, Ref. General RB (INS-AGM)(c)	5.00%	11/15/2025	485	528,475
				22,856,914
Minnesota 0.51%				
Minneapolis (City of) (Fairview Health Services);				
Series 2008 A, Health Care System RB(d)(e)	6.38%	11/15/2018	2,850	3,207,875
Series 2008 A, Health Care System RB(d)(e)	6.63%	11/15/2018	1,600	1,809,648
				5,017,523
Missouri 1.21%				
Cape Girardeau (County of) Industrial Development Authority (St. Francis Medical Center); Series 2009 A, Health Facilities RB	5.50%	06/01/2029	500	557,825
Cass (County of); Series 2007, Hospital RB	5.63%	05/01/2038	500	502,510
Kansas City (City of) Industrial Development Authority (Downtown Redevelopment District);				
Series 2011 A, Ref. RB	5.50%	09/01/2024	1,175	1,399,120
Series 2011 A, Ref. RB	5.50%	09/01/2025	305	361,669
Series 2011 A, Ref. RB	5.50%	09/01/2027	1,375	1,618,897
Series 2011 A, Ref. RB	5.50%	09/01/2028	2,380	2,773,652
Maryland Heights (City of) (South Heights Redevelopment); Series 2007 A, Ref. Tax Increment Allocation RB	5.50%	09/01/2018	150	154,943
Missouri (State of) Health & Educational Facilities Authority (Lutheran Senior Services); Series 2010, Senior Living Facilities RB	5.50%	02/01/2042	1,325	1,451,405
St. Louis (City of) Industrial Development Authority (Loughborough Commons Redevelopment); Series 2007, Ref. Community Improvement District Tax Increment Allocation RB	5.75%	11/01/2027	815	816,760
St. Louis (County of) Industrial Development Authority (St. Andrew s Resources for Seniors);				
Series 2007 A, Senior Living Facilities RB(d)(e)	6.38%	12/01/2017	615	659,612
Series 2007 A, Senior Living Facilities RB(d)(e)	6.38%	12/01/2017	1,450	1,555,183
				11,851,576
Nebraska 2.22%				
Central Plains Energy Project (No. 3);				
Series 2012, Gas RB	5.00%	09/01/2032	5,500	6,271,595
Series 2012, Gas RB	5.00%	09/01/2042	2,000	2,255,600

Douglas (County of) Hospital Authority No. 2 (Madonna Rehabilitation Hospital); Series 2014, RB	5.00%	05/15/2044	1,000	1,144,410
Nebraska (State of) Municipal Energy Agency;				
Series 2009 A, Ref. Power Supply System RB (INS-BHAC)[(c)]	5.13%	04/01/2029	1,000	1,101,090
Series 2009 A, Ref. Power Supply System RB (INS-BHAC)[(c)]	5.38%	04/01/2039	1,000	1,109,870
Nebraska (State of) Public Power District;				
Series 2007 B, RB[(d)(e)]	5.00%	07/01/2017	1,260	1,307,136
Series 2007 B, RB (INS-BHAC)[(c)]	5.00%	01/01/2037	740	767,432
Omaha (City of) Public Power District; Series 2011 B, RB[(b)]	5.00%	02/01/2036	5,775	6,653,378
Public Power Generation Agency (Whelan Energy Center Unit 2); Series 2016 A, Ref. RB	5.00%	01/01/2037	940	1,144,629
				21,755,140
Nevada 1.16%				
Clark (County of) (Las Vegas-McCarran International Airport);				
Series 2010 A, Passenger Facility Charge RB	5.13%	07/01/2034	500	559,050
Series 2010 A, Passenger Facility Charge RB (INS-AGM)[(c)]	5.25%	07/01/2039	1,000	1,121,460

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	Interest Rate	Maturity Date	Principal Amount (000)	Value
Nevada (continued)				
Las Vegas Valley Water District; Series 2012 B, Limited Tax GO Bonds	5.00%	06/01/2042	$ 3,000	$ 3,567,210
Nevada (State of); Series 2008 C, Capital Improvement & Cultural Affairs Limited Tax GO Bonds[(b)(d)(e)]	5.00%	06/01/2018	1,600	1,722,704
Reno (City of) (Renown Regional Medical Center); Series 2007 A, Hospital RB[(d)(e)]	5.25%	06/01/2017	4,250	4,398,452
				11,368,876
New Hampshire 0.11%				
Manchester (City of); Series 2009 A, Ref. General Airport RB (INS-AGM)[(c)]	5.13%	01/01/2030	1,000	1,067,910
New Jersey 6.05%				
New Jersey (State of) Economic Development Authority (Provident Group-Montclair Properties LLC-Montclair State University Student Housing);				
Series 2010 A, RB	5.75%	06/01/2031	440	497,776
Series 2010 A, RB	5.88%	06/01/2042	2,100	2,370,186
New Jersey (State of) Economic Development Authority (The Goethals Bridge Replacement);				
Series 2013, Private Activity RB[(h)]	5.50%	01/01/2027	1,200	1,440,696
Series 2013, Private Activity RB[(h)]	5.00%	01/01/2028	1,000	1,165,070
Series 2013, Private Activity RB[(h)]	5.38%	01/01/2043	1,000	1,164,560
New Jersey (State of) Economic Development Authority; Series 1992, RB (INS-NATL)[(c)]	5.90%	03/15/2021	23,000	24,976,160
New Jersey (State of) Transportation Trust Fund Authority; Series 2009 C, Transportation System RB	5.25%	06/15/2032	1,875	2,175,019
New Jersey (State of) Turnpike Authority; Series 2013 A, RB	5.00%	01/01/2038	4,300	5,045,620
Salem (County of) Pollution Control Financing Authority (Chambers); Series 2014 A, Ref. PCR[(h)]	5.00%	12/01/2023	1,500	1,718,220
Tobacco Settlement Financing Corp.;				
Series 2007 1A, Asset-Backed RB	4.63%	06/01/2026	7,090	7,157,781
Series 2007 1A, Asset-Backed RB	5.00%	06/01/2029	5,085	5,134,019
Series 2007 1A, Asset-Backed RB	4.75%	06/01/2034	1,330	1,304,118
Series 2007 1A, Asset-Backed RB	5.00%	06/01/2041	5,115	5,041,702
				59,190,927
New Mexico 0.73%				
Farmington (City of) (Public Service Co. of New Mexico San Juan);				
Series 2010 A, Ref. PCR[(e)]	5.20%	06/01/2020	1,000	1,111,200
Series 2010 C, Ref. PCR	5.90%	06/01/2040	3,250	3,694,893
New Mexico (State of) Hospital Equipment Loan Council (Presbyterian Health Care Services); Series 2008 A, Hospital RB[(b)]	6.38%	08/01/2032	2,100	2,327,913

				7,134,006
New York 15.07%				
Brooklyn Arena Local Development Corp. (Barclays Center);				
Series 2009, PILOT RB[d][e]	6.25%	01/15/2020	2,150	2,543,106
Series 2009, RB[d][e]	6.38%	01/15/2020	1,900	2,255,281
Erie Tobacco Asset Securitization Corp.; Series 2005 A, Tobacco Settlement Asset-Backed RB	5.00%	06/01/2045	3,850	3,850,308
Long Island Power Authority;				
Series 2011 A, Electric System General RB (INS-AGM)[c]	5.00%	05/01/2036	1,045	1,201,938
Series 2014 A, Ref. RB	5.00%	09/01/2044	4,130	4,920,647
Metropolitan Transportation Authority;				
Series 2013 A, Transportation RB	5.00%	11/15/2038	2,325	2,763,821
Series 2016 B, Ref. Transportation RB (INS-AGM)[c]	5.00%	11/15/2035	2,815	3,499,861
Nassau (County of) Industrial Development Agency (Amsterdam at Harborside);				
Series 2014 A, Continuing Care Retirement Community RB	6.50%	01/01/2032	1,500	1,527,105
Series 2014 A, Continuing Care Retirement Community RB	6.70%	01/01/2049	1,500	1,512,750
Series 2014 C, Continuing Care Retirement Community RB	2.00%	01/01/2049	1,081	134,905
New York & New Jersey (States of) Port Authority (JFK International Air Terminal LLC);				
Series 1997 6, Special Obligation RB (INS-NATL)[c][h]	5.75%	12/01/2025	3,000	3,059,850
Series 2010 8, Special Obligation RB	6.00%	12/01/2036	2,700	3,182,868

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	Interest Rate	Maturity Date	Principal Amount (000)	Value
New York (continued)				
New York & New Jersey (States of) Port Authority; One Hundred Fifty-Second Series 2008, Consolidated RB(b)(h)	5.00%	11/01/2028	$ 6,300	$ 6,677,622
New York (City of) Municipal Water Finance Authority;				
Series 2010 FF, Second General Resolution Water & Sewer System RB	5.00%	06/15/2031	10,500	12,040,350
Series 2012 FF, Water & Sewer System RB(b)	5.00%	06/15/2045	7,335	8,708,405
New York (City of) Transitional Finance Authority;				
Series 2009 S-3, Building Aid RB(b)	5.25%	01/15/2039	1,800	1,979,622
Subseries 2009 A-1, Future Tax Sec. RB(b)	5.00%	05/01/2028	935	1,039,281
Subseries 2009 A-1, Future Tax Sec. RB(b)	5.00%	05/01/2029	745	827,665
Subseries 2009 A-1, Future Tax Sec. RB(b)	5.00%	05/01/2030	745	827,248
New York (City of) Trust for Cultural Resources (The Museum of Modern Art); Series 2008 1A, Ref. RB(b)(d)(e)	5.00%	10/01/2018	2,850	3,109,208
New York (City of);				
Series 2012 F, Ref. Unlimited Tax GO Bonds	5.00%	08/01/2031	1,200	1,428,996
Subseries 2008 A-1, Unlimited Tax GO Bonds(b)	5.25%	08/15/2027	1,440	1,566,475
Subseries 2008 A-1, Unlimited Tax GO Bonds(b)	5.25%	08/15/2028	1,440	1,566,187
Subseries 2008 I-1, Unlimited Tax GO Bonds(b)	5.00%	02/01/2026	7,200	7,638,552
New York (State of) Dormitory Authority (City of New York);				
Series 2005 A, Court Facilities Lease RB (INS-AMBAC)(c)	5.50%	05/15/2028	600	816,792
Series 2005 A, Court Facilities Lease RB (INS-AMBAC)(c)	5.50%	05/15/2029	505	697,057
New York (State of) Dormitory Authority (General Purpose);				
Series 2011 A, State Personal Income Tax RB(b)	5.00%	03/15/2030	4,125	4,864,613
Series 2013 A, State Personal Income Tax RB	5.00%	02/15/2037	9,400	11,219,088
New York (State of) Dormitory Authority; Series 2014 C, State Personal Income Tax RB(b)	5.00%	03/15/2040	6,985	8,471,827
New York (State of) Thruway Authority (Transportation);				
Series 2009 A, Personal Income Tax RB	5.00%	03/15/2025	940	1,037,525
Series 2009 A, Personal Income Tax RB(b)	5.00%	03/15/2026	2,400	2,647,704
Series 2009 A, Personal Income Tax RB(b)	5.00%	03/15/2027	2,650	2,922,102
Series 2009 A, Personal Income Tax RB(b)	5.00%	03/15/2028	2,600	2,865,590
New York (State of) Thruway Authority;				
Series 2011 A-1, Second General Highway & Bridge Trust Fund RB(b)	5.00%	04/01/2029	6,855	8,013,358
Series 2016 A, Jr. Lien General RB	5.25%	01/01/2056	2,190	2,712,950
New York (State of) Utility Debt Securitization Authority; Series 2013 TE, Restructuring RB(b)	5.00%	12/15/2031	2,400	2,977,872

New York Liberty Development Corp. (3 World Trade Center); Series 2014, Class 1, Ref. Liberty RB[f]	5.00%	11/15/2044	6,745	7,847,335
New York Liberty Development Corp. (7 World Trade Center); Series 2012, Class 2, Ref. Liberty RB	5.00%	09/15/2043	2,360	2,706,778
New York Transportation Development Corp. (American Airlines, Inc.); Series 2016, Ref. Speical Facilities RB[h]	5.00%	08/01/2026	2,165	2,417,093
New York Transportation Development Corp. (LaGuardia Airport Terminal B Redevelopment);				
Series 2016 A, Special Facilities RB[h]	5.00%	07/01/2041	3,215	3,719,080
Series 2016 A, Special Facilities RB[h]	5.00%	07/01/2046	3,215	3,706,831
				147,505,646
North Carolina 3.22%				
Charlotte (City of) (Cultural Arts Facilities); Series 2009 E, Ref. COP[b]	5.00%	06/01/2039	3,915	4,314,252
North Carolina (State of) Capital Facilities Finance Agency (Duke University); Series 2015, Ref. RB	5.00%	10/01/2055	9,330	11,384,186
North Carolina (State of) Department of Transportation (I-77 HOT Lanes); Series 2015, Private Activity RB[h]	5.00%	06/30/2054	1,560	1,755,343
North Carolina (State of) Eastern Municipal Power Agency; Series 2009 B, Power System RB[d][e]	5.00%	01/01/2019	5,165	5,682,481
North Carolina (State of) Medical Care Commission (Southminster); Series 2007 A, First Mortgage Retirement Facilities RB	5.75%	10/01/2037	855	875,802
North Carolina (State of) Turnpike Authority;				
Series 2009 A, Triangle Expressway System RB (INS-AGC)[c]	5.13%	01/01/2024	1,355	1,471,097
Series 2011, Monroe Connector System State Appropriation RB[b]	5.00%	07/01/2036	1,875	2,175,075

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	Interest Rate	Maturity Date	Principal Amount (000)	Value
North Carolina (continued)				
Series 2011, Monroe Connector System State Appropriation RB(b)	5.00%	07/01/2041	$ 3,320	$ 3,851,333
				31,509,569
North Dakota 0.17%				
McLean (County of) (Great River Energy); Series 2010 B, Solid Waste Facilities RB	5.15%	07/01/2040	1,500	1,635,090
Ohio 6.88%				
Allen (County of) (Catholic Health Partners); Series 2012 A, Ref. Hospital Facilities RB	5.00%	05/01/2042	500	577,940
American Municipal Power, Inc. (Amp Fremont Energy Center); Series 2012, RB	5.00%	02/15/2037	3,750	4,364,513
American Municipal Power, Inc. (Prairie State Energy Campus); Series 2008 A, RB (INS-AGC)(b)(c)	5.25%	02/15/2033	2,400	2,548,416
American Municipal Power, Inc.; Series 2015 A, Ref. RB	5.00%	02/15/2039	1,770	2,093,025
Buckeye Tobacco Settlement Financing Authority; Series 2007 A-2, Sr. Asset-Backed Turbo RB	5.88%	06/01/2047	10,045	10,044,699
Cleveland (City of) & Cuyahoga (County of) Port Authority (Constellation Schools); Series 2014 A, Ref. & Improvement Lease RB(f)	6.50%	01/01/2034	1,410	1,555,681
Cuyahoga (County of) (Eliza Jennings Senior Care Network); Series 2007 A, Health Care & Independent Living Facilities RB	5.75%	05/15/2027	400	406,084
Franklin (County of) (OhioHealth Corp.);				
Series 2011 A, Hospital Facilities RB(b)	5.00%	11/15/2036	3,310	3,791,671
Series 2011 A, Hospital Facilities RB(b)	5.00%	11/15/2041	1,500	1,711,800
Hamilton (County of) (Christ Hospital); Series 2012, Health Care Facilities RB	5.25%	06/01/2032	3,250	3,839,323
Hancock (County of) (Blanchard Valley Regional Health Center); Series 2011 A, Hospital Facilities RB	6.25%	12/01/2034	960	1,145,165
Lorain (County of) (Catholic Healthcare Partners);				
Series 2003 C-1, Ref. Hospital Facilities RB (INS-AGM)(b)(c)	5.00%	04/01/2024	4,900	5,203,800
Series 2006 A, Hospital Facilities RB (INS-AGM)(b)(c)	5.00%	02/01/2024	4,525	4,805,098
Series 2006 B, Hospital Facilities RB (INS-AGM)(b)(c)	5.00%	02/01/2024	4,575	4,858,650
Lucas (County of) (Promedica Healthcare); Series 2011 A, Hospital RB	5.75%	11/15/2031	2,000	2,428,540
Montgomery (County of) (Catholic Health Initiatives); Series 2006 C-1, RB(b)(d)(e)	5.00%	04/28/2018	1,625	1,742,488
Ohio (State of) (Portsmouth Bypass); Series 2015, Private Activity RB (INS-AGM)(c)(h)	5.00%	12/31/2039	1,020	1,192,757
Ohio (State of) Air Quality Development Authority (Columbus Southern Power Co.); Series 2009 B, Ref. RB	5.80%	12/01/2038	1,000	1,124,520
Ohio (State of) Air Quality Development Authority (FirstEnergy Generation Corp.); Series 2009 C, Ref. PCR	5.63%	06/01/2018	6,385	6,688,415

Ohio (State of) Higher Educational Facility Commission (Summa Health System);				
Series 2010, Hospital Facilities RB	5.75%	11/15/2035	2,055	2,319,026
Series 2010, Hospital Facilities RB	5.75%	11/15/2040	1,065	1,200,212
Ohio (State of) Turnpike Commission (Infrastructure); Series 2013 A, Jr. Lien RB	5.25%	02/15/2033	3,000	3,640,320
				67,282,143
Oklahoma 0.43%				
McAlester (City of) Public Works Authority;				
Series 2002, Utility System CAB RB (INS-AGM)[(c)(g)]	0.00%	02/01/2031	1,000	696,460
Series 2002, Utility System CAB RB (INS-AGM)[(c)(g)]	0.00%	02/01/2034	3,970	2,490,579
Tulsa (City of) Airports Improvement Trust; Series 2000 A, General RB[(d)(h)]	6.00%	06/01/2020	885	979,642
				4,166,681
Oregon 0.10%				
Oregon (State of) Department of Administrative Services; Series 2009 A, Lottery RB[(d)(e)]	5.25%	04/01/2019	315	351,455
Warm Springs Reservation Confederated Tribes of Oregon (Pelton Round Butte); Series 2009 B, Tribal Economic Development Hydroelectric RB[(f)]	6.38%	11/01/2033	535	595,728
				947,183
Pennsylvania 1.57%				
Delaware River Port Authority; Series 2010 D, RB	5.00%	01/01/2035	1,450	1,630,511
Fayette (County of), Pennsylvania Hospital Authority (Fayette Regional Health System); Series 2007 B, VRD RB (LOC-PNC Bank, N.A.)[(l)(m)]	0.58%	06/01/2037	1,122	1,122,000

See accompanying Notes to Financial Statements which are an integral part of the financial statements.

	Interest Rate	Maturity Date	Principal Amount (000)	Value
Pennsylvania (continued)				
Franklin (County of) Industrial Development Authority (Chambersburg Hospital); Series 2010, RB	5.38%	07/01/2042	$ 2,700	$ 3,083,400
Pennsylvania (State of) Turnpike Commission;				
Subseries 2010 B-2, Sub. RB[(d)(e)]	5.75%	12/01/2020	1,700	2,047,344
Subseries 2010 B-2, Sub. RB[(d)(e)]	6.00%	12/01/2020	315	382,640
Subseries 2010 B-2, Sub. RB	5.75%	12/01/2028	1,900	2,217,262
Subseries 2010 B-2, Sub. RB	6.00%	12/01/2034	1,885	2,244,865
Subseries 2014 A-2, Sub. Conv. CAB RB[(n)]	5.13%	12/01/2039	2,500	2,113,200
Pittsburgh (City of) & Allegheny (County of) Sports & Exhibition Authority (Regional Asset District); Series 2010, Ref. Sales Tax RB (INS-AGM)[(c)]	5.00%	02/01/2031	500	567,900
				15,409,122
South Carolina 2.17%				
Dorchester County School District No. 2 (Growth); Series 2006, Installment Purchase RB[(d)(e)]	5.00%	12/01/2016	4,000	4,045,800
Piedmont Municipal Power Agency; Series 2011 C, Ref. Electric RB (INS-AGC)[(c)]	5.75%	01/01/2034	1,590	1,892,434
South Carolina (State of) Jobs-Economic Development Authority (AnMed Health);				
Series 2009 B, Ref. & Improvement Hospital RB (INS-AGC)[(c)]	5.38%	02/01/2029	1,000	1,092,260
Series 2009 B, Ref. & Improvement Hospital RB (INS-AGC)[(c)]	5.50%	02/01/2038	1,000	1,100,660
South Carolina (State of) Jobs-Economic Development Authority (Palmetto Health Alliance); Series 2013 A, Ref. Hospital RB	5.25%	08/01/2030	2,000	2,383,000
South Carolina (State of) Jobs-Economic Development Authority (The Woodlands at Furman);				
Series 2012, Ref. RB	6.00%	11/15/2032	517	542,903
Series 2012, Ref. RB	6.00%	11/15/2047	103	106,739
Series 2012, Ref. Sub. CAB RB[(g)]	0.00%	11/15/2047	208	23,902
Series 2012, Ref. Sub. CAB RB[(g)]	0.00%	11/15/2047	75	8,591
South Carolina (State of) Ports Authority;				
Series 2015, RB[(h)]	5.25%	07/01/2050	2,365	2,777,149
Series 2015, RB[(h)]	5.25%	07/01/2055	1,715	2,006,173
South Carolina (State of) Public Service Authority (Santee Cooper); Series 2010 B, Ref. RB[(b)]	5.00%	01/01/2033	4,650	5,273,519

Supplemental Disclsoure of Cash Flow Information			
Cash payments for interest	$ 2,688	$ 3,486	$ 4,244
Supplemental Schedule of Non Cash Activities			
Real estate owned assets acquired in settlement of loans	$ 461	$ 7,628	$ 7,149
Assets moved to held for sale	$ 831	$ -	$ -
Accrual of additions on held for sale	$ 547	$ -	$ -
Dividends on preferred stock accrued	$ 674	$ 1,386	$ 737

Non-Cash conversion of preferred shares	$4,619	$-	$ -
Forgiveness of principal and accrued dividends	$6,619	$-	$ -

See accompanying notes to consolidated financial statements.

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Village Bank and Trust Financial Corp. and Subsidiary

Notes to Consolidated Financial Statements

Years Ended December 31, 2015, 2014 and 2013

Note 1. Summary of Significant Accounting Policies

The accounting and reporting policies of Village Bank and Trust Financial Corp. and subsidiary (the "Company") conform to accounting principles generally accepted in the United States of America ("GAAP") and to general practice within the banking industry. The following is a description of the more significant of those policies:

Business

The Company is the holding company of Village Bank (the "Bank"). The Bank opened to the public on December 13, 1999 as a traditional community bank offering deposit and loan services to individuals and businesses in the Richmond, Virginia metropolitan area. Village Bank Mortgage Corporation ("Village Mortgage") is a full service mortgage banking company wholly-owned by the Bank.

The Bank is subject to regulations of certain federal and state agencies and undergoes periodic examinations by those regulatory authorities. As a consequence of the extensive regulation of commercial banking activities, the Bank's business is susceptible to being affected by state and federal legislation and regulations.

The majority of the Company's real estate loans are collateralized by properties in markets in the Richmond, Virginia metropolitan area. Accordingly, the ultimate collectability of those loans collateralized by real estate is particularly susceptible to changes in market conditions in the Richmond area.

Basis of presentation and consolidation

The consolidated financial statements include the accounts of the Company, the Bank and Village Mortgage. All material intercompany balances and transactions have been eliminated in consolidation.

Use of estimates

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the balance sheets dates and revenues and expenses during the reporting period. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to significant change include the determination of the allowance for loan losses and its related provision, and the estimate of the fair value of assets held for sale.

Investment securities

At the time of purchase, debt securities are classified into the following categories: held to maturity, available for sale or trading. Debt securities that the Company has both the positive intent and ability to hold to maturity are classified as held to maturity. Held to maturity securities are stated at amortized cost adjusted for amortization of premiums and accretion of discounts on purchase using a method that approximates the effective interest method. Investments classified as trading or available for sale are stated at fair value. Changes in fair value of trading investments are included in current earnings while changes in fair value of available for sale investments are excluded from current earnings and reported, net of taxes, as a separate component of other comprehensive income. Presently, the Company does not maintain a portfolio of trading securities or held to maturity.

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The fair value of investment securities held to maturity and available for sale is estimated based on quoted prices for similar assets determined by bid quotations received from independent pricing services. Declines in the fair value of securities below their amortized cost that are other than temporary are reflected in earnings or other comprehensive income, as appropriate. For those debt securities whose fair value is less than their amortized cost basis, we consider our intent to sell the security, whether it is more likely than not that we will be required to sell the security before recovery and if we do not expect to recover the entire amortized cost basis of the security. In analyzing an issuer's financial condition, we may consider whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred and the results of reviews of the issuer's financial condition.

Interest income is recognized when earned. Realized gains and losses for securities classified as available-for-sale and held-to-maturity are included in earnings and are derived using the specific identification method for determining the cost of securities sold.

Loans held for sale

The Company, through the Bank's mortgage banking subsidiary, Village Bank Mortgage, originates residential mortgage loans for sale in the secondary market. Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value on an aggregate basis as determined by outstanding commitments from investors. Upon entering into a commitment to originate a loan, the Company locks in the loan and rate with an investor and commits to deliver the loan if settlement occurs on a best efforts basis, thus limiting interest rate risk. Certain additional risks exist that the investor fails to meet its purchase obligation; however, based on historical performance and the size and nature of the investors the Company does not expect them to fail to meet their obligation. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income.

Residential mortgage loans held for sale are sold to the permanent investor with the mortgage servicing rights released. Gains or losses on sales of mortgage loans are recognized based on the difference between the selling price and the carrying value of the related mortgage loans sold. Gains on the sale of loans totaling approximately $6,076,000, $4,449,000 and $7,744,000 were realized during the years ended December 31, 2015, 2014 and 2013, respectively.

Once a residential mortgage loan is sold to a permanent investor, the Company has no further involvement or retained interest in the loan. There are limited circumstances in which the permanent investor can contractually require the Company to repurchase the loan. The Company makes no provision for any such recourse related to loans sold as history has shown repurchase of loans under these circumstances has been remote.

The Company, through Village Mortgage, enters into commitments to originate residential mortgage loans in which the interest rate on the loan is determined prior to funding, termed rate lock commitments. Such rate lock commitments on mortgage loans to be sold in the secondary market are considered to be derivatives. The period of time between issuance of a loan commitment and closing and sale of the loan generally ranges from 30 to 45 days. The Company protects itself from changes in interest rates during this period by requiring a firm purchase agreement from a permanent investor before a loan can be closed. As a result, the Company is not exposed to losses nor will it realize gains or losses related to its rate lock commitments due to changes in interest rates.

The fair value of rate lock commitments and best efforts contracts is not readily ascertainable with precision because rate lock commitments and best efforts contracts are not actively traded in stand-alone markets. The Company determines the fair value of rate lock commitments and best efforts contracts by measuring the change in the value of the underlying asset while taking into consideration the probability that the rate lock commitments will close. Due to high correlation between rate lock commitments and best efforts contracts, no significant gains or losses have occurred on the rate lock commitments.

At December 31, 2015, Village Mortgage had rate lock commitments to originate mortgage loans aggregating approximately $9,132,000 and loans held for sale of approximately $14,373,000. Village Mortgage has entered into corresponding commitments with third party investors to sell loans of approximately $23,505,000. Under the best efforts contractual relationship with these investors, Village Mortgage is obligated to sell the loans, and the investor is obligated to purchase the loans, only if the loans close. No other obligation exists. As a result of these best efforts contractual relationships with these investors Village Mortgage is not exposed to losses, nor will it realize gains, related to its rate lock commitments due to changes in interest rates.

Transfers of financial assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when: (1) the assets have been isolated from the Bank and put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets. Our transfers of financial assets are limited to commercial loan participations sold, which were insignificant for 2015, 2014 and 2013, and the sale of residential mortgage loans in the secondary market; the extent of which are disclosed in the Consolidated Statements of Cash Flows.

Loans

Loans are stated at the principal amount outstanding, net of unearned income. Loan origination fees and certain direct loan origination costs are deferred and amortized to interest income over the life of the loan as an adjustment to the loan’s yield over the term of the loan.

Interest is accrued on outstanding principal balances, unless the Company considers collection to be doubtful. Commercial and unsecured consumer loans are designated as non-accrual when payment is delinquent 90 days or at the point which the Company considers collection doubtful, if earlier. Mortgage loans and most other types of consumer loans past due 90 days or more may remain on accrual status if management determines that such amounts are collectible. When loans are placed in non-accrual status, previously accrued and unpaid interest is reversed against interest income in the current period and interest is subsequently recognized only to the extent cash is received as long as the remaining recorded investment in the loan is deemed fully collectible. Loans may be placed back on accrual status when, in the opinion of management, the circumstances warrant such action such as a history of timely payments subsequent to being placed on nonaccrual status, additional collateral is obtained or the borrowers cash flows improve.

Standby letters of credit are written conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. The total contractual amount of standby letters of credit, whose contract amount represent credit risk was approximately $1,484,000 at December 31, 2015 and approximately $1,571,000 at December 31, 2014.

Allowance for loan losses

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

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

The allowance consists of general and specific components. The general component covers non-classified loans and is based on historical loss experience and risk characteristics (i.e. trends in delinquencies and other non-performing loans, changes in economic conditions on both a local and national level, and changes in the categories of loans comprising the loan portfolio) adjusted for qualitative factors. The specific component relates to loans that we have concluded, based on the value of collateral, guarantees and any other pertinent factors, have known losses. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

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

Troubled debt restructurings

A loan or lease is accounted for as a troubled debt restructuring if we, for economic or legal reasons related to the borrower's financial condition, grant a significant concession to the borrower that we would not otherwise consider. A troubled debt restructuring may involve the receipt of assets from the debtor in partial or full satisfaction of the loan or lease, or a modification of terms such as a reduction of the stated interest rate or balance of the loan or lease, a reduction of accrued interest, an extension of the maturity date at a stated interest rate lower than the current market rate for a new loan with similar risk, or some combination of these concessions. Troubled debt restructurings generally remain categorized as nonperforming loans and leases until a six-month payment history has been maintained.

In accordance with current accounting guidance, loans modified as troubled debt restructurings are, by definition, considered to be impaired loans. Impairment for these loans is measured on a loan-by-loan basis similar to other impaired loans as described above under ***Allowance for loan losses***. Certain loans modified as troubled debt restructurings may have been previously measured for impairment under a general allowance methodology (i.e., pooling), thus at the time the loan is modified as a troubled debt restructuring the allowance will be impacted by the difference between the results of these two measurement methodologies. Loans modified as troubled debt restructurings that subsequently default are factored into the determination of the allowance in the same manner as other defaulted loans.

Real estate acquired in settlement of loans

Real estate acquired through or in lieu of foreclosure is initially recorded at estimated fair value less estimated selling costs. Subsequent to the date of acquisition, it is carried at the lower of cost or fair value, adjusted for net selling costs. If fair value declines subsequent to foreclosure a valuation allowance is recorded through expense. Operating costs after acquisition are expensed as incurred. The valuation allowance at December 31, 2015 was $1,748,000. Costs relating to the development and improvement of such property are capitalized when appropriate, whereas those costs relating to holding the property are expensed.

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Assets held for sale

Assets held for sale at December 31, 2015 are the Company's previous headquarters building at the Watkins Centre and a branch building we previously closed. They were transferred from premises and equipment to assets held for sale at cost less accumulated depreciation at the date of transfer, December 31, 2013 and June 29, 2015 respectively, which were lower than their respective fair values, adjusted for net selling costs, at that date. The Company periodically evaluates the value of assets held for sale and records an impairment charge for any subsequent declines in fair value less selling costs.

Premises and equipment

Land is carried at cost. Premises and equipment are carried at cost less accumulated depreciation and amortization. Depreciation of buildings and improvements is computed using the straight-line method over the estimated useful lives of the assets of 39 years. Depreciation of equipment is computed using the straight-line method over the estimated useful lives of the assets ranging from 3 to 7 years. Amortization of premises (leasehold improvements) is computed using the straight-line method over the term of the lease or estimated lives of the improvements, whichever is shorter.

Income taxes

Deferred income taxes are recognized for the tax consequences of "temporary differences" by applying enacted tax rates applicable to future years to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. The primary temporary differences are the allowance for loan losses and depreciation and amortization. The effect on recorded deferred income taxes of a change in tax laws or rates is recognized in income in the period that includes the enactment date. To the extent that available evidence about the future raises doubt about the realization of a deferred income tax asset, a valuation allowance is established. A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. The Company has not identified any material uncertain tax positions.

Consolidated statements of cash flows

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, due from banks (including cash items in process of collection), interest-bearing deposits with banks and federal funds sold. Generally, federal funds are purchased and sold for one-day periods. Cash flows from loans originated by the Bank and deposits are reported net. The Company did not pay income taxes in 2015, 2014 and 2013.

Comprehensive income

Comprehensive income is defined to include all changes in equity except those resulting from investments by owners and distributions to owners. Total comprehensive income (loss) consists of net income (loss) and other comprehensive income (loss). The Company's other comprehensive income (loss) and accumulated other comprehensive income (loss) are comprised of unrealized gains and losses on investment securities available for sale and amortization of the unfunded pension liability. At December 31, 2015 and 2014 the accumulated other comprehensive income was comprised of unrealized losses on securities available for sale of $439,000 and $644,000 and unfunded pension liability of $68,000 and $77,000, respectively.

Earnings per common share

Basic earnings (loss) per common share represent net income available to common shareholders, which represents net income (loss) less dividends paid or payable to preferred stock shareholders, divided by the weighted-average number of common shares outstanding during the period. For diluted earnings per common share, net income available to common shareholders is divided by the weighted average number of common shares issued and outstanding for each period plus amounts representing the dilutive effect of stock options, restricted stock, and warrants, as well as any adjustment to income that would result from the assumed issuance. The effects of stock options, restricted stock, and warrants are excluded from the computation of diluted earnings per common share in periods in which the effect would be antidilutive. Stock options, restricted stock, and warrants are antidilutive if the underlying average market price of the stock that can be purchased for the period is less than the exercise price of the option or warrant. Potential common shares that may be issued by the Company relate solely to outstanding stock options, restricted stock, and warrants and are determined using the treasury stock method.

Stock incentive plan

On May 26, 2015, the Company’s shareholders approved the adoption of the Village Bank and Trust Financial Corp. 2015 Stock Incentive Plan (the “2015 Plan”) authorizing the issuance of up to 60,000 shares of common stock. The 2015 Plan was adopted to replace the Company’s 2006 stock incentive plan and any new awards will be made pursuant to the 2015 Plan. The prior awards made under the 2006 plan were unchanged by the adoption of the 2015 Plan and continue to be governed by the terms of the 2006 plan. See Note 14 for more information on the stock incentive plan.

Fair values of financial instruments

The fair value of an asset or liability is the price that would be received to sell that asset or paid to transfer that liability in an orderly transaction between market participants. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability. The price in the principal (or most advantageous) market used to measure the fair value of the asset or liability shall not be adjusted for transaction costs. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets and liabilities; it is not a forced transaction. Market participants are buyers and sellers in the principal market that are independent, knowledgeable, able to transact and willing to transact. See Note 17 for the methods and assumptions the Bank uses in estimating fair values of financial instruments.

Insurance of Accounts, Assessments and Regulation by the FDIC. Our deposits are insured by the FDIC up to the limits set forth under applicable law, currently $250,000. We are subject to the deposit insurance assessments of the DIF. The amount of the assessment is a function of the institution’s risk category, of which there are four, and its assessment base. An institution’s risk category is determined according to its supervisory ratings and capital levels and is used to determine the institution’s assessment rate. The assessment base is an institution’s average consolidated total assets less its average tangible equity.

The FDIC is authorized to prohibit any DIF-insured institution from engaging in any activity that the FDIC determines by regulation or order to pose a serious threat to the respective insurance fund. Also, the FDIC may initiate enforcement actions against banks, after first giving the institution’s primary regulatory authority an opportunity to take such action. The FDIC may terminate the deposit insurance of any depository institution if it determines, after a hearing, that the institution has engaged or is engaging in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, order or any condition imposed in writing by the FDIC. It also may suspend deposit insurance temporarily during the hearing process for the permanent termination of insurance if the institution has no tangible capital. If deposit insurance is terminated, the deposits at the institution at the time of termination, less subsequent withdrawals, shall continue to be insured for a period from six months to two years, as determined by the FDIC. We are aware of no existing circumstances that could result in termination of our deposit insurance.

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Segments

The Company has one reportable segment, "Community Banking." All of the Company's activities are interrelated, and each activity is dependent and assessed based on how each of the activities supports the others. For example, lending is dependent upon the ability of the Company to fund itself with deposits and borrowings while managing interest rates and credit risk. Accordingly, all significant operating decisions are based upon analysis of the Company as one segment or unit.

New accounting pronouncements

In January 2014, the FASB issued ASU 2014-01, "Investments – Equity Method and Joint Ventures: Accounting for Investments in Qualified Affordable Housing Projects". This ASU applies to all reporting entities that invest in qualified affordable housing projects through limited liability entities that are flow through entities for tax purposes. The amendments in the ASU eliminate the effective yield election and permit reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Those not electing the proportional amortization method would account for the investment using the equity method or cost method. The amendments in this ASU are effective for public business entities for annual periods beginning after December 15, 2014. The adoption of this guidance did not have a material effect on the Company's financial condition or results of operations.

In January 2014, the FASB issued ASU 2014-04, "Receivables – Troubled Debt Restructurings by Creditors". ASU 2014-04 clarifies when a creditor should be considered to have received physical possession of residential real estate property during a foreclosure. ASU 2014-04 establishes a loan receivable should be derecognized and the real estate property recognized upon the creditor obtaining legal title to the residential real estate property upon completion of foreclosure or the borrower conveying all interest in the residential real estate property to the creditor to satisfy the loan. The provisions of ASU 2014-04 are effective for annual periods beginning after December 15, 2014. The adoption of this guidance did not have a material effect on the Company's financial condition or results of operations.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). The amendments in this ASU modify the guidance companies use to recognize revenue from contracts with customers for transfers of goods or services and transfers of nonfinancial assets, unless those contracts are within the scope of other standards. The ASU requires that entities apply a specific method to recognize revenue reflecting the consideration expected from customers in exchange for the transfer of goods and services. The guidance also requires new qualitative and quantitative disclosures, including information about contract balances and performance obligations. Entities are also required to disclose significant judgments and changes in judgments for determining the satisfaction of performance obligations. Most revenue associated with financial instruments, including interest and loan origination fees, is outside the scope of the guidance. This ASU is effective for annual periods and interim periods within those annual periods beginning after December 15, 2016, with early adoption prohibited. In August 2015 the FASB issued ASU 2015-14 which changed the effective date by one year. The company is evaluating the effect ASU 2014-09 will have on its consolidated financial statements.

In June 2014, the FASB issued ASU 2014-12, “Compensation-Stock Compensation”. The guidance in this ASU requires that a performance target that affects vesting and that could be achieved after the requisite service is treated as a performance condition. As such, the performance target should not be reflected in estimating the grant-date fair value of the award. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. If the performance target becomes probable of being achieved before the end of the requisite period, the remaining unrecognized cost should be recognized prospectively over the remaining service period. The total amount of compensation cost recognized during and after the requisite service period should reflect the number of awards that are expected to vest and should be adjusted to reflect those awards that ultimately vest. The requisite service period ends when the employee can cease rendering service and still be eligible to vest in the award if the performance target is achieved. As indicated in the definition of vest, the stated vesting period (which includes the period in which the performance target could be achieved) may differ from the requisite service period. The guidance in this ASU is effective for annual and interim periods beginning after December 15, 2015. The Company does not expect this ASU to have a significant impact on its financial condition or results of operations.

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In November 2015, the FASB issued ASU 2015-17, "Balance Sheet Classification of Deferred Taxes". ASU 2015-17 eliminates the guidance in Topic 740, "Income Taxes", that required an entity to separate deferred tax liabilities and assets of the same tax jurisdiction or a tax filing group, as well as any related valuation allowance, be offset and presented as a single noncurrent amount in a classified balance sheet. The new guidance requires that all deferred tax assets and liabilities, along with any related valuation allowance, be classified as noncurrent on the balance sheet. As a result each jurisdiction will now only have one net noncurrent deferred tax asset or liability. The guidance in this ASU is effective for public business entities for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2016. Early adoption is permitted as of the beginning of any interim or annual reporting period. The Company does not expect this ASU to have a significant impact on its financial condition of results of operations.

In January 2016, the FASB issued ASU No. 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities." This ASU requires an entity to: (i) measure equity investments at fair value through net income, with certain exceptions; (ii) present in Other Comprehensive Income the changes in instrument-specific credit risk for financial liabilities measured using the fair value option; (iii) present financial assets and financial liabilities by measurement category and form of financial asset; (iv) calculate the fair value of financial instruments for disclosure purposes based on an exit price and; (v) assess a valuation allowance on deferred tax assets related to unrealized losses of AFS debt securities in combination with other deferred tax assets. The Update provides an election to subsequently measure certain nonmarketable equity investments at cost less any impairment and adjusted for certain observable price changes. The Update also requires a qualitative impairment assessment of such equity investments and amends certain fair value disclosure requirements. This ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Early adoption is only permitted for the provision related to instrument-specific credit risk. The Company is currently assessing the impact of ASU 2016-01 will have on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, "Leases". This ASU requires lessees to recognize assets and liabilities arising from most operating leases on the statement of financial position. The Company is currently evaluating the impact of ASU 2016-02, which is effective for the Company on January 1, 2019.

Note 2. **Investment securities available for sale**

The amortized cost and estimated fair value of investment securities available for sale as of December 31, 2015 and 2014 are as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2015				
U.S. Government agencies	$ 34,286	$ -	$ (573)	$ 33,713
Mortgage-backed securities	3,043	1	(43)	3,001
Municipals	1,255	-	(50)	1,205
	$ 38,584	$ 1	$ (666)	$ 37,919
December 31, 2014				
U.S. Government agencies	$ 34,219	$ -	$ (872)	$ 33,347
Mortgage-backed securities	484	2	(2)	484
Municipals	5,815	2	(106)	5,711
	$ 40,518	$ 4	$ (980)	$ 39,542

Investment securities with book values of approximately $5,968,000 and $17,567,000 at December 31, 2015 and 2014, respectively, were pledged to secure deposit repurchase agreements.

Gross realized gains and losses pertaining to available for sale securities are detailed as follows for the years ending December 31, 2015, 2014 and 2013 (in thousands):

	2015	2014	2013
Gross realized gains	$ 13	$ 218	$ 217
Gross realized losses	(7)	(428)	-
	$ 6	$ (210)	$ 217

The Company sold approximately $8 million and $22 million of investment securities available for sale at a gain of $6,000 and loss of $210,000 in 2015 and 2014 respectively. The sale of these securities, which had fixed interest rates, allowed the Company to decrease its exposure to the anticipated upward movement in interest rates that would result in unrealized losses being recognized in shareholders' equity. In 2014, approximately $15 million of the proceeds from the sale of these securities were used to purchase rehabilitated student loans that have variable interest rates that will increase as interest rates in general increase.

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Investment securities available for sale that have an unrealized loss position at December 31, 2015 and December 31, 2014 are detailed below (in thousands):

	Securities in a loss position for less than 12 Months		Securities in a loss position for more than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2015						
US Government Agencies	$ 18,598	$ (329)	$ 15,115	$ (244)	$33,713	$ (573)
Municipals	707	(14)	497	(36)	1,204	(50)
Mortgage-backed securities	2,899	(43)	-	-	2,899	(43)
	$ 22,204	$ (386)	$ 15,612	$ (280)	$37,816	$ (666)
December 31, 2014						
US Government Agencies	$ -	$ -	$ 33,347	$ (872)	$33,347	$ (872)
Municipals	-	-	5,497	(106)	5,497	(106)
Mortgage-backed securities	-	-	363	(2)	363	(2)
	$ -	$ -	$ 39,207	$ (980)	$39,207	$ (980)

All of the unrealized losses are attributable to increases in interest rates and not to credit deterioration. Currently, the Company believes that it is probable that the Company will be able to collect all amounts due according to the contractual terms of the investments. Because the decline in market value is attributable to changes in interest rates and not to credit quality, and because it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider these investments to be other than temporarily impaired at December 31, 2015.

The amortized cost and estimated fair value of investment securities available for sale as of December 31, 2015, by contractual maturity, are as follows (in thousands):

	Amortized Cost	Estimated Fair Value
One to five years	$ 13,111	$ 12,926
Five to ten years	19,697	19,294
More than ten years	5,776	5,699
Total	$ 38,584	$ 37,919

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Note 3. Loans

Loans classified by type as of December 31, 2015 and 2014 are as follows (in thousands):

	2015	2014
Construction and land development		
Residential	$5,202	$4,315
Commercial	25,948	25,152
	31,150	29,467
Commercial real estate		
Owner occupied	69,256	58,804
Non-owner occupied	38,037	38,892
Multifamily	8,537	11,438
Farmland	388	434
	116,218	109,568
Consumer real estate		
Home equity lines	20,333	20,082
Secured by 1-4 family residential,		
First deed of trust	56,776	61,837
Second deed of trust	6,485	7,854
	83,594	89,773
Commercial and industrial loans (except those secured by real estate)	20,086	22,165
Guaranteed student loans	53,989	33,562
Consumer and other	1,734	1,611
Total loans	306,771	286,146
Deferred loan cost, net	670	722
Less: allowance for loan losses	(3,562)	(5,729)
	$303,879	$281,139

The Bank purchased two portfolios of rehabilitated student loans guaranteed by the Department of Education ("DOE") totaling approximately $15 million on June 10, 2015 and approximately $9 million on October 23, 2015. The Bank had previously purchased two portfolios of approximately $19 million on July 29, 2014 and approximately $14 million on December 30, 2014. The guarantee covers approximately 98% of principal and accrued interest. The loans are serviced by a third-party servicer that specializes in handling the special needs of the DOE student loan programs.

Loans pledged as collateral with the Federal Home Loan Bank of Atlanta ("FHLB") as part of their lending arrangements with the Company totaled $7,891,000 at December 31, 2015. The Company had not pledged any loans at December 31, 2014.

The following is a summary of loans directly or indirectly with executive officers or directors of the Company for the years ended December 31, 2015 and 2014 (in thousands):

	2015	2014
Beginning balance	$8,258	$7,929
Additions	5,504	4,888
Reductions	(5,689)	(4,559)
Ending balance	$8,073	$8,258

Executive officers and directors also had unused credit lines totaling $1,375,000 and $1,670,000 at December 31, 2015 and 2014, respectively. All loans and credit lines to executive officers and directors were made in the ordinary course of business at the Company's normal credit terms, including interest rate and collateralization prevailing at the time for comparable transactions with other persons.

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Loans are considered past due if the required principal and interest payments have not been received as of the date such payments were due. Loans are placed on nonaccrual status when, in management's opinion, the borrower may be unable to meet payment obligations as they become due, as well as when required by regulatory provisions. Loans may be placed on nonaccrual status regardless of whether or not such loans are considered past due as long as the remaining recorded investment in the loan is deemed fully collectible. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received in excess of principal due. Loans are returned to accrual status when all principal and interest amounts contractually due are brought to current and future payments are reasonably assured.

Year-end nonaccrual loans segregated by type as of December 31, 2015 and 2014 were as follows (in thousands):

	2015	2014
Construction and land development		
Residential	$-	$164
Commercial	52	217
	52	381
Commercial real estate		
Owner occupied	1,078	2,316
Non-owner occupied	-	-
Farmland	-	21
	1,078	2,337
Consumer real estate		
Home equity lines	154	800
Secured by 1-4 family residential,		
First deed of trust	1,498	2,416
Second deed of trust	421	702
	2,073	3,918
Commercial and industrial loans (except those secured by real estate)	508	819
Consumer and other	7	23
Total loans	$3,718	$7,478

The Company assigns risk rating classifications to its loans. These risk ratings are divided into the following groups:

- Risk rated 1 to 4 loans are considered of sufficient quality to preclude an adverse rating. These assets generally are well protected by the current net worth and paying capacity of the obligor or by the value of the asset or underlying collateral;
- Risk rated 5 loans are defined as having potential weaknesses that deserve management's close attention;
- Risk rated 6 loans are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any; and

- Risk rated 7 loans have all the weaknesses inherent in substandard loans, with the added characteristics that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable.

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The following tables provide information on the risk rating of loans at the dates indicated (in thousands):

	Risk Rated 1-4	Risk Rated 5	Risk Rated 6	Risk Rated 7	Total Loans
December 31, 2015					
Construction and land development					
Residential	$ 5,202	$ -	$ -	$ -	$5,202
Commercial	24,053	572	1,323		25,948
	29,255	572	1,323	-	31,150
Commercial real estate					
Owner occupied	64,261	2,850	2,145	-	69,256
Non-owner occupied	35,887	2,055	95	-	38,037
Multifamily	8,337	200	-	-	8,537
Farmland	388	-	-	-	388
	108,873	5,105	2,240	-	116,218
Consumer real estate					
Home equity lines	18,539	435	1,359	-	20,333
Secured by 1-4 family residential					
First deed of trust	51,200	2,710	2,866	-	56,776
Second deed of trust	5,751	128	606	-	6,485
	75,490	3,273	4,831	-	83,594
Commercial and industrial loans					
(except those secured by real estate)	18,873	373	840		20,086
Guaranteed Student loans	53,989	-	-	-	53,989
Consumer and other	1,649	62	23	-	1,734
Total loans	$ 288,129	$ 9,385	$ 9,257	$ -	$306,771

	Risk Rated 1-4	Risk Rated 5	Risk Rated 6	Risk Rated 7	Total Loans
December 31, 2014					
Construction and land development					
Residential	$ 3,946	$ 205	$ 164	$ -	$4,315
Commercial	20,641	1,622	2,889	-	25,152
	24,587	1,827	3,053	-	29,467
Commercial real estate					
Owner occupied	47,175	5,234	6,395	-	58,804
Non-owner occupied	36,439	1,811	642	-	38,892
Multifamily	10,703	735		-	11,438
Farmland	413		21	-	434
	94,730	7,780	7,058	-	109,568
Consumer real estate					
Home equity lines	18,107	465	1,510	-	20,082
Secured by 1-4 family residential					

First deed of trust	52,513	4,763	4,561	-	61,837
Second deed of trust	6,456	434	964	-	7,854
	77,076	5,662	7,035	-	89,773
Commercial and industrial loans					
(except those secured by real estate)	19,026	2,297	390	452	22,165
Guaranteed student loans	33,562				33,562
Consumer and other	1,488	74	49	-	1,611
Total loans	$ 250,469	$ 17,640	$ 17,585	$ 452	$ 286,146

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The following tables present the aging of the recorded investment in past due loans as of the dates indicated (in thousands):

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days and Accruing
December 31, 2015							
Construction and land development							
Residential	$ -	$ -	$ -	$ -	$ 5,202	$ 5,202	$ -
Commercial	-	-	-	-	25,948	25,948	-
	-	-	-	-	31,150	31,150	-
Commercial real estate							
Owner occupied	327	-	-	327	68,929	69,256	-
Non-owner occupied	-	110	-	110	37,927	38,037	-
Multifamily	-	-	-	-	8,537	8,537	-
Farmland	-	-	-	-	388	388	-
	327	110	-	437	115,781	116,218	-
Consumer real estate							
Home equity lines	-	-	-	-	20,333	20,333	-
Secured by 1-4 family residential							
First deed of trust	163	292	-	455	56,321	56,776	-
Second deed of trust	94	-	-	94	6,391	6,485	-
	257	292	-	549	83,045	83,594	-
Commercial and industrial loans (except those secured by real estate)	-	-	-	-	20,086	20,086	-
Guaranteed student loans	7,816	1,252	8,590	17,658	36,331	53,989	8,590
Consumer and other	10	-	-	10	1,724	1,734	-
Total loans	$ 8,410	$ 1,654	$ 8,590	$ 18,654	$ 288,117	$ 306,771	$ 8,590

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days and Accruing
December 31, 2014							

Construction and land development							
Residential	$ -	$ -	$ -	$ -	$4,315	$4,315	$ -
Commercial	92	391	-	483	24,669	25,152	-
	92	391	-	483	28,984	29,467	-
Commercial real estate							
Owner occupied	715	-	-	715	58,089	58,804	-
Non-owner occupied	-	-	-	-	38,892	38,892	-
Multifamily	-	-	-	-	11,438	11,438	-
Farmland	-	-	-	-	434	434	-
	715	-	-	715	108,853	109,568	-
Consumer real estate							
Home equity lines	31	139	-	170	19,912	20,082	-
Secured by 1-4 family residential							
First deed of trust	-	153	-	153	61,684	61,837	-
Second deed of trust	56	-	-	56	7,798	7,854	-
	87	292	-	379	89,394	89,773	-
Commercial and industrial loans (except those secured by real estate)	-	47	-	47	22,118	22,165	-
Guaranteed student loans	671	392	720	1,783	31,779	33,562	720
Consumer and other	-	8	-	8	1,603	1,611	-
Total loans	$ 1,565	$ 1,130	$ 720	$ 3,415	$282,731	$286,146	$ 720

Loans greater than 90 days past due are student loans that are guaranteed by the DOE which covers approximately 98% of the principal and interest. Accordingly, these loans will not be placed on nonaccrual status.

Loans are considered impaired when, based on current information and events it is probable the Company will be unable to collect all amounts due in accordance with the original contractual terms of the loan agreement, including scheduled principal and interest payments. Loans evaluated individually for impairment include non-performing loans, such as loans on non-accrual, loans past due by 90 days or more, restructured loans and other loans selected by management. The evaluations are based upon discounted expected cash flows or collateral valuations. If the evaluation shows that a loan is individually impaired, then a specific reserve is established for the amount of impairment. Impairment is evaluated in total for smaller-balance loans of a similar nature and on an individual loan basis for other loans. If a loan is impaired, a specific valuation allowance is allocated, if necessary, so that the loan is reported net, at the present value of estimated future cash flows using the loan’s existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Interest payments on impaired loans are typically applied to principal unless collectability of the principal amount is reasonably assured, in which case interest is recognized on a cash basis. Impaired loans, or portions thereof, are charged off when deemed uncollectible. Impaired loans are set forth in the following table as of the dates indicated (in thousands):

	December 31, 2015		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded			
Construction and land development			
Commercial	$ 123	$ 190	$ -
Commercial real estate			
Owner occupied	1,066	1,066	
Non-owner occupied	2,418	2,418	-
	3,484	3,484	-
Consumer real estate			
Home equity lines	1,238	1,247	-
Secured by 1-4 family residential			
First deed of trust	3,984	3,988	-
Second deed of trust	962	1,232	-
	6,184	6,467	-
Commercial and industrial loans (except those secured by real estate)	690	920	-
	10,481	11,061	-
With an allowance recorded			
Construction and land development			
Commercial	1,699	1,699	2
Commercial real estate			
Owner occupied	5,719	5,734	383
Non-Owner occupied	449	449	26
	6,168	6,183	409
Consumer real estate			
Secured by 1-4 family residential			
First deed of trust	1,775	1,775	324
Second deed of trust	250	250	98
	2,025	2,025	422
Commercial and industrial loans (except those secured by real estate)	136	238	18
	10,028	10,145	851
Total			
Construction and land development			
Commercial	1,822	1,889	2
	1,822	1,889	2
Commercial real estate			
Owner occupied	6,785	6,800	383
Non-owner occupied	2,867	2,867	26
	9,652	9,667	409
Consumer real estate			
Home equity lines	1,238	1,247	-
Secured by 1-4 family residential,			
First deed of trust	5,759	5,763	324

Second deed of trust	1,212	1,482	98
	8,209	8,492	422
Commercial and industrial loans (except those secured by real estate)	826	1,158	18
	$20,509	$21,206	$ 851

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	December 31, 2014		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded			
Construction and land development			
Residential	$ 164	$ 164	$ -
Commercial	3,379	3,379	-
	3,543	3,543	-
Commercial real estate			
Owner occupied	1,686	1,686	
Non-owner occupied	6,593	6,593	-
Multifamily	2,322	2,322	-
Farmland	21	450	-
	10,622	11,051	-
Consumer real estate			
Home equity lines	800	800	-
Secured by 1-4 family residential			
First deed of trust	6,485	6,493	-
Second deed of trust	1,103	1,373	-
	8,388	8,666	-
Commercial and industrial loans (except those secured by real estate)	263	365	-
Consumer and other	23	36	-
	22,839	23,661	-
With an allowance recorded			
Construction and land development			
Commercial	589	589	26
Commercial real estate			
Owner occupied	6,625	6,640	905
Non-Owner occupied			
	6,625	6,640	905
Consumer real estate			
Secured by 1-4 family residential			
First deed of trust	1,415	1,415	200
Second deed of trust	257	257	142
	1,672	1,672	342
Commercial and industrial loans (except those secured by real estate)	555	555	239
	9,441	9,456	1,512
Total			
Construction and land development			
Residential	164	164	-
Commercial	3,968	3,968	26
	4,132	4,132	26
Commercial real estate			
Owner occupied	8,311	8,326	905

Non-owner occupied	6,593	6,593	-
Multifamily	2,322	2,322	-
Farmland	21	450	-
	17,247	17,691	905
Consumer real estate			
Home equity lines	800	800	-
Secured by 1-4 family residential,			
First deed of trust	7,900	7,908	200
Second deed of trust	1,360	1,630	142
	10,060	10,338	342
Commercial and industrial loans (except those secured by real estate)	818	920	239
Consumer and other	23	36	-
	$32,280	$33,117	$ 1,512

The following is a summary of average recorded investment in impaired loans with and without valuation allowance and interest income recognized on those loans for periods indicated (in thousands):

	December 31,			
	2015		2014	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded				
Construction and land development				
Residential	$61	$ -	$181	$ 2
Commercial	1,769	95	3,642	205
	1,830	95	3,823	207
Commercial real estate				
Owner occupied	1,349	69	1,705	93
Non-owner occupied	4,435	121	6,693	320
Multifamily	-	-	2,347	141
Farmland	-	-	21	-
	5,784	190	10,766	554
Consumer real estate				
Home equity lines	890	51	800	27
Secured by 1-4 family residential				
First deed of trust	5,374	233	6,581	352
Second deed of trust	1,121	47	1,112	51
	7,385	331	8,493	430
Commercial and industrial loans (except those secured by real estate)	344	44	274	15
Consumer and other	9	1	26	2
	15,352	661	23,382	1,208
With an allowance recorded				
Construction and land development				
Commercial	844	23	601	33
Commercial real estate				
Owner occupied	6,088	226	5,853	272
Non-Owner occupied	369	24	-	-
	6,457	250	5,853	272
Consumer real estate				
Home equity lines	22	-	-	-
Secured by 1-4 family residential				
First deed of trust	1,434	26	1,464	45
Second deed of trust	277	15	263	11
	1,733	41	1,727	56
Commercial and industrial loans (except those secured by real estate)	317	5	570	33
	9,351	319	8,751	394

Total				
Construction and land development				
Residential	61	-	181	2
Commercial	2,613	118	4,243	238
	2,674	118	4,424	240
Commercial real estate				
Owner occupied	7,437	295	7,558	365
Non-owner occupied	4,804	145	6,693	320
Multifamily	-	-	2,347	141
Farmland	-	-	21	-
	12,241	440	16,619	826
Consumer real estate				
Home equity lines	912	51	800	27
Secured by 1-4 family residential,				
First deed of trust	6,808	259	8,045	397
Second deed of trust	1,398	62	1,375	62
	9,118	372	10,220	486
Commercial and industrial loans (except those secured by real estate)	661	49	844	48
Consumer and other	9	1	26	2
	$24,703	$ 980	$32,133	$ 1,602

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As of December 31, 2015, 2014 and 2013, the Company had impaired loans of $3,718,000, $7,478,000 and $18,647,000, respectively, which were on nonaccrual status. These loans had valuation allowances of $370,000, $1,087,000 and $1,189,000 as of December 31, 2015, 2014 and 2013, respectively. Cumulative interest income that would have been recorded had nonaccrual loans been performing would have been $146,000, $224,000 and $1,093,000 for 2015, 2014 and 2013, respectively.

Included in impaired loans are loans classified as troubled debt restructurings ("TDRs"). A modification of a loan's terms constitutes a TDR if the creditor grants a concession to the borrower for economic or legal reasons related to the borrowers financial difficulties that it would not otherwise consider. For loans classified as impaired TDRs, the Company further evaluates the loans as performing or nonaccrual. To restore a nonaccrual loan that has been formally restructured in a TDR to accrual status, we perform a current, well documented credit analysis supporting a return to accrual status based on the borrower's financial condition and prospects for repayment under the revised terms. Otherwise, the TDR must remain in nonaccrual status. The analysis considers the borrower's sustained historical repayment performance for a reasonable period to the return-to-accrual date, but may take into account payments made for a reasonable period prior to the restructuring if the payments are consistent with the modified terms. A sustained period of repayment performance generally would be a minimum of six months and would involve payments in the form of cash or cash equivalents.

An accruing loan that is modified in a TDR can remain in accrual status if, based on a current well-documented credit analysis, collection of principal and interest in accordance with the modified terms is reasonably assured, and the borrower has demonstrated sustained historical repayment performance for a reasonable period before modification. The following is a summary of performing and nonaccrual TDRs and the related specific valuation allowance by portfolio segment as of December 31, 2015 (dollars in thousands).

	Total	Performing	Nonaccrual	Specific Valuation Allowance
December 31, 2015				
Construction and land development				
Residential	$-	$ -	$ -	$ -
Commercial	1,699	1,699	-	2
	1,699	1,699	-	2
Commercial real estate				
Owner occupied	5,730	5,458	272	184
Non-owner occupied	2,866	2,866	-	26
Multifamily	-	-	-	-
	8,596	8,324	272	210
Consumer real estate				
Home equity lines	87	-	87	-
Secured by 1-4 family residential				
First deeds of trust	4,283	3,544	739	236

Second deeds of trust	693	693	-	1
	5,063	4,237	826	237
Commercial and industrial loans (except those secured by real estate)	127	-	127	18
Consumer and other	-	-	-	-
	$ 15,485	$ 14,260	$ 1,225	$ 467
Number of loans	66	51	15	13

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	Total	Performing	Nonaccrual	Specific Valuation Allowance
December 31, 2014				
Construction and land development				
Residential	$7	-	$ 7	$ -
Commercial	3,895	3,751	144	17
	3,902	3,751	151	17
Commercial real estate				
Owner occupied	6,317	5,149	1,168	325
Non-owner occupied	6,593	6,593	-	-
Multifamily	2,322	2,322	-	-
	15,232	14,064	1,168	325
Consumer real estate				
Home equity lines	-	-	-	-
Secured by 1-4 family residential	-	-	-	-
First deeds of trust	6,990	5,494	1,496	200
Second deeds of trust	762	658	104	5
	7,752	6,152	1,600	205
Commercial and industrial loans (except those secured by real estate)	239	-	239	12
Consumer and other	16	-	16	-
	$27,141	$ 23,967	$ 3,174	$ 559
Number of loans	107	77	30	21

The following table provides information about TDRs identified during the indicated periods (dollars in thousands).

	December 31, 2015			December 31, 2014		
	Number of Loans	Pre-Modification Recorded Balance	Post-Modification Recorded Balance	Number of Loans	Pre-Modification Recorded Balance	Post-Modification Recorded Balance
Construction and land development						
Commercial	-	$ -	$ -	1	$ 45	$ 45
	-	-	-	1	45	45
Commercial real estate						
Owner occupied	-	-	-	7	729	729
	-	-	-	7	729	729
Consumer real estate						
Home equity lines	1	87	87	-	-	-
Secured by 1-4 family residential						
First deed of trust	-	-	-	2	727	727

Second deed of trust	-		-		-	2		104	104
	1		87		87	4		831	831
	1	$	87	$	87	12	$	1,605	$ 1,605

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The following table provides information about defaults on TDRs for the indicated periods (dollars in thousands).

	December 31, 2015		December 31, 2014	
	Number of Loans	Recorded Balance	Number of Loans	Recorded Balance
Construction and land development				
Residential	-	$ -	1	$ 7
Commercial	-		5	144
	-	-	6	151
Commercial real estate				
Owner occupied	1	156	1	160
	1	156	1	160
Consumer real estate				
Secured by 1-4 family residential				
First deed of trust	11	889	14	1,037
Second deed of trust	2	94	2	104
	13	983	16	1,141
Commercial and industrial (except those secured by real estate)	1	127	2	240
	15	$ 1,266	25	$ 1,692

Note 4. Allowance for loan losses

Activity in the allowance for loan losses was as follows for the periods indicated (in thousands):

	Beginning Balance	Provision for Loan Losses	Charge-offs	Recoveries	Ending Balance
Year Ended December 31, 2015					
Construction and land development					
Residential	$ 34	$ (6)	$ -	$ 2	$ 30
Commercial	202	292	(252)	49	291
	236	286	(252)	51	321
Commercial real estate					
Owner occupied	1,837	(576)	(127)	33	1,167
Non-owner occupied	607	(151)	-	4	460
Multifamily	77	(26)	-	-	51
Farmland	130	(113)	-	-	17
	2,651	(866)	(127)	37	1,695
Consumer real estate					
Home equity lines	469	36	(62)	5	448
Secured by 1-4 family residential					
First deed of trust	1,345	(1,020)	(103)	380	602
Second deed of trust	275	(159)	(55)	50	111
	2,089	(1,143)	(220)	435	1,161
Commercial and industrial loans (except those secured by real estate)	506	(350)	(162)	100	94
Student loans	217	13	-	-	230
Consumer and other	30	60	(55)	26	61
	$ 5,729	$ (2,000)	$ (816)	$ 649	$ 3,562
Year Ended December 31, 2014					
Construction and land development					
Residential	$ 135	$ (103)	$ -	$ 2	$ 34
Commercial	1,274	(1,016)	(100)	44	202
	1,409	(1,119)	(100)	46	236
Commercial real estate					
Owner occupied	1,200	1,268	(631)	-	1,837
Non-owner occupied	670	430	(518)	25	607
Multifamily	19	58	-	-	77
Farmland	337	(111)	(96)	-	130

	2,226	1,645	(1,245)	25	2,651
Consumer real estate					
Home equity lines	424	506	(476)	15	469
Secured by 1-4 family residential					
First deed of trust	1,992	(442)	(277)	72	1,345
Second deed of trust	394	(223)	(86)	190	275
	2,810	(159)	(839)	277	2,089
Commercial and industrial loans (except those secured by real estate)	724	(447)	(172)	401	506
Student loans	-	217	-	-	217
Consumer and other	70	(37)	(25)	22	30
	$ 7,239	$ 100	$ (2,381)	$ 771	$ 5,729

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	Beginning Balance	Provision for Loan Losses	Charge-offs	Recoveries	Ending Balance
Year Ended December 31, 2013					
Construction and land development					
Residential	$ 495	$ (462)	$ -	$ 102	$ 135
Commercial	4,611	(3,482)	(279)	424	1,274
	5,106	(3,944)	(279)	526	1,409
Commercial real estate					
Owner occupied	1,359	252	(454)	43	1,200
Non-owner occupied	817	452	(619)	20	670
Multifamily	23	(4)	-	-	19
Farmland	-	1,233	(896)	-	337
	2,199	1,933	(1,969)	63	2,226
Consumer real estate					
Home equity lines	658	23	(266)	9	424
Secured by 1-4 family residential					
First deed of trust	1,358	2,493	(1,953)	94	1,992
Second deed of trust	224	498	(367)	39	394
	2,240	3,014	(2,586)	142	2,810
Commercial and industrial loans (except those secured by real estate)	1,162	145	(760)	177	724
Consumer and other	101	25	(65)	9	70
	$ 10,808	$ 1,173	$ (5,659)	$ 917	$ 7,239

Overall the recovery of loan losses recorded for the year ended December 31, 2015 was due primarily to credit quality improvements and an enhanced model for evaluating inherent losses in the Bank's loan portfolio. Improvements in credit quality are provided in the following schedule:

	December 31, 2015	2014	2013
Classified assets	$15,375	$30,684	$61,690
Nonaccrual loans	3,718	7,478	18,647
Foreclosed real estate	6,249	12,638	16,742

During the fourth quarter of 2015, we adopted a software solution for the analysis of the allowance for loan losses. While our methodology of evaluating the adequacy of the allowance for loan losses generally did not change, the software is more robust in that it:

- allows us to take a more measureable approach to our evaluation of qualitative factors such as economic conditions that may affect loss experience; and
- is widely used by community banks which provides peer data that can be used as a benchmark for comparison to our analysis.

In addition to the adoption of the software solution for our analysis, we reviewed the last twenty years of historical loss data for peer banks in Virginia to assist us in our evaluation of environmental factors and other conditions that could affect the loan portfolio and the overall adequacy of the allowance for loan losses.

The allowance for loan losses at each of the periods presented includes an amount that could not be identified to individual types of loans referred to as the unallocated portion of the allowance. We recognize the inherent imprecision in estimates of losses due to various uncertainties and variability related to the factors used, and therefore a reasonable range around the estimate of losses is derived and used to ascertain whether the allowance is too high. We concluded that the unallocated portion of the allowance was acceptable given the continued higher level of classified assets and was within a reasonable range around the estimate of losses. At December 31, 2015 the allowance for loan losses included an unallocated portion of approximately $59,000.

Discussion of the recovery of loan losses related to specific loan types are provided following:

- The recovery of loan losses totaling $1,119,000 and $3,944,000 for the construction and land development loan portfolio during the years 2014 and 2013, respectively, was attributable to changes in our assessment of the general component of the allowance for loan losses as it related to this portfolio. In both years the general component allocated to this portfolio declined primarily as a result of declines in the historical loss experience from 7.81% at December 31, 2012 to 4.82% at December 31, 2013 and to a net recovery of 0.27% at December 31, 2014. Also contributing to the declines in the general component were declines of approximately $1,643,000 and $12,945,000 in the outstanding loan balance of this portfolio at December 31, 2014 and 2013, respectively.

- The recovery of loan losses totaling $866,000 for the commercial real estate portfolio in 2015 was also attributable to changes in our assessment of the general component of the allowance for loan losses as it related to this portfolio. The general component allocated to this portfolio declined primarily as a result of declines in the historical loss experience from 0.96% in 2014 to 0.57% in 2015. In addition, net charge-offs on this portfolio decreased from $1,220,000 in 2014 to $90,000 in 2015. Also contributing to the declines in the general component were declines of approximately $6,179,000 and $7,021,000 in the outstanding loan balance of this portfolio at December 31, 2015 and 2014, respectively.

- The recovery of loan losses totaling $1,143,000 for the consumer real estate portfolio in 2015 was also attributable to changes in our assessment of the general component of the allowance for loan losses as it related to this portfolio. The general component allocated to this portfolio declined primarily as a result of declines in the historical loss experience from 1.36% in 2014 to 0.24% in 2015. In addition, net charge-offs on this portfolio decreased from $562,000 in 2014 to a recovery of $215,000 in 2015.

Loans were evaluated for impairment as follows for the periods indicated (in thousands):

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	Recorded Investment in Loans Allowance				Loans			
	Ending Balance	Individually	Collectively	Loans aquired with deteriorated credit quaility	Ending Balance	Individually	Collectively	Loans aquired with deteriorated credit quaility
Year Ended December 31, 2015								
Construction and land development								
Residential	$30	$ -	$ 30	$ -	$5,202	$ -	$5,202	$ -
Commercial	291	2	289	-	25,948	1,822	24,126	-
	321	2	319	-	31,150	1,822	29,328	-
Commercial real estate								
Owner occupied	1,167	383	784	-	69,256	6,785	62,471	-
Non-owner occupied	460	26	434	-	38,037	2,867	35,170	-
Multifamily	51	-	51	-	8,537	-	8,537	-
Farmland	17	-	17	-	388	-	388	-
	1,695	409	1,286	-	116,218	9,652	106,566	-
Consumer real estate								
Home equity lines	448	-	448	-	20,333	1,238	19,095	-
Secured by 1-4 family residential								
First deed of trust	602	324	278	-	56,776	5,759	51,017	-
Second deed of trust	111	98	13	-	6,485	1,212	5,273	-
	1,161	422	739	-	83,594	8,209	75,385	-
Commercial and industrial loans (except those secured by real estate)	94	18	76	-	20,086	826	19,260	-
Student loans	230	-	230		53,989	-	53,989	-
Consumer and other	61	-	61	-	1,734	-	1,734	-
	$3,562	$ 851	$ 2,711	$ -	$306,771	$ 20,509	$ 286,262	$ -
Year Ended December 31, 2014								
Construction and land development								
Residential	$34	$ -	$ 34	$ -	$4,315	$ 164	$4,151	$ -
Commercial	202	26	176	-	25,152	3,968	21,184	-
	236	26	210	-	29,467	4,132	25,335	-
Commercial real estate								
Owner occupied	1,837	905	932	-	58,804	8,311	50,493	-

Non-owner occupied	607	-	607	-	38,892	6,593	32,299	-
Multifamily	77	-	77	-	11,438	2,322	9,116	-
Farmland	130	-	130	-	434	21	413	-
	2,651	905	1,746	-	109,568	17,247	92,321	-
Consumer real estate								
Home equity lines	469	-	469	-	20,082	800	19,282	-
Secured by 1-4 family residential								
First deed of trust	1,345	200	1,145	-	61,837	7,900	53,937	-
Second deed of trust	275	142	133	-	7,854	1,360	6,494	-
	2,089	342	1,747	-	89,773	10,060	79,713	-
Commercial and industrial loans (except those secured by real estate)	506	239	267	-	22,165	818	21,347	-
Student loans	217	-	217		33,562	-	33,562	-
Consumer and other	30	-	30	-	1,611	23	1,588	-
	$5,729	$ 1,512	$ 4,217	$ -	$286,146	$ 32,280	$ 253,866	$ -
Year Ended December 31, 2013								
Construction and land development								
Residential	$135	$ -	$ 135	$ -	$2,931	$ 216	$ 2,715	$ -
Commercial	1,274	227	1,047	-	28,179	5,205	22,974	-
	1,409	227	1,182	-	31,110	5,421	25,689	-
Commercial real estate								
Owner occupied	1,200	673	527	-	73,584	11,713	61,871	-
Non-owner occupied	670	371	299	-	43,868	13,066	30,802	-
Multifamily	19	-	19	-	11,560	2,373	9,187	-
Farmland	337	-	337	-	1,463	117	1,346	-
	2,226	1,044	1,182	-	130,475	27,269	103,206	-
Consumer real estate								
Home equity lines	424	-	424	-	21,246	1,630	19,616	-
Secured by 1-4 family residential			-					
First deed of trust	1,992	484	1,508	-	66,873	10,361	56,512	-
Second deed of trust	394	32	362	-	8,675	1,257	7,418	-
	2,810	516	2,294	-	96,794	13,248	83,546	-
Commercial and industrial loans (except those secured by real estate)	724	43	681	-	26,254	5,513	20,741	-
Consumer and other	70	-	70	-	1,930	32	1,898	-
	$7,239	$ 1,830	$ 5,409	$ -	$286,563	$ 51,483	$ 235,080	$ -

Note 5. Premises and equipment

The following is a summary of premises and equipment as of December 31, 2015 and 2014 (in thousands):

	2015	2014
Land	$4,858	$4,930
Buildings and improvements	9,216	9,311
Furniture, fixtures and equipment	7,437	7,395
Total premises and equipment	21,511	21,636
Less: Accumulated depreciation and amortization	(7,840)	(7,335)
Premises and equipment, net	$13,671	$14,301

Depreciation and amortization of premises and equipment for 2015, 2014 and 2013 amounted to $843,000, $681,000 and $1,311,000, respectively.

Note 6. Investment in bank owned life insurance

The Bank is owner and designated beneficiary on life insurance policies in the aggregate face amount of $14,254,000 covering certain of its directors and executive officers. The earnings from these policies are used to offset expenses related to retirement plans. The cash surrender value of these policies at December 31, 2015 and 2014 was approximately $7,130,000 and $6,947,000, respectively.

Note 7. Deposits

Deposits as of December 31, 2015 and 2014 were as follows (in thousands):

	2015	2014
Demand accounts	$78,282	$77,496
Interest checking accounts	44,256	42,924
Money market accounts	64,841	64,987
Savings accounts	19,403	20,643

Time deposits of $250,000 and over	9,717	9,965
Other time deposits	148,349	162,845
Total	$364,848	$378,860

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The following are the scheduled maturities of time deposits as of December 31, 2015 (in thousands):

Year Ending December 31,	Less Than $250,000	Greater than or Equal to $250,000	Total
2016	$ 82,213	$ 5,450	$ 87,663
2017	26,551	1,146	27,697
2018	18,315	2,267	20,582
2019	4,816	-	4,816
2020	16,454	854	17,308
	$ 148,349	$ 9,717	$ 158,066

Deposits held at the Company by related parties, which include officers, directors, greater than 5% shareholders and companies in which directors of the board have a significant ownership interest, approximated $6,240,000 and $7,305,000 at December 31, 2015 and 2014, respectively.

Note 8. Borrowings

The Company uses both short-term and long-term borrowings to supplement deposits when they are available at a lower overall cost to the Company or they can be invested at a positive rate of return.

As a member of the Federal Home Loan Bank of Atlanta, the Bank is required to own capital stock in the FHLB and is authorized to apply for advances from the FHLB. The Company held $685,000 in FHLB stock at December 31, 2015 and $1,073,000 at December 31, 2014 which is held at cost and included in other assets. Each FHLB credit program has its own interest rate, which may be fixed or variable, and range of maturities. The FHLB may prescribe the acceptable uses to which the advances may be put, as well as on the size of the advances and repayment provisions. The FHLB borrowings are secured by the pledge of U.S. Government agency securities, FHLB stock and qualified single family first mortgage loans. The Company had FHLB advances of approximately $6,000,000 at December 31, 2015 maturing through 2018. At December 31, 2014 approximately $14,000,000 of advances was outstanding.

As of December 31, 2015, the Company had advances from the FHLB that consisted of the following (in thousands):

Type	Maturity Date	Interest Rate	Advance Amount
Fixed Rate Credit	02/25/2016	2.65 %	$ 1,000
Fixed Rate Credit	04/11/2016	2.71 %	1,000
Fixed Rate Credit	06/01/2016	0.56 %	800
Fixed Rate Credit	12/01/2016	0.81 %	800
Fixed Rate Credit	06/01/2017	1.06 %	800
Fixed Rate Credit	12/01/2017	1.27 %	800
Fixed Rate Credit	06/01/2018	1.48 %	800
			$ 6,000

The Company uses federal funds purchased and repurchase agreements for short-term borrowing needs. Securities sold under agreements to repurchase are classified as borrowings and generally mature within one to four days from the transaction date. Securities sold under agreements to repurchase are reflected at the amount of cash received in connection with the transaction. The Company may be required to provide additional collateral based on the fair value of the underlying securities. The carrying value of these repurchase agreements was $508,000 and $3,302,000 at December 31, 2015 and 2014, respectively.

Information related to borrowings as of December 31, 2015 and 2014 is as follows (dollars in thousands):

	Year Ended December 31, 2015		2014	
Maximum outstanding during the year				
FHLB advances	$ 14,000		$ 18,000	
Balance outstanding at end of year				
FHLB advances	6,000		14,000	
Average amount outstanding during the year				
FHLB advances	9,027		15,468	
Average interest rate during the year				
FHLB advances	1.88	%	2.16	%
Average interest rate at end of year				
FHLB advances	1.58	%	2.07	%

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Note 9. Income taxes

The following summarizes the tax effects of temporary differences which comprise net deferred tax assets and liabilities at December 31, 2015 and 2014 (in thousands):

	2015	2014
Deferred tax assets		
Net operating loss carryforward	$8,475	$8,017
Capital loss carryforward	69	-
State net operating loss carryfoward	11	-
Allowance for loan losses	1,211	1,948
Unrealized loss on available-for-sale securities	226	332
Interest on nonaccrual loans	50	76
Expenses and writedowns related to foreclosed property	991	1,095
Merger stock options replacement	-	90
Stock compensation	140	45
Employee benefits	1,015	954
Pension expense	35	40
Depreciation	-	-
Other, net	38	32
Goodwill	39	55
Total deferred tax assets	12,300	12,684
Deferred tax liabilities		
Depreciation	43	11
Amortization of intangibles	34	67
Total deferred tax liabilities	77	78
Net deferred tax asset prior to valuation allowance	12,223	12,606
Less Unrealized gain/(loss) on available-for-sale securities	(226)	(332)
Net deferred tax asset subject to valuation allowance	11,997	12,274
Less valuation allowance	11,997	12,274
Net deferred tax asset	$226	$332

The net deferred tax asset is included in other assets on the consolidated balance sheet. Accounting Standards Codification Topic 740, *Income Taxes*, requires that companies assess whether a valuation allowance should be established against their deferred tax assets based on the consideration of all available evidence using a “more likely than not" standard. Management considers both positive and negative evidence and analyzes changes in near-term market conditions as well as other factors which may impact future operating results. In making such judgments, significant weight is given to evidence that can be objectively verified. The deferred tax assets are analyzed quarterly for changes affecting realization. Management determined that as of December 31, 2014, the objective negative evidence represented by the Company's recent losses outweighed the more subjective positive evidence and, as a result, recognized a valuation allowance for all of the net deferred tax asset that is dependent on future earnings of the Company of approximately $12,274,000. At December 31, 2015, management continues to believe that the objective negative evidence represented by the Company's prior losses outweighed the more subjective positive evidence and, as a result, maintains a valuation allowance at December 31, 2015 of $11,997,000. The net operating losses available to offset future taxable income amounted to $23,563,000 at December 31, 2015 and begin expiring in 2028; $1,257,000 of such amount is subject to a limitation by Section 382 of the Internal Revenue Code of 1986, as amended, to $908,000 per year.

The income tax expense (benefit) charged to operations for the years ended December 31, 2015, 2014 and 2013 consists of the following (in thousands):

	2015	2014	2013
Current tax expense (benefit)	$-	$67	$71
Deferred tax expense (benefit)	277	(401)	(1,852)
Valuation allowance	(277)	334	1,781
Provision (benefit) for income taxes	$-	$-	$-

A reconciliation of income taxes computed at the federal statutory income tax rate to total income taxes is as follows for the years ended December 31, 2015, 2014 and 2013 (in thousands):

	2015	2014	2013
Net income (loss) before income taxes	$646	$(1,037)	$(4,007)
Computed "expected" tax benefit	$220	$(352)	$(1,362)
Valuation allowance change	(277)	334	1,781
State taxes, net of fed	-	44	46
Cash surrender value of life insurance	(62)	(62)	(64)
Other	119	36	(401)
Provision (benefit) for income taxes	$-	$-	$-

Commercial banking organizations conducting business in Virginia are not subject to Virginia income taxes. Instead, they are subject to a franchise tax based on bank capital. Due to the Company’s adjusted capital level we were not subject to franchise tax expense for the years ended December 31, 2015, 2014 and 2013.

The Company is currently under an IRS examination of its federal tax return for the year ended December 31, 2013. The outcome of this audit is currently unknown, but we do not believe it will have a material impact on the Company’s financial condition or results of operations.

Note 10. Earnings (loss) per share

The following table presents the basic and diluted earnings per share computations (in thousands except per share data):

	2015	2014	2013
Numerator			
Net income (loss) - basic and diluted	$646	$(1,037)	$(4,007)
Preferred stock dividend and accretion	(674)	1,436	886
Preferred stock principal forgiveness	4,404	-	-
Preferred stock dividend forgiveness	2,215	-	-
Net income (loss) available to common shareholders	$6,591	$(2,473)	$(4,893)
Denominator			
Weighted average shares outstanding - basic	1,166	334	271
Dilutive effect of common stock options and restricted stock awards	35	-	-
Weighted average shares outstanding - diluted	1,201	334	271
Earnings (loss) per share - basic	$5.65	$(7.39)	$(18.06)
Earnings (loss) per share - diluted	$5.49	$(7.39)	$(18.06)

Outstanding options and warrants to purchase common stock were considered in the computation of diluted earnings per share for the periods presented. Stock options for 6,830 and 5,338 shares of common stock were not included in computing diluted earnings per share in 2014 and 2013 respectively, because their effects were anti-dilutive. Restricted stock awards for 14,642 and 320 shares of common stock were not included in computing diluted earnings per share in 2014 and 2013 respectively because their effects were also anti-dilutive (see Notes 13 and 14).

Note 11. Lease commitments

Certain premises and equipment are leased under various operating leases. Total rent expense charged to operations was $422,000, $439,000 and $446,000 in 2015, 2014 and 2013, respectively. At December 31, 2015, the minimum total rental commitment under such non-cancelable operating leases was as follows (in thousands):

2016	$399
2017	316
2018	314
2019	212

2020	206
	$1,447

Note 12. Commitments and contingencies

Off-balance-sheet risk – The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financial needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest-rate risk in excess of the amounts recognized in the financial statements. The contract amounts of these instruments reflect the extent of involvement that the Company has in particular classes of instruments.

The Company's exposure to credit loss in the event of non-performance by the other party to the financial instrument for commitments to extend credit, and to potential credit loss associated with letters of credit issued, is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for loans and other such on-balance sheet instruments.

At December 31, 2015 and 2014, the Company had outstanding the following approximate off-balance-sheet financial instruments whose contract amounts represent credit risk (in thousands):

	Contract Amount 2015	Contract Amount 2014
Undisbursed credit lines	$46,656	$38,064
Commitments to extend or originate credit	9,132	9,207
Standby letters of credit	1,484	1,571
Total commitments to extend credit	$57,272	$48,842

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require the payment of a fee. Historically, many commitments expire without being drawn upon; therefore, the total commitment amounts shown in the above table are not necessarily indicative of future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, as deemed necessary by the Company upon extension of credit is based on management's credit evaluation of the customer. Collateral held varies but may include personal or income-producing commercial real estate, accounts receivable, inventory and equipment.

Concentrations of credit risk – Generally, the Company's loans, commitments to extend credit, and standby letters of credit have been granted to customers in the Company's market area. Although the Company is building a diversified loan portfolio, a substantial portion of its clients' ability to honor contracts is reliant upon the economic stability of the Richmond, Virginia area, including the real estate markets in the area. The concentrations of credit by type of loan are set forth in Note 3. The distribution of commitments to extend credit approximates the distribution of loans outstanding.

Consent Order – On December 22, 2015, the Bank was notified by the Federal Deposit Insurance Corporation (the "FDIC") and the Virginia Bureau of Financial Institutions (the "Supervisory Authorities") that the Consent Order (the "Consent Order") under which the Bank has been operating since February 3, 2012 was terminated effective December 14, 2015. While in place, the Consent Order's requirements and restraints on the Bank's operations and activities included the following:

- The Bank was required to retain a consultant to develop a written analysis and assessment of the Bank's management and staffing needs for the purpose of providing qualified management for the Bank.

The Bank was required to maintain Tier 1 capital equal to or greater than 8% of its total assets, and total risk-based capital equal to or greater than 11% of the Bank's total risk-weighted assets.

- The Bank was required to eliminate from its books, by charge-off or collection, all assets or portions of assets classified "loss" and 50% of those classified "doubtful."
- The Bank was prohibited from extending, directly or indirectly, any additional credit to, or for the benefit of, any borrower who had a loan or other extension of credit from the Bank that had been charged off or classified, in whole or in part, "loss" or "doubtful" and was uncollected.
- The Bank was prohibited from extending, directly or indirectly, any additional credit to any borrower who had a loan or other extension of credit from the Bank that had been classified "substandard."
- The Bank was required to notify the Supervisory Authorities at least 60 days prior to undertaking asset growth that exceeded 10% or more per year or initiating material changes in asset or liability composition.

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- The Bank was prohibited from declaring or paying dividends, paying bonuses, or paying any form of payment outside the ordinary course of business resulting in a reduction of capital without the prior written approval of the Supervisory Authorities. In addition, the Bank was prohibited from making any distributions of interest, principal, or other sums on subordinated debentures without prior written approval of the Supervisory Authorities.
- The Bank was prohibited from accepting, renewing, or rolling over any brokered deposits unless it was in compliance with the requirements of the FDIC regulations governing brokered deposits.
- The Bank was required to prepare and submit written plans or reports to the Supervisory Authorities concerning liquidity, contingency funding, interest rate risk, reducing classified assets, lending and collection policies, internal loan review and grading system, managing the Bank's other real estate owned, overall operation of the Bank, budget for all categories of income and expense for the year 2011, managing interest rate risk, and the Bank's information technology function.

Under the Consent Order, the Bank's board of directors also agreed to increase its participation in the affairs of the Bank, including assuming full responsibility for the approval of policies and objectives for the supervision of all of the Bank's activities. The Bank was also required to establish a board committee to monitor and coordinate compliance with the Consent Order.

Memorandum of Understanding – As indicated above, the Consent Order was terminated effective December 14, 2015. In place of the Consent Order, the Bank's board of directors has made certain written assurances to the Supervisory Authorities in the form of a Memorandum of Understanding (the "MOU") concerning asset quality, earnings, regulatory violations, minimum capital levels, asset growth, restrictions on paying dividends and a requirement to furnish progress reports to the Supervisory Authorities. The MOU is considered an informal regulatory action.

Written Agreement – In June 2012, the Company entered into a written agreement ("Written Agreement") with the Federal Reserve Bank of Richmond (the "Reserve Bank"). Pursuant to the terms of the Written Agreement, the Company developed and submitted to the Reserve Bank written plans to maintain sufficient capital and correct any violations of Section 23A of the Federal Reserve Act and Regulation W. In addition, the Company submitted a written statement of its planned sources and uses of cash for debt service, operation expenses, and other purposes.

The Company also has agreed that it will not, without prior regulatory approval:

- pay or declare any dividends;
- make any other form of payment representing a reduction in Bank's capital;
- make any distributions of interest, principal or other sums on subordinated debentures or trust preferred securities;
- incur, increase or guarantee any debt; or
- purchase or redeem any shares of its stock.

The Company has taken numerous steps to comply with the terms of the MOU and Written Agreement. As of December 31, 2015, we believe we have complied with all requirements of the MOU and Written Agreement with the exception of the correction of the violations of Section 23A of the Federal Reserve Act and Regulation W.

IRS Examination – The Company is currently under an IRS examination of its payroll tax filings for the periods ended December 31, 2013 and 2014. The outcome of this audit is currently unknown, but we do not believe it will have a material impact on the Company’s financial condition or results of operations.

Note 13. Shareholders' equity and regulatory matters

On May 1, 2009, as part of the Capital Purchase Program (the "TARP Program") established by the U.S. Department of the Treasury (the "Treasury") under the Emergency Economic Stabilization Act of 2008, the Company entered into a Letter Agreement and Securities Purchase Agreement—Standard Terms (collectively, the "Purchase Agreement") with the Treasury, pursuant to which the Company sold (i) 14,738 shares of the Company's Fixed Rate Cumulative Perpetual Preferred Stock, Series A, par value $4.00 per share, having a liquidation preference of $1,000 per share (the "preferred stock") and (ii) a warrant (the "Warrant") to purchase 499,029 shares of the Company's common stock at an initial exercise price of $4.43 per share, subject to certain anti-dilution and other adjustments, for an aggregate purchase price of $14,738,000 in cash. The fair value of the preferred stock was estimated using discounted cash flow methodology at an assumed market equivalent rate of 13%, with 20 quarterly payments over a five year period, and was determined to be $10,208,000. The fair value of the Warrant was estimated using the Black-Scholes option pricing model, with assumptions of 25% volatility, a risk-free rate of 2.03%, a yield of 6.162% and an estimated life of 5 years, and was determined to be $534,000. The aggregate fair value for both the preferred stock and Warrant was determined to be $10,742,000 with 95% of the aggregate attributable to the preferred stock and 5% attributable to the Warrant. Therefore, the $14,738,000 issuance was allocated with $14,006,000 being assigned to the preferred stock and $732,000 being allocated to the Warrant. The difference between the $14,738,000 face value of the preferred stock and the amount allocated of $14,006,000 to the preferred stock was accreted as a discount on the preferred stock using the effective interest rate method over five years.

The preferred stock qualifies as Tier 1 capital and accrued cumulative dividends at a rate of 5% until May 1, 2014 and now accrues at a 9% rate, unless the shares are redeemed by the Company. The preferred stock is generally non-voting, other than on certain matters that could adversely affect the preferred stock.

The Warrant was immediately exercisable. The Warrant provides for the adjustment of the exercise price and the number of shares of common stock issuable upon exercise pursuant to customary anti-dilution provisions, such as upon stock splits or distributions of securities or other assets to holders of common stock, and upon certain issuances of common stock at or below a specified price relative to the then-current market price of common stock. The Warrant expires ten years from the issuance date. Pursuant to the Purchase Agreement, the Treasury has agreed not to exercise voting power with respect to any shares of common stock issued upon exercise of the Warrant.

In accordance with the Company's Written Agreement with the Reserve Bank, the Company has been deferring quarterly cash dividends on the preferred stock since May 2011. The total arrearage on such preferred stock as of December 31, 2015 was $2,077,477 (after forgiveness of $2,215,009 in accrued dividends in connection with standby rights offering described below). This amount has been accrued for and is included in other liabilities in the consolidated balance sheet.

In February 2012, the Bank entered into the Consent Order with the Supervisory Authorities that provided that, within 90 days from the date of the order and during the life of the order, the Bank must have a leverage capital ratio equal to or greater than 8% of its total assets, and total risk-based capital equal to or greater than 11% of the Bank's total risk-weighted assets. The MOU that replaced the Consent Order in November 2015 provides that the Bank must maintain a leverage capital ratio of at least 8% and a total risk-based capital ratio of at least 12%. At December 31, 2015, the Bank's Tier 1 risk-based capital ratio was 12.85%, its total risk-based capital ratio was 14.02% and its leverage ratio was 9.33%.

In November 2013, the Company participated in a successful auction of the Company's preferred stock by the Treasury that resulted in the purchase of the preferred stock by private and institutional investors.

On December 4, 2013, the Company issued 67,907 new shares of common stock through a private placement to directors and executive officers. The sale raised $1,684,075 in new capital for the Company. The $24.80 sale price for the common shares was the stock's book value at September 30, 2013, which represented a 30% premium over the closing price of the stock on December 3, 2013.

On August 6, 2014, the Company filed Articles of Amendment to its Articles of Incorporation with the Virginia State Corporation Commission to effect a reverse stock split of its outstanding common stock which became effective on August 8, 2014. As a result of the reverse split, every sixteen shares of the Company’s issued and outstanding common stock were consolidated into one issued and outstanding share of common stock.

On March 27, 2015, the Company completed a rights offering to shareholders (the “Rights Offering”) and concurrent standby offering to Kenneth R. Lehman (the “Standby Offering”), in which the Company issued an aggregate of 1,051,866 shares of common stock (the total number of shares offered) at $13.87 per share for aggregate gross proceeds of $14,589,381 (including the value of the Company’s common stock of $4,618,813 exchanged for shares of preferred stock by Mr. Lehman). In connection with the Rights Offering, 283,293 shares were issued to shareholders upon exercise of their basic subscription rights and 191,773 shares were issued to shareholders upon exercise of their oversubscription privileges (approximately 36.9% of the total number of shares requested pursuant to oversubscription privileges). In connection with the Standby Offering, Mr. Lehman purchased an aggregate of 576,800 shares of the Company’s common stock, 333,007 of which were issued in exchange for 9,023 shares of the Company’s preferred stock and 243,793 of which were purchased for cash. Also, as part of the Standby Offering, Mr. Lehman forgave $2,215,009 in accrued and unpaid dividends on the preferred stock.

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

Quantitative measures are established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 Capital (as defined in the regulations) to risk-weighted assets, and of Tier 1 Capital to average assets (the Leverage ratio).

Federal regulatory agencies are required by law to adopt regulations defining five capital tiers: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized. The Bank met the ratio criteria to be categorized as a “well capitalized” institution as of December 31, 2015, 2014 and 2013. However, due to the minimum capital ratios required by the prior Consent Order, the Bank was considered adequately capitalized in 2014 and 2013. The MOU requires the Bank to maintain a leverage ratio of at least 8% and a total capital to risk-weighted assets ratio of at least 12%. Primarily as a result of the Company’s Rights Offering and Standby Offering completed on March 27, 2015, the Bank’s leverage ratio increased to 9.33% and the total capital to risk-weighted assets ratio was 14.02%, exceeding the ratios required by the MOU. When capital falls below the “well capitalized” requirement, consequences can include: new branch approval could be withheld, more frequent examinations by the FDIC; brokered deposits cannot be renewed without a waiver from the FDIC; and other potential limitation as described in FDIC Rules and Regulations sections 337.6 and 303, and FDIC Act section 29. In addition, the FDIC insurance assessment increases when an institution falls below the "well capitalized" classification.

In July 2013, the Board of Governors of the Federal Reserve Board and the FDIC approved the final rules implementing the Basel Committee on Banking Supervision's capital guidelines for U.S. banks (commonly known as Basel III). Under the final rules, which began for the Company and the Bank on January 1, 2015 and are subject to a phase-in period through January 1, 2019, minimum requirements will increase for both the quantity and quality of capital held by the Company and the Bank. The rules include a new common equity Tier 1 capital to risk-weighted assets ratio ("CET1 ratio") of 4.5% and a capital conservation buffer of 2.5% of risk-weighted assets, which when fully phased-in, effectively results in a minimum CET1 ratio of 7.0%. Basel III raises the minimum ratio of Tier 1 capital to risk-weighted assets from 4.0% to 6.0% (which, with the capital conservation buffer, effectively results in a minimum Tier 1 capital ratio of 8.5% when fully phased-in), effectively results in a minimum total capital to risk-weighted assets ratio of 10.5% (with the capital conservation buffer fully phased-in), and requires a minimum leverage ratio of 4.0%. Basel III also makes changes to risk weights for certain assets and off-balance-sheet exposures. Management expects that the capital ratios for the Company and the Bank under Basel III will continue to exceed the well capitalized minimum capital requirements

The capital amounts and ratios at December 31, 2015 and 2014 for the Company and the Bank are presented in the table below (dollars in thousands):

	Actual Amount	Ratio	For Capital Adequacy Purposes Amount	Ratio	To be Well Capitalized Amount	Ratio
December 31, 2015						
Total capital (to risk- weighted assets)						
Consolidated	$42,397,000	13.90%	$24,394,000	8.00%	$30,492,000	10.00 %
Village Bank	42,695,000	14.02%	24,369,000	8.00%	30,461,000	10.00 %
Tier 1 capital (to risk- weighted assets)						
Consolidated	35,977,000	11.80%	12,197,000	4.00%	18,295,000	6.00 %
Village Bank	39,133,000	12.85%	12,184,000	4.00%	18,277,000	6.00 %
Leverage ratio (Tier 1 capital to average assets)						
Consolidated	35,977,000	8.43 %	17,062,000	4.00%	21,328,000	5.00 %
Village Bank	39,133,000	9.33 %	16,776,000	4.00%	20,970,000	5.00 %
Common equity tier 1 (to risk- weighted assets)						
Village Bank	39,133,000	12.85%	13,707,000	4.50%	15,231,000	6.50 %
December 31, 2014						
Total capital (to risk- weighted assets)						
Consolidated	$31,946,000	11.17%	$22,875,000	8.00%	$28,594,000	10.00 %
Village Bank	34,253,000	12.08%	22,926,000	8.00%	28,358,000	10.00 %

Tier 1 capital (to risk- weighted assets)								
Consolidated	21,037,000	7.36 %	11,437,000	4.00 %	17,156,000	6.00 %
Village Bank	30,681,000	10.82 %	11,343,000	4.00 %	17,015,000	6.00 %
Leverage ratio (Tier 1 capital to average assets)						
Consolidated	21,037,000	4.90 %	17,170,000	4.00 %	21,463,000	5.00 %
Village Bank	30,681,000	7.18 %	17,084,000	4.00 %	21,355,000	5.00 %

(1) Under the Consent Order, the Bank was not considered well capitalized even though it met the ratio requirements to be classified as such at December 31, 2014. The MOU requires the total capital to risk-weighted assets to be at least 12% and the leverage ratio to be at least 8%.

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The Company is currently prohibited by its Written Agreement with the Reserve Bank from making dividend or interest payments on the TARP Program preferred stock or trust preferred capital notes without prior regulatory approval. In addition, the MOU with the Supervisory Authorities provides that the Bank will not pay any dividends, pay bonuses or make any other form of payment outside the ordinary course of business resulting in a reduction of capital, without regulatory approval.

Note 14. Stock incentive plan

In accordance with accounting standards the Company measures the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions). That cost is recognized over the period during which an employee is required to provide service in exchange for the award rather than disclosed in the financial statements.

The following table summarizes options outstanding under the stock incentive plan at the indicated dates:

	Year Ended December 31, 2015				2014			
	Options	Weighted Average Exercise Price	Fair Value Per Share	Intrinsic Value	Options	Weighted Average Exercise Price	Fair Value Per Share	Intrinsic Value
Options outstanding, beginning of period	6,830	$ 92.34	$ 52.74		6,210	$ 99.03	$ 64.96	
Granted	-	-	-		884	25.28	15.52	
Forfeited	(3,901)	168.79	95.85		(264)	25.28	80.33	
Exercised	-	-	-		-	-	-	
Options outstanding, end of period	2,929	$ 24.47	$ 12.71	$ -	6,830	$ 92.34	$ 57.97	$ -
Options exercisable, end of period	1,730				5,318			

	Year Ended December 31, 2013			
	Options	Weighted Average Exercise Price	Fair Value Per Share	Intrinsic Value
Options outstanding, beginning of period	15,977	$ 155.36	$ 74.40	
Granted	1,760	25.28	9.76	

Forfeited	(11,527)	123.20	79.84	
Exercised	-	-	-	
Options outstanding, end of period	6,210	$ 99.03	$ 64.96	$ -
Options exercisable, end of period	4,607			

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The following table summarizes information about stock options outstanding at December 31, 2015:

	Outstanding			Exercisable	
Range of Exercise Prices	Number of Options	Weighted Average Remaining Years of Contractual Life	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
\$16.00-\$25.76	2,929	28.70	\$ 24.47	1,730	\$ 23.75

During the third quarter of 2015, we granted certain officers 40,675 restricted shares of common stock with a weighted average fair market value of \$19.72 at the date of grant. During the first and third quarters of 2014, we granted certain officers 4,423, 6,278 and 1,625 restricted shares of common stock with a weighted average fair market value of \$21.28, \$27.04 and \$27.69 at the date of grant, respectively. These restricted stock awards have three-year graded vesting. Prior to vesting, these shares are subject to forfeiture to us without consideration upon termination of employment under certain circumstances. The total number of shares underlying non-vested restricted stock was 43,405 and 11,767 at December 31, 2015 and 2014, respectively.

The fair value of the stock is calculated under the same methodology as stock options and the expense is recognized over the vesting period. Unamortized stock-based compensation related to non-vested share based compensation arrangements granted under the Incentive Plan as of December 31, 2015 and 2014 was \$514,000 and \$329,000, respectively. The time based unamortized compensation of \$514,000 is expected to be recognized over a weighted average period of 2.27 years. There were no forfeitures of restricted stock awards in 2015 and 2014.

A summary of changes in the Company's nonvested restricted stock awards for the year follows:

	Shares	Weighted-Average Grant-Date Fair-Value	Aggregate Intrinsic Value
December 31, 2014	14,084	\$ 25.41	\$267,596
Granted	40,675	19.72	772,825
Vested	(11,354)	15.99	(215,726)
Forfeited	-	-	-

December 31, 2015	43,405	$ 22.54	$824,695

Stock-based compensation expense was $262,000, $131,000, and $11,000 for the years ended December 31, 2015, 2014, and 2013, respectively.

Note 15. Trust preferred securities

During the first quarter of 2005, Southern Community Financial Capital Trust I, a wholly-owned subsidiary of the Company, was formed for the purpose of issuing redeemable securities. On February 24, 2005, $5.2 million of Trust Preferred Capital Notes were issued through a pooled underwriting. The securities have a LIBOR-indexed floating rate of interest (three-month LIBOR plus 2.15%) which adjusts, and is payable, quarterly. The interest rate was 2.69% and 2.40% at December 31, 2015 and 2014, respectively. The securities were redeemable at par beginning on March 15, 2010 and each quarter after such date until the securities mature on March 15, 2035. No amounts have been redeemed at December 31, 2015 and there are no plans to do so. The principal asset of the Trust is $5.2 million of the Company’s junior subordinated debt securities with like maturities and like interest rates to the Trust Preferred Capital Notes.

During the third quarter of 2007, Village Financial Statutory Trust II, a wholly–owned subsidiary of the Company, was formed for the purpose of issuing redeemable securities. On September 20, 2007, $3.6 million of Trust Preferred Capital Notes were issued through a pooled underwriting. The securities have LIBOR-indexed floating rate of interest (three-month LIBOR plus 1.4%) which adjusts and is also payable quarterly. The interest rate at December 31, 2015 was 1.94%. The securities may be redeemed at par at any time commencing in December 2012 until the securities mature in 2037. No amounts have been redeemed at December 31, 2015 and there are no plans to do so.The principal asset of the Trust is $3.6 million of the Company's junior subordinated securities with like maturities and like interest rates to the Trust Preferred Capital Notes.

The Trust Preferred Capital Notes may be included in Tier 1 capital for regulatory capital adequacy determination purposes up to 25% of Tier 1 capital after its inclusion. The portion of the Trust Preferred Capital Notes not considered as Tier 1 capital may be included in Tier 2 capital.

The obligations of the Company with respect to the issuance of the Trust Preferred Capital Notes constitute a full and unconditional guarantee by the Company of the Trust's obligations with respect to the Trust Preferred Capital Notes. Subject to certain exceptions and limitations, the Company may elect from time to time to defer interest payments on the junior subordinated debt securities, which would result in a deferral of distribution payments on the related Trust Preferred Capital Notes and require a deferral of common dividends. In consideration of our agreements with our regulators, which require regulatory approval to make interest payments on these securities, the Company has deferred an aggregate of $1,273,000 in interest payments on the junior subordinated debt securities as of December 31, 2015. The Company has been deferring interest payments since June 2011. Although we elected to defer payment of the interest due, the amounts has been accrued in the consolidated balance sheet and included in interest expense in the consolidated statement of operations.

The Company received notification on February 26, 2016 from the Reserve Bank approving the payment of all accrued and deferred interest payments on trust preferred securities bringing the Company current as of March 2016.

Note 16. Retirement plans

401K Plan: The Bank provides a qualified 401K plan to all eligible employees which is administered through the Virginia Bankers Association Benefits Corporation. Employees are eligible to participate in the plan after three months of employment. Eligible employees may, subject to statutory limitations, contribute a portion of their salary to the plan through payroll deduction. Due to the recent economic conditions the Bank ceased its matching program in 2009 however beginning January 2013 the Bank reinstituted the 401K match. The Bank provided a matching contribution of $.50 for every $1.00 the participant contributes up to the first 4% of their salary. Participants are fully vested in their own contributions and vest equally over three years of service in the Bank's matching contributions. Total contributions to the plan for the years ended December 31, 2015, 2014 and 2013 were $159,000, $150,000 and $165,000, respectively.

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Supplemental Executive Retirement Plan: The Bank established the Village Bank Supplemental Executive Retirement Plan (the “SERP”) on January 1, 2005 to provide supplemental retirement income to certain executive officers as designated by the Personnel Committee, later replaced by the Compensation Committee, and approved by the board of directors. While we are subject to the regulatory agreements, the respective regulatory agencies also review and approve new participants or changes in benefits under the SERP. The SERP is an unfunded employee pension plan under the provisions of ERISA. An eligible employee, once designated by the Committee and approved by the board of directors in writing to participate in the SERP, becomes a participant in the SERP 60 days following such approval (unless an earlier participation date is approved). There are currently five executive officers who participate in the SERP. The retirement benefit to be received by a participant is determined by the Committee and approved by the board of directors and is payable in equal monthly installments over the period specified in the SERP for each respective participant, commencing on the first day of the month following a participant’s retirement or termination of employment, provided the participant has been employed by the Bank for a minimum of 10 years. The Compensation Committee, in its sole discretion, may choose to treat a participant who has experienced a termination of employment on or after attaining age 65 but prior to completing his service requirement as having completed his service requirement. At December 31, 2015 and 2014, the Bank’s liability under the SERP was $1,972,000 and $1,840,000, respectively, and expense for the years ended December 31, 2015, 2014 and 2013 was $201,000, $257,000 and $462,000, respectively. The increase in cash surrender value of the BOLI related to the participants was $183,000, $182,000 and $189,000 for the years ended December 31, 2015, 2014 and 2013, respectively.

Directors’ Deferral Plan: The Bank established the Village Bank Outside Directors Deferral Plan (the “Directors Deferral Plan”) on January 1, 2005 under which non-employee directors of Village Bank have the opportunity to defer receipt of all or a portion of certain compensation until retirement or departure from the board of directors. Deferral of compensation under the Directors Deferral Plan is voluntary by non-employee directors and to participate in the plan a director must file a deferral election as provided in the plan. A director shall become an active participant with respect to a plan year (as defined in the plan) only if he is expected to have compensation during the plan year and he timely files a deferral election. A separate account is established for each participant in the plan and each account shall, in addition to compensation deferred at the election of the participant, be credited with interest on the balance of the account, the rate of such interest to be established by the board of directors in its sole discretion at the beginning of each plan year. For those directors electing to purchase stock, the obligation will only be settled by delivery of the fixed number of shares they purchased. At December 31, 2015 and 2014, the Bank’s liability under the Directors Deferral Plan was $82,000 and $206,000, respectively, and expense for the years ended December 31, 2015, 2014 and 2013 was $87,000, $123,000 and $165,000, respectively. In the first quarter of 2015 and the fourth quarter of 2013 certain directors electing to purchase common stock with funds from their deferred compensation accounts causing the December 31, 2015 and December 31, 2103 liability to be lower than the December 31, 2014 liability. A rabbi trust was established to hold the shares. At December 31, 2015 and 2014 the trust held 48,055 and 35,389 shares of Company common stock totaling $1,034,382 and $877,644, respectively.

Note 17. Fair Value

Effective January 1, 2008, the Company adopted the provisions of FASB Codification Topic 820: *Fair Value Measurements* which defines fair value, establishes a framework for measuring fair value under U.S GAAP, and expands disclosures about fair value measurements.

FASB Codification Topic 820: *Fair Value Measurements and Disclosures* establishes a hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair values hierarchy is as follows:

- *Level 1 Inputs*— Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

- *Level 2 Inputs* — Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

- *Level 3 Inputs* - Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Company used the following methods to determine the fair value of each type of financial instrument:

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Securities: Fair values for securities available-for-sale are obtained from an independent pricing service. The prices are not adjusted. The independent pricing service uses industry-standard models to price U.S. Government agency obligations and mortgage backed securities that consider various assumptions, including time value, yield curves, volatility factors, prepayment speeds, default rates, loss severity, current market and contractual prices for the underlying financial instruments, as well as other relevant economic measures. Securities of obligations of state and political subdivisions are valued using a type of matrix, or grid, pricing in which securities are benchmarked against the treasury rate based on credit rating. Substantially all assumptions used by the independent pricing service are observable in the marketplace, can be derived from observable data, or are supported by observable levels at which transactions are executed in the marketplace (Levels 1 and 2).

Impaired loans: The fair values of impaired loans are measured for impairment using the fair value of the collateral for collateral-dependent loans on a nonrecurring basis. Collateral may be in the form of real estate or business assets including equipment, inventory, and accounts receivable. The vast majority of the Company's collateral is real estate. The value of real estate collateral is determined utilizing an income or market valuation approach based on an appraisal conducted by an independent, licensed appraiser using observable market data (Level 2). However, if the collateral is a house or building in the process of construction or when economic or other circumstances dictate a need to obtain an updated appraisal of the property, then a Level 3 valuation is considered to measure the fair value. The value of business equipment is based upon an outside appraisal if deemed significant, or the net book value on the applicable business's financial statements if not considered significant using observable market data. Likewise, values for inventory and accounts receivables collateral are based on financial statement balances or aging reports (Level 3). Any fair value adjustments are recorded in the period incurred as provision for loan losses on the Consolidated Statements of Operations.

Real estate owned: Real estate owned assets are adjusted to fair value upon transfer of the loans to foreclosed assets. Subsequently, real estate owned assets are carried at fair value less costs to sell. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the foreclosed asset as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the foreclosed asset as nonrecurring Level 3.

Assets held for sale: assets held for sale were transferred from premises and equipment at cost less accumulated depreciation at the date of transfer. The Company periodically evaluates the value of assets held for sale and records an impairment charge for any subsequent declines in fair value less selling costs. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the assets held for sale as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the asset held for sale as nonrecurring Level 3.

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Assets measured at fair value under Topic 820 on a recurring and non-recurring basis are summarized below (in thousands):

	Fair Value Measurement at December 31, 2015 Using			
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets - Recurring				
US Government Agencies	$33,713	3,307	30,406	-
Mortgage-backed securities	3,001	-	3,001	-
Municipals	1,205	-	1,205	-
Financial Assets - Non-Recurring				
Impaired loans	20,509	-	16,331	4,178
Assets held for sale	12,631	-	12,631	-
Real estate owned	6,249	-	6,190	59

	Fair Value Measurement at December 31, 2014 Using			
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets - Recurring				
US Government Agencies	$33,347	-	33,347	-
Mortgage-backed securities	484	-	484	-
Municipals	5,711	-	5,711	-
			-	
Financial Assets - Non-Recurring				
Impaired loans	32,280	-	30,028	2,252
Assets held for sale	11,743		11,743	-
Real estate owned	12,638	-	12,168	470

The following table presents qualitative information about Level 3 fair value measurements for financial instruments for the years ended December 31, 2015 and 2014 (dollars in thousands):

	December 31, 2015			
	Fair Value Estimate	Valuation Techniques	Unobservable Input	Range (Weighted Average)
Impaired loans - real estate secured	$1,042	Appraisal (1) or Internal Valuation (2)	Selling costs	6%-10% (7%)
			Discount for lack of marketability and age of appraisal	6%-30% (10%)
Impaired loans - non-real estate secured	$605	Appraisal (1) or Discounted Cash Flow	Selling costs	10%
			Discount for lack of marketability or practical life	0%-50% (20%)
Real estate owned	$59	Appraisal (1) or Internal Valuation (2)	Selling costs	6%-10% (7%)
			Discount for lack of marketability and age of appraisal	6%-30% (15%)
Assets held for sale	$12,631	Appraisal (1) or Internal Valuation (2)	Selling costs	6%-10% (7%)
			Discount for lack of marketability and age of appraisal	6%-30% (15%)

	December 31, 2014			
	Fair Value Estimate	Valuation Techniques	Unobservable Input	Range (Weighted Average)
Impaired loans - real estate secured	$1,438	Appraisal (1) or Internal Valuation (2)	Selling costs	6%-10% (7%)
			Discount for lack of marketability and age of appraisal	6%-30% (10%)
Impaired loans - non-real estate secured	$825	Appraisal (1) or Discounted Cash Flow	Selling costs	10%
			Discount for lack of marketability or practical life	0%-50% (20%)
Real estate owned	$470	Appraisal (1) or Internal Valuation (2)	Selling costs	6%-10% (7%)

			Discount for lack of marketability and age of appraisal	6%-30% (15%)
Assets held for sale	$11,743	Appraisal (1) or Internal Valuation (2)	Selling costs	6%-10% (7%)
			Discount for lack of marketability and age of appraisal	6%-30% (15%)

(1) Fair Value is generally determined through independent appraisals of the underlying collateral, which generally included various level 3 inputs which are not identifiable.

(2) Internal valuations may be conducted to determine Fair Value for assets with nominal carrying balances.

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The following table presents the changes in the Level 3 fair value category for the years ended December 31, 2015 and 2014 (in thousands):

	Impaired Loans	Real Estate Owned	Assets Held for Sale	Total Assets
Balance at December 31, 2013	$ 4,253	$ 1,529	$ 11,601	$ 17,383
Total realized and unrealized gains (losses)				
Included in earnings	-	381	-	381
Included in other comprehensive income	-	-	-	-
Net transfers in and/or out of Level 3	(1,990)	(573)	142	(2,421)
Balance at December 31, 2014	$ 2,263	$ 1,337	$ 11,743	$ 15,343
Total realized and unrealized gains (losses)				
Included in earnings	-	142	-	142
Included in other comprehensive income	-	-	-	-
Net transfers in and/or out of Level 3	(616)	(1,420)	888	(1,148)
Balance at December 31, 2015	$ 1,647	$ 59	$ 12,631	$ 14,337

In general, fair value of securities is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon market prices determined by an outside, independent entity that primarily uses as inputs, observable market-based parameters. Fair value of loans held for sale is based upon internally developed models that primarily use as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. These adjustments may include amounts to reflect counterparty credit quality, the Company's creditworthiness, among other things, as well as unobservable parameters. Any such valuation adjustments are applied consistently over time. The Company valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While management believes the Company's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. Transfers between levels of the fair value hierarchy are recognized on the actual date of the event or circumstances that caused the transfer, which generally coincides with the Company's monthly and or quarter valuation process.

Cash and cash equivalents – The carrying amount of cash and cash equivalents approximates fair value.

Investment securities – The fair value of investment securities held-to-maturity and available-for-sale is estimated based on quoted prices for similar assets or liabilities determined by bid quotations received from independent pricing services. The carrying amount of other investments approximates fair value.

Loans – For variable rate loans that reprice frequently and have no significant change in credit risk, fair values are based on carrying values. For all other loans, fair values are calculated by discounting the contractual cash flows using estimated market discount rates which reflect the credit and interest rate risk inherent in the loans, or by using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

Deposits – The fair value of deposits with no stated maturity, such as demand, interest checking and money market, and savings accounts, is equal to the amount payable on demand at year-end. The fair value of certificates of deposit is based on the discounted value of contractual cash flows using the rates currently offered for deposits of similar remaining maturities.

Borrowings – The fair value of borrowings is based on the discounted value of contractual cash flows using the rates currently offered for borrowings of similar remaining maturities.

Accrued interest – The carrying amounts of accrued interest receivable and payable approximate fair value.

	Level in Fair Value Hierarchy (In thousands)	December 31, 2015 Carrying Value	Estimated Fair Value	December 31, 2014 Carrying Value	Estimated Fair Value
Financial assets					
Cash	Level 1	$17,076	$ 17,076	$25,115	$ 25,115
Cash equivalents	Level 2	186	186	23,988	23,988
Investment securities available for sale	Level 1	3,307	3,307	-	-
Investment securities available for sale	Level 2	34,612	34,612	39,542	39,542
Federal Home Loan Bank stock	Level 2	685	685	1,073	1,073
Loans held for sale	Level 2	14,373	14,373	9,914	9,914
Loans	Level 2	286,262	274,230	253,855	249,942
Impaired loans	Level 2	18,862	18,862	30,028	30,028
Impaired loans	Level 3	1,647	1,647	2,263	2,263
Assets held for sale	Level 2	12,631	12,631	11,743	11,743
Other real estate owned	Level 2	6,190	6,190	12,168	12,168
Other real estate owned	Level 3	59	59	470	470
Bank owned life insurance	Level 3	7,130	7,130	6,947	6,947
Accrued interest receivable	Level 2	2,060	2,060	1,372	1,372
Financial liabilities					
Deposits	Level 2	364,848	365,294	378,860	379,857
FHLB borrowings	Level 2	6,000	6,004	14,000	14,065
Trust preferred securities	Level 2	8,764	8,984	8,764	7,274
Other borrowings	Level 2	508	508	3,302	3,303
Accrued interest payable	Level 2	1,346	1,346	1,167	1,167

Note 18. Parent corporation only financial statements

Village Bank and Trust Financial Corp.

(Parent Corporation Only)

Condensed Balance Sheet

(in thousands)

	December 31, 2015	December 31, 2014
Assets		
Cash and due from banks	$ 3,494	$ 84
Investment in subsidiaries	38,665	30,158
Investment in special purpose subsidiary	264	264
Prepaid expenses and other assets	45	2,062
	$ 42,468	$ 32,568
Liabilities and Shareholders' Equity		
Liabilities		
Balance due to nonbank subsidiaries	$ 8,764	$ 8,764
Other liabilities	3,345	4,746
Total liabilities	12,109	13,510
Shareholders' equity		
Preferred stock	23	59
Common stock	5,562	1,339
Additional paid-in capital	58,498	58,188
Warrant surplus	732	732
Accumulated deficit	(33,949)	(40,539)
Stock in directors rabbi trust	(1,034)	(878)
Directors deferred fees obligation	1,034	878
Accumulated other comprehensive loss	(507)	(721)
Total shareholders' equity	30,359	19,058
	$ 42,468	$ 32,568

Village Bank and Trust Financial Corp.

(Parent Corporation Only)

Condensed Statements of Operations and Comprehensive (Income) Loss

Years Ended December 31, 2015, 2014 and 2013

(in thousands)

	2015	2014	2013
Interest income			
Village Bank money market	$10	$1	$3
Interest expense			
Interest on accrued and upaid dividends	-	-	55
Interest on trust preferred securities	213	215	183
Total interest expense	213	215	238
Net interest expense	(203)	(214)	(235)
Noninterest expense			
Write down of assets held for sale	1,759	-	-
Supplies	48	54	57
Professional and outside services	412	53	54
Other	52	52	35
Total noninterest expense	2,271	159	146
Net loss before undistributed income (loss) of subsidiary	(2,474)	(373)	(381)
Undistributed income (loss) of subsidiary	3,120	(664)	(3,626)
Net income (loss) before income tax expense (benefit)	646	(1,037)	(4,007)
Income tax expense (benefit)	-	-	-
Net income (loss)	$646	$(1,037)	$(4,007)
Total comprehensive income (loss)	$860	$2,080	$(7,679)

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Village Bank and Trust Financial Corp.

(Parent Corporation Only)

Condensed Statements of Cash Flows

Years Ended December 31, 2015, 2014 and 2013

(in thousands)

	December 2015	December 31, 2014	December 31, 2013
Cash Flows from Operating Activities			
Net income (loss)	$ 646	$ (1,037)	$ (4,007)
Adjustments to reconcile net income (loss) to net cash used in operating activities			
Depreciation and amortization	-	-	2
Writedown on assets held for sale	1,759	-	-
Undistributed (income) loss of subsidiary	(3,120)	664	3,626
(Increase) decrease in other assets	258	(239)	(8)
Increase (decrease) in other liabilities	(19)	247	252
Net cash used in operating activities	(476)	(365)	(135)
Cash Flows from Investing Activities			
Investment in subsidiary	(5,000)	-	(1,684)
Net cash used in investing activities	(5,000)	-	(1,684)
Cash Flows from Financing Activities			
Proceeds from issuance of common stock	(79)	(11)	1,684
Net proceeds from sale of common stock, net of expenses of $990	8,965	-	-
Net cash provided by (used in) financing activities	8,886	(11)	1,684
Net increase (decrease) in cash	3,410	(376)	(135)
Cash, beginning of year	84	460	595
Cash, end of year	$ 3,494	$ 84	$ 460

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures. The Company, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and the Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that as of December 31, 2015, the Company's disclosure controls and procedures were effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and regulations and that such information is accumulated and communicated to the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that the Company's disclosure controls and procedures will detect or uncover every situation involving the failure of persons within the Company or its subsidiaries to disclose material information otherwise required to be set forth in the Company's periodic reports.

Management's Report on Internal Control over Financial Reporting. Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934. The Company's internal control over financial reporting is designed to provide reasonable assurance to the Company's management and board of directors regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2015. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control – Integrated Framework (2013)*. Based on our assessment, we believe that, as of December 31, 2015, the Company's internal control over financial reporting was effective based on those criteria.

*Changes in Internal Control Over Financial Reporting***.** There has been no change in the Company’s internal control over financial reporting during the fourth quarter of the fiscal year ended December 31, 2015 that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE

The information required to be disclosed in this Item 10 is contained in the Company's Proxy Statement for the 2016 Annual Meeting of Shareholders and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information required to be disclosed in this Item 11 is contained in the Company's Proxy Statement for the 2016 Annual Meeting of Shareholders and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS

The information required to be disclosed in this Item 12 is contained in the Company's Proxy Statement for the 2016 Annual Meeting of Shareholders and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required to be disclosed in this Item 13 is contained in the Company's Proxy Statement for the 2016 Annual Meeting of Shareholders and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required to be disclosed in this Item 14 is contained in the Company’s Proxy Statement for the 2016 Annual Meeting of Shareholders and is incorporated herein by reference.

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PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a)(1) Financial Statements

The following consolidated financial statements and reports are included in Part II, Item 8, of this report on Form 10K.

Report of Independent Registered Public Accounting Firm (BDO USA, LLP)
Consolidated Balance Sheets – December 31, 2015 and 2014
Consolidated Statements of Operations – Years Ended December 31, 2015, 2014 and 2013
Consolidated Statements of Shareholders' Equity – Years Ended December 31, 2015, 2014 and 2013
Consolidated Statements of Comprehensive Income (Loss) – Years Ended December 31, 2015, 2014 and 2013
Consolidated Statements of Cash Flows – Years Ended December 31, 2015, 2014 and 2013
Notes to Consolidated Financial Statements

(a)(2) Financial Statement Schedules

All schedules are omitted since they are not required, are not applicable, or the required information is shown in the consolidated financial statements or notes thereto.

(a)(3) Exhibits

The following exhibits are filed as part of this Form 10-K and this list includes the Exhibit Index.

Exhibit Number	Description
3.1	Articles of Incorporation of Village Bank and Trust Financial Corp., as amended (incorporated herein by reference to Exhibit 3.1 of the Quarterly Report on Form 10-Q for the period ended September 30, 2014, filed with the SEC on October 31, 2014).
3.2	Amended and Restated Bylaws of Village Bank and Trust Financial Corp. (incorporated herein by reference to Exhibit 3.2 of the Current Report on Form 8-K, filed with the SEC on March 27, 2015).

4.1	Specimen of Certificate for Village Bank and Trust Financial Corp. common stock (incorporated by reference to Exhibit 4.1 of the Form S-1 Registration Statement filed with the Securities and Exchange Commission on November 12, 2014 (SEC File No. 333-200147)).
4.2	Form of Certificate for Fixed Rate Cumulative Perpetual Preferred Stock, Series A (incorporated by reference to Exhibit 4.1 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on May 6, 2009).
4.3	Warrant to Purchase Shares of Common Stock, dated May 1, 2009 (incorporated by reference to Exhibit 4.2 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on May 6, 2009).
10.1	Employment Agreement, dated August 8, 2013, by and between Village Bank and Trust Financial Corp. and William G. Foster (incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on August 19, 2013).*

10.2	Employment Agreement, dated May 16, 2014, by and between Village Bank and James E. Hendricks, Jr. (incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on May 22, 2014).*
10.3	Employment Agreement, dated May 16, 2014, by and between Village Bank and Max C. Morehead, Jr. (incorporated by reference to Exhibit 10.2 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on May 22, 2014).*
10.4	Incentive Plan, as amended June 18, 2014 (incorporated by reference to Exhibit 99.1 of the Form S-8 Registration Statement filed with the Securities and Exchange Commission on June 18, 2014 (SEC File No. 333-196893)).*
10.5	Form of Incentive Stock Option Agreement (incorporated by reference to Exhibit 10.5 of the Annual Report on Form 10-KSB for the year ended December 31, 2004).*
10.6	Form of Non-Employee Director Non-Qualified Stock Option Agreement (incorporated by reference to Exhibit 10.6 of the Annual Report on Form 10-KSB for the year ended December 31, 2004).*
10.7	Village Bank and Trust Financial Corp. 2015 Stock Incentive Plan (incorporated herein by reference to Exhibit 99.0 of the Registration Statement on Form S-8 filed with the Securities and Exchange Commission on July 1, 2015 (SEC File No. 333-205407)).*
10.8	Form of Performance-Based Restricted Stock Unit Award Agreement under the Village Bank and Trust Financial Corp. 2015 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.1 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on July 8, 2015).*
10.9	Form of Time-Based Restricted Stock Award Agreement under the Village Bank and Trust Financial Corp. 2015 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.2 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on July 8, 2015).*
10.10	Outside Directors Deferral Plan, dated January 1, 2005 (incorporated by reference to Exhibit 10.9 of the Annual Report on Form 10-K for the year ended December 31, 2010).*
10.11	Supplemental Executive Retirement Plan, dated January 1, 2005 (incorporated by reference to Exhibit 10.10 of the Annual Report on Form 10-K for the year ended December 31, 2010).*
10.12	Standby Purchase Agreement, dated November 11, 2014, between Village Bank and Trust Financial Corp. and Kenneth R. Lehman (incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on November 12, 2014).
10.13	Letter Agreement, dated as of May 1, 2009, by and between Village Bank and Trust Financial Corp. and the United States Department of the Treasury (incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on May 6, 2009).

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10.14	Side Letter Agreement, dated as of May 1, 2009, by and between Village Bank and Trust Financial Corp. and the United States Department of the Treasury (incorporated by reference to Exhibit 10.2 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on May 6, 2009).
10.15	Form of Senior Executive Officer Waiver (incorporated by reference to Exhibit 10.3 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on May 6, 2009).*
10.16	Form of Senior Executive Officer Consent Letter (incorporated by reference to Exhibit 10.4 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on May 6, 2009).*
10.17	Stipulation and Consent to the Issuance of a Consent Order (incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on February 9, 2012).
10.18	Consent Order (incorporated by reference to Exhibit 10.2 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on February 9, 2012).
10.19	Written Agreement by and between Village Bank and Trust Financial Corp. and the Federal Reserve Bank of Richmond (incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed with the Securities and Exchange Commission on July 2, 2012).
21	Subsidiaries of Village Bank and Trust Financial Corp.
23.1	Consent of Independent Registered Public Accounting Firm.
31.1	Section 302 Certification by Chief Executive Officer.
31.2	Section 302 Certification by Chief Financial Officer.
32	Section 906 Certification.
101	The following materials from the Village Bank and Trust Financial Corp. Annual Report on Form 10-K for the year ended December 31, 2015 formatted in eXtensible Business Reporting (XBRL) (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Comprehensive Income (Loss), (iv) Consolidated Statements of Shareholders' Equity, (v) Consolidated Statements of Cash Flows, and (vi) Notes to Condensed Consolidated Financial Statements.

* Management contracts and compensatory plans and arrangements.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

VILLAGE BANK AND TRUST FINANCIAL CORP.

Date: March 30, 2016 By /s/ William G. Foster, Jr.
William G. Foster, Jr.
President and Chief Executive Officer

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

Signature	Title	Date
/s/ William G. Foster Jr. William G. Foster, Jr.	President, Chief Executive Officer and Director (Principal Executive Officer)	March 30, 2016
/s/ C. Harril Whitehurst, Jr. C. Harril Whitehurst, Jr.	Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	March 30, 2016
/s/ R.T. Avery, III R.T. Avery, III	Director	March 30, 2016
/s/ Craig D. Bell Craig D. Bell	Director and Chairman of the Board	March 30, 2016
/s/ William B. Chandler William B. Chandler	Director	March 30, 2016
/s/ R. Calvert Esleeck, Jr. R.Calvert Esleeck, Jr.	Director	March 30, 2016
/s/ O. Woodland Hogg, Jr. O. Woodland Hogg, Jr.	Director	March 30, 2016

/s/ Michael A. Katzen Michael A. Katzen	Director	March 30, 2016
/s/ Charles E. Walton Charles E. Walton	Director	March 30, 2016

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Signature	Title	Date
/s/ John T. Wash, Sr. John T. Wash, Sr.	Director	March 30, 2016
/s/ George R. Whittemore George R. Whittemore	Director	March 30, 2016
/s/ Thomas W. Winfree Thomas W. Winfree	Director	March 30, 2016
/s/ Michael L. Toalson Michael L. Toalson	Director	March 30, 2016