

YOUR BRIDGE TO

# Better Banking

Attentive Personal Service

Leading Edge Technology

Fortress Balance Sheet

**2019** **ANNUAL**  
**REPORT**



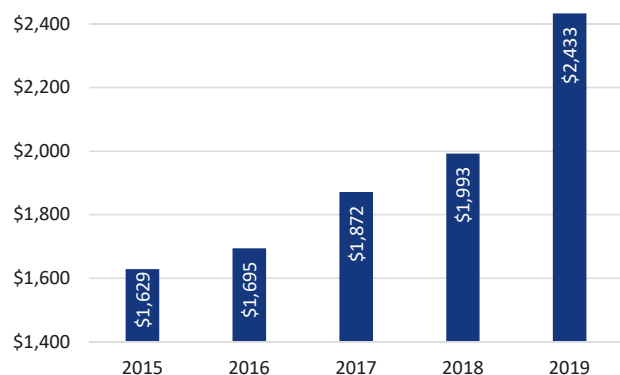
## Chain Bridge Bancorp, Inc. Consolidated Financial Highlights

	Years Ended December 31,		
	2019	2018	Change
<b>Performance Measures and Yields</b>			
Consolidated net income	\$ 4,886,306	\$ 5,065,145	(3.5%)
Return on average assets (ROAA)	0.73%	0.72%	0.01%
Return on average risk-weighted assets <sup>1</sup>	1.69%	1.85%	(0.16%)
Return on average equity (ROAE)	9.37%	11.70%	(2.33%)
Net interest margin (Fully Tax Equivalent)	2.70%	2.57%	0.13%
<b>Asset Quality (%)</b>			
Non-performing assets / assets	0.00%	0.00%	0.00%
Loan loss reserves / gross loans	1.40%	1.40%	0.00%
Risk-weighted asset density <sup>2</sup>	34.49%	53.27%	(18.78%)
<b>Balance Sheet Highlights</b>			
Total assets	\$ 829,186,298	\$ 547,087,424	51.6%
U.S. Treasury securities (fair value)	\$ 265,405,002	\$ 61,025,707	334.9%
Total investment grade securities (fair value)	\$ 451,405,768	\$ 239,039,671	88.8%
Total loans (net of loans held for sale)	\$ 265,540,386	\$ 260,220,001	2.0%
Total deposits	\$ 762,375,956	\$ 452,663,986	68.4%
<b>Capitalization</b>			
Total equity capital	\$ 56,870,450	\$ 46,581,712	22.1%
Total risk-based capital ratio	20.38%	18.44%	1.94%
Tier 1 risk-based ratio	19.08%	17.19%	1.89%
<b>Chain Bridge Bancorp, Inc. Share Information</b>			
Number of shares outstanding	23,372	23,372	0.0%
Book value per share	\$ 2,433.27	\$ 1,993.06	22.1%
Book value per share, excluding unrealized gain/loss on securities	\$ 2,336.13	\$ 2,114.07	10.5%
Net income per share	\$ 209.07	\$ 216.72	(3.5%)
Dividend per share	\$ 17.00	\$ 15.00	13.3%

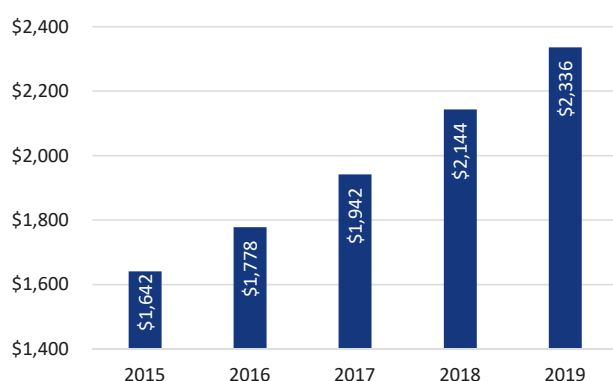
<sup>1</sup> Average is calculated using the last five quarter ends.

<sup>2</sup> Risk-weighted asset density measures the riskiness of the Bank's assets. It is calculated as risk-weighted assets divided by total assets.

**Book Value Per Share**



**Book Value Per Share  
Excluding Unrealized Gain/Loss on Securities**





March 9, 2020

Dear Fellow Shareholder:

Chain Bridge Bancorp, Inc. (the "Company"), parent of Chain Bridge Bank, N.A. ("Chain Bridge Bank," "Chain Bridge" or the "Bank"), earned net income of \$4,886,306, or \$209.07 per share, in 2019, compared to \$5,065,145, or \$216.72 per share, in 2018. Return on average equity (ROAE) was 9.37% in 2019 versus 11.70% in 2018.

As interest rates declined during the year, the unrealized gain, net of taxes, on the Bank's bond portfolio rose by \$5,799,756, or \$248.15 per share. That increase, coupled with earnings per share of \$209.07, less dividends of \$17.00 per share, caused book value per share to rise by 22.1%, or \$440.21, from \$1,993.06 at year-end 2018, to \$2,433.27 at year-end 2019.

In 2019, Chain Bridge purchased over \$200 million of U.S. Treasury bills, notes and bonds. The purpose of those purchases was to hedge against unexpected financial market turbulence and to lock in then-available (but no longer available) yields for most of 2020.

Because they are highly liquid and because their perceived risk of default is zero, U.S. Treasury securities provide a strong hedge against economic distress. In contrast, all loans and all other investment-grade bonds (such as government "agency" bonds, mortgage-backed securities, corporate bonds and municipal bonds), no matter how high quality, entail at least some degree of illiquidity and credit risk that reduces their effectiveness as hedges against economic distress.

U.S. Treasury securities are also "non-callable" which means that the issuer, in this case the U.S. Treasury, cannot redeem them prior to maturity. Because they cannot be redeemed prior to maturity, U.S. Treasuries provide a pure form of protection against deflation and declining interest rates.

In contrast, substantially all loans and a majority of other investment-grade bonds are "callable," that is, subject to early prepayment or redemption, at the option of the borrower or issuer. In times of declining interest rates, their optionality makes these instruments relatively ineffective as hedges against deflation and declining interest rates. Moreover, when interest rates are declining, their optionality, together with their higher default risk, may make their yields (which are nominally higher than U.S. Treasury yields) illusory.

Chain Bridge Bank, N.A. ended 2019 with \$268 million, or 32% of its assets, invested in U.S. Treasury bills, notes and bonds, up from \$61 million, or 11% of assets, at year-end 2018. Heading into 2020, the Bank's remaining assets were distributed as follows: other investment-grade bonds, 23% of assets; loans, 31% of assets; cash, 12% of assets; and non-earning assets (such as real estate, equipment and furnishings), 2% of assets.

### **Trust Department**

In July of 2019, the board of directors authorized management to begin organizing a Trust Department and to apply for authority, from the Office of the Comptroller of the Currency (OCC), to exercise full fiduciary powers under the national banking laws. In September, management hired Gregory Smolen, an attorney and experienced trust professional, to set up and lead the new Trust Department. During the fall and winter months, management hired an experienced trust operations manager, identified other key staff, tested all leading trust and asset management software systems, and began preparing its OCC application.

The Bank filed its application in early February of this year and the OCC approved it, within thirty days, in early March. The Bank now plans to open the department and to begin offering full trust and wealth management services within the next several months. In the meantime, if you have trust, asset custody, wealth management or estate or financial planning needs, please feel free to contact Gregory to preview the anticipated offerings of the new Trust Department.

### **What Differentiates Chain Bridge Bank, N.A.**

Chain Bridge Bank, N.A.'s mission is to combine attentive personal service with leading-edge technology and a fortress balance sheet. In 2019, Chain Bridge advanced its mission on all fronts.

#### **Attentive Personal Service**

In order to generate growth, most banks focus on marketing and salesmanship. Chain Bridge takes a different approach, prioritizing, instead, exceptional personal service. The Bank's steady growth over the years suggests that this approach continues to work. Over the past ten years, Chain Bridge's average deposits have grown at a compounded annual rate of 16.53%. Most of this growth has come in high value commercial transaction accounts. All of it has come organically and mainly by reputation and word-of-mouth referrals.

In order to maintain its high level of personal service even as it grows, the Bank continues to add new team members. The board and management devote considerable time and effort to attracting and retaining exceptional individuals committed to serving clients.

As shareholders, you should celebrate the dedication and commitment of the Bank's front line team members. They are the main reason that Chain Bridge does not need to advertise. They are the main reason Chain Bridge does well. They are, by far, the Bank's most valuable asset.

#### **Leading-Edge Technology**

Chain Bridge aspires to equip its clients with exceptional banking technology. Especially for commercial clients, banking is increasingly a digital experience, and the Bank seeks to make that experience as smooth and efficient as possible. It does so by constantly upgrading, refreshing and replacing software systems and reviewing, testing and seeking to deploy the latest and best available online and mobile banking technology. At any one time, the Bank's Project Management

Department is testing, implementing or planning to implement dozens of new systems across all client and back-office channels.

Chain Bridge first rolled out its new Treasury Management platform for large commercial clients in 2018. Beginning in early 2018, the Bank began converting large, complex commercial deposit clients, one by one, to the new platform. While the Bank could have attempted a mass conversion of commercial clients all at once, such an approach would have been inconsistent with Chain Bridge's commitment to provide attentive and individualized personal service.

In 2019, the Bank finished converting substantially all of its larger commercial clients to the new platform. The Bank took great care in setting up and customizing the parameters for each client's usage of the system. While setting up and training each business separately and individually was time-consuming and costly, management believes that the investment in, and personal outreach to, the Bank's clients was well worth it.

In 2020, Chain Bridge will introduce a new online and mobile banking platform, called Banno, for its consumer clients. Management believes that just as the Treasury Management system is one of the best available systems for business banking, Banno is one of the best available digital platforms for consumer banking. Like Treasury Management, Chain Bridge's Banno platform will be a highly configurable software-as-service solution, one that combines robust capabilities with user-friendly simplicity.

Because the banking needs of consumers are generally less complex than those of businesses, management anticipates that upgrading consumers to Banno will be less complex and labor-intensive than converting businesses to Treasury Management. Nevertheless, the Bank's Operations and Project Management teams are carefully planning the conversion and in connection therewith have already created a new digital banking unit which will provide ongoing tech support to clients. Whereas just a few years ago the most common call to a bank may have been to order new checks, today the most common call is for technical support.

### **Fortress Balance Sheet**

Chain Bridge Bank, N.A.'s strategic plan calls for it to have superior asset quality, liquidity, risk-based capital and reserves. The board believes that having superior financial strength gives the Bank a competitive advantage in its niche market of specialized, large-scale commercial depositors. The board further believes that, in times of financial stress, financial strength could give the Bank a competitive advantage in more generalized market sectors as well. In good times, most depositors do not think about the financial strength of their bank. In times of market turbulence and financial distress, they suddenly become concerned. Chain Bridge focusses, at every turn, on financial strength, even when depositors are lulled by tranquil markets.

The relative financial strength of banks is easy to gauge quantitatively because all banks must file quarterly financial statements known as Call Reports. The Call Report data for all banks is uniform and all banks are required to use the same accounting conventions in submitting their Call Report data. Thus, anyone can look up and compare, for example, the level of reserves, capital, liquidity, and asset quality of any bank in the United States. But to make it easier for shareholders



and clients, Chain Bridge regularly compiles and posts an updated analysis comparing Chain Bridge's key safety and soundness metrics with those of its national, regional and local competitors. If you are interested in reviewing this analysis, go to [www.chainbridgebank.com](http://www.chainbridgebank.com) and click on > Connect with Us > About Us > Financial Statements > Comparing Safety & Soundness of Banks.

The most commonly used metric of a bank's asset quality is its "Texas Ratio" (defined as non-performing assets + loans 90 days past due divided by tangible equity + loan loss reserves). In 2019, for the eighth consecutive year, Chain Bridge again reported a Texas Ratio of zero. (The lower the ratio, the better). Based on Call Report data, of the 4,566 banks in the United States with loans over \$10 million, only 28 have had a Texas Ratio of zero for the last eight years in a row.

One of the most over-looked elements of bank safety and soundness is bank liquidity. When the last recession began in December 2007, U.S. banks had, in the aggregate, loaned out 114% of their domestic deposits which meant that, in aggregate, banks in the U.S. had negative liquidity at that time. Beginning in 2008 and for several years thereafter, hundreds of banks failed for lack of liquidity, long before their loans went bad or even if their loans never went bad.

Average assets were lower in 2019 than in 2018, but year-end assets were higher. As expected, seasonal deposits increased in the second half of 2019, pushing total assets to \$829 million, of which 66%, or \$543 million, were "liquid" (as regulatorily defined). As of December 31, 2019, Chain Bridge Bank, N.A.'s regulatory "liquidity ratio" (liquid assets/total liabilities) was 71%, far higher than that of any of the nation's largest banks and roughly double that of the average of all U.S. commercial banks. See Industry Comparison graphs, *infra*, p. x.

Because a high proportion of its assets, such as U.S. Treasuries and cash held at the Federal Reserve, are zero risk-weighted, Chain Bridge has a significantly lower (and in this case, lower is better) "risk-weighted asset density" than most other banks (most of which hold a preponderance of below-investment grade loans that entail significant credit and illiquidity risks and are therefore heavily risk-weighted). At year-end 2019, Chain Bridge's "risk-weighted asset density" stood at 34.5%, roughly half the 70.9% "risk weighted asset density" average of all other U.S. commercial banks. Conversely, due primarily to its low level of risky assets, Chain Bridge ended the year with a risk-based capital ratio of 22.9%, roughly 159% of the average U.S. bank's risk-based capital ratio (14.4%) and roughly 149% of the most well-capitalized large U.S. banks (15.4%). See Industry Comparison graphs, *infra*, p. x.

### **Strategy for Continued Profitable Growth**

Management and the board of directors constantly plan for Chain Bridge's continued profitable growth and expansion. Those plans include increasing already large deposit market share in certain specialized, but nation-wide, niche markets, and then sequencing into related, but slightly broader, specialized markets where it believes it has similar advantages and a reasonable probability of achieving similar success.

On the lending side, management aims to become a preferred lender for jumbo 15 year fixed, fully amortizing residential mortgages and for 15 year fixed fully amortizing commercial

mortgages. Management believes that borrowers who seek to amortize their mortgages on an accelerated basis, in 15 years or less, often have superior financial attributes and may be more likely to also become Bank deposit clients. Management believes that there is less risk in this often-overlooked market than in the larger, more competitive conforming, 30 year residential mortgage markets or in the interest-only or very long amortization commercial mortgage markets – where most lenders concentrate their efforts.

It is too early to predict what niche markets will be the sweet spot for the new Trust Department. But trust and fiduciary services are themselves a specialized niche. Although the Washington, D.C. metro market is now one of the most affluent markets in the country, most banks in the region lack fiduciary powers. Management believes there could be a significant unmet market need for quality, personalized trust services in and around D.C.

Management further believes there may be a significant unrealized need for a Trust Department to act as the “Agent of the Trustee” for family trusts which may already have an individual family member acting as trustee. Few individual trustees have either the expertise or the time to account to trust beneficiaries in the manner required of them by the Uniform Fiduciaries Act. Some of them may see the value of appointing a Trust Department as their agent, or custodian, to provide proper custody and accounting for the trust assets.

Building the new Trust Department will be expensive and will lower profitability in the near term. Chain Bridge again takes the long view, and in the long view, management believes the Trust Department will enable the Bank to more fully serve its clients’ financial needs and further differentiate the Bank from its largely undifferentiated competitors.

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Many of you have been shareholders since the Company’s founding in 2007. Just as the Bank has experienced little client attrition, so too, the holding company has experienced little shareholder turnover. The board, management and associates all appreciate your steadfast support.

Very truly yours,



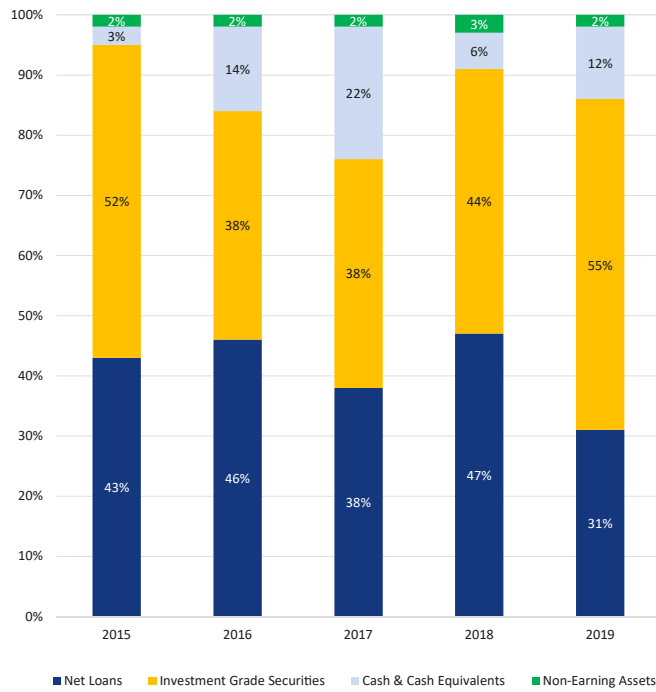
Peter G. Fitzgerald,  
Chairman of the Board

PGF/hn

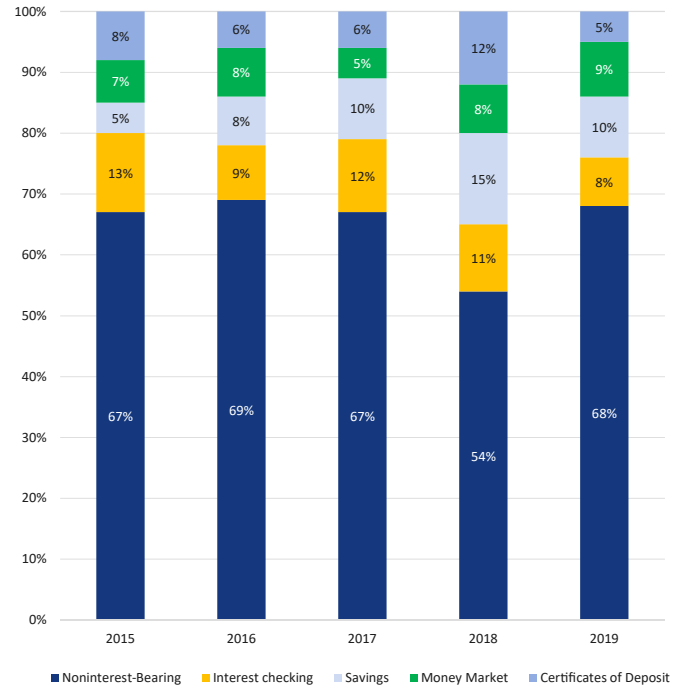
Enclosures

## Balance Sheet Information

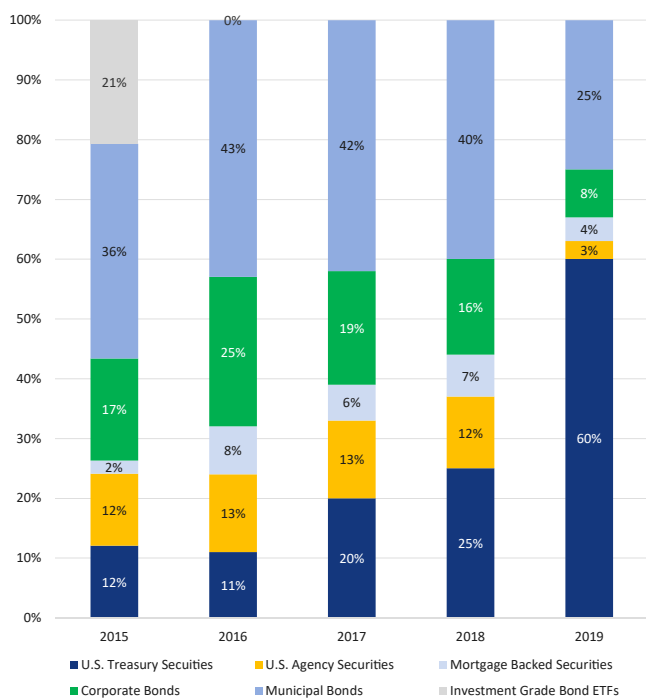
Asset Distribution  
(as a % of total assets)



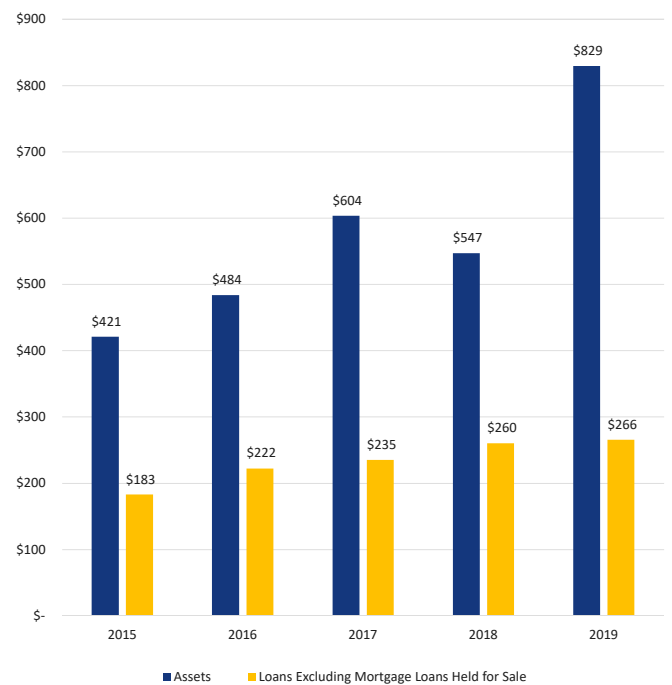
Deposit Distribution  
(as a % of total deposits)



Investment Grade Securities Distribution  
(as a % of available for sale securities)



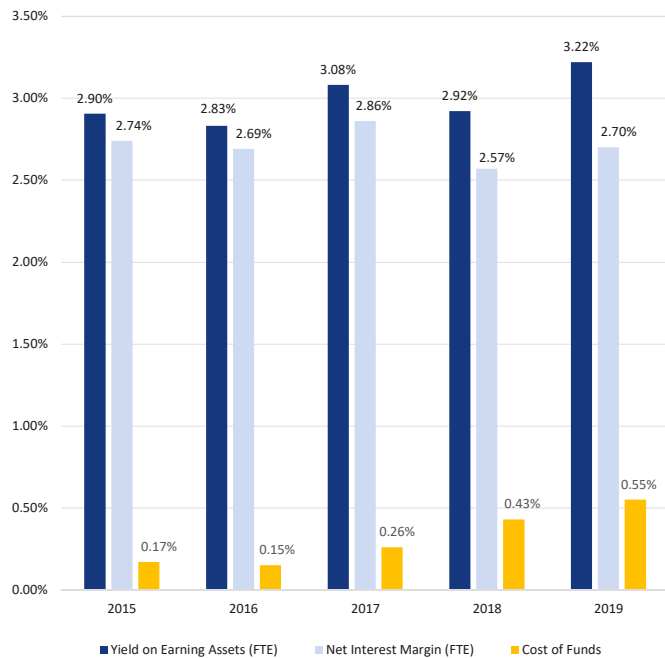
Assets and Loans  
(in millions)



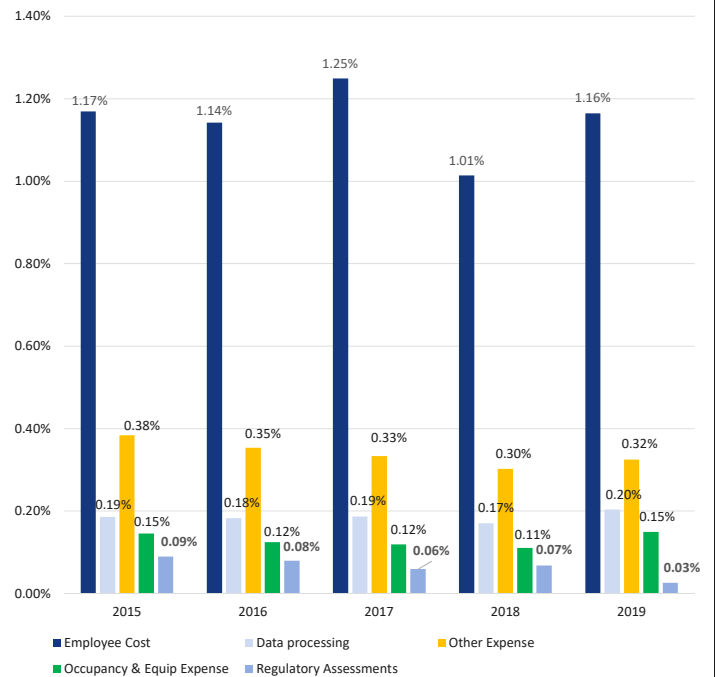


# Income Statement and Asset Quality Information

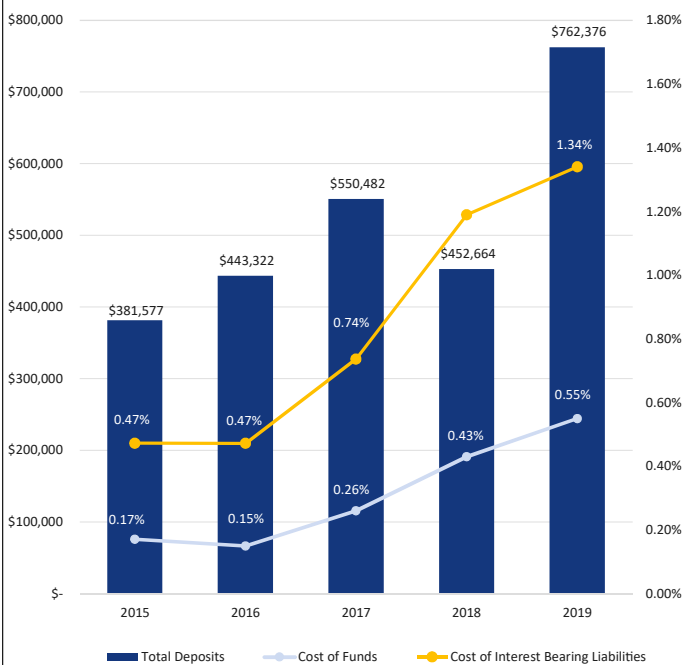
Interest Comparison Fully Taxable Equivalent  
(as a % of average earning assets)



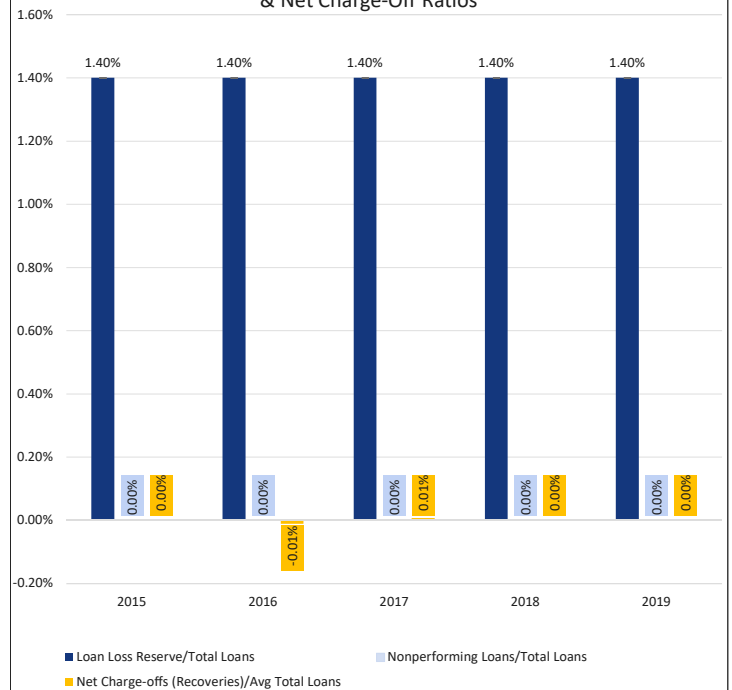
Operating Expense  
(as a % of average assets)



Deposits Balance and Costs  
(in thousands)

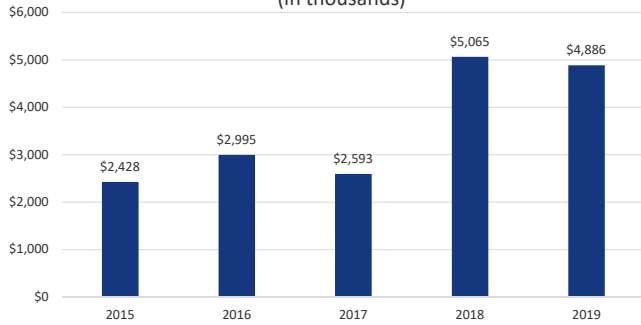


Loan Loss Reserve, Nonperforming Loans  
& Net Charge-Off Ratios

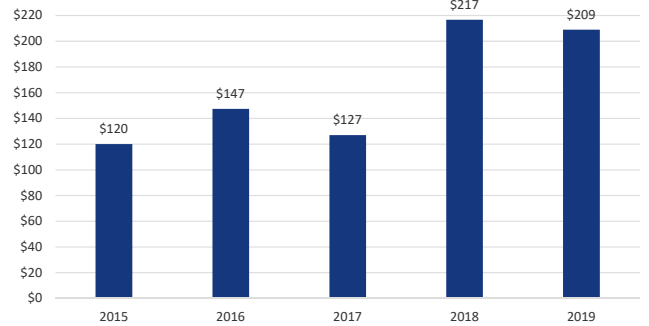


## Equity Information and Returns

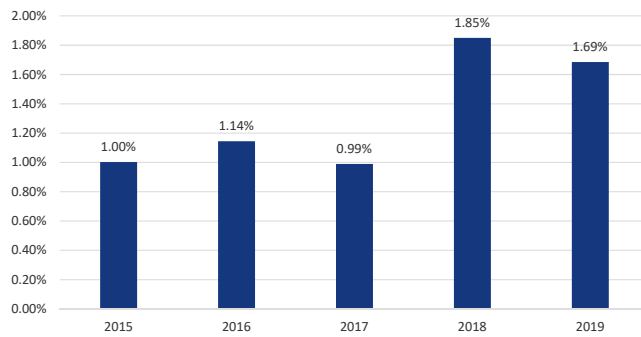
Net Income  
(in thousands)



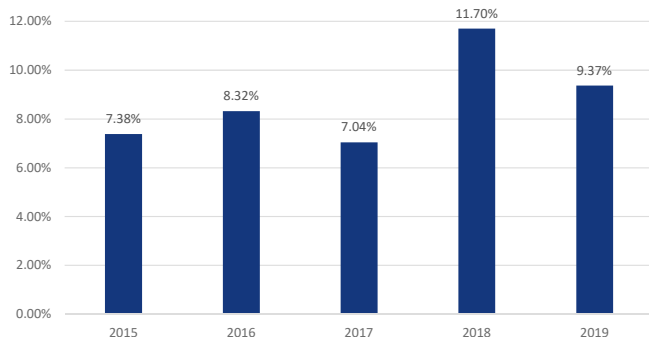
Earnings Per Share



Return on Average Risk-Weighted Assets



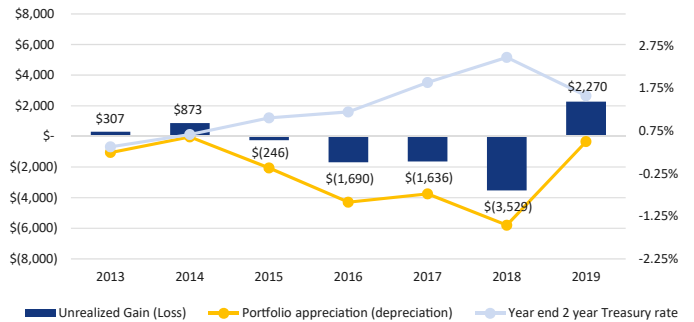
Return on Average Equity



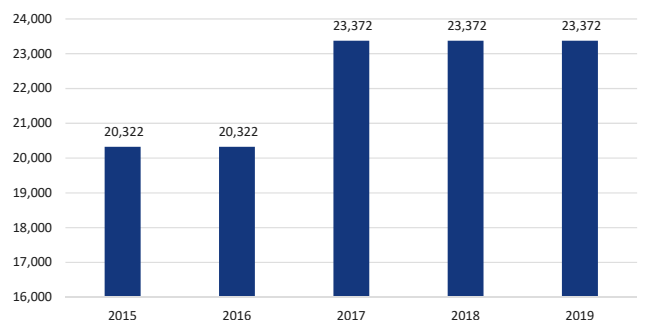
Composition of Capital  
(in thousands)



Unrealized Gain (Loss) on Securities, net of Tax  
(in thousands)

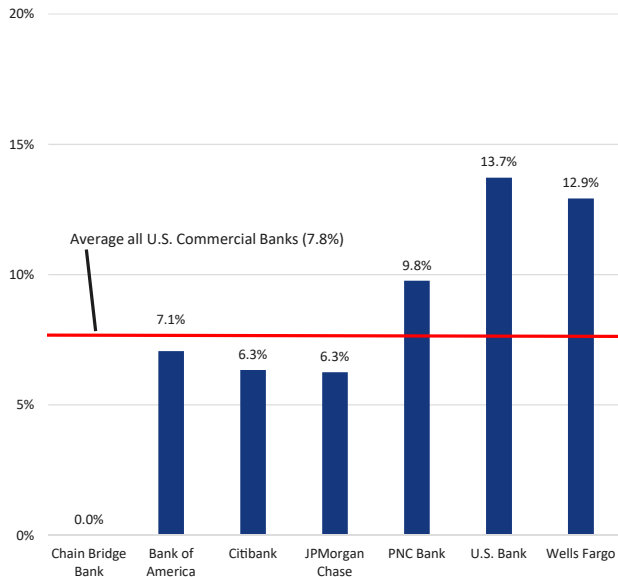


Shares Outstanding



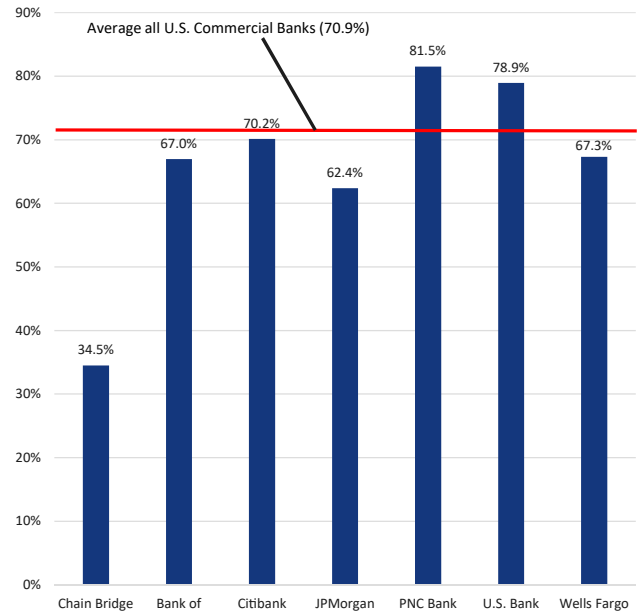
# Industry Comparison

Texas Ratio \*  
(lower is better)

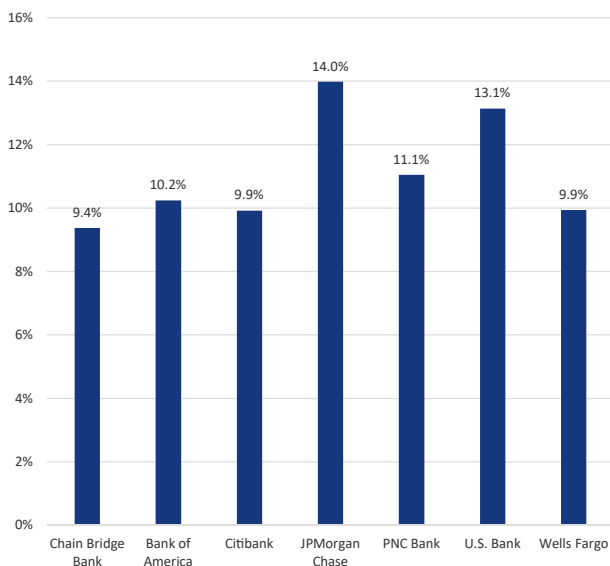


\*Texas ratio is defined as nonperforming assets plus delinquent loans as a percent of tangible equity and reserves.

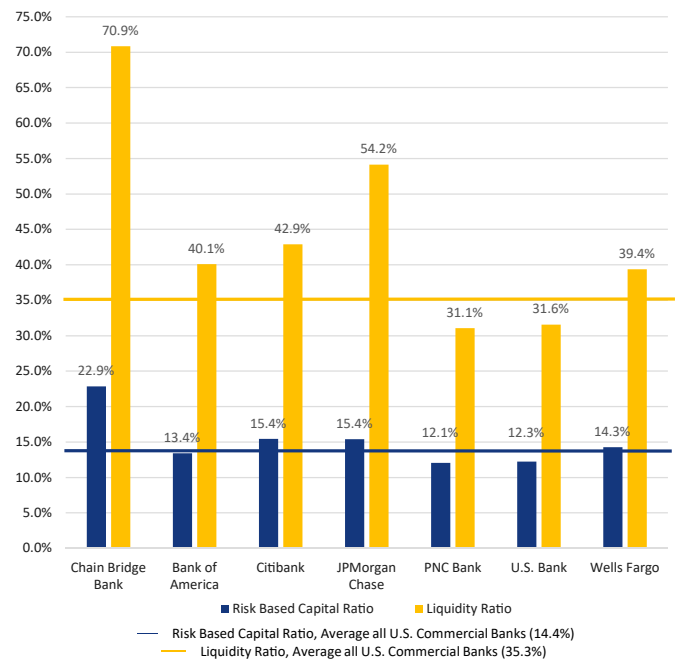
Risk-Weighted Asset Density  
(lower is better)



Holding Company Return on Average Equity



Capital and Liquidity Ratios  
(higher is better)



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**Chain Bridge Bancorp, Inc.  
and Subsidiary**

**McLean, Virginia**

**Consolidated Financial Report**

**December 31, 2019**

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## **C O N T E N T S**

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## INDEPENDENT AUDITOR'S REPORT

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

### Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Chain Bridge Bancorp, Inc. and its subsidiary, which comprise the consolidated balance sheets as of December 31, 2019 and 2018, the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express an opinion on these 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 from material misstatement.

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

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

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Chain Bridge Bancorp, Inc. and its subsidiary as of December 31, 2019 and 2018, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Guenther, Hyde & Barbour, P.C.*

Winchester, Virginia  
March 10, 2020

# Chain Bridge Bancorp, Inc. and Subsidiary

## Consolidated Balance Sheets

	December 31,	
	2019	2018
<b>Assets</b>		
Cash and cash equivalents	\$ 99,059,029	\$ 31,997,903
Securities available for sale, at fair value	450,877,606	238,538,827
Equity securities, at fair value	528,162	500,844
Restricted securities, at cost	1,985,100	3,844,300
Loans, net of allowance for loan losses of \$3,717,000 in 2019 and \$3,643,000 in 2018	261,823,386	256,577,001
Premises and equipment, net of accumulated depreciation of \$4,722,362 in 2019 and \$4,179,482 in 2018	11,257,881	11,354,821
Accrued interest receivable	3,204,323	2,152,606
Other assets	450,811	2,121,122
Total assets	<u>\$ 829,186,298</u>	<u>\$ 547,087,424</u>
<b>Liabilities and Stockholders' Equity</b>		
<b>Liabilities</b>		
Deposits:		
Noninterest bearing	\$ 515,220,461	\$ 246,465,108
Savings, interest-bearing checking and money market accounts	204,730,992	154,316,299
Time, \$250,000 and over	20,876,783	20,268,240
Other time	21,547,720	18,217,899
CDARS brokered deposits	--	13,396,440
Total deposits	<u>\$ 762,375,956</u>	<u>\$ 452,663,986</u>
Securities sold under agreements to repurchase	433,436	473,713
FHLB advances	--	39,300,000
Short term borrowings	7,300,000	6,000,000
Accrued interest payable	164,527	153,620
Accrued expenses and other liabilities	2,041,929	1,914,393
Total liabilities	<u>\$ 772,315,848</u>	<u>\$ 500,505,712</u>
<b>Stockholders' Equity</b>		
Preferred stock		
\$1 par value, authorized 10,000 shares, no shares issued and outstanding	\$ --	\$ --
Common stock		
\$1 par value, authorized 50,000 shares, 23,372 shares issued and outstanding	23,372	23,372
Additional paid-in capital	27,786,595	27,786,595
Retained earnings	26,790,135	22,301,153
Accumulated other comprehensive income (loss)	2,270,348	(3,529,408)
Total stockholders' equity	<u>\$ 56,870,450</u>	<u>\$ 46,581,712</u>
Total liabilities and stockholders' equity	<u>\$ 829,186,298</u>	<u>\$ 547,087,424</u>

See Notes to Consolidated Financial Statements.

# Chain Bridge Bancorp, Inc. and Subsidiary

## Consolidated Statements of Income

For the Years Ended December 31, 2019 and 2018

	2019	2018
<b>Interest and Dividend Income</b>		
Interest and fees on loans	\$ 11,582,183	\$ 10,428,663
Interest and dividends on securities, taxable	6,766,883	5,751,297
Interest on securities, tax-exempt	906,858	997,303
Interest on interest bearing deposits in banks	1,284,013	2,827,470
Total interest and dividend income	<u>\$ 20,539,937</u>	<u>\$ 20,004,733</u>
<b>Interest Expense</b>		
Interest on deposits	\$ 3,248,643	\$ 2,524,291
Interest on short-term borrowings	100,215	259,055
Total interest expense	<u>\$ 3,348,858</u>	<u>\$ 2,783,346</u>
<b>Net Interest Income</b>	<u>\$ 17,191,079</u>	<u>\$ 17,221,387</u>
<b>Provision for Loan Losses</b>	74,000	349,000
Net interest income after provision for loan losses	<u>\$ 17,117,079</u>	<u>\$ 16,872,387</u>
<b>Noninterest Income</b>		
Service charges on deposit accounts	\$ 299,581	\$ 197,964
Rent income	115,900	112,127
Gain on sale of mortgage loans	101,298	41,003
Gain on sale of securities, net	7,430	50,486
Other income	745,583	528,246
Total noninterest income	<u>\$ 1,269,792</u>	<u>\$ 929,826</u>
<b>Noninterest Expenses</b>		
Salaries and employee benefits	\$ 7,742,930	\$ 7,089,188
Data processing and communication expenses	1,352,504	1,188,634
Occupancy and equipment expenses	993,896	769,227
Professional services	697,477	696,292
Virginia bank franchise tax	366,329	370,375
Directors fees	205,425	241,450
FDIC and regulatory assessments	171,368	474,965
Other operating expenses	889,822	804,240
Total noninterest expenses	<u>\$ 12,419,751</u>	<u>\$ 11,634,371</u>
Net income before taxes	<u>\$ 5,967,120</u>	<u>\$ 6,167,842</u>
<b>Income Tax Expense</b>	1,080,814	1,102,697
<b>Net income</b>	<u><u>\$ 4,886,306</u></u>	<u><u>\$ 5,065,145</u></u>
Earnings per common share, basic and diluted	<u><u>\$ 209.07</u></u>	<u><u>\$ 216.72</u></u>

See Notes to Consolidated Financial Statements.

## Chain Bridge Bancorp, Inc. and Subsidiary

### Consolidated Statements of Comprehensive Income

For the Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Net income	<u>\$ 4,886,306</u>	<u>\$ 5,065,145</u>
Other comprehensive income (loss):		
Unrealized holding gains (losses) on securities available for sale, net of tax of \$1,543,268 in 2019 and (\$492,652) in 2018	\$ 5,805,626	\$ (1,853,311)
Reclassification adjustment for gains included in net income, net of taxes of (\$1,560) in 2019 and (\$10,602) 2018	(5,870)	(39,884)
Other comprehensive income (loss), net of tax	<u>\$ 5,799,756</u>	<u>\$ (1,893,195)</u>
Comprehensive income	<u>\$ 10,686,062</u>	<u>\$ 3,171,950</u>

See Notes to Consolidated Financial Statements.



# Chain Bridge Bancorp, Inc. and Subsidiary

## Consolidated Statements of Cash Flows For the Years Ended December 31, 2019 and 2018

	2019	2018
<b>Cash Flows from Operating Activities</b>		
Net income	\$ 4,886,306	\$ 5,065,145
Reconciliation of net income to net cash provided by operating activities:		
Depreciation and amortization of premises and equipment	542,880	443,876
Premium amortization and discount accretion on investment securities, net	493,041	63,880
Impairment loss on securities recognized in earnings	38,826	-
Fair value adjustment on equity securities	(15,172)	10,433
Provision for loan losses	74,000	349,000
Gain on sale of securities	(7,430)	(50,486)
Gain on sale of mortgage loans	(101,298)	(41,003)
Origination of loans held for sale	(9,639,872)	(5,742,597)
Proceeds from sale of loans	9,741,170	5,981,572
Deferred income tax benefit	(45,757)	(138,780)
Changes in assets and liabilities:		
(Increase) decrease in accrued interest receivable and other assets	(877,357)	546,411
Increase in accrued interest payable and other liabilities	138,443	352,467
Net cash provided by operating activities	<u>\$ 5,227,780</u>	<u>\$ 6,839,918</u>
<b>Cash Flows from Investing Activities</b>		
Purchases of securities available for sale	\$ (329,404,606)	\$ (260,727,649)
Proceeds from calls, maturities, paydowns and sales of securities available for sale	123,882,854	243,177,602
Redemption (purchase) of restricted securities	1,859,200	(1,890,700)
Reinvestment of dividends on equity securities	(12,146)	(11,277)
Net increase in loans	(5,320,385)	(24,943,558)
Purchases of premises and equipment, net	(445,940)	(3,465,833)
Net cash used in investing activities	<u>\$ (209,441,023)</u>	<u>\$ (47,861,415)</u>
<b>Cash Flows from Financing Activities</b>		
Net increase (decrease) in non-interest bearing, savings, interest-bearing checking and money market deposits	\$ 319,170,046	\$ (116,508,163)
Net increase in time deposits	3,938,364	5,293,580
Net (decrease) increase in CDARS brokered deposits	(13,396,440)	13,396,440
Net (decrease) increase in short-term borrowings	(38,000,000)	43,050,000
Net decrease in securities sold under agreements to repurchase	(40,277)	(4,934,056)
Cash dividend	(397,324)	(350,580)
Net cash provided by (used in) financing activities	<u>\$ 271,274,369</u>	<u>\$ (60,052,779)</u>
Net increase (decrease) in cash and cash equivalents	\$ 67,061,126	\$ (101,074,276)
Cash and cash equivalents, beginning of period	31,997,903	133,072,179
Cash and cash equivalents, end of period	<u>\$ 99,059,029</u>	<u>\$ 31,997,903</u>
<b>Supplemental Disclosures of Cash Flow Information</b>		
Cash payments for interest	<u>\$ 3,337,951</u>	<u>\$ 2,728,408</u>
Cash payments for taxes	<u>\$ 939,669</u>	<u>\$ 1,296,328</u>
<b>Supplemental Disclosures of Noncash Investing Activities</b>		
Fair value adjustment for available for sale securities	<u>\$ 7,341,464</u>	<u>\$ (2,396,449)</u>

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, 2019 and 2018

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total
<b>Balance at December 31, 2017</b>	\$ 23,372	\$ 27,786,595	\$ 17,586,588	\$ (1,636,213)	\$ 43,760,342
Net income	--	--	5,065,145	--	5,065,145
Other comprehensive loss	--	--	--	(1,893,195)	(1,893,195)
Cash dividend (\$15.00 per share)	--	--	(350,580)	--	(350,580)
<b>Balance at December 31, 2018</b>	<u>\$ 23,372</u>	<u>\$ 27,786,595</u>	<u>\$ 22,301,153</u>	<u>\$ (3,529,408)</u>	<u>\$ 46,581,712</u>
Net income	--	--	4,886,306	--	4,886,306
Other comprehensive income	--	--	--	5,799,756	5,799,756
Cash dividend (\$17.00 per share)	--	--	(397,324)	--	(397,324)
<b>Balance at December 31, 2018</b>	<u>\$ 23,372</u>	<u>\$ 27,786,595</u>	<u>\$ 26,790,135</u>	<u>\$ 2,270,348</u>	<u>\$ 56,870,450</u>

See Notes to Consolidated Financial Statements.

## **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 (OCC). Consequently, it undergoes periodic examinations by these regulatory authorities.

The Bank provides a variety of financial services to businesses and individuals through its offices in McLean, Virginia. The Bank’s primary deposit products are noninterest-bearing checking, interest-bearing checking and time deposits, and its primary lending products are consumer, 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 and other-than-temporary impairment of securities.

##### **Reclassification**

Certain amounts in the 2018 consolidated financial statements have been reclassified to conform to the 2019 presentation. None of those reclassifications were significant to stockholders’ equity or net income.

## **Notes to Consolidated Financial Statements**

### **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. Debt securities not classified as held to maturity or trading, are classified as “available for sale” and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income (loss). The Bank classifies all debt securities as available for sale. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the debt securities. Gains and losses on the sale of debt securities are recorded on the trade date and are determined using the specific identification method.

Impairment of securities occurs when the fair value of a security is less than its amortized cost. For debt securities, impairment is considered other-than-temporary and recognized in its entirety in net income if either (1) the Bank intends to sell the security or (2) it is more likely than not that the Bank will be required to sell the security before recovery of its amortized cost basis. If, however, the Bank does not intend to sell the security and it is not more than likely that the Bank 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 (loss).

The Bank regularly reviews debt securities 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 Bank's best estimate of the present value of cash flows expected to be collected from debt securities, the Bank's intention with regard to holding the security to maturity and the likelihood that the Bank would be required to sell the security before recovery.

Equity securities with readily determinable fair values are carried at fair value, with changes in fair value reported in net income. Any equity securities without readily determinable fair values are carried at cost, minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for identical or similar investments. Restricted equity securities are carried at cost and are periodically evaluated for impairment based on the ultimate recovery of par value. The entirety of any impairment on equity securities is recognized in earnings.

## **Notes to Consolidated Financial Statements**

The Bank uses certain correspondent banks for overnight borrowing and other purposes. The Bank maintains an investment in the capital stock of two correspondent banks: Community Bankers' Bank of Midlothian, Virginia and Pacific Coast Bankers' Bancshares of Walnut Creek, California. The Bank maintains a required investment in the capital stock of the Federal Reserve Bank of Richmond, Virginia, and the Federal Home Loan Bank of Atlanta, Georgia. The Bank's investment in these correspondent stocks is recorded at cost based on the redemption provisions of these entities and is included in restricted securities on the consolidated balance sheets.

### **Loans Held for Sale**

Loans held for sale are carried at the lower of cost or fair value, determined in the aggregate. Fair value considers commitment agreements with investors and prevailing market prices. Loans originated by the Bank's mortgage banking unit and held for sale to outside investors, are made on a pre-sold basis with servicing rights released. Gains and 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.

### **Loans**

The Bank grants mortgage, commercial, and consumer loans to customers. A substantial portion of the loan portfolio is represented by residential and 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 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.

## Notes to Consolidated Financial Statements

### 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.

During these reviews, particular risk characteristics associated with a segment of the loan portfolio are also considered. These characteristics are detailed below:

- Commercial real estate and commercial loans that are not secured by real estate carry risks associated with the successful operation of a business and the repayment of these loans may depend on the profitability and cash flows of the business. Additional risk relates to the value of collateral other than real estate where depreciation occurs and the appraisal is less precise.
- Residential real estate (closed-end) loans carry risks associated with the continued credit-worthiness of the borrower and changes in the value of the collateral.
- Other consumer loans carry risks associated with the continued credit-worthiness of the borrower and the value of the collateral, such as home equity lines of credit and automobiles which may depreciate more rapidly than other assets. In addition, these loans may be unsecured. Consumer loans are more likely than real estate loans to be immediately affected in an adverse manner by job loss, divorce, illness or personal bankruptcy.

The primary tool used in managing and controlling problem loans is a watch list report. The report is a listing of all loans or commitments that are considered problem loans. The report is controlled by the Chief Credit Officer and the Chief Executive Officer. It is a primary responsibility of the loan officer to manage the credit risk within their loan portfolio. As such, they are proactive rather than reactive when considering the need to add a loan to the watch list report. Occurrence of any of the following criteria is a basis for adding a loan (other than consumer and residential mortgage loans) to the watch list report.

- Loans classified as substandard, doubtful or loss by bank examiners, external loan review, Chief Credit Officer or Chief Executive Officer based upon financial trends of the business.
- Loans on nonaccrual status.
- Loans more than 30 days delinquent.
- Loans renewed or extended without the capacity to repay the principal.
- Loans judgmentally selected by executive management or the Board of Directors due to unexpected changes or events which could have a potentially adverse effect on the borrower's ability to repay.



## Notes to Consolidated Financial Statements

The following guidance has been given as an aid to loan officers in detecting problem loans.

- Financial Statement Analysis – As customer financial statements are received, they are immediately analyzed for any significant changes in the financial position or operating results.
- Delayed Financial Statements – If the Bank is having problems getting financial statements from a customer, a problem may be developing.
- Delinquent Principal or Interest – Delinquencies are often the first indication of a problem. The Bank carefully reviews each loan as soon as it becomes past due.
- Lack of Cooperation – It is in the borrower's best interest to cooperate with the Bank. We suspect a problem if the customer becomes uncooperative.
- Other – The following are additional warning signs which could mean a problem loan situation is developing: illness or death of a principal or key employee, overdrafts, family difficulties, unexpected renewals or unanticipated new borrowing, a too high or too low inventory level in comparison to industry standards, irresponsible behavior on the part of a borrower, trade payables begin to increase abnormally and cancellation of insurance.

The allowance consists of specific, general and unallocated components. The specific component relates to loans (other than consumer and residential mortgage loans) that are classified as doubtful or substandard. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows, fair value of collateral less estimated selling costs, or observable market price of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified and special mention loans and is based on historical loss experience adjusted for qualitative factors including the national and local economic environment, concentration growth trends in the nature and volume of the loan portfolio, levels and trends in delinquencies, impaired loans, charge-off/recovery activity, changes in underwriting standards and lending policies, experience and depth of lending management and staff, analysis of peer banks, and industry conditions. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects that margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

## Notes to Consolidated Financial Statements

Characteristics of the Bank's risk classification grades are as follows:

- **Pass** – Pass rated loans are to persons or business entities with an acceptable financial condition, appropriate collateral margins, appropriate cash flow to service the existing loan, and an appropriate leverage ratio. Borrower has paid all obligations as agreed and it is expected that this type of payment history will continue. Acceptable personal guarantors support the loan as needed.
- **Special Mention** – Special Mention loans have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the Bank's credit position at some future date. Special mention assets are not adversely classified and do not expose the Bank to sufficient risk to warrant adverse classification.
- **Substandard** – Substandard assets are inadequately protected by the current sound worth and paying capacity of the borrower or of the collateral pledged, if any. Assets so classified must have a well-defined weakness, or weaknesses, that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that some loss will be sustained if the deficiencies are not corrected.
- **Doubtful** – Doubtful assets have all the weaknesses inherent in assets classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.
- **Loss** – Loans in this category are considered uncollectible and of such little value that their continuance as bankable assets is not warranted.

The impairment of a loan occurs when it is probable that the Bank will be unable to collect all amounts when 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, fair value of collateral less estimated selling costs 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 less estimated selling costs. 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.

### **Troubled Debt Restructurings**

In situations where, for economic or legal reasons related to a borrower's financial condition, management may grant a concession to the borrower that it would not otherwise consider, the related loan is classified as a troubled debt restructuring (TDR). Management strives to identify borrowers in financial difficulty early and work with them to modify their loan to more affordable terms before their loan reaches nonaccrual status. These modified terms may include rate reductions, principal forgiveness, payment forbearance and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. In cases where borrowers are granted new terms that provide for a reduction of either interest or principal, management measures any impairment on the restructuring as noted above for impaired loans. The Bank had no TDRs as of December 31, 2019 and 2018.

## **Notes to Consolidated Financial Statements**

### **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. The 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 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 non-interest expense. The Bank had no foreclosed assets during the years ending December 31, 2019 and 2018.

### **Rate Lock Commitments**

The Bank enters into commitments to originate mortgage loans whereby the interest rate on the loan is determined prior to funding (rate lock commitments). Rate lock commitments on mortgage loans that are intended to be sold 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 120 days. The Bank protects itself from changes in interest rates through the use of best efforts forward delivery commitments, whereby the Bank commits to sell a loan at the time the borrower commits to an interest rate with the intent that the buyer has assumed interest rate risk on the loan. As a result, the Bank is not exposed to losses and will not realize significant gains related to its rate lock commitments due to changes in interest rates. The correlation between the rate lock commitments and the best efforts contracts is very high due to their similarity.

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. Any gain or loss associated with rate lock commitments would be immaterial. For this reason, there is no recognition of on or off-balance-sheet valuation of rate lock commitments.

### **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. Deferred tax assets and liabilities are measured using the enacted tax rates and laws expected to apply to taxable income in the periods in which the deferred tax asset or liability is expected to be realized or settled.

## **Notes to Consolidated Financial Statements**

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. The Company did not record a liability for unrecognized tax benefits at December 31, 2019 or 2018.

### **Transfers of Financial Assets**

Transfers of financial assets are accounted for as sales, when control over the assets has been relinquished. Control over financial assets is deemed to be surrendered when the assets have been isolated from the Company, the transferee obtains the rights (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

### **Earnings Per Share**

Basic earnings per share represents income available to common stockholders divided by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. For the years ended December 31, 2019 and 2018, the weighted average number of shares outstanding for calculating basic and diluted earnings per share was 23,372.

### **Advertising Costs**

The Bank follows the policy of charging the production costs of advertising to expense as incurred. The Bank expensed \$43,098 and \$29,148 for advertising costs for the years ended December 31, 2019 and 2018, respectively.

## **Notes to Consolidated Financial Statements**

### **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. For the years ended December 31, 2019 and 2018, the Bank's other comprehensive income (loss) relates to changes in realized and unrealized gains and losses on available for sale securities, net of tax. Any reclassification out of accumulated other comprehensive income (loss) is a result of realized securities gains or losses and is included in the "Gain on sale of securities" line item on the Consolidated Statements of Income.

### **Fair Value Measurements**

The Bank 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 (an exit price) in the principal or most advantageous market for the asset or 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 Bank'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 the principal or most advantageous market for that asset or liability 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.

### **Loss Contingencies**

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there are any such matters that will have a material effect on the consolidated financial statements.

### **Dividend Restriction**

Banking regulations require maintaining certain levels and may limit the dividends paid by the bank to the holding company or by the holding company to shareholders.

## Notes to Consolidated Financial Statements

### Adoption of New Accounting Standards

On January 1, 2019, the Company adopted ASU 2014-09, "Revenue from Contracts with Customers" and all subsequent amendments, collectively "ASC 606." ASC 606 creates a single framework for recognizing revenue from contracts with customers that fall within its scope and revises when it is appropriate to recognize gains or losses from the transfer of nonfinancial assets such as other real estate. The majority of the Company's revenues come from interest income and other sources, including loans and securities, that are outside the scope of ASC 606. The Company's services that fall within the scope of ASC 606 are presented in non-interest income in the consolidated statements of income and are recognized as revenue when the Company satisfies its obligation to the customer.

Topic 606 is applicable to noninterest revenue streams such as service charges on deposit accounts, other service charges and fees, and credit and debit card fees. Recognition of these revenue streams did not change significantly upon adoption of Topic 606. Noninterest revenue streams within the scope of Topic 606 are discussed below.

#### Service Charges on Deposit Accounts

Service charges on deposit accounts consist primarily of account analysis fees, monthly service fees, overdraft and nonsufficient funds fees, and other deposit account related fees. The Company's performance obligation for account analysis and monthly service fees is generally satisfied, and the related revenue recognized, over the period in which the service is provided. Payment for account analysis and service charges on deposit accounts is primarily received immediately or in the following month through a direct charge to customers' accounts. Nonsufficient funds fees and other deposit account related fees are transaction based, and therefore, the Company's performance obligation is satisfied, and related revenue recognized, at a point in time.

#### Other Service Charges

Other service charges include wire transfer fees, safety deposit box rental fees, lockbox fees, and other service charges. Safe deposit box rental fees are charged to the customer on an annual basis and recognized upon receipt of payment. The Company determined that since rentals and renewals occur fairly consistently over time, revenue is recognized on a basis consistent with the duration of the performance obligation. The Company's performance obligations for wire transfer and other service charges are largely satisfied, and the related revenue recognized, upon completion of the service. Payment is typically received immediately or in the following month.

#### Debit and Credit Card Income

Debit card income is primarily comprised of interchange fee income. Interchange fees are earned whenever debit cards issued by the Company are processed through card payment networks such as Mastercard. The Company's performance obligation for interchange fee income is largely satisfied, and related revenue recognized, when the services are rendered or upon completion. Payment is received immediately or in the following month. Credit card income arises from the Bank's agency agreement with the First National Bank of Omaha. The Bank refers clients to this credit card provider and in return, receives a percentage of the profits earned on the referred accounts. Income is recorded on a quarterly basis as payments are received.



## Notes to Consolidated Financial Statements

### Recent Accounting Pronouncement

During June 2016, the FASB issued ASU 2016-13, “Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.” The amendments in this ASU, among other things, require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. In addition, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The ASU is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. Early application is permitted. The Company is currently assessing the impact that ASU 2016-13 will have on its consolidated financial statements.

### Note 2. Securities

Amortized cost and fair value of securities available for sale as of December 31, 2019 and 2018 are as follows:

December 31, 2019				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Securities of U.S. government and federal agencies	\$ 281,569,788	\$ 1,029,028	\$ (113,540)	282,485,276
Mortgage backed securities	16,220,725	184,009	(34,996)	16,369,738
Corporate bonds	38,122,593	527,457	(11,496)	38,638,554
Collateralized mortgage obligations	32,918	-	(459)	32,459
State and municipal securities	112,057,723	1,484,437	(190,581)	113,351,579
Total	<u>\$ 448,003,747</u>	<u>\$ 3,224,931</u>	<u>\$ (351,072)</u>	<u>\$ 450,877,606</u>
December 31, 2018				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Securities of U.S. government and federal agencies	\$ 90,319,566	\$ 73,115	\$ (1,846,150)	88,546,531
Mortgage backed securities	17,197,901	24,492	(502,788)	16,719,605
Corporate bonds	38,357,838	45,995	(958,691)	37,445,142
Collateralized mortgage obligations	121,080	647	(909)	120,818
State and municipal securities	97,010,047	325,259	(1,628,575)	95,706,731
Total	<u>\$ 243,006,432</u>	<u>\$ 469,508</u>	<u>\$ (4,937,113)</u>	<u>\$ 238,538,827</u>

Pursuant to the adoption of ASU 2016-01 on January 1, 2018, the Company reported a fair value gain of \$15,172 in 2019 and a fair value loss of \$10,433 in 2018 in its equity security holding. The gains and losses were recorded on the income statement.

At December 31, 2019 and 2018, securities with a carrying value of \$7,799,491 and \$9,537,952 were pledged to secure public deposits, repurchase agreements, and lines of credit with the Federal Reserve Bank and Community Bankers’ Bank.

## Notes to Consolidated Financial Statements

Proceeds from redemptions, paydowns and sales of securities totaled \$123,882,854 and \$243,177,602 for 2019 and 2018, respectively. The gross realized gains on securities for 2019 and 2018 totaled \$10,850 and \$51,149, respectively. The gross realized losses on securities for 2019 and 2018 totaled \$3,420 and \$663, respectively.

There were no held to maturity securities at December 31, 2019 or 2018.

The amortized cost and fair value of securities by contractual maturity at December 31, 2019 follows:

	Amortized Cost	Fair Value
Within one year	\$ 257,711,575	\$ 258,141,105
After one year through five years	109,769,528	111,097,046
After five years through ten years	57,014,551	57,637,353
Over ten years	23,508,093	24,002,102
Total	<u>\$ 448,003,747</u>	<u>\$ 450,877,606</u>

Expected maturities may differ from contractual maturities if borrowers have the right to call or repay obligations with or without prepayment penalties. Mutual funds and exchange-traded funds with a fair value of \$528,162 have no stated maturities and are excluded from the table above.

At December 31, 2019 and 2018, investments in an unrealized loss position that were temporarily impaired follows:

	December 31, 2019						
	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	\$	(75,481)	\$ 126,738,906	\$	(38,059)	\$ 11,006,367	\$ (113,540)
Mortgage backed securities		(31,970)	7,506,673		(3,026)	351,320	(34,996)
Corporate bonds		(7,814)	3,755,791		(3,682)	2,676,812	(11,496)
Collateralized mortgage obligations		--	--		(459)	32,546	(459)
State and municipal securities		(186,575)	17,397,870		(4,006)	1,278,836	(190,581)
Total	\$	(301,840)	\$ 155,399,240	\$	(49,232)	\$ 15,345,881	\$ (351,072)

	December 31, 2018					
	Less Than Twelve Months			Over Twelve Months		
	Gross			Gross		Total
	Unrealized			Unrealized		Unrealized
	Losses	Fair Value		Losses	Fair Value	Losses
Securities of U.S. government and federal agencies	\$ (25,400)	\$ 12,921,563		\$ (1,820,750)	\$ 67,534,543	\$ (1,846,150)
Mortgage backed securities	(36,319)	4,888,997		(466,469)	11,038,388	(502,788)
Corporate bonds	(129,215)	6,564,491		(829,476)	29,202,308	(958,691)
Collateralized mortgage obligations	(909)	70,231		--	--	(909)
State and municipal securities	(40,588)	8,925,158		(1,587,987)	63,766,011	(1,628,575)
Total	\$ (232,431)	\$ 33,370,440		\$ (4,704,682)	\$ 171,541,250	\$ (4,937,113)

## Notes to Consolidated Financial Statements

At December 31, 2019 and 2018, 98 and 313 debt and equity securities had unrealized losses with aggregate depreciation of 0.08 and 2.35 percent, respectively, from the Bank'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, 2019 and 2018, management determined that the unrealized losses in the investment portfolio were temporary. All of the securities are investment grade and 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.

The Bank completes reviews for other-than-temporary impairment (OTTI) at least quarterly. The methodology and significant inputs used to measure the amount of impairment include: securities with unrealized losses (the differences between fair values and the amortized book values) that are greater than 10% and longer than 12 months, securities that are not rated as investment grade by a national rating agency that have problematic credit profiles and securities on non-accrual or deferred status. The Bank recorded OTTI, net of recoveries, totaling \$38,826 in 2019, and no such impairment in 2018.

### Note 3. Loans

A summary of the balances of loans follows:

	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
Commercial real estate	\$ 60,319,804	\$ 61,315,019
Commercial	12,496,961	24,793,984
Residential real estate closed-end	169,712,315	149,515,036
Other consumer loans	23,011,306	24,595,962
	<u>\$ 265,540,386</u>	<u>\$ 260,220,001</u>
Less allowance for loan losses	(3,717,000)	(3,643,000)
Loans, net	<u><u>\$ 261,823,386</u></u>	<u><u>\$ 256,577,001</u></u>

Overdrafts totaling \$80,987 and \$12,300 at December 31, 2019 and 2018, respectively, were reclassified from deposits to loans.

The totals above include deferred fees (net of deferred costs) of \$6,043 and \$64,028 at December 31, 2019 and 2018, respectively.

## Notes to Consolidated Financial Statements

The following table presents the activity in the allowance for loan losses and the recorded investment in loans and impairment method by portfolio segment as of December 31, 2019 and 2018:

	December 31, 2019				
	Commercial Real Estate	Commercial	Residential Real Estate Closed-End	Other Consumer Loans	Total
Allowance for loan losses:					
Beginning of year	\$ 820,144	\$ 488,779	\$ 1,950,287	\$ 383,790	\$ 3,643,000
Provision	(21,949)	(247,700)	356,592	(12,943)	74,000
Charge-offs	--	--	--	--	--
Recoveries	--	--	--	--	--
End of year	<u>\$ 798,195</u>	<u>\$ 241,079</u>	<u>\$ 2,306,879</u>	<u>\$ 370,847</u>	<u>\$ 3,717,000</u>
Reserves:					
Specific	\$ --	\$ --	\$ --	\$ --	\$ --
General	798,195	241,079	2,306,879	370,847	3,717,000
Total reserves	<u>\$ 798,195</u>	<u>\$ 241,079</u>	<u>\$ 2,306,879</u>	<u>\$ 370,847</u>	<u>\$ 3,717,000</u>
Loans evaluated for impairment:					
Individually	\$ --	\$ --	\$ --	\$ --	\$ --
Collectively	60,319,804	12,496,961	169,712,315	23,011,306	265,540,386
Total Loans	<u>\$ 60,319,804</u>	<u>\$ 12,496,961</u>	<u>\$ 169,712,315</u>	<u>\$ 23,011,306</u>	<u>\$ 265,540,386</u>

	December 31, 2018				
	Commercial Real Estate	Commercial	Residential Real Estate Closed-End	Other Consumer Loans	Total
Allowance for loan losses:					
Beginning of year	\$ 793,660	\$ 371,829	\$ 1,793,646	\$ 334,865	\$ 3,294,000
Provision	26,484	116,950	156,641	48,925	349,000
Charge-offs	--	--	--	--	--
Recoveries	--	--	--	--	--
End of year	<u>\$ 820,144</u>	<u>\$ 488,779</u>	<u>\$ 1,950,287</u>	<u>\$ 383,790</u>	<u>\$ 3,643,000</u>
Reserves:					
Specific	\$ --	\$ --	\$ --	\$ --	\$ --
General	820,144	488,779	1,950,287	383,790	3,643,000
Total reserves	<u>\$ 820,144</u>	<u>\$ 488,779</u>	<u>\$ 1,950,287</u>	<u>\$ 383,790</u>	<u>\$ 3,643,000</u>
Loans evaluated for impairment:					
Individually	\$ --	\$ --	\$ --	\$ --	\$ --
Collectively	61,315,019	24,793,984	149,515,036	24,595,962	260,220,001
Total Loans	<u>\$ 61,315,019</u>	<u>\$ 24,793,984</u>	<u>\$ 149,515,036</u>	<u>\$ 24,595,962</u>	<u>\$ 260,220,001</u>

## Notes to Consolidated Financial Statements

Based on the most recent analysis performed, the risk category of loans by class of loans was as follows as of December 31, 2019 and 2018:

December 31, 2019						
	Pass	Special Mention	Substandard	Doubtful	Loss	Total
Commercial real estate	\$ 60,319,804	\$ --	\$ --	\$ --	\$ --	\$ 60,319,804
Commercial	12,496,961	--	--	--	--	12,496,961
Residential real estate closed-end	169,712,315	--	--	--	--	169,712,315
Other consumer loans	22,878,570	132,736	--	--	--	23,011,306
Total Loans	<u>\$ 265,407,650</u>	<u>\$ 132,736</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 265,540,386</u>

December 31, 2018						
	Pass	Special Mention	Substandard	Doubtful	Loss	Total
Commercial real estate	\$ 61,315,019	\$ --	\$ --	\$ --	\$ --	\$ 61,315,019
Commercial	23,134,583	1,659,401	--	--	--	24,793,984
Residential real estate closed-end	149,515,036	--	--	--	--	149,515,036
Other consumer loans	24,438,196	157,766	--	--	--	24,595,962
Total Loans	<u>\$ 258,402,834</u>	<u>\$ 1,817,167</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 260,220,001</u>

There were no impaired loans as of December 31, 2019 or 2018.

There were no nonaccrual loans, loans 90 days past due and still accruing, or past due for 30 or more days at December 31, 2019 and 2018.

There were no loan modifications classified as TDRs during the years ended December 31, 2019 and 2018.

No loan modifications classified as TDRs subsequently defaulted during 2019 or 2018.

### Note 4. Premises and Equipment

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

	December 31,	
	2019	2018
Land	\$ 2,257,915	\$ 2,257,915
Building	9,230,692	9,230,692
Furniture, fixtures and equipment	1,846,376	1,692,118
Building improvements	2,336,788	2,331,364
Construction in process	308,472	22,214
	<u>\$ 15,980,243</u>	<u>\$ 15,534,303</u>
Less accumulated depreciation	4,722,362	4,179,482
Ending balance	<u>\$ 11,257,881</u>	<u>\$ 11,354,821</u>

For 2019 and 2018, depreciation expense was \$542,880 and \$443,876, respectively.

## Notes to Consolidated Financial Statements

### Note 5. Related Party Transactions

Officers, directors and their affiliates had credit outstanding of \$9,050,405 and \$5,947,083 at December 31, 2019 and 2018, respectively, with the Bank. During 2019, total principal additions were \$5,743,060 and total principal payments were \$2,639,738. 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, 2019 and 2018 amounted to \$11,745,075 and \$3,938,783, respectively.

### Note 6. Deposits

Remaining maturities on certificates of deposit are as follows:

2020	\$ 37,259,724
2021	3,041,967
2022	1,574,112
2023	132,365
2024	416,335
	<u>\$ 42,424,503</u>

The Bank held no deposits classified as brokered at December 31, 2019. Brokered deposits totaled \$13,396,440 at December 31, 2018, and were placed through the Certificate of Deposit Account Registry Service. The Bank held no reciprocal deposits through Insured Cash Sweep services on its balance sheet at December 31, 2019, and recorded \$18,652,191 in such balances as deposits on the balance sheet at December 31, 2018.

There was one customer with an individual deposit balance exceeding five percent of total deposits as of December 31, 2019. The total deposit balances related to this customer as of December 31, 2019 was \$76,247,735 or 10.00 percent of total deposits.

There were no customers with individual deposit balances exceeding five percent of total deposits as of December 31, 2018.

### Note 7. Borrowings

#### Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase amounted to \$433,436 and \$473,713 at December 31, 2019 and 2018, respectively, and mature on a daily basis. They were secured by municipal securities with a fair value of \$1,007,125 and \$985,888 as of December 31, 2019 and 2018, respectively. The weighted average interest rate on these agreements was 0.16 and 0.19 percent at December 31, 2019 and 2018, respectively.

## Notes to Consolidated Financial Statements

### Federal Home Loan Bank Advance

At December 31, 2019, the Bank had a secured line of credit with the Federal Home Loan Bank with no available or outstanding balance. The Bank may pledge collateral at a future time to re-establish and increase the availability of credit. At December 31, 2018, the line of credit totaled \$44,130,043 and had an outstanding balance of \$39,300,000. Of the total balance outstanding, \$27,300,000 had no stated maturity and accrued interest at a rate of 2.65 percent. The fixed rate borrowings had maturities ranging from January 28, 2019 to February 27, 2019 and accrued interest at rates ranging from 2.54 to 2.56 percent. When active, the line is secured by 1-4 family residential real estate loans within the Bank's loan portfolio, and is renewed annually in December.

### Short Term Borrowings

At December 31, 2019, the Company had an unsecured line of credit with a correspondent bank totaling \$9,000,000 with \$7,300,000 outstanding. At December 31, 2018, the same line totaled \$6,000,000 with \$6,000,000 outstanding. The line matures December 09, 2020 and contains certain covenants regarding the Company's return on average assets, risk-based capital and payment of dividends. The interest rate on the line of credit was 3.95 percent and 4.69 percent at December 31, 2019 and 2018, respectively.

The Bank has unsecured federal fund purchase lines of credit with Community Bankers' Bank totaling \$8,000,000 maturing June 10, 2020 and Pacific Coast Bankers' Bank totaling \$5,000,000 maturing June 30, 2020. There were no outstanding federal funds purchased balances as of December 31, 2019 or 2018.

## 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, 2019 and 2018 are presented below:

	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
<b>Deferred Tax Assets</b>		
Allowance for loan losses	\$ 744,731	\$ 702,312
Deferred compensation	93,528	84,684
Organizational and start-up expenses	27,859	38,643
Other	8,800	1,330
Securities available for sale	--	938,197
	<u>\$ 874,918</u>	<u>\$ 1,765,166</u>
<b>Deferred Tax Liabilities</b>		
Securities available for sale	<u>\$ (603,510)</u>	<u>\$ --</u>
Net deferred tax assets	<u>\$ 271,408</u>	<u>\$ 1,765,166</u>

## Notes to Consolidated Financial Statements

The provision for income taxes charged to operations for the years ended December 31, 2019 and 2018, consists of the following:

	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
Current tax expense	\$ 1,126,571	\$ 1,241,477
Deferred tax benefit	(45,757)	(138,780)
Net provision for income taxes	<u>\$ 1,080,814</u>	<u>\$ 1,102,697</u>

The reasons for the difference between the Company's reported income tax expense and the amount computed by multiplying the statutory rate are as follows:

	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
Computed tax at applicable rate	\$ 1,253,095	\$ 1,295,247
Tax-exempt income	(193,132)	(213,880)
Other	(20,851)	21,330
Net provision for income taxes	<u>\$ 1,080,814</u>	<u>\$ 1,102,697</u>

The Company files an income tax return in the U.S. federal jurisdiction and is subject to the bank franchise tax in the Commonwealth of Virginia. With few exceptions, the Company is no longer subject to federal or state tax examinations for years prior to 2016.

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

The Bank 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 consolidated balance sheets.

The Bank'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, 2019 and 2018, the following financial instruments whose contract amounts represent credit risk were outstanding:

	<b>December 31,</b>	
	<b>2019</b>	<b>2018</b>
Commitments to grant loans	\$ 11,487,000	\$ 5,586,000
Unfunded commitments under lines of credit	56,193,621	56,417,089
Standby letters of credit	1,414,049	2,063,815



## **Notes to Consolidated Financial Statements**

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 Bank, 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 Bank is committed. The amount of collateral obtained, if it is deemed necessary by the Bank, is based on management's credit evaluation of the customer.

Commercial and standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those letters of credit are primarily issued to support public and private borrowing arrangements. 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 Bank holds collateral supporting those commitments, if deemed necessary.

The Bank 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, 2019 and 2018 was \$2,856,404 and \$2,789,827, respectively.

The Bank is required to maintain average balances with the Federal Reserve Bank. At December 31, 2019 and 2018, this balance was \$35,726,000 and \$24,587,000, respectively. The Bank held an excess reserve balance of \$56,971,859 and \$540,905 with the Federal Reserve Bank at December 31, 2019 and 2018, respectively.

### **Note 10. Minimum Regulatory Capital Requirements**

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, 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.

## Notes to Consolidated Financial Statements

The final rules implementing Basel Committee on Banking Supervision's Capital guidelines for U.S. banks (Basel III rules) became effective on January 1, 2015, with full compliance with all of the new requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. Under the Basel III rules, the Company must hold a capital conservation buffer above the adequately capitalized risk-based capital ratios. The capital conservation buffer was implemented in a phased approach from 0.0% for 2015 to 2.50% by 2019. Although capital conservation buffer is not part of regulatory minimum risk-based capital requirements, it does determine the minimums that must be met to avoid limitation on paying dividends, engaging in share repurchases, and paying discretionary bonuses if capital level fall below the buffer amount. The net unrealized gain or loss is not included in computing regulatory capital.

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, Tier 1, and common equity Tier 1 (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, 2019, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2019, 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, common equity Tier 1 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.

## Notes to Consolidated Financial Statements

The following tables set forth the capital position and analysis for the Company and Bank. Because total assets on a consolidated basis are less than \$3 billion, the Company is not subject to the consolidated capital requirements imposed by federal regulations. However, the Company elects to include those ratios for this report. Minimum capital ratios below include phase-in of capital conservation buffer. The Company has a borrowing from PNC Bank which it uses to downstream capital to the Bank. At December 31, 2019 and 2018, the outstanding balance was \$7,300,000 and \$6,000,000, respectively.

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<u>December 31, 2019</u>	(Amounts in Thousands)					
Total Risk-Based Capital						
Company	\$ 58,179	20.328%	N/A	N/A	N/A	N/A
Bank	\$ 65,396	22.850%	\$ 30,051	10.500%	\$ 28,620	10.000%
Tier 1 Risk-Based Capital						
Company	\$ 54,600	19.077%	N/A	N/A	N/A	N/A
Bank	\$ 61,817	21.599%	\$ 24,327	8.500%	\$ 22,896	8.000%
Common Equity Tier 1 Capital						
Company	\$ 54,600	19.077%	N/A	N/A	N/A	N/A
Bank	\$ 61,817	21.599%	\$ 20,034	7.000%	\$ 18,603	6.500%
Tier 1 Leverage Ratio						
Company	\$ 54,600	7.086%	N/A	N/A	N/A	N/A
Bank	\$ 61,817	8.023%	\$ 30,821	4.000%	\$ 38,526	5.000%
	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<u>December 31, 2018</u>	(Amounts in Thousands)					
Total Risk-Based Capital						
Company	\$ 53,754	18.445%	N/A	N/A	N/A	N/A
Bank	\$ 59,685	20.480%	\$ 28,779	9.875%	\$ 29,144	10.000%
Tier 1 Risk-Based Capital						
Company	\$ 50,111	17.194%	N/A	N/A	N/A	N/A
Bank	\$ 56,042	19.230%	\$ 22,951	7.875%	\$ 23,315	8.000%
Common Equity Tier 1 Capital						
Company	\$ 50,111	17.194%	N/A	N/A	N/A	N/A
Bank	\$ 56,042	19.230%	\$ 18,579	6.375%	\$ 18,943	6.500%
Tier 1 Leverage Ratio						
Company	\$ 50,111	8.421%	N/A	N/A	N/A	N/A
Bank	\$ 56,042	9.417%	\$ 23,804	4.000%	\$ 29,755	5.000%

## **Notes to Consolidated Financial Statements**

### **Note 11. Employee Benefit Plans**

#### **401(k) Plan**

The Bank 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 Bank may make discretionary matching contributions to the plan. For 2019 and 2018, expense attributable to the plan amounted to \$245,419 and \$195,472, respectively.

### **Note 12. Fair Value Measurements**

#### **Fair Value Hierarchy**

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. U.S. GAAP requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. U.S. GAAP also establishes a fair value hierarchy which prioritizes the valuation inputs into three broad levels. Based on the underlying inputs, each fair value measurement in its entirety is reported in one of the three levels. These levels are:

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.

## **Notes to Consolidated Financial Statements**

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 and equity securities are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted market prices, when available (Level 1). If quoted market prices are not available, fair values are measured utilizing independent valuation techniques of identical or similar securities for which significant assumptions are derived primarily from or corroborated by observable market data. Third party vendors compile prices from various sources and may determine the fair value of identical or similar securities by using pricing models that considers observable market data (Level 2). If the inputs used to provide the evaluation for certain securities are unobservable and/or there is little, if any, market activity then the security would fall to the lowest level of the hierarchy (Level 3).

The Bank's investment portfolio is primarily valued using fair value measurements that are considered to be Level 2. The Bank has contracted with a third party FinSer, a securities portfolio accounting service for valuation of its securities portfolio. Depending on the type of security, FinSer utilizes three sources for security valuations, which include Standards & Poor's and the FinSer Pricing model, which evaluates securities based on their discounted cash flow analysis using the net present value of security's projected cash flow. Generally, the methodology includes broker quotes, proprietary models, vast descriptive terms and conditions databases, as well as extensive quality control programs.

The vendor utilizes proprietary valuation matrices for valuing all municipal securities. The initial curves for determining the price, movement, and yield relationships within the municipal matrices are derived from industry benchmark curves or sourced from a municipal trading desk. The securities are further broken down according to issuer, credit support, state of issuance and rating to incorporate additional spreads to the industry benchmark curves.

## Notes to Consolidated Financial Statements

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

Description	Balances	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Assets:				
As of December 31, 2019:				
Available for sale securities:				
U.S. government and federal agencies	\$ 282,485,276	\$ 255,428,693	\$ 27,056,583	\$ --
Mortgage backed securities	16,369,738	--	16,369,738	--
Corporate bonds	38,638,554	503,685	38,134,869	--
Collateralized mortgage obligations	32,459	--	32,459	--
State and municipal securities	113,351,579	--	113,351,579	--
Total available for sale securities	<u>\$ 450,877,606</u>	<u>\$ 255,932,378</u>	<u>\$ 194,945,228</u>	<u>\$ --</u>
Mutual and exchange-traded funds	528,162	528,162	--	--
Total	<u><u>\$ 451,405,768</u></u>	<u><u>\$ 256,460,540</u></u>	<u><u>\$ 194,945,228</u></u>	<u><u>\$ --</u></u>
Assets:				
As of December 31, 2018:				
Available for sale securities:				
U.S. government and federal agencies	\$ 88,546,531	\$ 61,025,707	\$ 27,520,824	\$ --
Mortgage backed securities	16,719,605	--	16,719,605	--
Corporate bonds	37,445,142	450,576	36,994,566	--
Collateralized mortgage obligations	120,818	--	120,818	--
State and municipal securities	95,706,731	--	95,706,731	--
Total available for sale securities	<u>\$ 238,538,827</u>	<u>\$ 61,476,283</u>	<u>\$ 177,062,544</u>	<u>\$ --</u>
Mutual and exchange-traded funds	500,844	500,844	--	--
Total	<u><u>\$ 239,039,671</u></u>	<u><u>\$ 61,977,127</u></u>	<u><u>\$ 177,062,544</u></u>	<u><u>\$ --</u></u>

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.

## Notes to Consolidated 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, fair value of the collateral or present value of cash flows. 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 a market valuation approach based on an appraisal conducted by an independent, licensed appraiser outside of the Bank 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 using an income approach or 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 income. There were no impaired loans to be measured at fair value as of December 31, 2019 and 2018.

### Note 13. 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 10, 2020.

On February 6, 2020, the Bank filed an application to exercise full fiduciary powers with the Office of the Comptroller of Currency (OCC). On March 5, 2020, the OCC approved the Bank's application, thereby permitting the Bank to exercise full fiduciary powers. The Bank intends to operate a full-service Trust Department that will offer trust and fiduciary services, wealth management, custodial services, and financial planning. In 2019, the Bank hired experienced trust professionals to set up and run the department. The Trust Department is expected to commence operations during 2020 and will incur additional employment, data processing and other expenses.

The Company did not identify any other subsequent events that would have required adjustment to or disclosure in the financial statements.

## Notes to Consolidated Financial Statements

### Note 14. Condensed Financial Statements of Parent Company

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

	December 31,	
	2019	2018
<b>Balance Sheets</b>		
Assets		
Cash	\$ 82,812	\$ 80,659
Investment in common stock of Chain Bridge Bank	64,087,639	52,512,925
Total assets	<u>\$ 64,170,451</u>	<u>\$ 52,593,584</u>
Liabilities and Stockholders' Equity		
Short-term borrowings	\$ 7,300,000	\$ 6,000,000
Accrued interest payable	- -	11,872
Total liabilities	<u>\$ 7,300,000</u>	<u>\$ 6,011,872</u>
Stockholders' equity	56,870,451	46,581,712
Total liabilities and stockholders' equity	<u>\$ 64,170,451</u>	<u>\$ 52,593,584</u>
<b>Statements of Income</b>		
Dividend from Chain Bridge Bank	<u>\$ 500,000</u>	<u>\$ 450,580</u>
Operating Expenses		
Interest expense and fees on borrowings	\$ 58,651	\$ 218,740
Marketing expenses	30,000	30,700
	<u>\$ 88,651</u>	<u>\$ 249,440</u>
Income before undistributed net income of Chain Bridge Bank	\$ 411,349	\$ 201,140
Undistributed net income of Chain Bridge Bank	<u>4,474,957</u>	<u>4,864,005</u>
Net income	<u>\$ 4,886,306</u>	<u>\$ 5,065,145</u>



## Notes to Consolidated Financial Statements

Statements of Cash Flows	<u>2019</u>	<u>2018</u>
Cash Flows from Operating Activities		
Net income	\$ 4,886,306	\$ 5,065,145
Adjustments to reconcile net income to net cash provided by operating activities:		
Undistributed net income of Chain Bridge Bank	(4,474,957)	(4,864,005)
(Decrease) increase in accrued interest payable	(11,872)	11,422
Net cash provided by operating activities	<u>\$ 399,477</u>	<u>\$ 212,562</u>
Cash Flows from Investing Activities		
Investment in Chain Bridge Bank	\$ (1,300,000)	\$ (3,750,000)
Net cash used in investing activities	<u>\$ (1,300,000)</u>	<u>\$ (3,750,000)</u>
Cash Flows from Financing Activities		
Net proceeds from common stock issued	\$ - -	\$ - -
Cash dividend to shareholders	(397,324)	(350,580)
Increase in short term borrowings	1,300,000	3,750,000
Net cash provided by financing activities	<u>\$ 902,676</u>	<u>\$ 3,399,420</u>
Net increase (decrease) in cash and cash equivalents	\$ 2,153	\$ (138,018)
Cash and cash equivalents at beginning of period	<u>80,659</u>	<u>218,677</u>
Cash and cash equivalents at end of period	<u><u>\$ 82,812</u></u>	<u><u>\$ 80,659</u></u>

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**Chain Bridge Bancorp, Inc. Board of Directors:**

Peter G. Fitzgerald, Chairman  
Paul Shiffman, Vice Chairman  
John J. Brough, CEO  
David M. Evinger, President & Corporate Secretary  
Philip F. Herrick  
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Paul Leavitt  
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