Chain Bridge Bank

Chain Bridge Bancorp, Inc.
and
Chain Bridge Bank, N.A.

McLean, Virginia

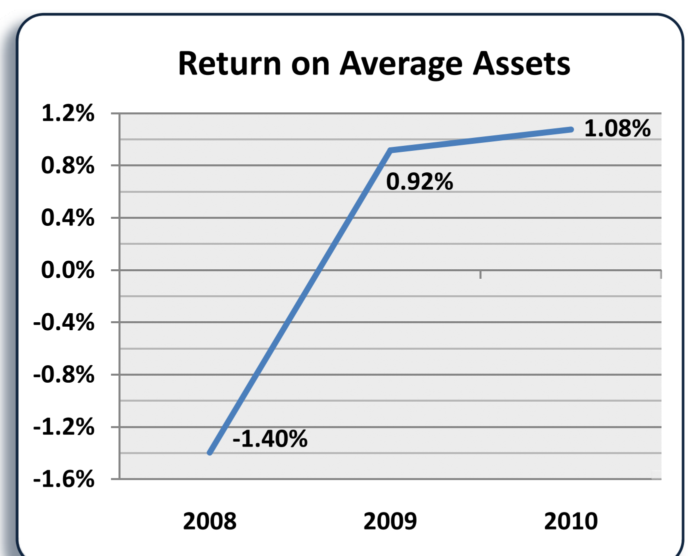
Consolidated Financial Report

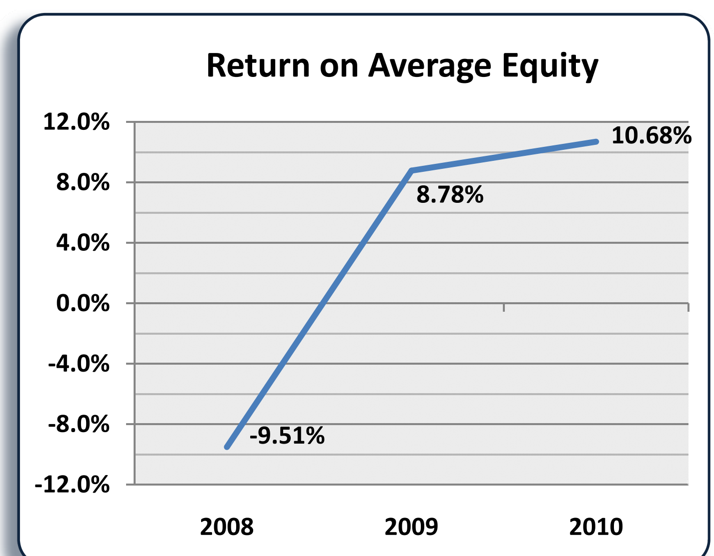
Period Ended December 31, 2010

Chain Bridge Bancorp, Inc
and
Chain Bridge Bank, National Association
Consolidated Financial Highlights

For the Years Ended December 31, 2010 and 2009

	2010	2009
Performance Measures and Yields		
Consolidated net income (dollars)	$ 2,097,863	$ 1,416,984
Return on average assets (ROAA)	1.08%	0.92%
Return on average equity (ROAE)	10.68%	8.78%
Net interest margin	3.90%	3.25%
Asset Quality		
Non-performing assets / assets	0.13%	0.29%
Loan loss reserves / gross loans	1.80%	1.67%
Reserves / non-performing assets	578.00%	252.48%
Net charge-offs / average loans	0.07%	0.32%
Chain Bridge Bancorp, Inc. Share Information		
Number of shares outstanding	18,581	18,472
Book value per share (dollars)	$ 1,079	$ 958
Percent change in book value per share	12.61%	10.68%
Net income per share (dollars)	$ 113.40	$ 77.38





March 25, 2011

Dear Fellow Shareholder:

Chain Bridge Bancorp, Inc. (the "Company") and Chain Bridge Bank, N.A. (the "Bank") delivered solid results in 2010. The Bank took fewer credit risks and maintained higher levels of liquidity, reserves and capital than its peers and yet still managed to offer both better yields to its clients and higher returns to its shareholders.

Operating Performance

For the year ending December 31, 2010, the Bank earned $2.1 million of net income, up 48% from $1.4 million in 2009. Return on average assets was 1.08% in 2010 versus 0.92% in 2009. Return on average equity was 10.68% in 2010, up from 8.78% in 2009. Earnings per share were $113 in 2010, up from $77 per share in the prior year.

During 2010 the Company's book value per share increased by $121, or 12.6% per share, to $1,079 at year-end 2010 from $958 at year-end 2009. The rise in book value was attributable to the Bank's earnings for the year, coupled with a slight rise in the value of its bond portfolio.

Assets increased by $20 million or 12% to $189 million in 2010. Deposits grew by $10 million or 7%. Most of the increase in deposits was in non-interest bearing accounts which grew by $7 million or 22%. Loans increased by $7 million or 10% to $80.3 million.

Net interest income grew by $2.3 million or 48% during 2010. Interest income grew by $1.8 million and interest expense declined by $0.5 million. The Company's improved margins in 2010 were primarily due to greater asset volumes, higher yields on loans and securities, and a lower cost of funds. During 2010, the Company's net interest margin rose by 65 basis points, to 3.9%.

The Bank added a net of $274 thousand to its reserves for loan losses in 2010, down significantly from the $755 thousand it added to reserves in the prior year. Net realized securities gains were $562 thousand in 2010, up from $251 thousand in 2009. Income tax expense for the year was $755 thousand, in contrast to a tax benefit of $765 thousand in 2009.

Excluding taxes, securities gains and additions to loan loss reserves, the Bank's "core earnings" (a non-GAAP measure) were $2.57 million in 2010, up 122% or $1.4 million, from $1.15 million in 2009.

Loan and Asset Quality

Non-performing assets as a percentage of total assets were 0.13% at the end of 2010. The allowance for loan losses stood at $1.45 million, or 1.80% of loans, at year end. The ratio of loan loss reserves to non-performing assets was 578.80%. Net charge-offs during the year were $49 thousand or 0.07% of loan balances.

Capital

The Company's equity-to-assets ratio was 10.61% at December 31, 2010. Tier 1 Risk Based Capital to Risk-Weighted Assets was 16.04% and Total Risk Based Capital to Risk-Weighted Assets was 17.25%. At year-end, the Bank's capital stood at $20.1 million, up from $17.7 at the beginning of the year.

"Controls First, Profitability Second, Growth Third - Always in that Order"

Since opening the Bank in August of 2007, the motto of the board and management has been "controls first, profitability second and growth third – always in that order." In the first months of operation, management focused its efforts on developing tight financial, operational and risk management controls. As those controls were put in place, management focused increased attention on making the Bank consistently profitable. The Bank achieved consistent profitability after a year and a half. Since the first quarter of 2009, the Bank has been consistently and increasingly profitable.

As the Bank looks forward to 2011 and beyond, the board and management will continue to focus on controls and profitability but also put greater emphasis on growth. Thus far the Bank has been able to achieve meaningful growth without adding significantly to its overhead. Going forward, however, growing without adding to overhead will be increasingly difficult. As an example, at the present writing, the Bank has outgrown its current headquarters and has no open space for additional staff. As a result, the Bank is now in negotiations to secure additional office space to house the operations staff.

In addition, because of their focus on profitability and keeping overhead down, the board and management have thus far declined to establish any branch offices. While electronic banking has rendered branches less important than they were just a few years ago, a physical presence in a given locale is certainly a help when trying to attract new banking business. As the board and management put greater emphasis on growth in the years ahead, they will give more consideration to opening a branch office.

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There have been profound changes in the economy and financial markets since the Bank opened three and a half years ago. Success during this period would not have been possible had it not been for the combined contribution of all its stakeholders – clients, stockholders, board, advisory board, management, and staff. We thank all of you for your contributions.

Sincerely,

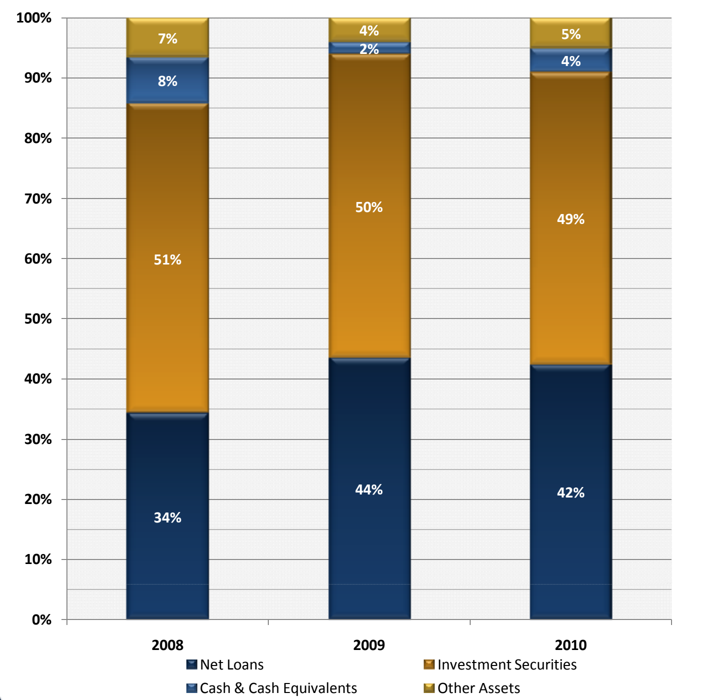
Peter G. Fitzgerald
Chairman of the Board

John J. Brough
President and Chief Executive Officer

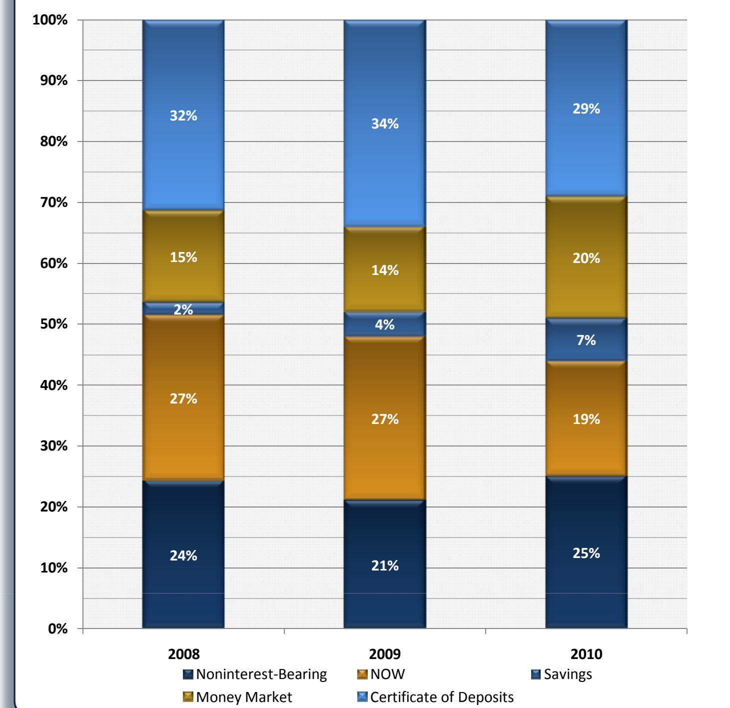
PGF/JJB/dg
Enclosures

Balance Sheet Information

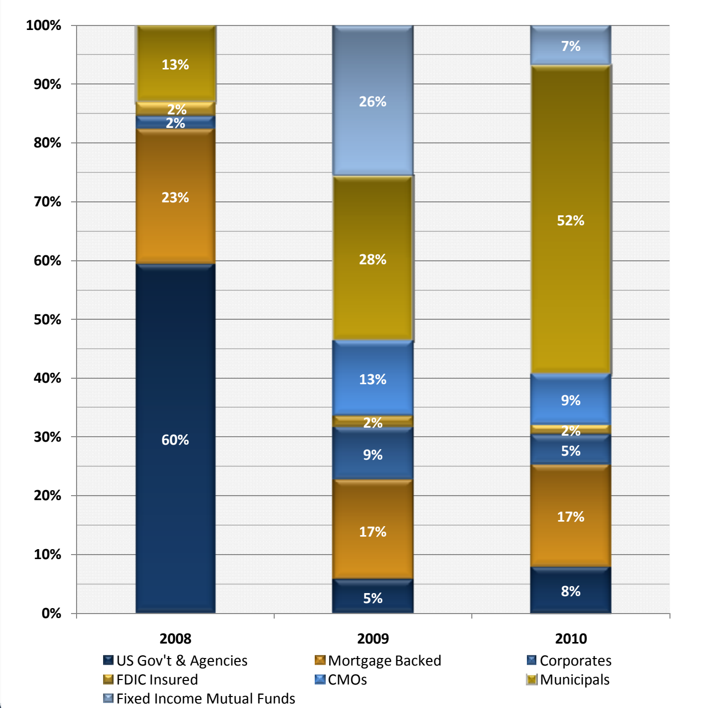
Asset Distribution
(as a % of total assets)



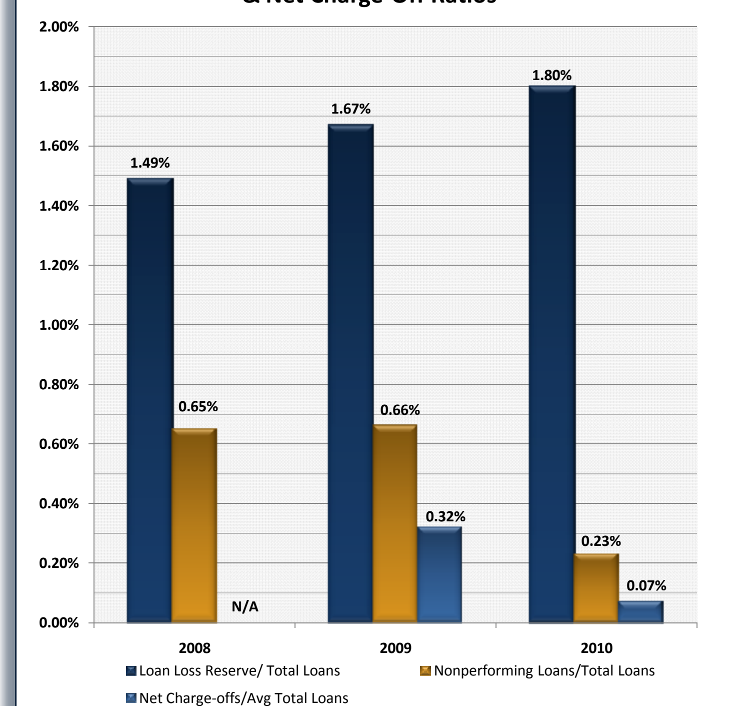
Deposit Distribution
(% of total deposits)



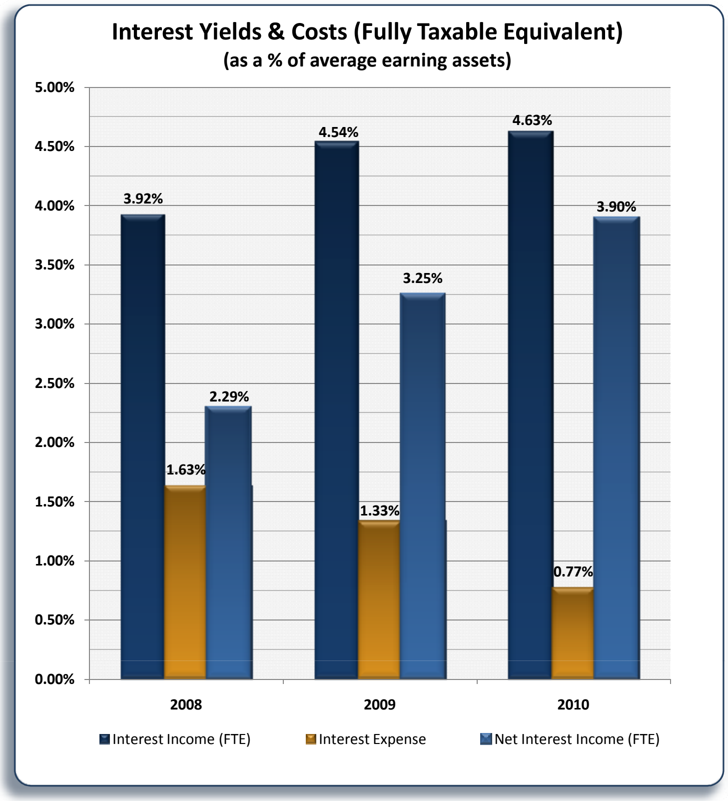
Investment Distribution
(% of total investments)

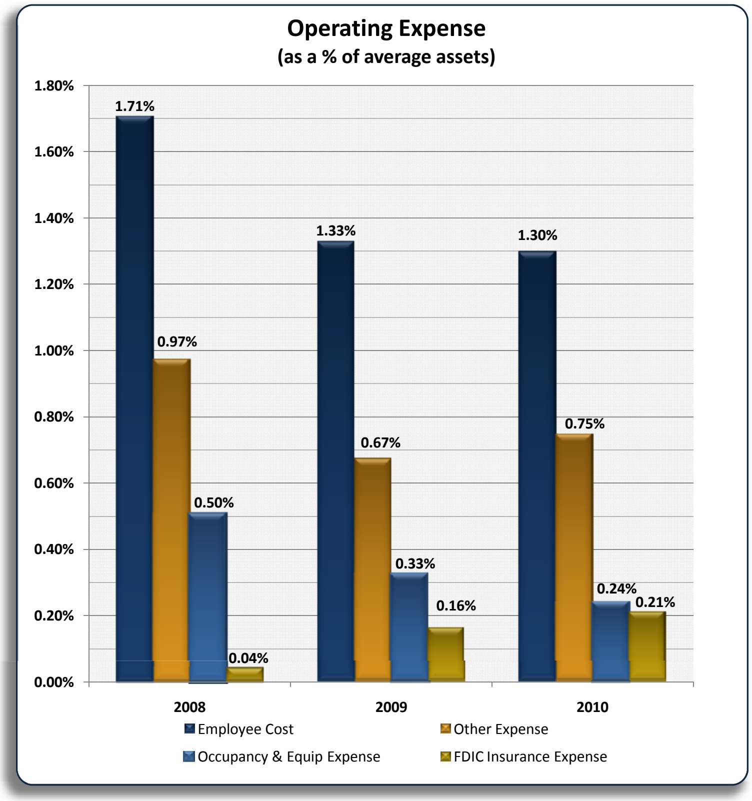


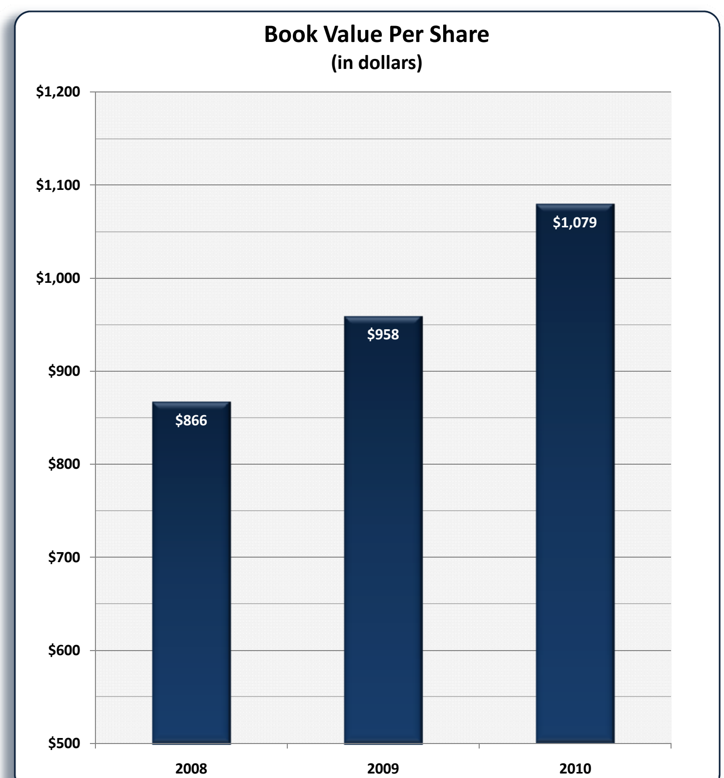
Loan Loss Reserves, Nonperforming Loans
& Net Charge-Off Ratios

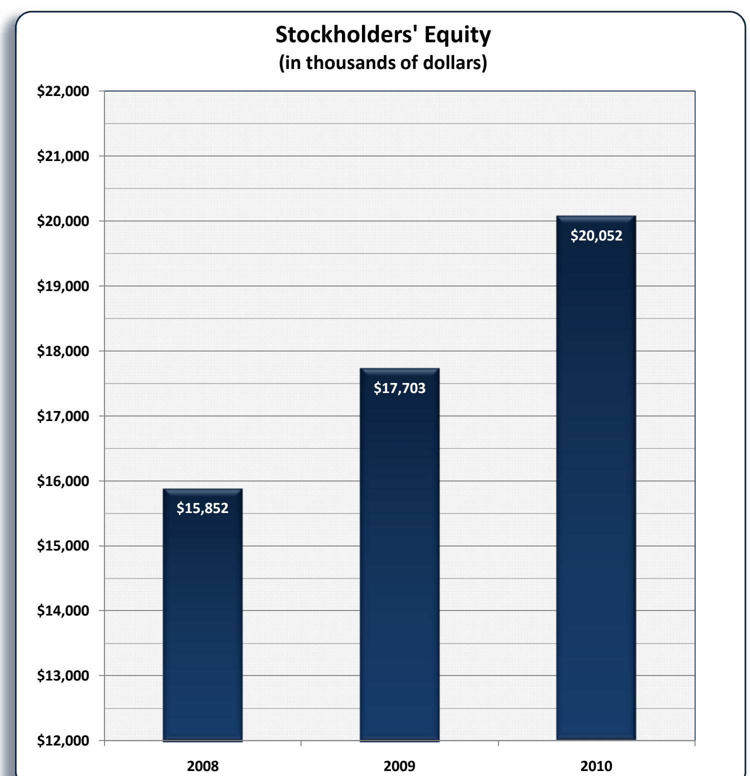


Income Statement and Equity Information









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Chain Bridge Bancorp, Inc.
and Subsidiary

McLean, Virginia

Consolidated Financial Report

December 31, 2010

C O N T E N T S

Yount
Hyde &
Barbour
Certified Public Accountants
and Consultants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders
Chain Bridge Bancorp, Inc.
McLean, Virginia

We have audited the accompanying consolidated balance sheets of Chain Bridge Bancorp, Inc. and Subsidiary as of December 31, 2010 and 2009, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Chain Bridge Bancorp, Inc. and Subsidiary as of December 31, 2010 and 2009, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Yount, Hyde & Barbour, P.C.

Winchester, Virginia
March 7, 2011

Chain Bridge Bancorp, Inc. and Subsidiary

Consolidated Balance Sheets

	December 31, 2010	December 31, 2009
Assets		
Cash and due from banks	$ 10,153,072	$ 1,950,042
Federal funds sold	41,000	6,000
FDIC-insured certificates of deposits in banks	50,000	1,118,116
Securities available for sale, at fair market value	89,537,625	83,558,581
Restricted securities, at cost	1,486,400	862,950
Loans, net of allowance for loan losses of $1,447,180 in 2010 and $1,221,744 in 2009	78,876,231	71,897,127
Premises and equipment, net of accumulated depreciation of $1,101,613 in 2010 and $752,104 in 2009	6,796,571	7,050,370
Accrued interest receivable	1,040,124	736,965
Other assets	1,005,433	1,372,887
Total assets	$ 188,986,456	$ 168,553,038
Liabilities and Stockholders' Equity		
Liabilities		
Deposits:		
Noninterest bearing	$ 37,998,462	$ 31,135,016
Savings, interest-bearing checking and money market accounts	73,103,050	65,502,986
Time, $100,000 and over	21,750,812	29,384,947
Other time	22,726,396	19,757,963
Total deposits	$ 155,578,720	$ 145,780,912
Securities sold under agreements to repurchase	2,077,636	3,915,506
Federal Home Loan Bank advance	10,210,000	- -
Accrued interest payable	172,550	550,181
Accrued expenses and other liabilities	895,575	603,521
Total liabilities	$ 168,934,481	$ 150,850,120
Stockholders' Equity		
Preferred stock		
$1 par value, authorized 10,000 shares, no shares issued and outstanding	$ - -	$ - -
Common stock		
$1 par value, authorized 50,000 shares, 18,581 and 18,472 shares issued and outstanding	18,581	18,472
Additional paid-in capital	18,658,175	18,494,768
Retained earnings (deficit)	482,548	(1,615,315)
Accumulated other comprehensive income	892,671	804,993
Total stockholders' equity	$ 20,051,975	$ 17,702,918
Total liabilities and stockholders' equity	$ 188,986,456	$ 168,553,038

See Notes to Consolidated Financial Statements.

Chain Bridge Bancorp, Inc. and Subsidiary

Consolidated Statements of Income

For the Years Ended December 31, 2010 and 2009

	2010	2009
Interest and Dividend Income		
Interest and fees on loans	$ 4,102,508	$ 3,150,425
Interest on securities, taxable	3,446,663	3,182,462
Interest on securities, tax-exempt	676,871	44,568
Dividends	31,800	30,218
Interest on interest bearing deposits in banks	32,739	114,552
Interest on federal funds sold and resell agreements	111	165
Total interest and dividend income	$ 8,290,692	$ 6,522,390
Interest Expense		
Interest on deposits	$ 1,331,963	$ 1,841,842
Interest on repurchase agreements	8,545	13,496
Interest on FHLB advance	8,806	- -
Total interest expense	$ 1,349,314	$ 1,855,338
Net Interest Income	$ 6,941,378	$ 4,667,052
Provision for Loan Losses	274,400	754,899
Net interest income after provision for loan losses	$ 6,666,978	$ 3,912,153
Noninterest Income		
Service charges on deposit accounts	$ 108,978	$ 90,571
Other income	97,434	62,977
Gain on sale of securities	562,023	251,732
Mutual funds distributions	108,895	- -
Rent income	188,249	181,204
Total noninterest income	$ 1,065,579	$ 586,484
Noninterest Expenses		
Salaries and employee benefits	$ 2,535,153	$ 2,056,469
Occupancy and equipment expenses	470,011	502,306
Professional services	318,945	198,059
Communication and data processing expenses	478,197	410,781
Virginia bank franchise tax	189,000	114,000
FDIC assessments	412,748	248,015
Other operating expenses	475,873	317,262
Total noninterest expenses	$ 4,879,927	$ 3,846,892
Net income before taxes	$ 2,852,630	$ 651,745
Income tax expense (benefit)	754,767	(765,239)
Net income	$ 2,097,863	$ 1,416,984

See Notes to Consolidated Financial Statements.

Chain Bridge Bancorp, Inc. and Subsidiary

Consolidated Statements of Cash Flows

For the Years Ended December 31, 2010 and 2009

	2010	2009
Cash Flows from Operating Activities		
Reconciliation of net income to net cash provided by (used in) operating activities:		
Net income	$ 2,097,863	$ 1,416,984
(Discount accretion) on investment securities	(81,161)	(58,640)
Depreciation and amortization	349,509	364,395
Provision for loan losses	274,400	754,899
Gain on sale of securities	(562,023)	(251,732)
Equity based compensation, net of tax	163,516	106,488
Deferred tax expense	7,075	213,304
Change in deferred tax valuation allowance	- -	(978,543)
Changes in assets and liabilities:		
(Increase) decrease in accrued interest and other assets	12,050	(828,272)
Increase (decrease) in accrued expenses and other liabilities	(85,577)	429,525
Net cash provided by (used in) operating activities	$ 2,175,652	$ 1,168,408
Cash Flows from Investing Activities		
Purchases of securities available for sale	$ (64,903,088)	$ (83,754,081)
Proceeds from calls and sales of securities available for sale	59,700,073	65,817,416
(Purchase) redemption of restricted securities	(623,450)	11,000
Decrease in interest-bearing FDIC insured deposits in banks	1,068,116	1,011,231
Net (increase) in loans	(7,253,504)	(29,328,310)
Purchases of premises and equipment	(95,710)	(38,310)
Net cash (used in) investing activities	$ (12,107,563)	$ (46,281,054)
Cash Flows from Financing Activities		
Net increase in demand, savings, interest-bearing checking and money market deposits	$ 14,463,510	$ 25,347,472
Net increase (decrease) in time deposits	(4,665,702)	16,221,239
Net increase in Federal Home Loan Bank advance	10,210,000	- -
Net (decrease) in securities sold under agreements to repurchase	(1,837,870)	(2,108,662)
Net cash provided by financing activities	$ 18,169,938	$ 39,460,049
Net (decrease) in cash and cash equivalents	$ 8,238,027	$ (5,652,597)
Cash and cash equivalents, beginning of period	1,956,042	7,608,639
Cash and cash equivalents, end of period	$ 10,194,069	$ 1,956,042
Supplemental Disclosures of Cash Flow Information		
Cash payments for interest	$ 1,726,945	$ 1,622,222
Cash payments for taxes	$ 708,814	$ - -
Supplemental Disclosures of Noncash Investing Activities		
Fair value adjustment for securities	$ 132,845	$ 742,227

See Notes to Consolidated Financial Statements.

Chain Bridge Bancorp, Inc. and Subsidiary

Consolidated Statements of Changes in Stockholders' Equity

For the Years Ended December 31, 2010 and 2009

	Common Stock	Additional Paid-In Capital	Retained Earnings (Deficit)	Accumulated Other Compre-hensive Income	Compre-hensive Income	Total
Balance at December 31, 2008	$ 18,307	$ 18,388,445	$ (3,032,299)	$ 477,461		$ 15,851,914
Net income	--	--	1,416,984	--	$ 1,416,984	1,416,984
Other comprehensive income:						
Unrealized gain on securities available for sale, net of tax ($254,317)	--	--	--	--	493,675	--
Reclassification adjustment, net of tax ($85,589)	--	--	--	--	(166,143)	--
Total other comprehensive income, net of tax	--	--	--	327,532	$ 327,532	327,532
Total comprehensive income	--	--	--	--	$ 1,744,516	--
Vesting of restricted stock	165	(165)	--	--		--
Equity based compensation	--	106,488	--	--		106,488
Balance at December 31, 2009	$ 18,472	$ 18,494,768	$ (1,615,315)	$ 804,993		$ 17,702,918
Net income	--	--	2,097,863	--	$ 2,097,863	2,097,863
Other comprehensive income:						
Unrealized gain on securities available for sale, net of tax ($236,255)	--	--	--	--	458,613	--
Reclassification adjustment, net of tax ($191,088)	--	--	--	--	(370,935)	--
Total other comprehensive income, net of tax	--	--	--	87,678	$ 87,678	87,678
Total comprehensive income	--	--	--	--	$ 2,185,541	--
Vesting of restricted stock	109	(109)	--	--		--
Equity based compensation, net of tax	--	163,516	--	--		163,516
Balance at December 31, 2010	$ 18,581	$ 18,658,175	$ 482,548	$ 892,671		$ 20,051,975

See Notes to Consolidated Financial Statements.

Chain Bridge Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 1. Organization and Summary of Significant Accounting Policies

Organization and Nature of Operations

Chain Bridge Bancorp, Inc., a Virginia corporation (the Company) is the holding company for Chain Bridge Bank, National Association (the Bank), a national banking association organized under the laws of the United States and headquartered in McLean, Virginia.

The Bank commenced regular operations on August 6, 2007 and is a member of the Federal Deposit Insurance Corporation. It is subject to the regulations of the Federal Deposit Insurance Corporation and the United States Office of the Comptroller of the Currency. Consequently, it undergoes periodic examinations by these regulatory authorities.

The Company provides a variety of financial services to small businesses and individuals through its office in McLean, Virginia. The Company's primary deposit products are noninterest-bearing checking, interest-bearing checking and time deposits and its primary lending products are commercial and commercial real estate loans.

Significant Accounting Policies

The accounting and reporting policies of the Company are in accordance with accounting principles generally accepted in the United States of America and conform to general practices within the banking industry. The more significant of these policies are summarized below.

Principles of Consolidation

The consolidated financial statements include the accounts of Chain Bridge Bancorp, Inc. and its wholly-owned subsidiary, Chain Bridge Bank, N.A. All significant intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the valuation of deferred tax assets, other-than-temporary impairment of securities, and the fair value of financial instruments.

Reclassification

Certain amounts in the 2009 consolidated financial statements have been reclassified to conform to the 2010 presentation.

Cash and Cash Equivalents

For purposes of the consolidated statement of cash flows, cash and cash equivalents include cash on hand, amounts due from banks and federal funds sold. Generally federal funds are purchased and sold for one-day periods.

Securities

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

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

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

The Company uses certain correspondent banks for overnight borrowing and other purposes. The Company is required to maintain an investment in the capital stock of these correspondent banks. The Company's investment in these correspondent stocks is recorded at cost based on the redemption provisions of these entities. The Company's restricted stock balance includes investments in the capital stock of Federal Reserve Bank of Richmond, Federal Home Loan Bank of Atlanta, Community Bankers' Bank of Midlothian, Virginia and Pacific Coast Bankers' Bancshares of San Francisco.

Loans

The Bank grants mortgage, commercial and consumer loans to customers. A substantial portion of the loan portfolio is represented by commercial loans throughout the Washington, D.C. metropolitan area. The ability of the Bank's debtors to honor their contracts is dependent upon the real estate and general economic conditions in this area.

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

The accrual of interest on mortgage and commercial loans is discontinued at the time the loan becomes 90 days delinquent unless the credit is well-secured and in process of collection. Non-performing loans are placed either in nonaccrual status pending further collection efforts or charged off if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income. The interest on loans in nonaccrual status is accounted for on the cash basis or cost recovery method until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Loan Losses

The allowance for loan losses is maintained at a level adequate to absorb losses deemed probable by management and is established through a provision for loan losses charged to earnings. The adequacy of the allowance is determined by management's review of the following: the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, the adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral and the prevailing economic conditions. This review, done on a regular basis, is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available. Loans deemed uncollectible are charged against the allowance. Subsequent recoveries, if any, and provisions for loan losses are added to the allowance.

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. For those loans that are 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. The general component covers nonclassified loans and is based on historical charge-off experience of the Bank and peer institutions and expected loss given default derived from the Bank's internal risk rating process. Other adjustments may be made to the allowance for pools of loans after an assessment of internal or external influences on credit quality that are not fully reflected in the historical loss or risk rating data.

The impairment of a loan occurs when it is probable that the Bank will be unable to collect all amounts due according to the contractual terms of the loan agreement. Impairment is measured as the difference between the recorded investment in the loan and the evaluation of the present value of expected future cash flows or the observable market price of the loan. Loans that are collateral dependent (loans where repayment is expected to be provided solely by the underlying collateral) and for which management has determined foreclosure is probable are measured for impairment based on the fair value of the collateral. Large groups of smaller balance, homogeneous loans are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual consumer and residential loans for impairment disclosures.

Premises and Equipment

Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the assets' estimated useful lives. Estimated useful lives range from 3 to 8 years for furniture, fixtures and equipment, 10 years for improvements, and 40 years for buildings.

Foreclosed Properties

Assets acquired through, or in lieu of, loan foreclosure are held for sale. They are initially recorded at the lower of the Bank’s cost or the assets’ fair market value at the date of foreclosure less estimated selling costs thus establishing a new cost basis. Subsequent to foreclosure, valuations of the assets are periodically performed by management. Adjustments are made to the lower of the carrying amount or fair market value of the assets less selling costs. Revenue and expenses from operations and valuation changes are included in net expenses from foreclosed assets. The Bank had no foreclosed assets during the periods ended December 31, 2010 and 2009.

Income Taxes

Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences, operating loss carryforwards, and tax credit carryforwards. Deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases.

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

Advertising Costs

The Company follows the policy of charging the production costs of advertising to expense as incurred. The Company expensed $25,405 and $19,272 for advertising costs for the years ended December 31, 2010 and 2009, respectively.

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities, are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income.

Fair Value Measurements

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with the Fair Value Measurements and Disclosures Topic of the Financial Accounting Standards Board's Accounting Standards Codification, the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are not quoted market prices for the Company's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

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

Stock-Based Compensation

The Company recognizes the compensation cost relating to share-based payment transactions on the consolidated financial statements. That cost is measured based on the fair value of the equity instrument issued. The cost is recognized based on the period of time the employee is required to provide services for the award and other vesting requirements.

Recent Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board (FASB) issued new guidance relating to the accounting for transfers of financial assets. The new guidance, which was issued as SFAS No. 166, “Accounting for Transfers of Financial Assets, an amendment to SFAS No. 140,” was adopted into the Accounting Standards Codification (Codification) in December 2009 through the issuance of Accounting Standards Update (ASU) 2009-16. The new standard provides guidance to improve the relevance, representational faithfulness, and comparability of the information that an entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor’s continuing involvement, if any, in transferred financial assets. ASU 2009-16 was effective for transfers on or after January 1, 2010. The adoption of the new guidance did not have a material impact on the Company’s consolidated financial statements.

In June 2009, the FASB issued new guidance relating to variable interest entities. The new guidance, which was issued as SFAS No. 167, “Amendments to FASB Interpretation No. 46(R),” was adopted into the Codification in December 2009. The objective of the guidance is to improve financial reporting by enterprises involved with variable interest entities and to provide more relevant and reliable information to users of financial statements. SFAS No. 167 was effective as of January 1, 2010. The adoption of the new guidance did not have a material impact on the Company’s consolidated financial statements.

In October 2009, the FASB issued ASU 2009-15, “Accounting for Own-Share Lending Arrangements in Contemplation of Convertible Debt Issuance or Other Financing.” ASU 2009-15 amends Subtopic 470-20 to expand accounting and reporting guidance for own-share lending arrangements issued in contemplation of convertible debt issuance. ASU 2009-15 is effective for fiscal years beginning on or after December 15, 2009 and interim periods within those fiscal years for arrangements outstanding as of the beginning of those fiscal years. The adoption of the new guidance did not have a material impact on the Company’s consolidated financial statements.

In January 2010, the FASB issued ASU 2010-06, "Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements." ASU 2010-06 amends Subtopic 820-10 to clarify existing disclosures, require new disclosures, and includes conforming amendments to guidance on employers' disclosures about postretirement benefit plan assets. ASU 2010-06 is effective for interim and annual periods beginning after December 15, 2009, except for disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years. The adoption of the new guidance did not have a material impact on the Company's consolidated financial statements.

In July 2010, the FASB issued ASU 2010-20, "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses." The new disclosure guidance will significantly expand the existing requirements and will lead to greater transparency into a company's exposure to credit losses from lending arrangements. For nonpublic entities as defined by the FASB, ASU 2010-20 is effective for annual reporting periods ending on or after December 15, 2011. The Company is currently assessing the impact that ASU 2010-20 will have on its consolidated financial statements.

In January 2011, the FASB issued ASU 2011-01, "Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20." The amendments in this ASU temporarily delay the effective date of the disclosures about troubled debt restructurings in ASU 2010-20 for public entities. The delay is intended to allow the FASB time to complete its deliberations on what constitutes a troubled debt restructuring. The effective date of the new disclosures about troubled debt restructurings for public entities and the guidance for determining what constitutes a troubled debt restructuring will then be coordinated. Currently, that guidance is anticipated to be effective for interim and annual periods ending after June 15, 2011.

Note 2. Securities

Amortized cost and fair value of securities available for sale as of December 31, 2010 and 2009 are as follows:

	December 31, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Securities of U.S. government and federal agencies	$ 7,106,557	$ 1,101	$ (101,450)	$ 7,006,208
Mortgage backed securities	15,118,242	562,894	(37,536)	15,643,600
Corporate bonds	4,234,984	255,048	- -	4,490,032
FDIC-insured bonds	1,500,107	44,475	- -	1,544,582
Collateralized mortgage obligations	7,547,809	326,702	(92,475)	7,782,036
State and municipal securities	46,677,480	909,815	(659,959)	46,927,336
Mutual and exchange-traded funds	5,999,914	143,917	- -	6,143,831
Total	$ 88,185,093	$ 2,243,952	$ (891,420)	$ 89,537,625

	December 31, 2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Securities of U.S. government and federal agencies	$ 4,569,395	$ 24,628	$ (19,879)	$ 4,574,144
Mortgage backed securities	13,884,020	397,273	(6,853)	14,274,440
Corporate bonds	7,300,470	253,719	(5,590)	7,548,599
FDIC-insured bonds	1,500,085	55,384	- -	1,555,469
Collateralized mortgage obligations	10,888,035	188,757	(306,421)	10,770,371
State and municipal securities	22,924,022	479,721	(42,627)	23,361,116
Mutual and exchange-traded funds	21,272,866	227,885	(26,309)	21,474,442
Total	$ 82,338,893	$ 1,627,367	$ (407,679)	$ 83,558,581

At December 31, 2010, securities with a carrying value of $36,933,113 were pledged to secure public deposits, repurchase agreements, and a line of credit with the Federal Reserve Bank.

Proceeds from redemptions and sales of securities totaled $59,700,073 and $65,817,416 for 2010 and 2009, respectively. Gross gains on the sale of securities for 2010 and 2009 totaled $562,023 and $251,732, respectively.

There were no held to maturity securities at December 31, 2010 or 2009.

The amortized cost and fair value of securities by contractual maturity at December 31, 2010 follows:

	Amortized Cost	Fair Value
Within one year	$ 3,514,404	$ 3,564,743
After one year through five years	22,101,656	22,960,168
After five years through ten years	24,365,627	24,738,581
Over ten years	32,203,492	32,130,302
Mutual and exchange-traded funds	5,999,914	6,143,831
Total	$ 88,185,093	$ 89,537,625

At December 31, 2010 and 2009 investments in an unrealized loss position that are temporarily impaired are as follows:

	December 31, 2010				
	Less Than Twelve Months		Over Twelve Months		
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Total Unrealized Losses
Securities of U.S. government and federal agencies	$ (101,450)	$ 6,504,635	$ - -	$ - -	$ (101,450)
Mortgage backed securities	(37,536)	2,739,274	- -	- -	(37,536)
State and municipal securities	(659,959)	18,516,905	- -	- -	(659,959)
Collateralized mortgage obligations	(92,475)	653,150	- -	- -	(92,475)
Total	$ (891,420)	$ 28,413,964	$ - -	$ - -	$ (891,420)

	December 31, 2009				
	Less Than Twelve Months		Over Twelve Months		
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Total Unrealized Losses
Securities of U.S. government and federal agencies	$ (19,879)	$ 980,122	$ - -	$ - -	$ (19,879)
Mortgage backed securities	(6,853)	826,230	- -	- -	(6,853)
State and municipal securities	(42,627)	2,646,767	- -	- -	(42,627)
Corporate bonds	(5,590)	925,362	- -	- -	(5,590)
Collateralized mortgage obligations	(306,421)	5,301,217	- -	- -	(306,421)
Mutual and exchange-traded funds	(26,309)	3,973,200	- -	- -	(26,309)
Total	$ (407,679)	$ 14,652,898	$ - -	$ - -	$ (407,679)

At December 31, 2010 and 2009, 62 and 24 debt securities had unrealized losses with aggregate depreciation of 3.04 and 2.71 percent, respectively, from the Company's amortized cost basis. These unrealized losses related principally to interest rate movements and not the credit-worthiness of the issuer. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and industry analysts' reports. As of December 31, 2010 and 2009, management determined that the unrealized losses in the investment portfolio were temporary. Management does not expect to be required to sell these securities before such time that they recover in value. Management will continue to monitor the securities in a loss position for future impairment.

Note 3. Loans

A summary of the balances of loans follows:

	December 31, 2010	December 31, 2009
Commercial	$ 18,092,542	$ 15,174,671
Commercial real estate	33,035,179	29,278,890
Consumer	29,195,690	28,665,310
	$ 80,323,411	$ 73,118,871
Less allowance for loan losses	(1,447,180)	(1,221,744)
Loans, net	$ 78,876,231	$ 71,897,127

Overdrafts totaling $163 and $55,335 at December 31, 2010 and 2009, respectively, were reclassified from deposits to loans.

An analysis of the allowance for loan losses follows:

	December 31, 2010	December 31, 2009
Beginning balance	$ 1,221,744	$ 655,000
Provision for loan losses	274,400	754,899
Loans and leases charged off	(51,000)	(235,155)
Recoveries on loans previously charged off	2,036	47,000
Ending Balance	$ 1,447,180	$ 1,221,744

The following is a summary of information pertaining to impaired loans:

	December 31, 2010	December 31, 2009
Impaired loans with a valuation allowance	$ 66,655	$ 664,101
Impaired loans without a valuation allowance	225,385	- -
Total impaired loans	$ 292,040	$ 664,101
Valuation allowance related to impaired loans	$ 2,100	$ 77,800
Average balance in impaired loans	$ 612,670	$ 531,281
Interest income recognized	$ 23,407	$ 22,550

There were no nonaccrual loans excluded from impaired loan disclosure and no loans 90 days past due and still accruing at December 31, 2010 and December 31, 2009.

Note 4. Premises and Equipment

A summary of the cost and accumulated depreciation of premises and equipment follows:

	December 31, 2010	December 31, 2009
Land	$ 1,240,000	$ 1,240,000
Building	5,128,675	5,112,109
Furniture, fixtures and equipment	756,503	677,359
Leasehold improvements	773,006	773,006
	$ 7,898,184	$ 7,802,474
Less accumulated depreciation	1,101,613	752,104
Ending balance	$ 6,796,571	$ 7,050,370

For 2010 and 2009, depreciation expense was $349,509 and $364,395, respectively.

The Company initially entered into a five-year operating lease agreement for the rental of its banking office location and administrative offices. This lease had three five-year renewal options. On April 7, 2008, the Company purchased its banking office location and the contiguous retail space in the office complex for $6.2 million and the Company's operating lease was terminated. The contiguous retail space is currently leased and will continue to be leased until the Company needs the space for future expansion.

Note 5. Related Party Transactions

Officers, directors and their affiliates had credit outstanding of $5,492,316 and $4,285,371 at December 31, 2010 and 2009, respectively, with the Bank. During 2010, total principal additions were $1,471,700 and total principal payments were $264,755. These transactions occurred in the ordinary course of business on substantially the same terms as those prevailing at the time for comparable transactions with unrelated persons.

Deposits from related parties held by the Company at December 31, 2010 amounted to $10,206,608.

Note 6. Deposits

Remaining maturities on certificates of deposit are as follows:

2011	$ 38,433,609
2012	3,070,401
2013	2,599,828
2014	197,522
2015	175,848
	$ 44,477,208

Brokered deposits totaled $16,628,864 and $13,556,476 at December 31, 2010 and 2009, respectively. Brokered deposits are placed through the Certificate of Deposit Account Registry Service or CDARS.

The Company had two customers with individual deposit balances exceeding five percent of total deposits as of December 31, 2010. The total deposit balances related to these customers as of December 31, 2010 were $25,287,710 or 16 percent of total deposits.

Note 7. Borrowings

Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase amounted to $2,077,636 and $3,915,506 at December 31, 2010 and 2009, respectively, and mature on a daily basis and are secured by U.S. Government and Municipal securities with a fair value of $3,282,334. The weighted average interest rate on these agreements was 0.25 percent at December 31, 2010 and 2009.

Federal Home Loan Bank Advance

The Company has a secured line of credit with the Federal Home Loan Bank totaling $18,021,000. At December 31, 2010, the Company had one overnight advance outstanding with a principal balance of $10,210,000 and a rate of 0.47%. The line has a variable rate and is secured by 1-4 family residential real estate loans and home equity lines of credit within the Company's loan portfolio. The line is renewed annually in September.

Note 8. Income Taxes

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2010 and 2009 are presented below:

	December 31,	
	2010	2009
Deferred Tax Assets		
Allowance for loan losses	$ 459,288	$ 380,369
Organizational and start-up expenses	202,248	219,709
Net operating loss carryforward	- -	102,453
Deferred loan fees	15,171	9,591
Depreciation	37,822	15,706
Restricted stock	33,937	23,193
Other	9,698	14,218
	$ 758,164	$ 765,239
Deferred Tax Liabilities		
Securities available for sale	$ 459,861	$ 414,693
Net deferred tax asset	$ 298,303	$ 350,546

The provision for income taxes charged to operations for the years ended December 31, 2010 and 2009, consists of the following:

	December 31, 2010	December 31, 2009
Current tax expense	$ 747,692	$ - -
Deferred tax expense (benefit)	7,075	213,304
Change in valuation allowance	- -	(978,543)
	$ 754,767	$ (765,239)

The Company files income tax returns in the U.S. federal jurisdiction and the Commonwealth of Virginia. With few exceptions, the Company is no longer subject to federal or state tax examinations for years prior to 2007.

Note 9. Financial Instruments With Off-Balance-Sheet Risk

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

The Company's exposure to credit loss is represented by the contractual amount of these commitments. The Company follows the same credit policies in making commitments as it does for on-balance-sheet instruments.

At December 31, 2010 and 2009, the following financial instruments were outstanding whose contract amounts represent credit risk:

	December 31, 2010	December 31, 2009
Commitments to grant loans	$ 10,065,000	$ 7,972,000
Unfunded commitments under lines of credit	19,916,000	14,764,000
Standby letters of credit	80,000	526,000

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The commitments for equity lines of credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Company, is based on management's credit evaluation of the customer.

Unfunded commitments under commercial lines of credit, revolving credit lines and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines of credit usually do not contain a specified maturity date and may not be drawn upon to the total extent to which the Company is committed. The amount of collateral obtained, if it is deemed necessary by the Company, is based on management's credit evaluation of the customer.

Commercial and standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those letters of credit are primarily issued to support public and private borrowing arrangements. Essentially all letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company generally holds collateral supporting those commitments, if deemed necessary.

The Company maintains its cash accounts in several correspondent banks. The total amount by which cash on deposit in those banks and federal funds sold exceeded the federally insured limits at December 31, 2010 and 2009 was $732,831 and $40,371, respectively.

The Company is required to maintain average balances with the Federal Reserve Bank. At December 31, 2010, this balance was $8,653,000.

Note 10. Minimum Regulatory Capital Requirements

The Company (on a consolidated basis) and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Company's and the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, financial institutions must meet specific capital guidelines that involve quantitative measures of assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. A financial institution's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

Quantitative measures established by regulation to ensure capital adequacy require financial institutions 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 (as defined), and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2010, that the Company and the Bank meet all capital adequacy requirements to which they are subject.

As of December 31, 2010, the most recent notification from the Office of the Comptroller of the Currency categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum Total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's category.

The Company's and Bank's actual capital amounts and ratios are also presented in the table.

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
December 31, 2010	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Amounts in Thousands)			
Total Risk-Based Capital						
Company	$ 20,606	17.25%	$ 9,558	8.00%	N/A	N/A
Bank	$ 20,350	17.03%	$ 9,558	8.00%	$ 11,947	10.00%
Tier 1 Risk-Based Capital						
Company	$ 19,159	16.04%	$ 4,779	4.00%	N/A	N/A
Bank	$ 18,903	15.82%	$ 4,779	4.00%	$ 7,168	6.00%
Tier 1 Leverage Ratio						
Company	$ 19,159	9.56%	$ 8,013	4.00%	N/A	N/A
Bank	$ 18,903	9.44%	$ 8,013	4.00%	$ 10,016	5.00%
December 31, 2009						
Total Risk-Based Capital						
Company	$ 18,022	15.65%	$ 9,212	8.00%	N/A	N/A
Bank	$ 17,679	15.35%	$ 9,212	8.00%	$ 11,515	10.00%
Tier 1 Risk-Based Capital						
Company	$ 16,802	14.59%	$ 4,606	4.00%	N/A	N/A
Bank	$ 16,459	14.29%	$ 4,606	4.00%	$ 6,909	6.00%
Tier 1 Leverage Ratio						
Company	$ 16,802	10.09%	$ 6,664	4.00%	N/A	N/A
Bank	$ 16,459	9.88%	$ 6,664	4.00%	$ 8,330	5.00%

Note 11. Restricted Stock Plan

The Company's 2007 Restricted Stock Plan (the 2007 Plan) was adopted by the Compensation Committee and the Board of Directors in August 2007 and approved by the stockholders at the Annual Meeting of Stockholders held May 20, 2008. The 2007 Plan has a 5 year term from the date of approval.

The Company has decided to make restricted stock available to its executives and officers pursuant to the 2007 Plan. Grants to date have been made in two pieces: (1) a service based component, which requires only continued employment for a specified period of time, which to date have had three or five year vesting periods, and (2) a performance based component, where the right to receive the shares is subject to the achievement of selected performance measures by the Company. No senior executive officer may receive a non-performance based award unless the officer is simultaneously granted a performance based award of at least equal size.

Grants are approved by the Human Resources Committee on an annual basis, and periodically for certain key new officer hires during the year. The Compensation Committee awards grants based on a number of criteria including the relative rank of the executive within the Company and his or her specific contributions to the success of the Company. The Company believes the restricted stock grants serve to enhance stockholder value by aligning the interest of executives and officers with those of the stockholders and also by helping to retain personnel through the extended vesting period of the options. Directors and advisory directors who are not full time employees are not eligible to receive awards under the 2007 Plan.

The 2007 Plan provides for the grant of an aggregate of 750 shares of restricted stock to full-time executive officers or other key employees. The number of shares issuable under the 2007 Plan and outstanding awards is subject to adjustment in the event of any stock split, reverse stock split, stock dividend, split up or combination or shares, reclassification, reorganization, merger, consolidation or similar event which changes the number or kind of outstanding shares, without the receipt of consideration by the Company. Shares subject to awards which are forfeited or not earned may be reissued. Of the 750 shares of restricted stock subject to the Plan, 569 have been awarded to date, and 181 will remain available for future awards. The following table presents the activity for the Plan for 2010:

	Shares	Weighted Average Grant Date Fair Value
Nonvested, beginning of period	255	$ 1,000
Vested	(109)	1,000
Granted in 2010	110	1,179
Forfeited shares in 2010	(8)	1,000
Nonvested, end of period	248	1,079

Compensation expense attributable to the Plan was $163,516 and $106,488 for 2010 and 2009, respectively. As of December 31, 2010, the total compensation cost related to nonvested awards not yet recognized was $334,495. This compensation cost will be recognized over the remaining vesting period of the awards.

Awards issued pursuant to the 2007 Plan may be issued immediately upon grant, subject to forfeiture in the event that their service or performance requirement is not met, in which case the recipient has all rights as a stockholder during the vesting or performance period, or may be issued only upon satisfaction of the service or performance condition. All grants to date provide that no shares are issued until the service or performance condition is satisfied.

Note 12. 401(k) Plan

The Company has a 401(k) Plan whereby substantially all employees participate in the plan. Employees may contribute portions of their compensation subject to limits based on federal tax laws. The Company may make discretionary matching contributions to the plan. For 2010 and 2009, expense attributable to the plan amounted to $54,244 and $39,078, respectively.

Note 13. Fair Value Measurements

Fair Value Hierarchy

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

Level 1 - Valuation is based on quoted prices in active markets for identical assets and liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 - Valuation is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on 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 for substantially the full term of the asset or liability.

Level 3 - Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.

An asset or liability's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

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

Securities Available for Sale

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

The following table presents the balances of financial assets measured at fair value on a recurring basis:

		Fair Value Measurements Using		
Description	**Balances**	**Level 1**	**Level 2**	**Level 3**
Assets:				
As of December 31, 2010:				
Available for sale securities:				
U.S. government and federal agencies	$ 7,006,208	$ - -	$ 7,006,208	$ - -
Mortgage backed securities	15,643,600	- -	15,643,600	- -
Corporate bonds	4,490,032	- -	4,490,032	- -
FDIC-insured bonds	1,544,582	- -	1,544,582	- -
Collateralized mortgage obligations	7,782,036	- -	7,782,036	- -
State and municipal securities	46,927,336	- -	46,927,336	- -
Mutual and exchange-traded funds	6,143,831	6,143,831	- -	- -
As of December 31, 2009:				
Available for sale securities:				
U.S. government and federal agencies	$ 4,574,144	$ - -	$ 4,574,144	$ - -
Mortgage backed securities	14,274,440	- -	14,274,440	- -
Corporate bonds	7,548,599	- -	7,548,599	- -
FDIC-insured bonds	1,555,469	- -	1,555,469	- -
Collateralized mortgage obligations	10,770,371	- -	10,770,371	- -
State and municipal securities	23,361,116	- -	23,361,116	- -
Mutual and exchange-traded funds	21,474,442	21,474,442	- -	- -

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

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

Impaired Loans

Loans are designated as impaired when, in the judgment of management based on current information and events, it is probable that all amounts due according to the contractual terms of the loan agreement will not be collected. The measurement of loss associated with impaired loans can be based on either the observable market price of the loan or the fair value of the collateral. Fair value is measured based on the value of the collateral securing the loans. Collateral may be in the form of real estate or business assets including equipment, inventory, and accounts receivable. The vast majority of the collateral is real estate. The value of real estate collateral is determined utilizing an income or market valuation approach based on an appraisal conducted by an independent, licensed appraiser outside of the Company using observable market data (Level 2). However, if the collateral is a house or building in the process of construction or if an appraisal of the real estate property is over two years old, then the fair value is considered Level 3. The value of business equipment is based upon an outside appraisal if deemed significant, or the net book value on the applicable business'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). Impaired loans allocated to the allowance for loan losses are measured at fair value on a nonrecurring basis. Any fair value adjustments are recorded in the period incurred as provision for loan losses on the consolidated statements of operations.

The following table presents the balances of assets measured at fair value on a nonrecurring basis:

		Fair Value Measurements Using		
Description	**Balances**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets:				
As of December 31, 2010:				
Impaired loans, net of valuation allowance	$ 64,555	$ --	$ --	$ 64,555
As of December 31, 2009:				
Impaired loans, net of valuation allowance	$ 586,301	$ --	$ --	$ 586,301

The following methods and assumptions were used by the Company in estimating fair value disclosures for financial instruments:

Cash and Cash Equivalents

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

Interest-Bearing Deposits in Banks

The carrying amounts of interest-bearing deposits maturing within ninety days approximate their fair values. Fair values of other interest-bearing deposits are estimated using discounted cash flow analyses based on current rates for similar types of deposits.

Securities

Fair values for securities, are based on quoted market prices. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

Loans Receivable

For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. Fair values for certain mortgage loans (for example, one-to-four family residential), credit card loans, and other consumer loans are based on quoted market prices of similar loans sold in conjunction with securitization transactions, adjusted for differences in loan characteristics. Fair values for other loans for example, commercial real estate and investment property mortgage loans, commercial and industrial loans) are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Fair values for nonperforming loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable.

Deposit Liabilities

The fair values disclosed for demand deposits (for example, interest and noninterest checking, savings, and certain types of money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). The carrying amounts of variable-rate, fixed-term money market accounts and certificates of deposit approximate their fair values at the reporting date. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

Borrowings

The carrying amounts of federal funds purchased, borrowings under repurchase agreements, and other short-term borrowings maturing within one year approximate their fair values. Fair values of other borrowings are estimated using discounted cash flow analyses based on the Company's current incremental borrowing rates for similar types of borrowing arrangements.

Accrued Interest

The carrying amounts of accrued interest approximate fair value.

Off-Balance Sheet Credit-Related Instruments

Fair values for off-balance-sheet, credit-related financial instrument are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. These fees were not deemed significant at December 31, 2010 and 2009 have not been included in the disclosure.

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

	December 31, 2010		December 31, 2009	
(in thousands)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	$ 10,194	$ 10,194	$ 1,956	$ 1,956
Interest-bearing deposits in banks	50	50	1,118	1,118
Securities available for sale	89,538	89,538	83,559	83,559
Loans, net	78,876	78,216	71,897	72,405
Accrued interest receivable	1,040	1,040	737	737
Financial liabilities:				
Deposits	$ 155,579	$ 149,167	$ 145,781	$ 143,910
Repurchase agreements	2,078	2,078	3,916	3,916
FHLB advance	10,210	10,210	- -	- -
Accrued interest payable	173	173	550	550

Note 14. Subsequent Events

The Company evaluates subsequent events that have occurred after the balance sheet date but before the financial statements are issued. There are two types of subsequent events: (1) recognized, or those that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements, and (2) non-recognized, or those that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date. The Company evaluated subsequent events through March 7, 2011.

Based on the evaluation, the Company did not identify any recognized or non-recognized subsequent events that would have required adjustment to or disclosure in the financial statements.

Note 15. Condensed Financial Statements of Parent Company

Financial information pertaining only to Chain Bridge Bancorp, Inc. is as follows:

Balance Sheets	December 31, 2010	December 31, 2009
Assets		
Cash	$ 256,449	$ 342,933
Investment in common stock of Chain Bridge Bank	19,795,526	17,359,985
Total assets	$ 20,051,975	$ 17,702,918
Liabilities and Stockholders' Equity		
Stockholders' equity	$ 20,051,975	$ 17,702,918
Total liabilities and stockholders' equity	$ 20,051,975	$ 17,702,918

Statements of Income	December 31, 2010	December 31, 2009
Operating expenses - equity based compensation	$ 163,516	$ 106,488
(Loss) before undistributed net income of Chain Bridge Bank	$ (163,516)	$ (106,488)
Undistributed net income of Chain Bridge Bank	2,261,379	1,523,472
Net income	$ 2,097,863	$ 1,416,984

Notes to Consolidated Financial Statements

Statements of Cash Flows	December 31, 2010	December 31, 2009
Cash Flows from Operating Activities		
Net income	$ 2,097,863	$ 1,416,984
Adjustments to reconcile net income to net cash provided by operating activities:		
Undistributed net (income) of Chain Bridge Bank	(2,261,379)	(1,523,472)
Equity based compensation	163,516	106,488
Increase in other liabilities	163,516	106,488
Net cash provided by operating activities	$ 163,516	$ 106,488
Cash Flows from Investing Activities		
Investment in Chain Bridge Bank	$ (250,000)	$ (400,000)
Net cash (used in) investing activities	$ (250,000)	$ (400,000)
Cash Flows from Financing Activities		
Net proceeds from common stock issued	$ - -	$ - -
Net cash provided by financing activities	$ - -	$ - -
Net (decrease) in cash and cash equivalents	$ (86,484)	$ (293,512)
Cash and cash equivalents at beginning of period	342,933	636,445
Cash and cash equivalents at end of period	$ 256,449	$ 342,933

Chain Bridge Bank

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