

Chain Bridge

— BANCORP, INC. —



2016 Annual Report



P2P
Payments



Mobile
Banking



Online
Accounts

Chain Bridge Bank



Your Bridge to Better Banking



Commercial
Lending
Center



Cash
Management



Digital
Wallet

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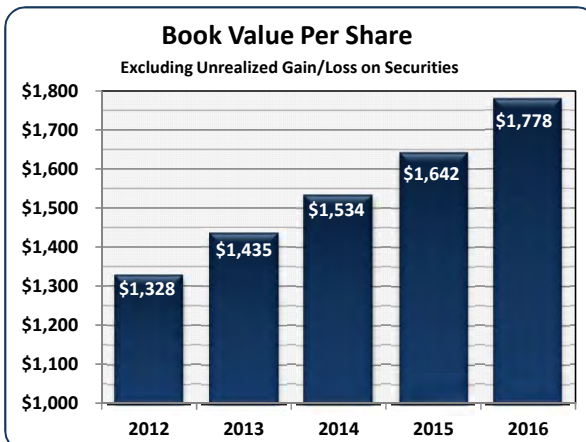
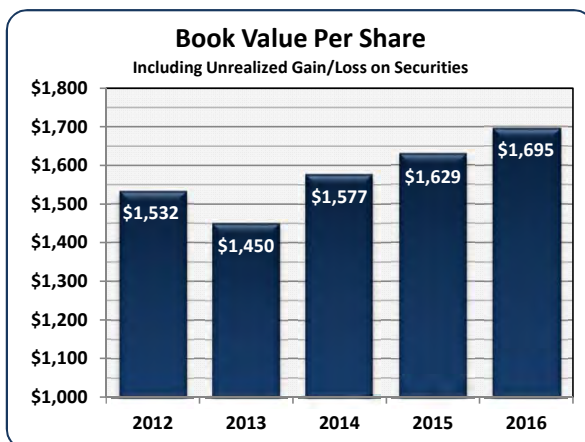


Chain Bridge Bancorp, Inc. and Chain Bridge Bank, National Association Consolidated Financial Highlights

For the Periods Ending December 31, 2016 and 2015

	2016	2015	Change
Performance Measures and Yields			
Consolidated net income	\$ 2,994,686	\$ 2,428,424	23.3%
Return on average assets (ROAA)	0.59%	0.57%	0.02%
Return on average equity (ROAE)	8.32%	7.38%	0.94%
Net interest margin (Fully Tax Equivalent)	2.69%	2.74%	(0.05%)
Asset Quality (%)			
Non-performing assets / assets	0.00%	0.00%	0.00%
Texas ratio ¹	0.00%	0.00%	0.00%
Loan loss reserves / gross loans	1.40%	1.40%	0.00%
Net (recoveries) charge-offs / average loans	0.00%	0.00%	0.00%
Balance Sheet Highlights			
Total assets	\$ 483,586,384	\$ 420,704,630	14.9%
Total loans (net of loans held for sale)	\$ 222,194,628	\$ 182,702,800	21.6%
Total deposits	\$ 443,322,229	\$ 381,577,002	16.2%
Capitalization			
Total equity capital	\$ 34,451,333	\$ 33,113,774	4.0%
Tangible equity	\$ 34,451,333	\$ 33,113,774	4.0%
Tier 1 capital	\$ 36,141,679	\$ 32,987,004	9.6%
Total risk-based capital ratio	15.06%	13.58%	1.48%
Tier 1 risk-based ratio	13.87%	12.60%	1.27%
Chain Bridge Bancorp, Inc. Share Information			
Number of shares outstanding	20,322	20,322	0.0%
Book value per share	\$ 1,695.27	\$ 1,629.45	4.0%
Book value per share, excluding unrealized gain/loss on securities	\$ 1,778.45	\$ 1,641.57	8.3%
Net income per share	\$ 147.36	\$ 119.60	23.2%

¹ Texas ratio is defined as nonperforming assets plus delinquent loans as a percent of tangible equity and reserves.



Chain Bridge Bank.
Your bridge to better banking.

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March 15, 2017

Dear Fellow Shareholder:

Chain Bridge Bancorp, Inc. (the "Company"), parent of Chain Bridge Bank, N.A. ("Chain Bridge Bank" or the "Bank"), earned net income of \$2,994,686 in 2016, up 23% from \$2,428,424 in 2015. Earnings per share were \$147.36 in 2016, up 23% from \$119.60 in 2015.

The Company's return on average equity (ROAE) was 8.32% in 2016, up from 7.38% in 2015. The Company's return on average assets (ROAA) was 0.59% in 2016 versus 0.57% in 2015.

Book value per share, including unrealized gain or loss on securities, increased from \$1,629.45 at year end 2015 to \$1,695.27 at year end 2016. Book value per share, excluding unrealized gain or loss on securities, increased from \$1,641.57 at year end 2015 to \$1,778.45 at year end 2016.

The Bank set aside an additional \$552,000 in reserves against possible future loan losses, raising its total reserves to \$3.11 million at year end 2016.

In January of this year, the Board of Directors ("Board") increased the annual dividend from \$11.00 to \$14.75 per share and paid it to shareholders of record in February, 2017. The Board's current policy is to pay out between 10% and 25% of the Company's earnings as shareholder dividends. All future dividends will, however, depend on the level and direction of the Bank's earnings, capital, and assets.

Technology Initiatives

The banking environment has rapidly evolved in recent years, with ever increasing numbers of businesses and consumers choosing to bank through digital channels rather than through branches. For CFOs or controllers of businesses and even for most on-the-go consumers, "banking" is no longer a place one goes, but increasingly an activity one does, either from a desktop computer or from a mobile device.

Chain Bridge Bank has, since its inception, sought to offer its clients the benefits of the best banking technologies. Over the past two years, however, the Bank has devoted significant additional resources toward accelerating its development and deployment of better and more intuitive user interfaces and technologies. These additional resources include more IT and project management personnel as well as the purchase of more platform technologies from outside developers.

In 2016, the Board reaffirmed the Bank's strategic plan of avoiding costly bricks and mortar branches and instead offering the best available electronic and online banking technology, together with attentive personal service. In the first half of the year, in conjunction with a new website, the Bank introduced DocuSign electronic signatures together with an online account opening platform, making it possible for new and existing clients to open accounts online – anytime, anywhere – using any web-enabled device. The Bank also refreshed the look and feel of its mobile application and added several

new mobile capabilities, including “Touch ID”, debit card management and self-enrollment in mobile deposit.

In the second half of the 2016, the Bank rolled out an enhanced commercial cash management platform, introduced new “chip enabled” debit cards, activated Apple Pay, expanded the use of electronic notices, began developing a secure online commercial lending portal, and converted to a highly sophisticated Bill Pay platform known as “iPay”.

The iPay platform went live after the first of this year and includes a person-to-person (P2P) payment solution. Few other banks, not even the nation’s largest banks, offer as simple and user friendly a way to pay other persons electronically. (Be sure to enable P2P payments in your online Bill Pay, and use it to pay a friend, a baby sitter, a dog walker or other person. All you need is the other person’s email address. You won’t believe how easy it is.)

While it is our goal to offer better banking technology than any of our competitors, we nonetheless do not expect such technology to give us a durable competitive advantage. In order to stay ahead of the competition, we must constantly be adding, upgrading, and innovating. One advantage we do have, however, is a clear strategy and commitment to offering our clients the best and latest banking tech. Moreover, in part because we do not bear the financial burden of maintaining a costly bricks and mortar branch network, we have the resources to execute on that commitment.

Safety & Soundness

For 2016, as compared with the six largest commercial banks in the United States¹, Chain Bridge Bank had the highest risk based capital ratio, the second highest level of reserves as a percentage of loans, the lowest level of loans to deposits (lower is better), the second highest liquidity ratio, and the second lowest ratio of pledged securities to total securities.

In 2016, Chain Bridge Bank again had a “Texas Ratio” (defined as non-performing assets + loans 90 days past due divided by tangible equity + loan loss reserves) of zero. No other bank headquartered in Virginia had a Texas Ratio of zero in 2016.

There are 5,011 FDIC-insured commercial banks with loans over \$10 million. Of those 5,011 institutions, Chain Bridge Bank is one of only 46, nationwide, to have had a Texas Ratio of zero for the past five years in a row.

Business Growth

In 2016, the Bank’s deposit and loan growth rates were 16% and 22%, respectively. These fast rates were largely due to seasonal factors which management does not expect to recur in 2017. Although total assets increased 15%, from \$421 million in 2015 to \$484 million in 2016, management nonetheless was able to reduce risk-weighted assets by \$1 million by selling 100% risk weighted

¹ JPMorgan Chase Bank, N.A., Bank of America, N.A., Wells Fargo Bank, N.A., Citibank, N.A., U.S. Bank, N.A. and PNC Bank, N.A.

corporate investment grade bond obligations and re-deploying the proceeds into lower yielding but low or zero risk-weighted U.S. Treasury and U.S. Agency obligations.

Of the Bank's \$224 million in total loans at year end 2016, \$128 million or 57% were secured by residential real estate, \$49 million or 22% were secured by commercial real estate, \$25 million or 11% were "Commercial & Industrial" or "C&I" loans secured by non-real estate business assets and \$22 million or 10% were other consumer loans. Rates of growth were fastest in residential real estate and C&I loans. Commercial real estate loans grew only modestly, from \$47 million to \$49 million.

The Bank's residential mortgage portfolio has grown quickly in recent years because the Bank has chosen to retain rather than sell most of the loans originated by its residential mortgage division. It is possible that in future years the Bank may choose to sell more of the residential mortgages which it originates in order to leave more room on the balance sheet for other types of investments. Toward that end, the Bank has begun developing a mortgage servicing department which would enable the Bank to continue servicing mortgages after it has sold them.

Efficiency & Returns

The Bank's fully taxable equivalent ("FTE") operating revenue increased from \$12.3 million in 2015 to \$14.2 million in 2016. Notably, the Bank did not generate the increased operating revenue by investing in riskier assets. Rather, the Bank continued to invest in safe but low yielding loans and investment grade bonds and its net interest margin therefore actually declined from 2.74% to 2.69%. Most of the increase in operating revenue came from volume growth which more than offset the decline in the Bank's net interest margin.

As in prior years, the majority of the Bank's operating revenue came from interest income. Noninterest income, excluding security gains, as a percentage of operating revenue was only 7.2% in 2016, down slightly from 8.0% in 2015. The Bank has few non-interest sources of revenue and generally assesses lower service charges on deposits than its competitors.

The Bank's pre-tax, pre-provision, FTE income was \$5.4 million in 2016 or 1.07% of average assets, up from \$4.2 million or 0.98% of assets in 2015. Most of this increase was due to volume growth, together with a gain on the sale of securities (equal to 0.07% of assets) as well as with a decline in the Bank's cost of funds from 17 basis points to 15 basis points. As market interest rates move higher, management expects the Bank's cost of funds, and, with a lag, its yields on earning assets, to move higher in 2017.

The sophisticated nature of Chain Bridge Bank's clients necessitate that it hire competent and well-compensated employees. As a consequence, Chain Bridge Bank employees earn significantly more, on average, than employees at most other banks. Because of their talents and because of the Bank's large investment in technology, however, these employees are able to be more productive than employees at most other banks. In 2016, assets and revenue per Chain Bridge Bank employee were \$10.7 million and \$316 thousand, respectively. Those are much higher averages than at almost all other banks anywhere in the country.

The Company's overall return on average equity (ROAE) of 8.32% in 2016 was in line with that of its peers and roughly equal to its estimated "cost of capital." Given, however, the low level of credit and liquidity risk which it takes compared to its peers, the Bank's *risk-adjusted* ROAE stands out as superior.

Outlook

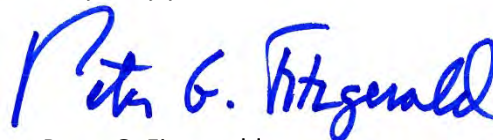
As our nation enters the eighth year of an economic expansion (one of the longest in our nation's history), bank safety and soundness is not currently on the minds of many businesses or consumers. But when the economic cycle turns and the nation again enters a recession (no one can know in advance *when* that will happen but one can know in advance – and with certainty – that it *will* happen), bank safety and soundness will again become a front page issue.

While many bankers, particularly those with little of their own capital at risk, frequently succumb, during economic expansions, to the song of "high risk - high reward" lending, Chain Bridge Bank will attempt to continue, in 2017 and beyond, to position its balance sheet with caution.

As the Bank enters its tenth full year of operations, I wish to thank the Board, management, officers, employees, clients and shareholders for their continued support (and referrals).

Even though it's been ten years, we're really just beginning and the possibilities for Chain Bridge Bank look bright and boundless.

Very truly yours,



Peter G. Fitzgerald,
Chairman of the Board

PGF/hn

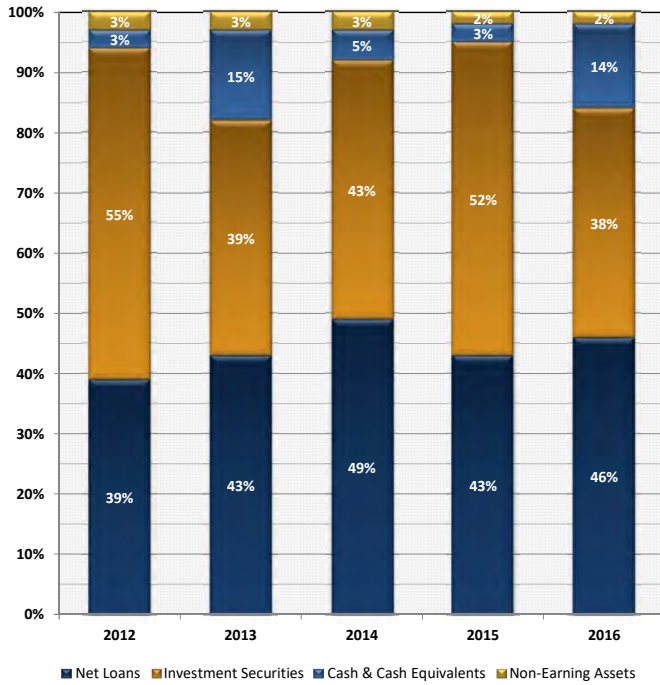
Enclosures

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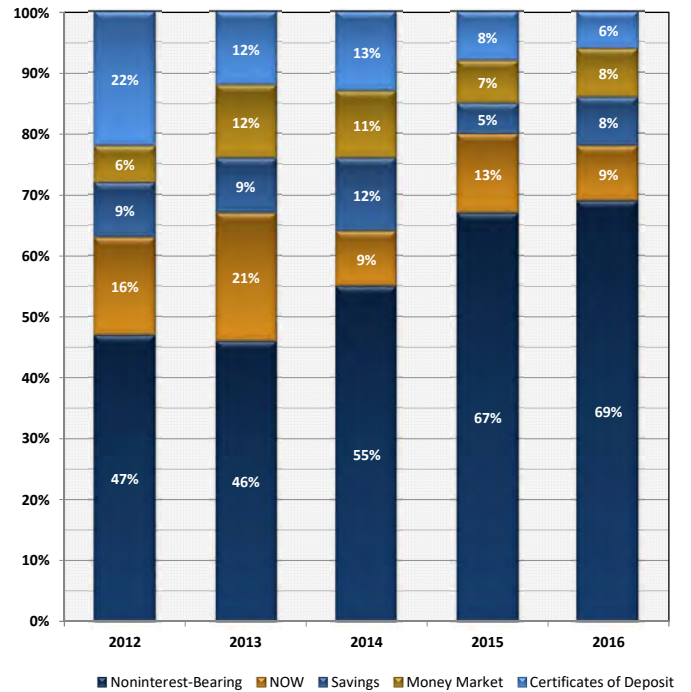


Balance Sheet Information

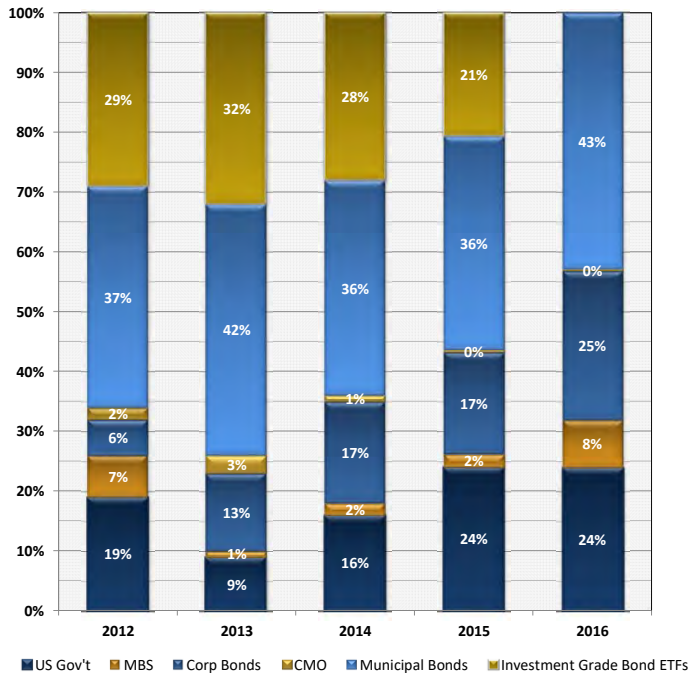
Asset Distribution
(as a % of total assets)



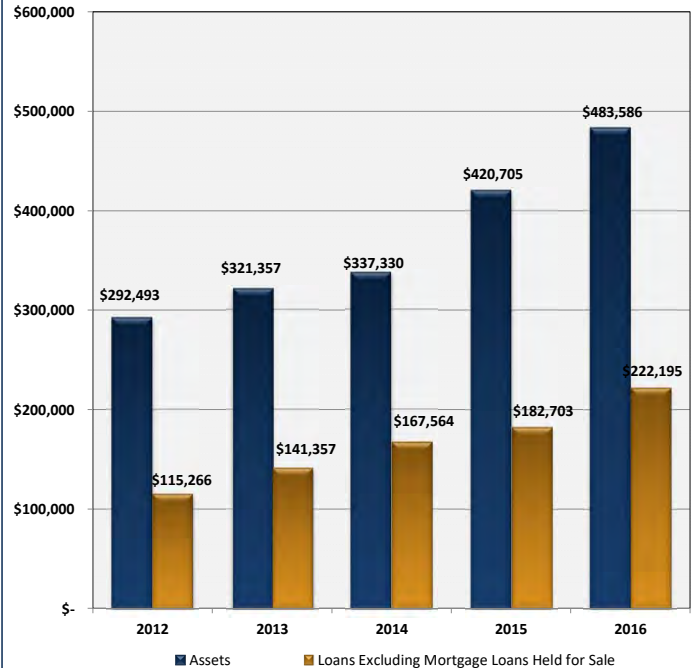
Deposit Distribution
(as a % of total deposits)



Securities Distribution
(as a % of total securities)



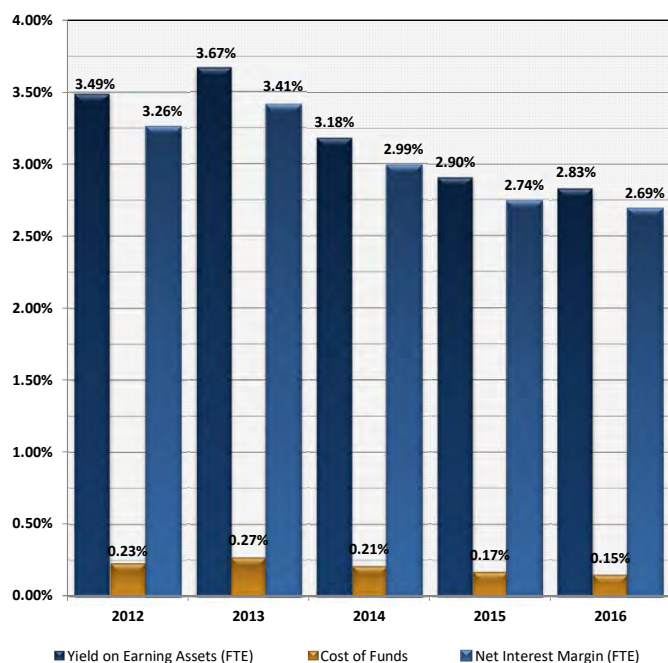
Assets and Loans
(in thousands of dollars)



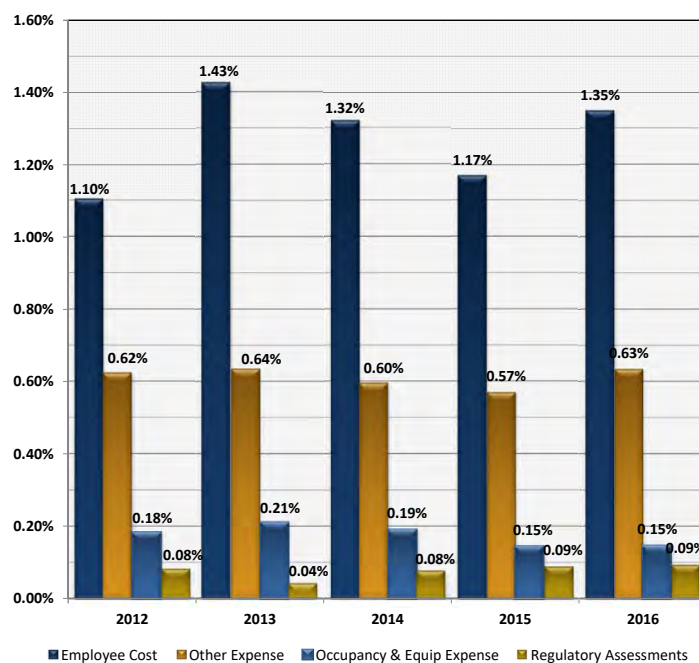
Income Statement and Asset Quality Information



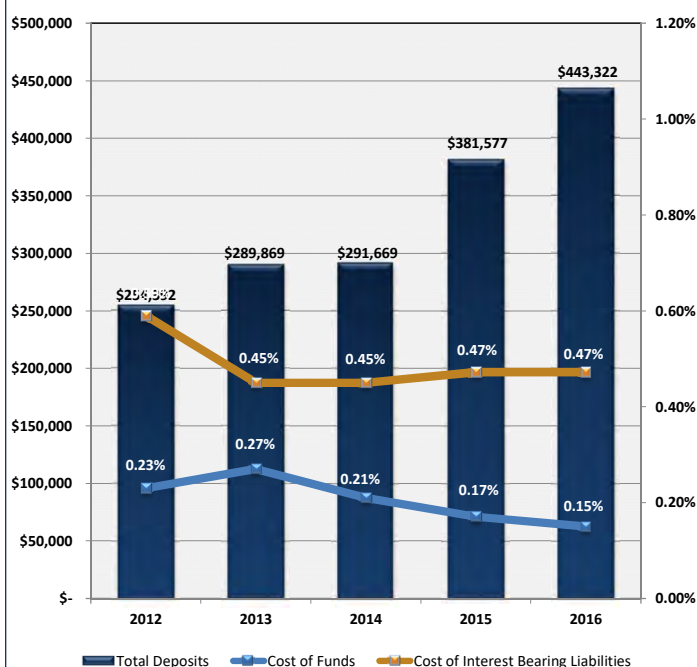
Interest Comparison Fully Taxable Equivalent
(as a % of average earning assets)



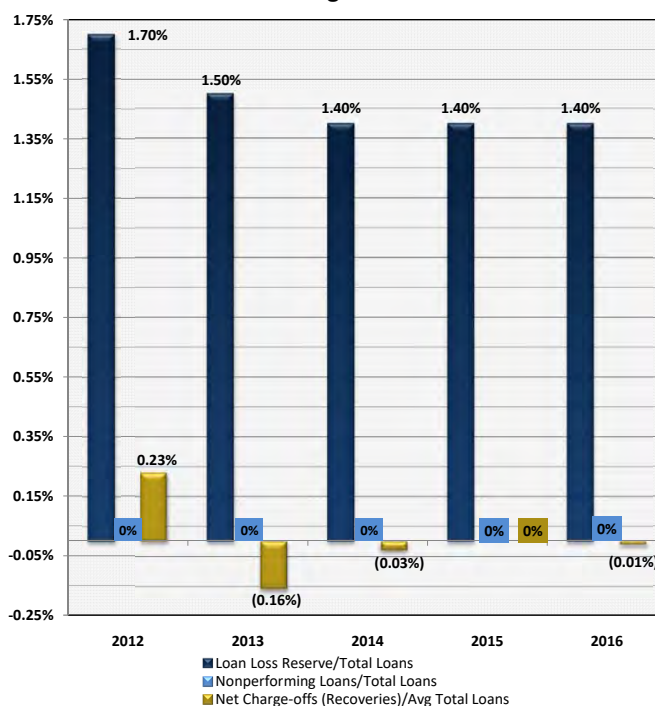
Operating Expense
(as a % of average assets)



Deposits Balance and Costs
(in thousands of dollars)



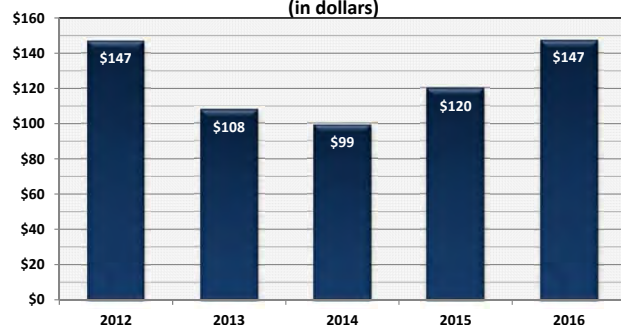
Loan Loss Reserve, Nonperforming Loans & Net Charge-Off Ratios



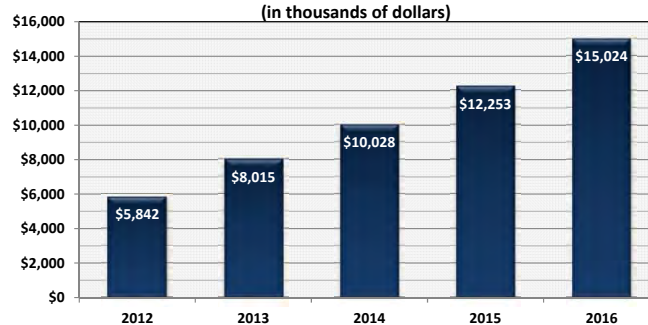


Equity Information and Returns

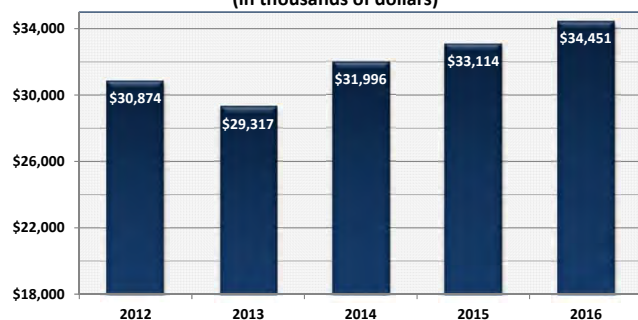
Earnings Per Share
(in dollars)



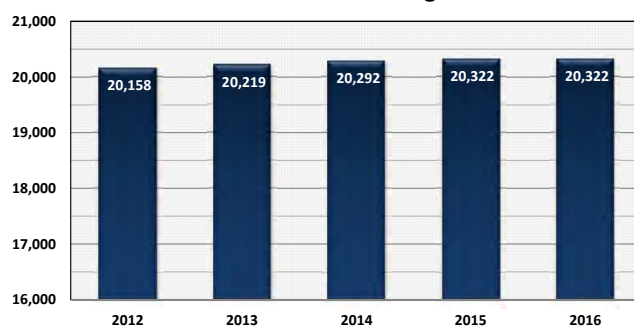
Retained Earnings
(in thousands of dollars)



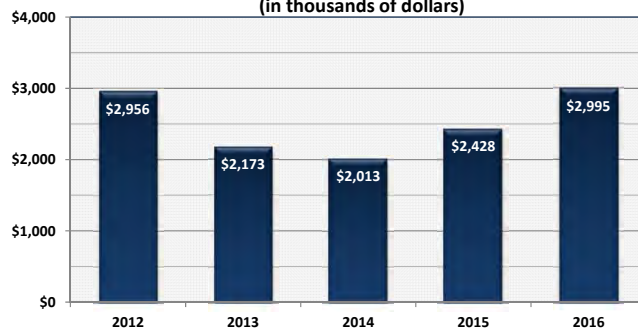
Stockholders' Equity
(in thousands of dollars)



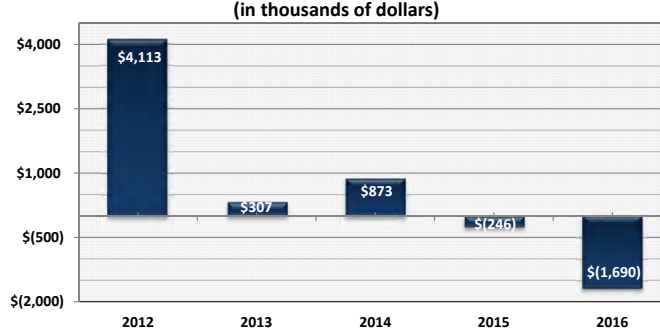
Shares Outstanding



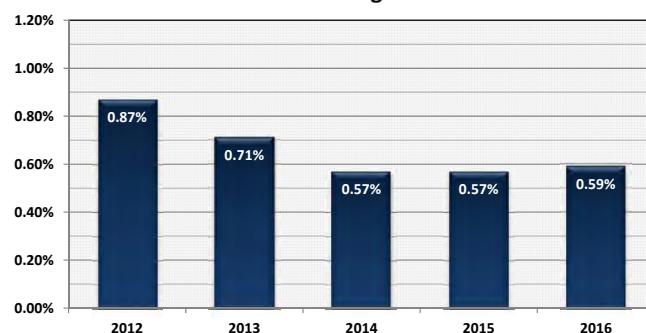
Net Income
(in thousands of dollars)



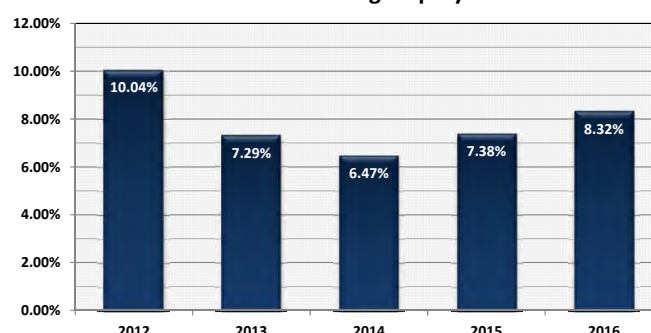
Unrealized Gain on Securities, net of Tax
(in thousands of dollars)



Return on Average Assets



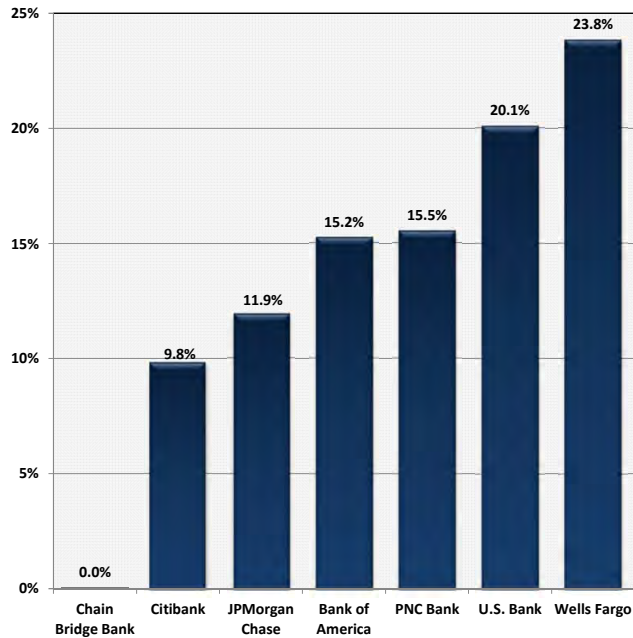
Return on Average Equity



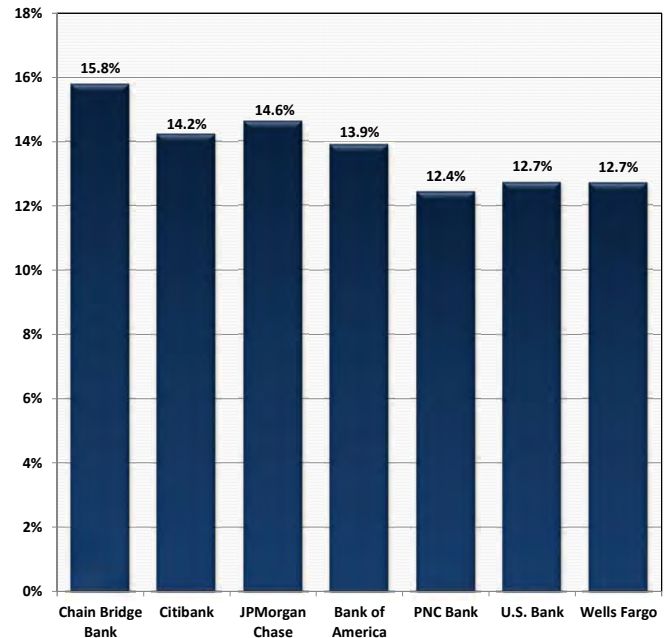
Industry Safety & Soundness Comparison



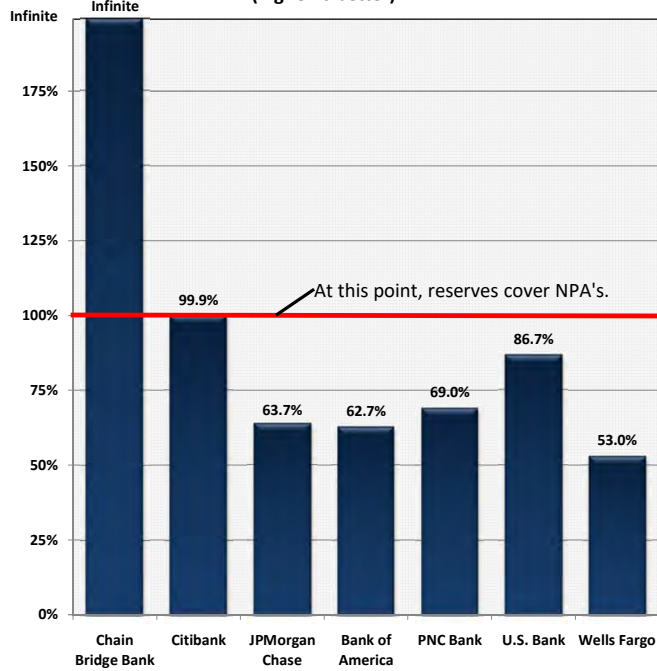
Texas Ratio
(lower is better)



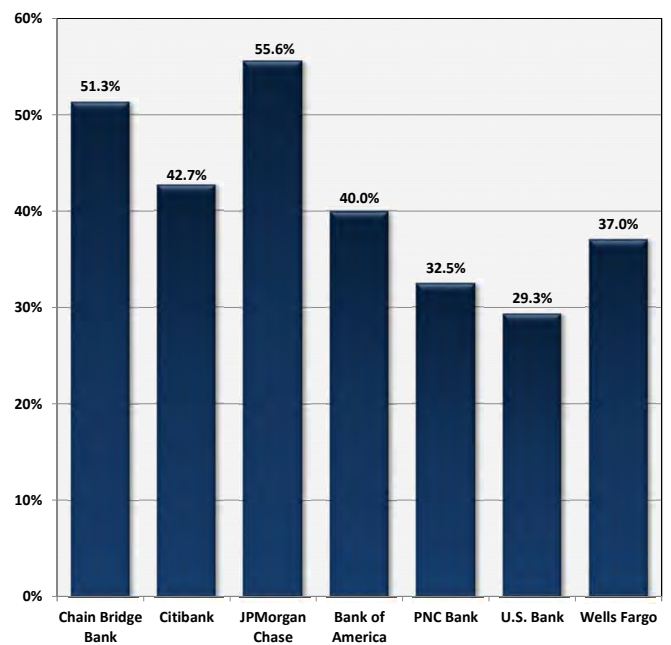
Risk Based Capital Ratio
(higher is better)



Reserves / Non-Performing Assets
(higher is better)



Liquidity Ratio
(higher is better)



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

McLean, Virginia

Consolidated Financial Report

December 31, 2016

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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, 2016 and 2015, 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 Subsidiary as of December 31, 2016 and 2015, 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.

Yount, Hyde & Barbour, P.C.

Winchester, Virginia
March 6, 2017

Chain Bridge Bancorp, Inc. and Subsidiary

Consolidated Balance Sheets

	December 31,	
	2016	2015
Assets		
Cash and cash equivalents	\$ 67,173,120	\$ 11,485,117
Securities available for sale, at fair market value	182,387,964	216,058,961
Restricted securities, at cost	1,695,900	1,765,800
Loans held for sale	1,914,731	1,037,264
Loans, net of allowance for loan losses of \$3,110,000 in 2016 and \$2,558,000 in 2015	219,084,628	180,144,800
Premises and equipment, net of accumulated depreciation of \$3,389,556 in 2016 and \$2,997,928 in 2015	7,438,255	7,691,441
Accrued interest receivable	1,657,750	1,322,017
Other assets	2,234,036	1,199,230
Total assets	<u>\$ 483,586,384</u>	<u>\$ 420,704,630</u>
Liabilities and Stockholders' Equity		
Liabilities		
Deposits:		
Noninterest bearing	\$ 304,861,053	\$ 254,218,149
Savings, interest-bearing checking and money market accounts	109,704,827	96,770,939
Time, \$250,000 and over	15,822,200	16,829,581
Other time	12,934,149	13,758,333
Total deposits	<u>\$ 443,322,229</u>	<u>\$ 381,577,002</u>
Securities sold under agreements to repurchase	1,521,953	527,210
Short term borrowings	2,000,000	4,000,000
Accrued interest payable	94,931	93,923
Accrued expenses and other liabilities	2,195,938	1,392,721
Total liabilities	<u>\$ 449,135,051</u>	<u>\$ 387,590,856</u>
Stockholders' Equity		
Preferred stock		
\$1 par value, authorized 10,000 shares, no shares issued and outstanding	\$ --	\$ --
Common stock		
\$1 par value, authorized 50,000 shares, 20,322 shares issued and outstanding	20,322	20,322
Additional paid-in capital	21,097,095	21,086,592
Retained earnings	15,024,262	12,253,118
Accumulated other comprehensive loss	(1,690,346)	(246,258)
Total stockholders' equity	<u>\$ 34,451,333</u>	<u>\$ 33,113,774</u>
Total liabilities and stockholders' equity	<u>\$ 483,586,384</u>	<u>\$ 420,704,630</u>

See Notes to Consolidated Financial Statements.

Chain Bridge Bancorp, Inc. and Subsidiary

Consolidated Statements of Income

For the Years Ended December 31, 2016 and 2015

	2016	2015
Interest and Dividend Income		
Interest and fees on loans	\$ 8,398,548	\$ 7,358,478
Interest and dividends on securities, taxable	3,225,735	2,870,951
Interest on securities, tax-exempt	1,136,201	1,044,998
Interest on interest bearing deposits in banks	486,296	140,530
Total interest and dividend income	<u>\$ 13,246,780</u>	<u>\$ 11,414,957</u>
Interest Expense		
Interest on deposits	\$ 609,670	\$ 611,464
Interest on short-term borrowings	70,762	58,042
Total interest expense	<u>\$ 680,432</u>	<u>\$ 669,506</u>
Net Interest Income	\$ 12,566,348	\$ 10,745,451
Provision for Loan Losses	530,042	212,000
Net interest income after provision for loan losses	<u>\$ 12,036,306</u>	<u>\$ 10,533,451</u>
Noninterest Income		
Service charges on deposit accounts	\$ 356,286	\$ 188,532
Gain on sale of mortgage loans	191,077	335,048
Rent income	194,076	197,717
Other income	287,673	224,156
Gain on sale of securities	352,259	29,929
Mutual funds income	- -	39,352
Total noninterest income	<u>\$ 1,381,371</u>	<u>\$ 1,014,734</u>
Noninterest Expenses		
Salaries and employee benefits	\$ 5,756,034	\$ 4,985,671
Data processing and communication expenses	921,671	792,505
Occupancy and equipment expenses	627,927	619,863
Professional services	396,530	380,124
Virginia bank franchise tax	307,600	281,597
FDIC assessments and regulatory assessments	399,600	379,654
Other operating expenses	1,078,760	975,426
Total noninterest expenses	<u>\$ 9,488,122</u>	<u>\$ 8,414,840</u>
Net income before taxes	\$ 3,929,555	\$ 3,133,345
Income Tax Expense	934,869	704,921
Net income	<u>\$ 2,994,686</u>	<u>\$ 2,428,424</u>
Earnings per common share, basic and diluted	<u>\$ 147.36</u>	<u>\$ 119.60</u>

See Notes to Consolidated Financial Statements.

Chain Bridge Bancorp, Inc. and Subsidiary

Consolidated Statements of Comprehensive Income

For the Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Net income	<u>\$ 2,994,686</u>	<u>\$ 2,428,424</u>
Other comprehensive loss:		
Unrealized holding losses on securities available for sale, net of tax of (\$624,158) in 2016 and (\$566,662) in 2015	\$ (1,211,597)	\$ (1,099,995)
Reclassification adjustment for gains included in net income, net of taxes of (\$119,768) in 2016 and (\$10,176) in 2015	<u>(232,491)</u>	<u>(19,753)</u>
Other comprehensive loss, net of tax	<u>\$ (1,444,088)</u>	<u>\$ (1,119,748)</u>
Comprehensive income	<u>\$ 1,550,598</u>	<u>\$ 1,308,676</u>

See Notes to Consolidated Financial Statements.

Chain Bridge Bancorp, Inc. and Subsidiary

Consolidated Statements of Cash Flows

For the Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash Flows from Operating Activities		
Net income	\$ 2,994,686	\$ 2,428,424
Reconciliation of net income to net cash provided by operating activities:		
Depreciation and amortization of premises and equipment	394,082	397,753
Premium amortization and discount accretion on investment securities, net	1,168,608	1,112,065
Provision for loan losses	530,042	212,000
Gain on sale of securities	(352,259)	(29,929)
Gain on sale of mortgage loans	(191,077)	(335,048)
Origination of loans held for sale	(16,929,020)	(25,204,720)
Proceeds from sale of loans	16,242,630	26,341,623
Equity based compensation, including tax benefit	10,503	12,223
Deferred income tax benefit	(194,368)	(107,676)
Changes in assets and liabilities:		
(Increase) in accrued interest and other assets	(432,246)	(35,541)
Increase in accrued expenses and other liabilities	804,226	304,225
Net cash provided by operating activities	<u>\$ 4,045,807</u>	<u>\$ 5,095,399</u>
Cash Flows from Investing Activities		
Purchases of securities available for sale	\$ (166,098,690)	\$ (221,028,257)
Proceeds from calls, maturities and sales of securities available for sale	196,765,324	145,262,603
Redemption of restricted securities	69,900	320,700
Net (increase) in loans	(39,469,870)	(15,138,986)
Purchases of premises and equipment, net	(140,896)	(123,707)
Net cash (used in) investing activities	<u>\$ (8,874,232)</u>	<u>\$ (90,707,647)</u>
Cash Flows from Financing Activities		
Net increase in demand, savings, interest-bearing checking and money market deposits	\$ 63,576,792	\$ 96,234,240
Net (decrease) in time deposits	(1,831,565)	(6,325,988)
Net (decrease) in short-term borrowings and FHLB advances	(2,000,000)	(8,000,000)
Net increase in securities sold under agreements to repurchase	994,743	44,585
Cash dividend	(223,542)	(202,920)
Net cash provided by financing activities	<u>\$ 60,516,428</u>	<u>\$ 81,749,917</u>
Net decrease in cash and cash equivalents	\$ 55,688,003	\$ (3,862,331)
Cash and cash equivalents, beginning of period	<u>11,485,117</u>	<u>15,347,448</u>
Cash and cash equivalents, end of period	<u>\$ 67,173,120</u>	<u>\$ 11,485,117</u>
Supplemental Disclosures of Cash Flow Information		
Cash payments for interest	<u>\$ 679,424</u>	<u>\$ 673,209</u>
Cash payments for taxes	<u>\$ 1,125,803</u>	<u>\$ 664,133</u>
Supplemental Disclosures of Noncash Investing Activities		
Fair value adjustment for securities	<u>\$ (2,188,014)</u>	<u>\$ (1,696,588)</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, 2016 and 2015

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (loss)	Total
Balance at December 31, 2014	\$ 20,292	\$ 21,074,399	\$ 10,027,614	\$ 873,490	\$ 31,995,795
Net income	--	--	2,428,424	--	2,428,424
Other comprehensive loss	--	--	--	(1,119,748)	(1,119,748)
Vesting of restricted stock	30	(30)	--	--	--
Equity based compensation, including tax benefit	--	12,223	--	--	12,223
Cash dividend (\$10 per share)	--	--	(202,920)	--	(202,920)
Balance at December 31, 2015	<u>\$ 20,322</u>	<u>\$ 21,086,592</u>	<u>\$ 12,253,118</u>	<u>\$ (246,258)</u>	<u>\$ 33,113,774</u>
Net income	--	--	2,994,686	--	2,994,686
Other comprehensive loss	--	--	--	(1,444,088)	(1,444,088)
Equity based compensation, including tax benefit	--	10,503	--	--	10,503
Cash dividend (\$11 per share)	--	--	(223,542)	--	(223,542)
Balance at December 31, 2016	<u><u>\$ 20,322</u></u>	<u><u>\$ 21,097,095</u></u>	<u><u>\$ 15,024,262</u></u>	<u><u>\$ (1,690,346)</u></u>	<u><u>\$ 34,451,333</u></u>

See Notes to Consolidated Financial Statements.

Chain Bridge Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 1. Organization and Summary of Significant Accounting Policies

Organization and Nature of Operations

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

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

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

Notes to Consolidated Financial Statements

Reclassification

Certain amounts in the 2015 consolidated financial statements have been reclassified to conform to the 2016 presentation. None of those reclassifications were significant.

Cash and Cash Equivalents

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

Securities

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

Impairment of securities occurs when the fair value of a security is less than its amortized cost. For debt securities, impairment is considered other-than-temporary and recognized in its entirety in net income if either (1) the 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 loss.

For equity securities, impairment is considered to be other-than-temporary based on the Bank's ability and intent to hold the investment until a recovery of fair value. Other-than-temporary impairment of an equity security results in a write-down that must be included in income. The Bank regularly reviews each security for other-than-temporary impairment based on criteria that include the extent to which cost exceeds market price, the duration of that market decline, the financial health of and specific prospects for the issuer, the 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.

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 market, determined in the aggregate. Market 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, 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, and 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 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 or the observable market price of the loan. Loans that are collateral dependent (loans where repayment is expected to be provided solely by the underlying collateral) and for which management has determined foreclosure is probable are measured for impairment based on the fair value of the collateral. Large groups of smaller balance, homogeneous loans are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual consumer and residential loans for impairment disclosures.

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, 2016 and 2015.

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, 2016 and 2015.

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 market 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.

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, 2016 or 2015.

Transfers of Financial Asset

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. Potential common shares relate solely to outstanding restricted stock. For the years ended December 31, 2016 and 2015, the weighted average number of shares outstanding for calculating basic and diluted earnings per share was 20,322 and 20,305, respectively.

Advertising Costs

The Bank follows the policy of charging the production costs of advertising to expense as incurred. The Bank expensed \$94,379 and \$61,015 for advertising costs for the years ended December 31, 2016 and 2015, 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, 2016 and 2015, the Bank's other comprehensive 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 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 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 an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

Stock-Based Compensation

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

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 now are such matters that will have a material effect on the consolidated financial statements.

Notes to 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.

Recent Accounting Pronouncements

During August 2014, the FASB issued ASU No. 2014-15, "Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern." This update is intended to provide guidance about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. Management is required under the new guidance to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date the financial statements are issued when preparing financial statements for each interim and annual reporting period. If conditions or events are identified, the ASU specifies the process that must be followed by management and also clarifies the timing and content of going concern footnote disclosures in order to reduce diversity in practice. The amendments in this ASU are effective for annual periods and interim periods within those annual periods beginning after December 15, 2016. The Company does not expect the adoption of ASU 2014-15 to have a material impact on its consolidated financial statements.

During August 2015, the FASB issued ASU No. 2015-14, "Revenue from Contracts with Customers (Topic 606): Deferral of Effective Date." The amendments in ASU 2015-14 defer the effective date of ASU 2014-09 for all entities by one year. Entities should apply the guidance in ASU 2014-09 to annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019. Entities may apply the guidance in ASU 2014-09 earlier as of an annual reporting period beginning after December 15, 2016, including interim reporting periods within that reporting period. Entities also may apply the guidance in ASU 2014-09 earlier as of an annual reporting period beginning after December 15, 2016, and interim reporting periods within annual reporting periods beginning one year after the annual reporting period in which the entity first applies the guidance in ASU 2014-09. The Company does not expect the adoption of ASU 2015-14 (or ASU 2014-09) to have a material impact on its consolidated financial statements.

During January 2016, the FASB issued ASU 2016-01, "Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities." The amendments in ASU 2016-01, among other things: 1) Requires equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. 2) Requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e., securities or loans and receivables). 3) Eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost. The amendments within this ASU are effective for fiscal years beginning after December 15, 2018, and for interim periods within fiscal years beginning after December 15, 2019. The new guidance permits early adoption of the provision that exempts private companies and not-for-profit organizations from having to disclose fair value information about financial instruments measured at amortized cost. The Company is currently assessing the impact that ASU 2016-01 will have on its consolidated financial statements.

Notes to Consolidated Financial Statements

During February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)." Among other things, in the amendments in ASU 2016-02, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date: (1) A lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) A right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. Certain targeted improvements were made to align, where necessary, lessor accounting with the lessee accounting model and Topic 606, Revenue from Contracts with Customers. The amendments in this ASU are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early application is permitted. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach. The Company is currently assessing the impact that ASU 2016-02 will have on its consolidated financial statements.

During March 2016, the FASB issued ASU No. 2016-09, "Compensation – Stock Compensation (Topic 718): Improvements to Employee Shares-Based Payment Accounting." The amendments in this ASU simplify several aspects of the accounting for share-based payment award transactions including: (a) income tax consequences; (b) classification of awards as either equity or liabilities; and (c) classification on the statement of cash flows. The amendments are effective for annual periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 31, 2018. Early adoption is permitted for any entity in any interim or annual period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity that elects early adoption must adopt all of the amendments in the same period. The Company does not expect the adoption of ASU 2016-09 to have a material impact on its consolidated financial statements.

During June 2016, the FASB issued ASU No. 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 amendments in this ASU are effective for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. The Company is currently assessing the impact that ASU 2016-13 will have on its consolidated financial statements.

Notes to Consolidated Financial Statements

During August 2016, the FASB issued ASU No. 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments", to address diversity in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 31, 2019. The amendments should be applied using a retrospective transition method to each period presented. If retrospective application is impractical for some of the issues addressed by the update, the amendments for those issues would be applied prospectively as of the earliest date practicable. Early adoption is permitted, including adoption in an interim period. The Company does not expect the adoption of ASU 2016-15 to have a material impact on its consolidated financial statements.

Note 2. Securities

Amortized cost and fair value of securities available for sale as of December 31, 2016 and 2015 are as follows:

	December 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Securities of U.S. government and federal agencies	\$ 45,581,378	\$ 20,501	\$ (1,382,427)	44,219,452
Mortgage backed securities	14,220,607	175,783	(502,217)	13,894,173
Corporate bonds	46,563,224	285,431	(669,933)	46,178,722
Collateralized mortgage obligations	520,203	6,475	(2,987)	523,691
State and municipal securities	78,063,683	767,051	(1,258,808)	77,571,926
Total	<u>\$ 184,949,095</u>	<u>\$ 1,255,241</u>	<u>\$ (3,816,372)</u>	<u>\$ 182,387,964</u>

	December 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Securities of U.S. government and federal agencies	\$ 52,123,858	\$ 13,262	\$ (225,743)	\$ 51,911,377
Mortgage backed securities	4,683,816	66,018	(50,794)	4,699,040
Corporate bonds	37,189,416	46,560	(470,178)	36,765,798
Collateralized mortgage obligations	845,657	19,566	(2,662)	862,561
State and municipal securities	76,485,333	1,244,864	(448,817)	77,281,380
Mutual and exchange-traded funds	45,103,998	- -	(565,193)	44,538,805
Total	<u>\$ 216,432,078</u>	<u>\$ 1,390,270</u>	<u>\$ (1,763,387)</u>	<u>\$ 216,058,961</u>

At December 31, 2016 and 2015, securities with a carrying value of \$20,182,734 and \$16,010,985 were pledged to secure public deposits, repurchase agreements, and lines of credit with the Federal Reserve Bank and Community Bankers' Bank.

Proceeds from redemptions and sales of securities totaled \$196,765,324 and \$145,262,603 for 2016 and 2015, respectively. The gross realized gains on securities for 2016 and 2015 totaled \$406,815 and \$85,307, respectively. The gross realized losses on securities for 2016 and 2015 totaled \$54,556 and \$55,378, respectively.

Notes to Consolidated Financial Statements

There were no held to maturity securities at December 31, 2016 or 2015.

The amortized cost and fair value of securities by contractual maturity at December 31, 2016 follows:

	Amortized Cost	Fair Value
Within one year	\$ 14,999,608	\$ 15,037,865
After one year through five years	73,480,912	73,538,719
After five years through ten years	67,922,657	66,422,804
Over ten years	28,545,918	27,388,576
Total	<u>\$ 184,949,095</u>	<u>\$ 182,387,964</u>

Expected maturities may differ from contractual maturities if borrowers have the right to call or repay obligations with or without prepayment penalties.

At December 31, 2016 and 2015, investments in an unrealized loss position that were temporarily impaired follows:

December 31, 2016					
Less Than Twelve Months		Over Twelve Months		Total Unrealized Losses	
Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value		
Securities of U.S. government and federal agencies	\$ (1,382,427) \$ 37,043,550	\$ -- \$ --	\$ (1,382,427)		
Mortgage backed securities	(500,471) 12,413,084	(1,746) 128,724	(502,217)		
Corporate bonds	(575,542) 27,719,024	(94,391) 3,958,346	(669,933)		
Collateralized mortgage obligations	(1,304) 127,564	(1,683) 98,385	(2,987)		
State and municipal securities	(1,255,314) 47,164,930	(3,494) 997,298	(1,258,808)		
Total	<u>\$ (3,715,058) \$ 124,468,152</u>	<u>\$ (101,314) \$ 5,182,753</u>	<u>\$ (3,816,372)</u>		

December 31, 2015					
Less Than Twelve Months		Over Twelve Months		Total Unrealized Losses	
Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value		
Securities of U.S. government and federal agencies	\$ (143,219) \$ 46,780,688	\$ (82,524) \$ 3,076,904	\$ (225,743)		
Mortgage backed securities	(48,572) 2,489,861	(2,222) 156,827	(50,794)		
Corporate bonds	(291,957) 26,524,394	(178,221) 7,365,029	(470,178)		
Collateralized mortgage obligations	(2,662) 394,781	-- --	(2,662)		
State and municipal securities	(426,348) 29,223,315	(22,469) 2,237,338	(448,817)		
Mutual and exchange-traded funds	(523,270) 44,075,296	(41,923) 463,508	(565,193)		
Total	<u>\$ (1,436,028) \$ 149,488,335</u>	<u>\$ (327,359) \$ 13,299,606</u>	<u>\$ (1,763,387)</u>		

Notes to Consolidated Financial Statements

At December 31, 2016 and 2015, 215 and 189 debt and equity securities had unrealized losses with aggregate depreciation of 2.06 and 0.81 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, 2016 and 2015, 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 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.

Note 3. Loans

A summary of the balances of loans follows:

	December 31,	
	2016	2015
Commercial real estate	\$ 49,263,991	\$ 47,087,958
Commercial	24,789,254	9,693,337
Residential real estate closed-end	126,087,268	105,339,650
Other consumer loans	22,054,115	20,581,855
	<u>\$ 222,194,628</u>	<u>\$ 182,702,800</u>
Less allowance for loan losses	(3,110,000)	(2,558,000)
Loans, net	<u><u>\$ 219,084,628</u></u>	<u><u>\$ 180,144,800</u></u>

Overdrafts totaling \$17,664 and \$26,997 at December 31, 2016 and 2015, respectively, were reclassified from deposits to loans.

The totals above include deferred fees (net of deferred costs) of \$102,147 and \$98,383 at December 31, 2016 and 2015, 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, 2016 and 2015:

	December 31, 2016				
	Commercial Real Estate	Commercial	Residential Real Estate Closed-End	Other Consumer Loans	Total
Allowance for loan losses:					
Beginning of year	\$ 619,521	\$ 208,639	\$ 1,407,237	\$ 322,603	\$ 2,558,000
Provision	15,770	275,708	212,825	25,739	530,042
Charge-offs	--	--	--	--	--
Recoveries	--	21,958	--	--	21,958
End of year	<u>\$ 635,291</u>	<u>\$ 506,305</u>	<u>\$ 1,620,062</u>	<u>\$ 348,342</u>	<u>\$ 3,110,000</u>
Reserves:					
Specific	\$ --	\$ --	\$ --	\$ --	\$ --
General	635,291	506,305	1,620,062	348,342	3,110,000
Total reserves	<u>\$ 635,291</u>	<u>\$ 506,305</u>	<u>\$ 1,620,062</u>	<u>\$ 348,342</u>	<u>\$ 3,110,000</u>
Loans evaluated for impairment:					
Individually	\$ --	\$ --	\$ --	\$ --	\$ --
Collectively	49,263,991	24,789,254	126,087,268	22,054,115	222,194,628
Total Loans	<u>\$ 49,263,991</u>	<u>\$ 24,789,254</u>	<u>\$ 126,087,268</u>	<u>\$ 22,054,115</u>	<u>\$ 222,194,628</u>

	December 31, 2015				
	Commercial Real Estate	Commercial	Residential Real Estate Closed-End	Other Consumer Loans	Total
Allowance for loan losses:					
Beginning of year	\$ 550,325	\$ 315,839	\$ 1,195,843	\$ 283,993	\$ 2,346,000
Provision	69,196	(107,200)	211,394	38,610	212,000
Charge-offs	--	38,531	--	--	38,531
Recoveries	--	(38,531)	--	--	(38,531)
End of year	<u>\$ 619,521</u>	<u>\$ 208,639</u>	<u>\$ 1,407,237</u>	<u>\$ 322,603</u>	<u>\$ 2,558,000</u>
Reserves:					
Specific	\$ --	\$ --	\$ --	\$ --	\$ --
General	619,521	208,639	1,407,237	322,603	2,558,000
Total reserves	<u>\$ 619,521</u>	<u>\$ 208,639</u>	<u>\$ 1,407,237</u>	<u>\$ 322,603</u>	<u>\$ 2,558,000</u>
Loans evaluated for impairment:					
Individually	\$ --	\$ --	\$ --	\$ --	\$ --
Collectively	47,087,958	9,693,337	105,339,650	20,581,855	182,702,800
Total Loans	<u>\$ 47,087,958</u>	<u>\$ 9,693,337</u>	<u>\$ 105,339,650</u>	<u>\$ 20,581,855</u>	<u>\$ 182,702,800</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, 2016 and 2015:

December 31, 2016						
	Pass	Special Mention	Substandard	Doubtful	Loss	Total
Commercial real estate	\$ 49,263,991	\$ --	\$ --	\$ --	\$ --	\$ 49,263,991
Commercial	24,068,991	720,263	--	--	--	24,789,254
Residential real estate closed-end	126,087,268	--	--	--	--	126,087,268
Other consumer loans	22,054,115	--	--	--	--	22,054,115
Total Loans	<u>\$ 221,474,365</u>	<u>\$ 720,263</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 222,194,628</u>

December 31, 2015						
	Pass	Special Mention	Substandard	Doubtful	Loss	Total
Commercial real estate	\$ 47,087,958	\$ --	\$ --	\$ --	\$ --	\$ 47,087,958
Commercial	9,693,337	--	--	--	--	9,693,337
Residential real estate closed-end	105,339,650	--	--	--	--	105,339,650
Other consumer loans	20,581,855	--	--	--	--	20,581,855
Total Loans	<u>\$ 182,702,800</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 182,702,800</u>

There were no impaired loans as of December 31, 2016 or 2015.

There were no nonaccrual loans, loans 90 days past due and still accruing, or past due for 30 or more days at December 31, 2016 and 2015.

There were no loan modifications classified as TDRs during the years ended December 31, 2016 and 2015.

No loan modifications classified as TDRs subsequently defaulted during 2016 or 2015.

Notes to Consolidated Financial Statements

Note 4. Premises and Equipment

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

	December 31,	
	2016	2015
Land	\$ 1,585,513	\$ 1,585,513
Building	6,539,284	6,539,284
Furniture, fixtures and equipment	1,377,219	1,314,574
Building improvements	1,325,795	1,249,998
	<u>\$ 10,827,811</u>	<u>\$ 10,689,369</u>
Less accumulated depreciation	3,389,556	2,997,928
Ending balance	<u><u>\$ 7,438,255</u></u>	<u><u>\$ 7,691,441</u></u>

For 2016 and 2015, depreciation expense was \$394,082 and \$397,753, respectively.

Note 5. Related Party Transactions

Officers, directors and their affiliates had credit outstanding of \$4,867,316 and \$4,906,243 at December 31, 2016 and 2015, respectively, with the Bank. During 2016, total principal additions were \$603,602 and total principal payments were \$642,529. 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, 2016 and 2015 amounted to \$4,394,172 and \$4,324,703, respectively.

Note 6. Deposits

Remaining maturities on certificates of deposit are as follows:

2017	\$ 16,668,929
2018	3,544,020
2019	3,495,810
2020	314,858
2021	4,732,732
	<u><u>\$ 28,756,349</u></u>

Brokered deposits totaled \$195,561 and \$601,084 at December 31, 2016 and 2015, respectively. Brokered deposits are placed through the Certificate of Deposit Account Registry Service (CDARS) or ICS.

Notes to Consolidated Financial Statements

The Bank had 2 customers with individual deposit balances exceeding five percent of total deposits as of December 31, 2016. The total deposit balances related to these customers as of December 31, 2016 were \$80,241,310 or 18.0 percent of total deposits.

Note 7. Borrowings

Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase amounted to \$1,521,953 and \$527,210 at December 31, 2016 and 2015, respectively, and mature on a daily basis and were secured by municipal securities with a fair value of \$1,995,787 and \$999,704. The weighted average interest rate on these agreements was 0.15 percent at December 31, 2016 and 2015.

Federal Home Loan Bank Advance

The Company has a secured line of credit with the Federal Home Loan Bank totaling \$64,065,663. At December 31, 2016 and 2015, the Bank had no outstanding balance on this line of credit. The line is secured by 1-4 family residential real estate loans within the Company's loan portfolio. The line is renewed annually in September.

Short Term Borrowings

At December 31, 2016, the Company had an unsecured line of credit with a correspondent bank totaling \$4,000,000 with \$2,000,000 outstanding. The line matures December 15, 2017 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 2.78 percent at December 31, 2016.

The Bank has unsecured federal fund purchase lines of credit with Community Bankers' Bank totaling \$5,000,000 maturing June 2, 2017 and Pacific Coast Bankers' Bank totaling \$3,000,000 maturing June 30, 2017. The Bank has a secured federal funds purchase line of credit with Community Bankers' Bank totaling \$5,135,000 with no maturity. There were no outstanding federal funds purchased balances as of December 31, 2016 or 2015.

Notes to Consolidated Financial Statements

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, 2016 and 2015 are presented below:

	December 31,	
	2016	2015
Deferred Tax Assets		
Allowance for loan losses	\$ 912,339	\$ 732,123
Organizational and start-up expenses	97,486	114,947
Deferred loan costs	34,730	--
Depreciation	7,810	11,918
Securities available for sale	870,784	126,860
	<u>\$ 1,923,149</u>	<u>\$ 985,848</u>
Deferred Tax Liabilities		
Deferred loan fees	--	(991)
	<u>\$ --</u>	<u>\$ (991)</u>
Net deferred tax assets	<u><u>\$ 1,923,149</u></u>	<u><u>\$ 984,857</u></u>

The provision for income taxes charged to operations for the years ended December 31, 2016 and 2015, consists of the following:

	December 31,	
	2016	2015
Current tax expense	\$ 1,129,237	\$ 812,597
Deferred tax benefit	(194,368)	(107,676)
Net provision for income taxes	<u><u>\$ 934,869</u></u>	<u><u>\$ 704,921</u></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:

	December 31,	
	2016	2015
Computed tax at applicable rate	\$ 1,336,049	\$ 1,065,337
Tax-exempt income	(408,866)	(370,601)
Other	7,686	10,185
Net provision for income taxes	<u><u>\$ 934,869</u></u>	<u><u>\$ 704,921</u></u>

The Company files income tax returns in the U.S. federal jurisdiction and the Commonwealth of Virginia. With few exceptions, the Company is no longer subject to federal or state tax examinations for years prior to 2013.

Notes to Consolidated Financial Statements

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, 2016 and 2015, the following financial instruments whose contract amounts represent credit risk were outstanding:

	December 31,	
	2016	2015
Commitments to grant loans	\$ 23,932,955	\$ 32,648,444
Unfunded commitments under lines of credit	48,642,083	38,932,339
Standby letters of credit	2,085,688	3,450,492

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, 2016 and 2015 was \$504,422 and \$515,354, respectively.

Notes to Consolidated Financial Statements

The Bank is required to maintain average balances with the Federal Reserve Bank. At December 31, 2016 and 2015, this balance was \$23,628,000 and \$20,514,000, respectively. The Bank held an excess reserve balance of \$39,086,242 with the Federal Reserve Bank at December 31, 2016 and no excess reserves at December 31, 2015.

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.

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 is implemented in a phased approach from 0.0% for 2015 to 2.50% by 2019. The capital conservation buffer for 2016 is 0.625%. 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 I capital, and common equity Tier 1 (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2016, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2016, 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 I risk-based, common equity Tier 1 and Tier I 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 \$1 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. In June 2015, the Company borrowed \$4,000,000 from PNC Bank to downstream the capital to the Bank. In March 2016, The Company repaid \$2,000,000 for a remaining outstanding balance of \$2,000,000 at the end of the year.

			Minimum		Minimum To Be Well Capitalized Under Prompt Corrective	
	Actual		Capital Requirement		Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<u>December 31, 2016</u>			(Amounts in Thousands)			
Total Risk-Based Capital						
Company	\$ 39,252	15.06%	N/A	N/A	N/A	N/A
Bank	\$ 41,151	15.79%	\$ 22,480	8.625%	\$ 26,064	10.00%
Tier 1 Risk-Based Capital						
Company	\$ 36,142	13.87%	N/A	N/A	N/A	N/A
Bank	\$ 38,041	14.60%	\$ 17,267	6.625%	\$ 20,851	8.00%
Common Equity Tier 1 Capital						
Company	\$ 36,142	13.87%	N/A	N/A	N/A	N/A
Bank	\$ 38,041	14.60%	\$ 13,358	5.125%	\$ 16,942	6.50%
Tier 1 Leverage Ratio						
Company	\$ 36,142	7.18%	N/A	N/A	N/A	N/A
Bank	\$ 38,041	7.56%	\$ 20,122	4.00%	\$ 25,153	5.00%

			Minimum		Minimum To Be Well Capitalized Under Prompt Corrective	
	Actual		Capital Requirement		Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<u>December 31, 2015</u>			(Amounts in Thousands)			
Total Risk-Based Capital						
Company	\$ 35,545	13.58%	N/A	N/A	N/A	N/A
Bank	\$ 39,357	15.04%	\$ 20,940	8.00%	\$ 26,174	10.00%
Tier 1 Risk-Based Capital						
Company	\$ 32,987	12.60%	N/A	N/A	N/A	N/A
Bank	\$ 36,799	14.06%	\$ 15,705	6.00%	\$ 20,940	8.00%
Common Equity Tier 1 Capital						
Company	\$ 32,987	12.60%	N/A	N/A	N/A	N/A
Bank	\$ 36,799	14.06%	\$ 11,778	4.50%	\$ 17,013	6.50%
Tier 1 Leverage Ratio						
Company	\$ 32,987	7.63%	N/A	N/A	N/A	N/A
Bank	\$ 36,799	8.52%	\$ 17,282	4.00%	\$ 21,603	5.00%

Notes to Consolidated Financial Statements

Note 11. Restricted Stock Plan

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

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

The 2007 Plan provided for the grant of an aggregate of 750 shares of restricted stock to full-time executive officers or other key employees. The number of shares issuable under the 2007 Plan and outstanding awards was subject to adjustment in the event of any stock split, reverse stock split, stock dividend, split up or combination of shares, reclassification, reorganization, merger, consolidation or similar event which changed the number or kind of outstanding shares, without the receipt of consideration by the Company. Of the 750 shares of restricted stock subject to the Plan, 619 were awarded and are fully vested.

Compensation expense attributable to the Plan was \$-0- and \$9,039 for 2016 and 2015, respectively.

Note 12. 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 2016 and 2015, expense attributable to the plan amounted to \$134,328 and \$118,792, respectively.

Note 13. Fair Value Measurements

Fair Value Hierarchy

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

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

Notes to Consolidated Financial Statements

Level 2 - Valuation is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

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

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

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

Securities Available for Sale

Securities available for sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted market prices, when available (Level 1). If quoted market prices are not available, fair values are measured utilizing independent valuation techniques of identical or similar securities for which significant assumptions are derived primarily from or corroborated by observable market data. Third party vendors compile prices from various sources and may determine the fair value of identical or similar securities by using pricing models that considers observable market data (Level 2). 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, 2016:				
Available for sale securities:				
U.S. government and federal agencies	\$ 44,219,451	\$ 21,498,281	\$ 22,721,170	\$ --
Mortgage backed securities	13,894,173	--	13,894,173	--
Corporate bonds	46,178,722	--	46,178,722	--
Collateralized mortgage obligations	523,692	--	523,692	--
State and municipal securities	77,571,926	--	77,571,926	--
Total	<u>\$ 182,387,964</u>	<u>\$ 21,498,281</u>	<u>\$ 160,889,683</u>	<u>\$ --</u>
Assets:				
As of December 31, 2015:				
Available for sale securities:				
U.S. government and federal agencies	\$ 51,911,377	\$ 21,952,317	\$ 29,959,060	\$ --
Mortgage backed securities	4,699,040	--	4,699,040	--
Corporate bonds	36,765,798	--	36,765,798	--
Collateralized mortgage obligations	862,561	--	862,561	--
State and municipal securities	77,281,380	--	77,281,380	--
Mutual and exchange-traded funds	44,538,805	44,538,805	--	--
Total	<u>\$ 216,058,961</u>	<u>\$ 66,491,122</u>	<u>\$ 149,567,839</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

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

Impaired Loans

Loans are designated as impaired when, in the judgment of management based on current information and events, it is probable that all amounts due according to the contractual terms of the loan agreement will not be collected. The measurement of loss associated with impaired loans can be based on either the observable market price of the loan, 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, 2016 and 2015.

Note 14. Subsequent Events

The Company evaluates subsequent events that have occurred after the balance sheet date but before the financial statements are issued. There are two types of subsequent events: (1) recognized, or those that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements, and (2) non-recognized, or those that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date. The Company evaluated subsequent events through March 6, 2017.

Based on the evaluation, the Holding Company approved a cash dividend of \$14.75 per share to shareholders of record on January 31, 2017 with the dividend payable on February 12, 2017.

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 15. Condensed Financial Statements of Parent Company

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

Balance Sheets	December 31,	
	2016	2015
Assets		
Cash	\$ 100,473	\$ 188,467
Investment in common stock of Chain Bridge Bank	36,350,860	36,925,307
Total assets	<u>\$ 36,451,333</u>	<u>\$ 37,113,774</u>
Liabilities and Stockholders' Equity		
Short-term borrowings	\$ 2,000,000	\$ 4,000,000
Total liabilities	<u>\$ 2,000,000</u>	<u>\$ 4,000,000</u>
Stockholders' equity	34,451,333	33,113,774
Total liabilities and stockholders' equity	<u>\$ 36,451,333</u>	<u>\$ 37,113,774</u>
Statements of Income	December 31,	
	2016	2015
Dividend from Chain Bridge Bank	<u>\$ 223,542</u>	<u>\$ 200,000</u>
Operating Expenses		
Interest expense and fees on borrowings	\$ 70,997	\$ 51,026
Marketing expenses	27,500	--
Equity based compensation, including tax benefit	10,503	12,223
	<u>\$ 109,000</u>	<u>\$ 63,249</u>
Income before undistributed net income of Chain Bridge Bank	\$ 114,542	\$ 136,751
Undistributed net income of Chain Bridge Bank	2,880,144	2,291,673
Net income	<u>\$ 2,994,686</u>	<u>\$ 2,428,424</u>

Notes to Consolidated Financial Statements

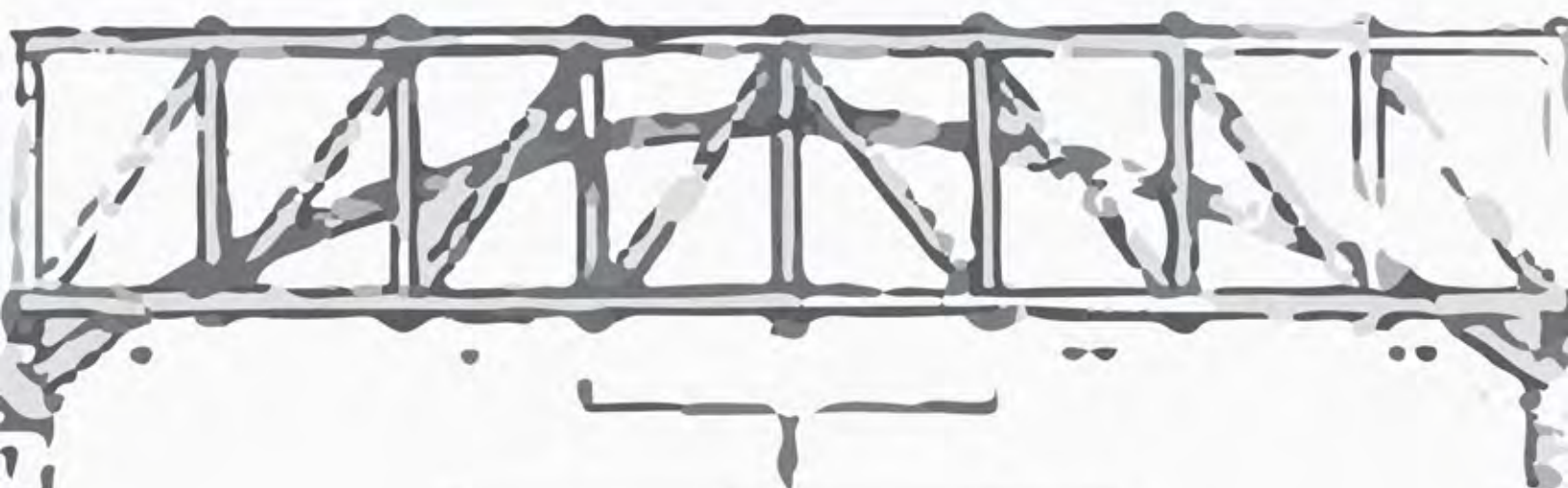
Statements of Cash Flows	December 31,	
	2016	2015
Cash Flows from Operating Activities		
Net income	\$ 2,994,686	\$ 2,428,424
Adjustments to reconcile net income to net cash provided by operating activities:		
Undistributed net income of Chain Bridge Bank	(2,880,144)	(2,291,673)
Equity based compensation, including tax benefit	10,503	12,223
Increase in other liabilities	10,503	12,223
Net cash provided by operating activities	\$ 135,548	\$ 161,197
Cash Flows from Investing Activities		
Redemption (investment) in Chain Bridge Bank	\$ 2,000,000	\$ (4,000,000)
Net cash provided by (used in) investing activities	\$ 2,000,000	\$ (4,000,000)
Cash Flows from Financing Activities		
Cash dividend to shareholders	\$ (223,542)	\$ (202,920)
(Decrease) increase in short term borrowings	(2,000,000)	4,000,000
Net cash (used in) provided by financing activities	\$ (2,223,542)	\$ 3,797,080
Net decrease in cash and cash equivalents	\$ (87,994)	\$ (41,723)
Cash and cash equivalents at beginning of period	188,467	230,190
Cash and cash equivalents at end of period	\$ 100,473	\$ 188,467

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