# Chain Bridge

## BANCORP, INC.

# 2017 ANNUAL REPORT

P2P
Payments

Treasury
Management

E-Sign
Technology

# Chain Bridge Bank

Your Bridge to Better Banking

Commercial
Lending
Center

Mobile
Banking

Digital
Wallet

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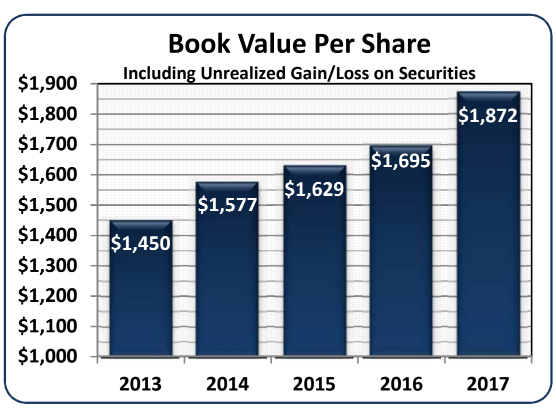
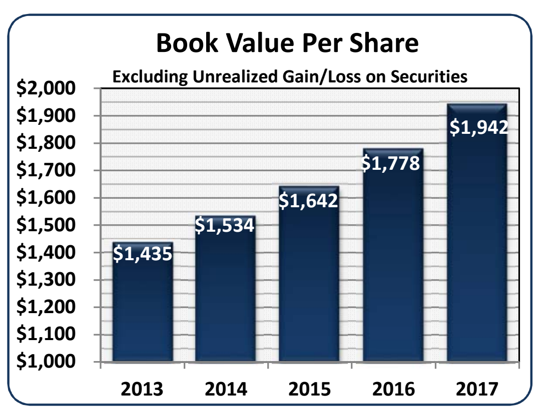
Chain Bridge Bancorp, Inc. and
Chain Bridge Bank, National Association
Consolidated Financial Highlights

| | Years Ended December 31, | | | Year Ended December 31, Excluding Charge for Deferred Tax Asset Re-measurement [1] | |
|---|---|---|---|---|---|
| | 2017 | 2016 | Change | 2017 | Change from 2016 |
| **Performance Measures and Yields** | | | | | |
| Consolidated net income | $ 2,592,826 | $ 2,994,686 | (13.4%) | $ 3,286,783 | 9.75% |
| Return on average assets (ROAA) | 0.49% | 0.59% | (0.10%) | 0.62% | 0.03% |
| Return on average risk-weighted assets [2] | 0.99% | 1.14% | (0.15%) | 1.25% | 0.11% |
| Return on average equity (ROAE) | 7.04% | 8.32% | (1.28%) | 8.92% | 0.60% |
| Net interest margin (Fully Tax Equivalent) | 2.86% | 2.69% | 0.17% | 2.86% | 0.17% |
| **Asset Quality (%)** | | | | | |
| Non-performing assets / assets | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Texas ratio [3] | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Loan loss reserves / gross loans | 1.40% | 1.40% | 0.00% | 1.40% | 0.00% |
| Net (recoveries) charge-offs / average loans | 0.01% | (0.01%) | 0.02% | 0.01% | 0.02% |
| Risk-weighted asset density [4] | 43.88% | 53.90% | (10.02%) | 43.88% | (10.02%) |
| **Balance Sheet Highlights** | | | | | |
| Total assets | $ 603,615,786 | $ 483,586,384 | 24.8% | $ 604,309,743 | 24.96% |
| Total loans (net of loans held for sale) | $ 235,276,443 | $ 222,194,628 | 5.9% | $ 235,276,443 | 5.89% |
| Total deposits | $ 550,482,129 | $ 443,322,229 | 24.2% | $ 550,482,129 | 24.17% |
| **Capitalization** | | | | | |
| Total equity capital | $ 43,760,342 | $ 34,451,333 | 27.0% | $ 44,454,299 | 29.04% |
| Tangible equity | $ 43,760,342 | $ 34,451,333 | 27.0% | $ 44,454,299 | 29.04% |
| Tier 1 capital | $ 45,396,555 | $ 36,141,679 | 25.6% | $ 45,821,262 | 26.78% |
| Total risk-based capital ratio | 18.38% | 15.06% | 3.32% | 18.55% | 3.49% |
| Tier 1 risk-based ratio | 17.14% | 13.87% | 3.27% | 17.30% | 3.43% |
| **Chain Bridge Bancorp, Inc. Share Information** | | | | | |
| Number of shares outstanding | 23,372 | 20,322 | 15.0% | 23,372 | 15.01% |
| Book value per share | $ 1,872.34 | $ 1,695.27 | 10.4% | $ 1,902.03 | 12.20% |
| Book value per share, excluding unrealized gain/loss on securities | $ 1,942.35 | $ 1,778.45 | 9.2% | $ 1,960.52 | 10.24% |
| Net income per share | $ 127.41 | $ 147.36 | (13.5%) | $ 161.51 | 9.60% |

[1] This column represents the Bank's 2017 financial performance excluding the deferred tax asset (DTA) re-measurement charge. These non-GAAP measurements are presented for comparison purposes. Refer to Note 8 of the footnotes for a full explanation of the DTA re-measurement.
[2] Average is calculated using the last five quarter ends.
[3] Texas ratio is defined as nonperforming assets plus delinquent loans as a percent of tangible equity and reserves.
[4] Risk-weighted asset density measures the riskiness of the Bank's assets. It is calculated as total assets divided by risk-weighted assets.




Chain Bridge Bank
*Your bridge to better banking*

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March 16, 2018

Dear Fellow Shareholder:

Chain Bridge Bancorp, Inc. (the "Company"), parent of Chain Bridge Bank, N.A. ("Chain Bridge Bank," "Chain Bridge" or the "Bank"), earned net income of $2,592,826, or $127.41 per share, in 2017.

The recently enacted decrease in corporate income tax rates should significantly benefit the Company in future years, but it required the Company to take a one-time, up front charge of $693,957, or $34.10 per share, in 2017. This charge was for the re-measurement of the Company's deferred tax assets, and it resulted in the Company's total income tax expense rising from $934,869 in 2016 to $1,864,487 in 2017.

Excluding this one-time charge, net income was $3,286,783, or $161.51 per share, in 2017, versus $2,994,686, or $147.36 per share, in 2016. Net income before taxes rose by $527,758, from $3,929,555 in 2016 to $4,457,313 in 2017.

Book value per share increased by $177.07, from $1,695.27 at year-end 2016 to $1,872.34 at year-end 2017. Book value per share, excluding unrealized gain or loss on securities, increased by $163.90, from $1,778.45 at year-end 2016 to $1,942.35 at year-end 2017.

The Company's assets grew $120.0 million, or 25%, and stood at $603.6 million at year-end 2017. To support this growth, the Company sold 3,000 shares at $2,200 per share, almost entirely to existing shareholders. This sale added $6.6 million to the Company's capitalization. The Company's total risk-based capital ratio was 18.38% at year-end 2017.

In January of this year, the Board of Directors ("Board") declared a dividend of $15.00 per share, up from $14.75 in 2017. The Board's current policy is to pay out between 10% and 25% of the Company's earnings as shareholder dividends and to retain the remainder to support the Company's continued growth.

## Treasury Management Platform

In late 2017, Chain Bridge Bank unveiled a new Treasury Management platform that is among the most advanced commercial banking applications available today. It delivers state-of-the-art banking technology in a modern, intuitive and easy-to-navigate format, all with a single sign-on. The legacy platforms of the largest banks offer comparable functionality but are often difficult to learn, cumbersome to navigate and require multiple sign-ons to access different functions.

Chain Bridge will be rolling out its Treasury Management platform to all its commercial clients in 2018. You can view screenshots of the platform at: www.chainbridgebank.com/commercial/treasury-management.

The Bank's commitment to leading-edge technology is a key pillar of its strategic plan. That commitment extends far beyond the Bank's Treasury Management platform and into all of the Bank's deposit, loan and ancillary services. Some might think that the largest, nationwide, branch network banks would be the best positioned to offer the most advanced banking technology. But abandoning legacy core bank processing software and adopting new bank technology is often more difficult for large, complex banks than for leaner, more nimble ones. Moreover, the large fixed costs of maintaining bricks and mortar branches drains enormous resources away from the technology budgets of the branch network banks.

Because Chain Bridge's strategic plan devotes resources to technology rather than to bricks and mortar, Chain Bridge is able to invest more in technology than other banks, as a percentage of its operating income. As banking increasingly becomes something you do rather than somewhere you go, the Board and management continue to have confidence in, and to execute on, this strategic plan.

## Business Growth

Total deposits grew by $107.2 million, or 24%, in 2017. Approximately 59% of the increase, or $63.4 million, was in non-interest bearing accounts.

The Bank's loans grew $13.1 million, or 6%, in 2017. Of the Bank's $235.3 million in total loans at year-end, $136.8 million, or 58%, were secured by residential real estate; $59.6 million, or 25%, were secured by commercial real estate; and $18.3 million, or 8%, were commercial & industrial loans secured by non-real estate business assets. Only $20.6 million, or 9%, were consumer loans.

## Efficiency & Returns

Excluding the one-time charge for the re-measurement of the value of tax assets, return on average risk-weighted assets was 1.25% in 2017, up from 1.14% in 2016 and return on average equity was 8.92% in 2017, up from 8.32% in 2016.

Chain Bridge's net interest income increased 13%, or $1.6 million, in 2017. This rise in net interest income was attributable to a combination of higher average assets and an increase in market rates, partially offset by higher interest rates paid to depositors.

The Federal Reserve increased the overnight rate three times in 2017, raising it from 0.75% at year-end 2016 to 1.50% at year-end 2017. These rate increases immediately boosted the Bank's income from cash and floating rate loans and bonds but will only increase the Bank's interest income from fixed rate loans and bonds over time, as those assets gradually mature and reprice.

Due largely to the increase in rates and to the growth in loans, the Bank's net interest margin rose by 0.17%, from 2.69% in 2016 to 2.86% in 2017.

## Safety & Soundness

"Risk-weighted" assets are the total of a bank's assets and off balance sheet exposures weighted according to estimated levels of risk. Commercial loans are risk-weighted at 100% or more. Prime residential mortgages are weighted at 50%. Municipal bonds are weighted between 20 and 50%. Cash and U.S. Treasury obligations are viewed as risk-free assets and are risk-weighted at 0%.

A simple, objective measure of the riskiness of a bank's assets is the "risk-weighted asset density" ratio, defined as risk-weighted assets divided by total assets. The higher the ratio, the more risk the bank is taking. The lower the ratio, the less risk the bank is taking. Below is a table comparing the risk-weighted asset densities of Chain Bridge and the nation's six largest banks:

**Risk-Weighted Asset Density Ratio**
*(Risk-Weighted Assets as a Percent of Total Assets)*
**Chain Bridge Bank, N.A. Compared to the Six Largest Banks in the Country**
**And the Average of all U.S. Commercial Banks**

| | *(Lower is Better)* | |
|---|---|---|
| | **Percent** | **Rank** |
| Chain Bridge Bank, National Association | 43.9% | 1 |
| JPMorgan Chase Bank, National Association | 62.4% | 2 |
| Wells Fargo Bank, National Association | 67.0% | 3 |
| Bank of America, National Association | 68.6% | 4 |
| Citibank, N.A. | 73.2% | 5 |
| U.S. Bank National Association | 79.4% | 6 |
| PNC Bank, National Association | 80.6% | 7 |
| Average of all U.S. Commercial Banks | 71.6% | |

In 2017, Chain Bridge Bank again had a "Texas ratio" (non-performing assets divided by equity plus loan loss reserves) of zero. No other bank headquartered in Virginia, Maryland or the District of Columbia had a Texas ratio of zero in 2017.

There are 4,778 FDIC-insured commercial banks with loans over $10 million. Of those 4,778 institutions, Chain Bridge is one of only 41, nationwide, to have maintained a Texas Ratio of zero for the past six years in a row.

**Outlook**

As I write this letter, the nation is now celebrating the 9th anniversary of the current bull market in stocks, one of the longest in history. Stock market capitalization to GDP now exceeds the peak levels of 2007 and roughly matches the peak levels achieved during the “tech bubble” in 1999.

Real estate values have also soared and the ratio of new home values divided by income per capita is now back at prior peak levels of 7.5 times. Total U.S. household net worth has risen steadily and is now nearly 7 times disposable income, an all-time record.

All previous occasions in which asset values have reached such historically extreme levels have eventually been followed by corrections. Often the corrections have occurred only after investors have convinced themselves that the extremes are a new permanent reality.

Just as asset values sometimes overshoot, in good times, to the upside, so too they sometimes overshoot, during corrections, to the downside. As the legendary market economist Bob Farrell observed, the longer the extremes carry and the more records they set, the longer and more severe will be the subsequent correction.

As stewards of both shareholders’ and depositors’ funds, Chain Bridge Bank remains, as ever, vigilant.

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As the Bank enters its second decade, I wish to thank the clients, shareholders, employees, officers and directors for their hard work and dedication. I am very proud of the Bank we have built together. I look forward to continuing to new heights of excellence together.

Very truly yours,

Peter G. Fitzgerald

Peter G. Fitzgerald,
Chairman of the Board

PGF/hn

Enclosures

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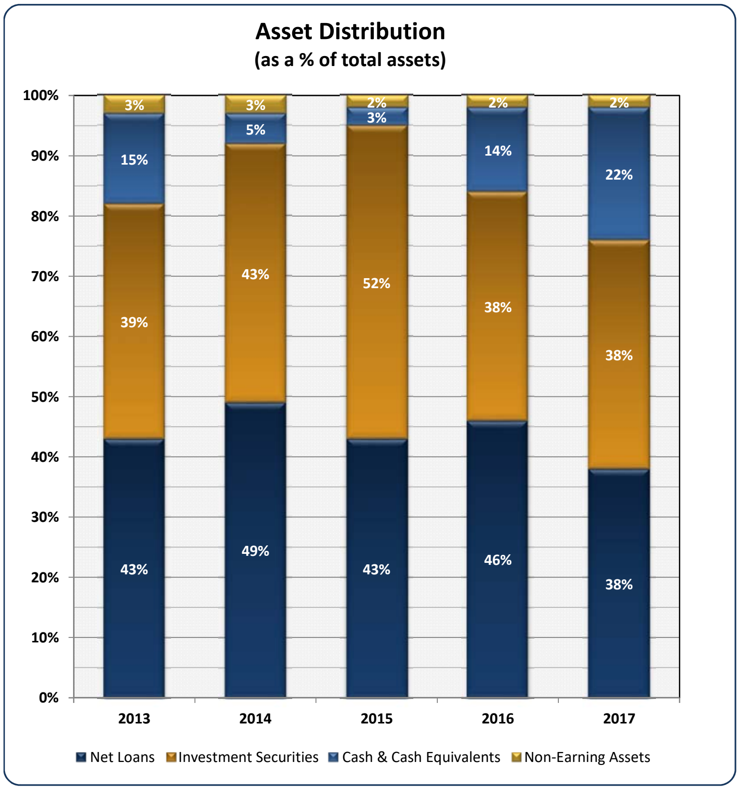
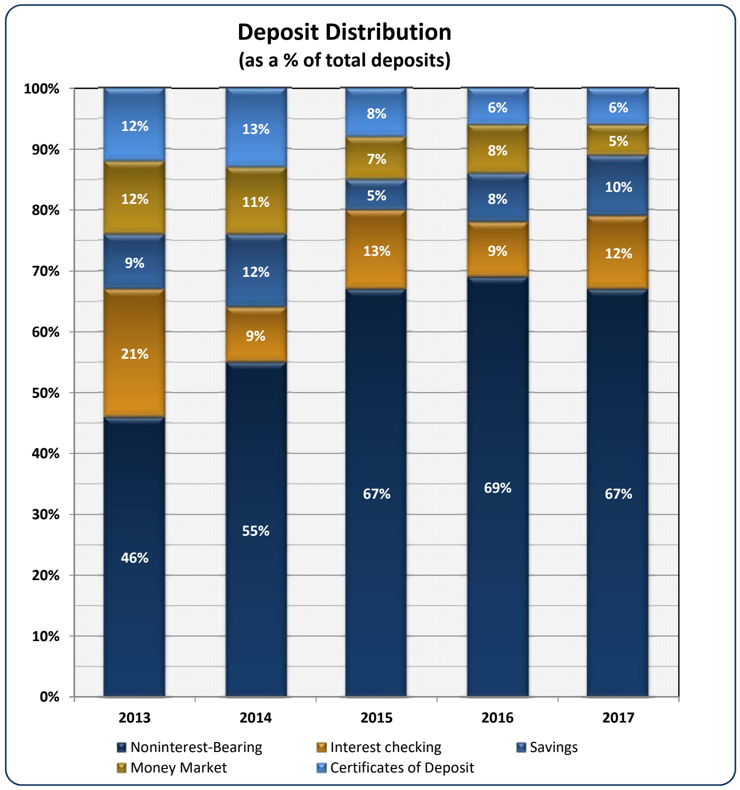
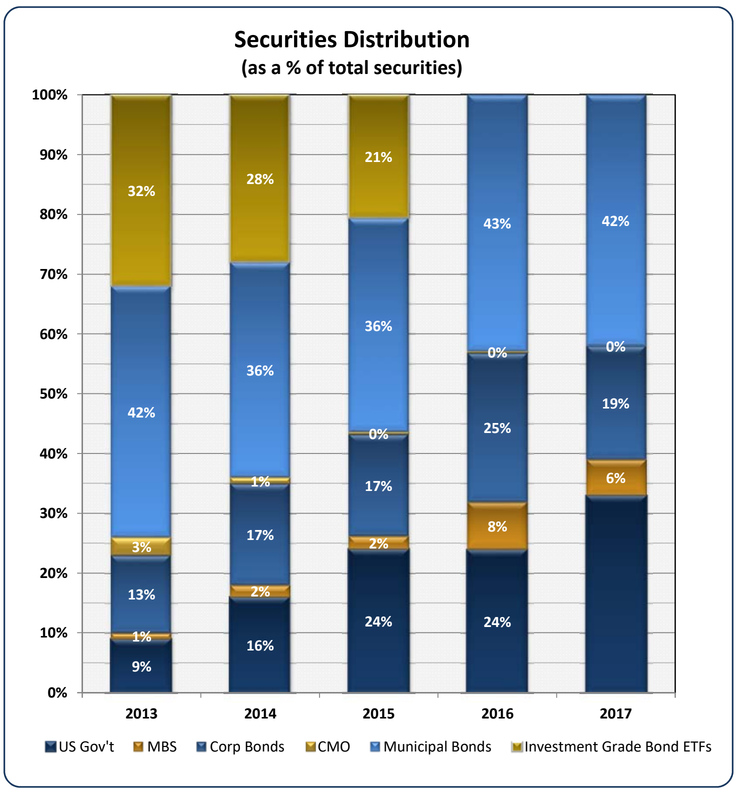
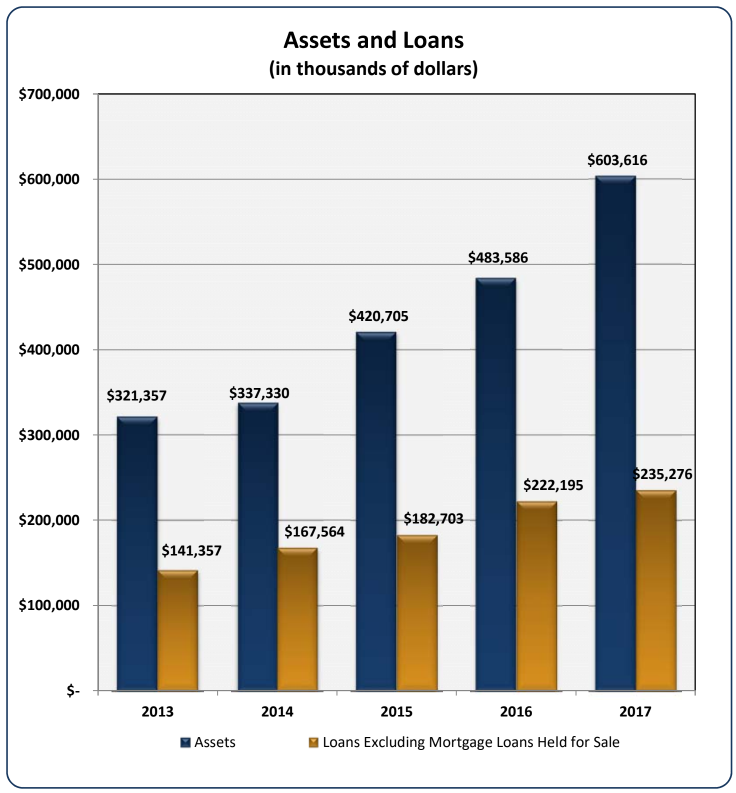
# Balance Sheet Information



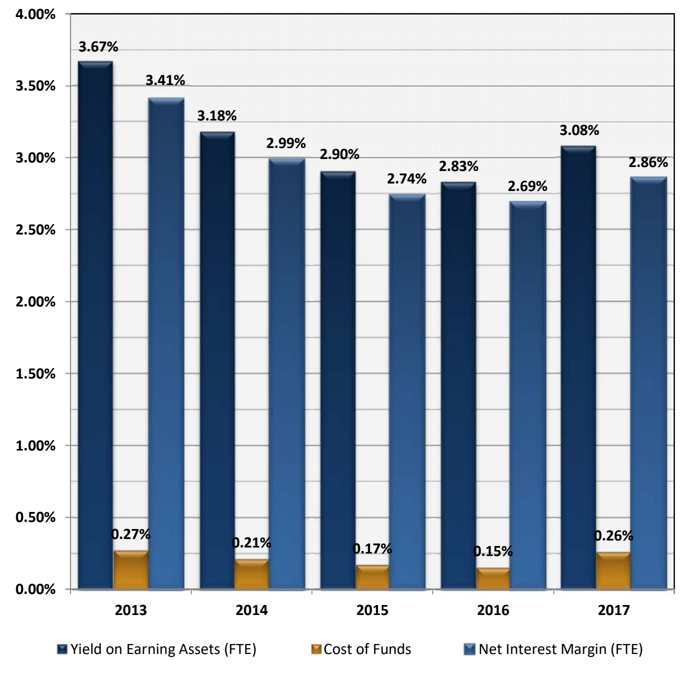



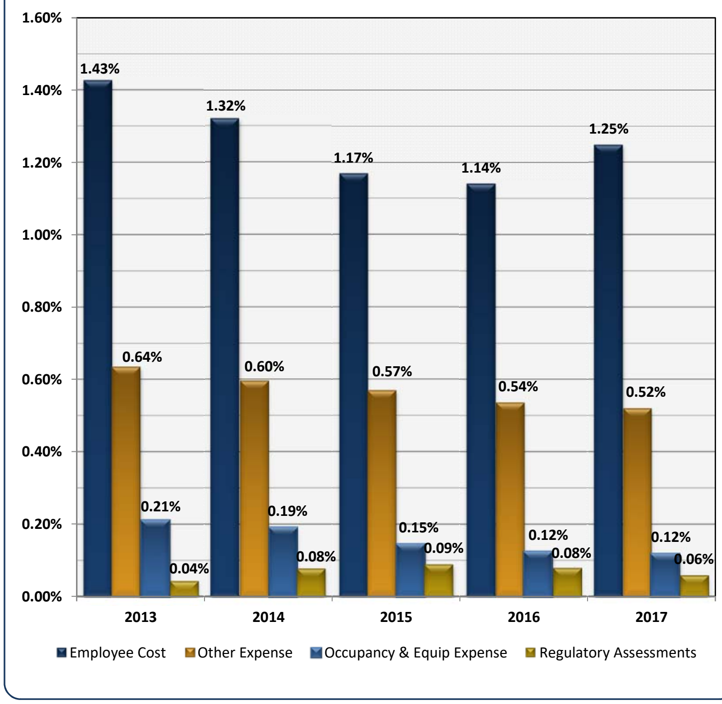



# Income Statement and Asset Quality Information

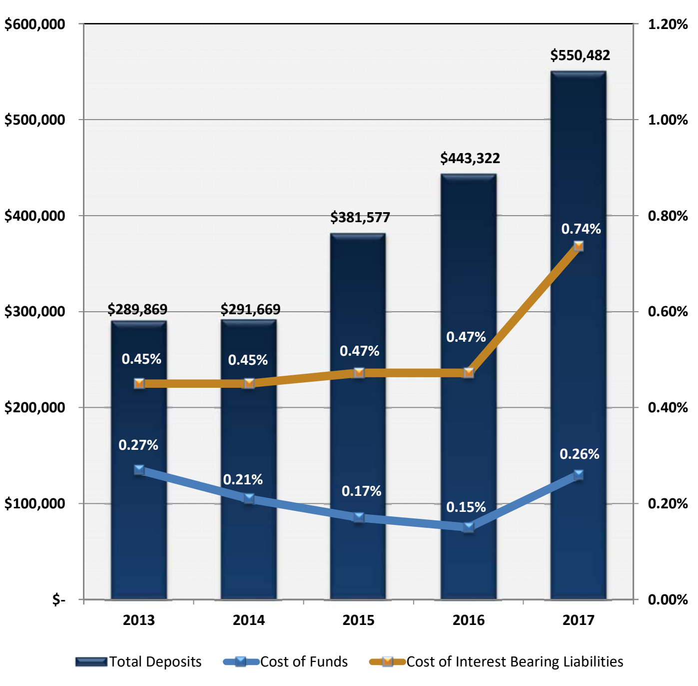
## Interest Comparison Fully Taxable Equivalent
(as a % of average earning assets)



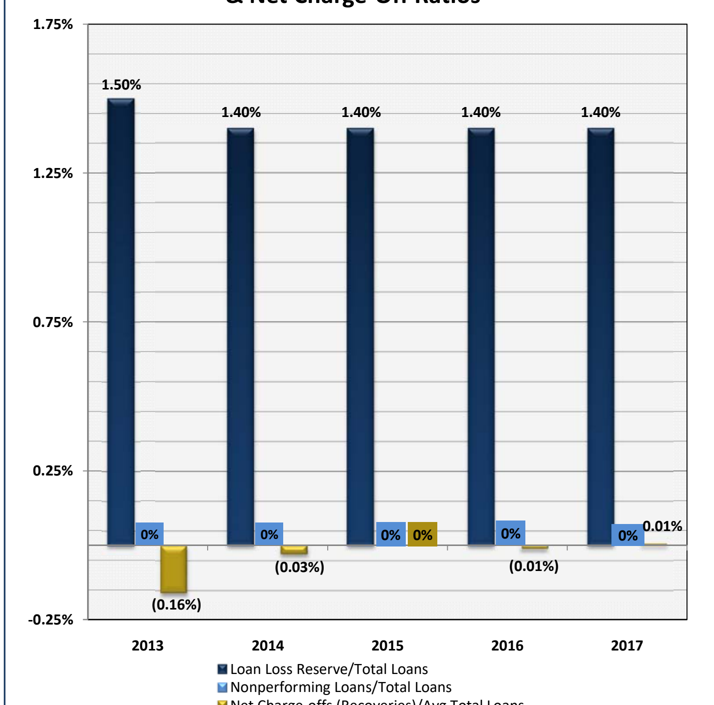

## Operating Expense
(as a % of average assets)



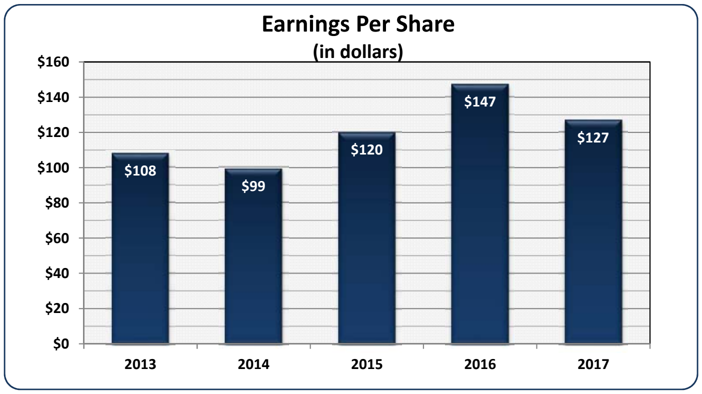

## Deposits Balance and Costs
(in thousands of dollars)

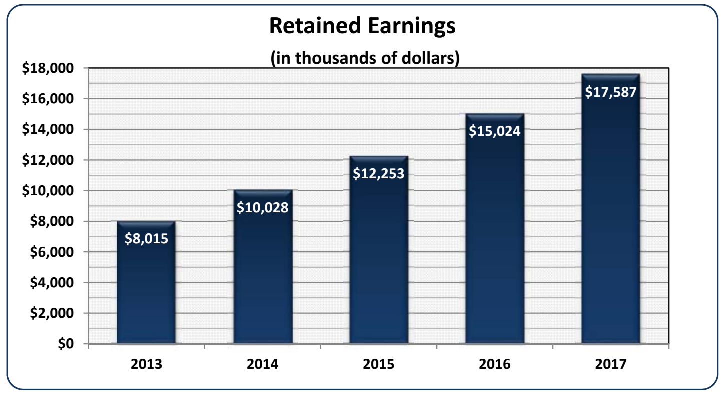


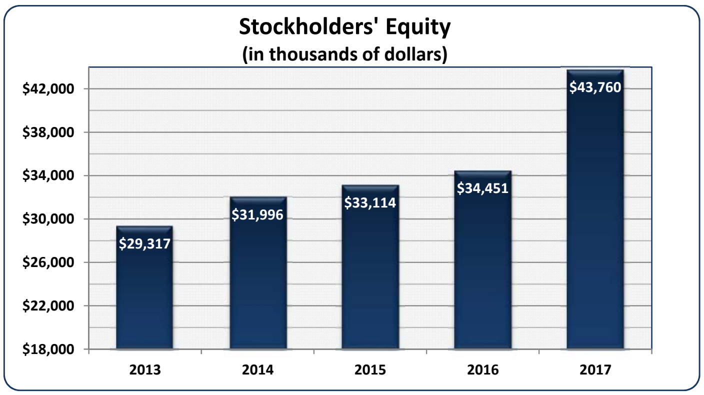

## Loan Loss Reserve, Nonperforming Loans & Net Charge-Off Ratios

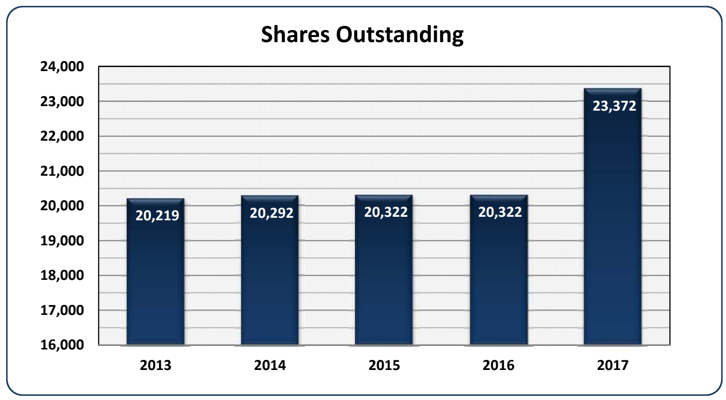


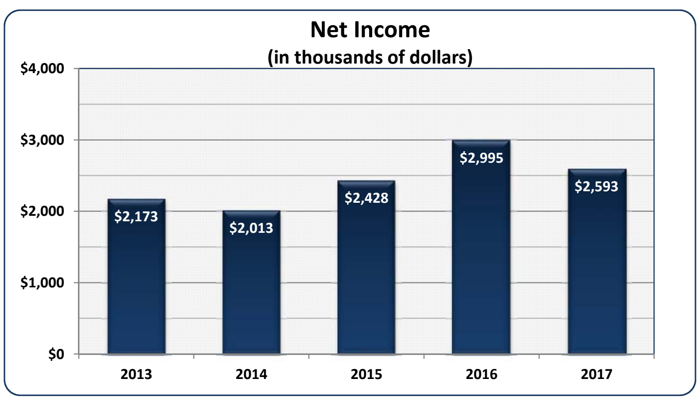
# Equity Information and Returns

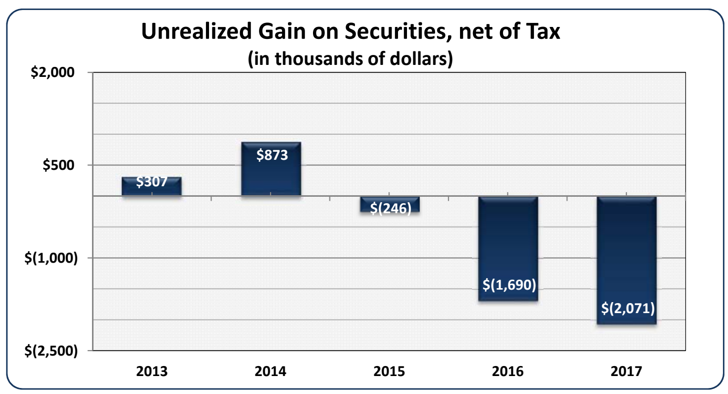


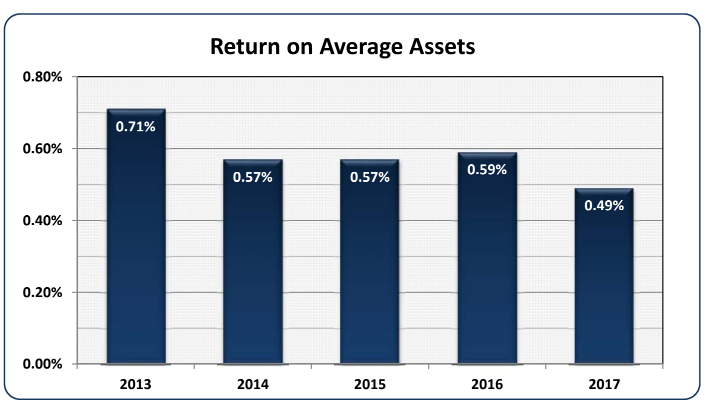



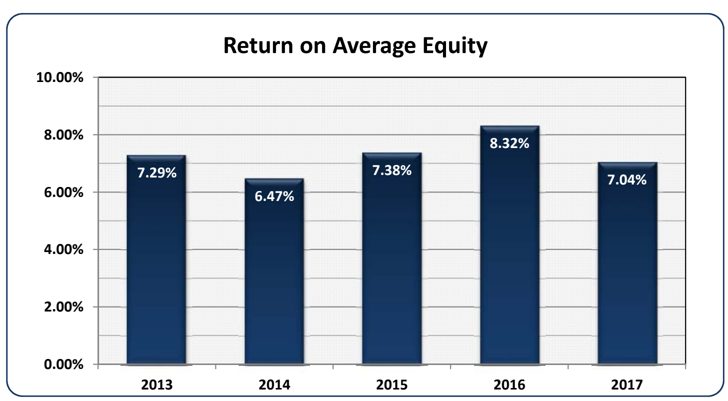



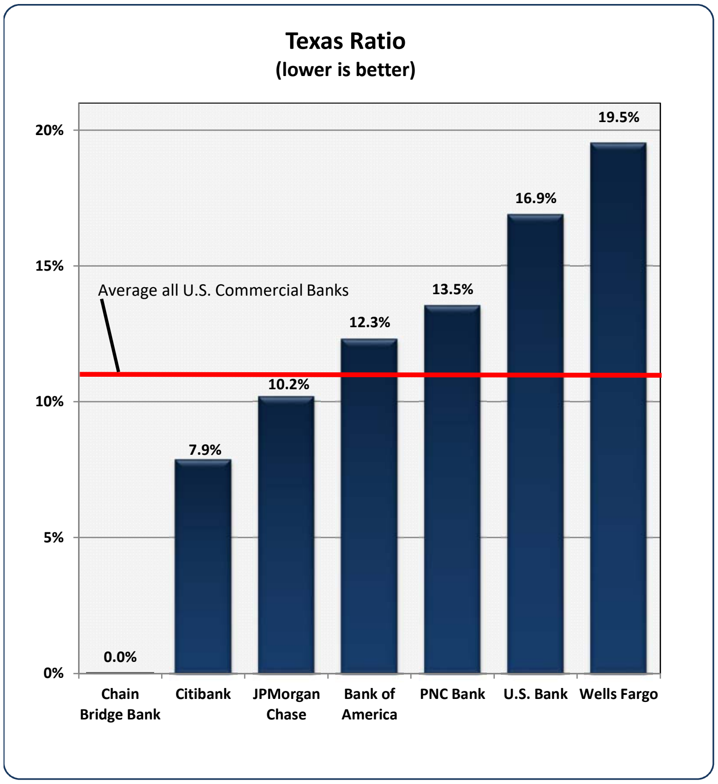



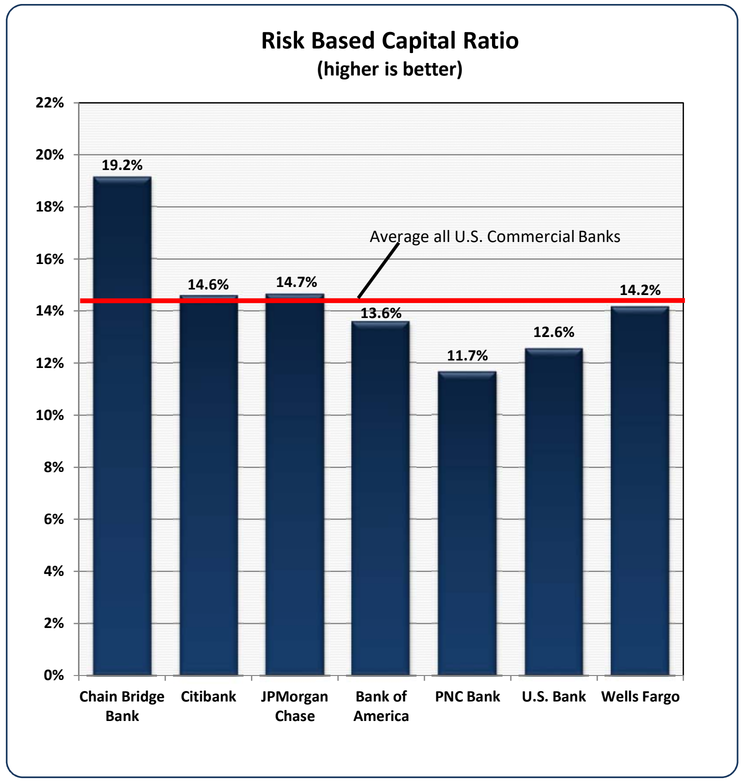



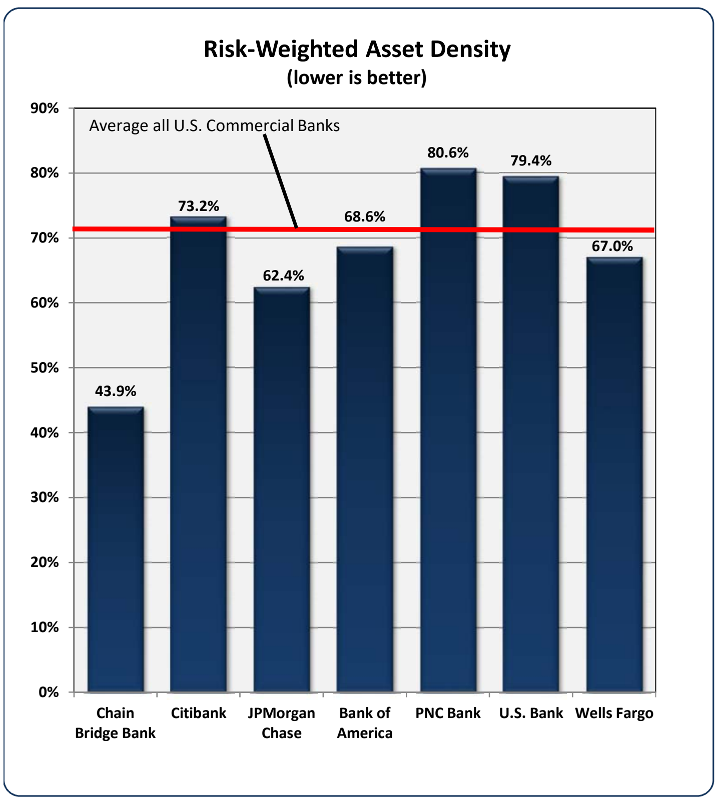



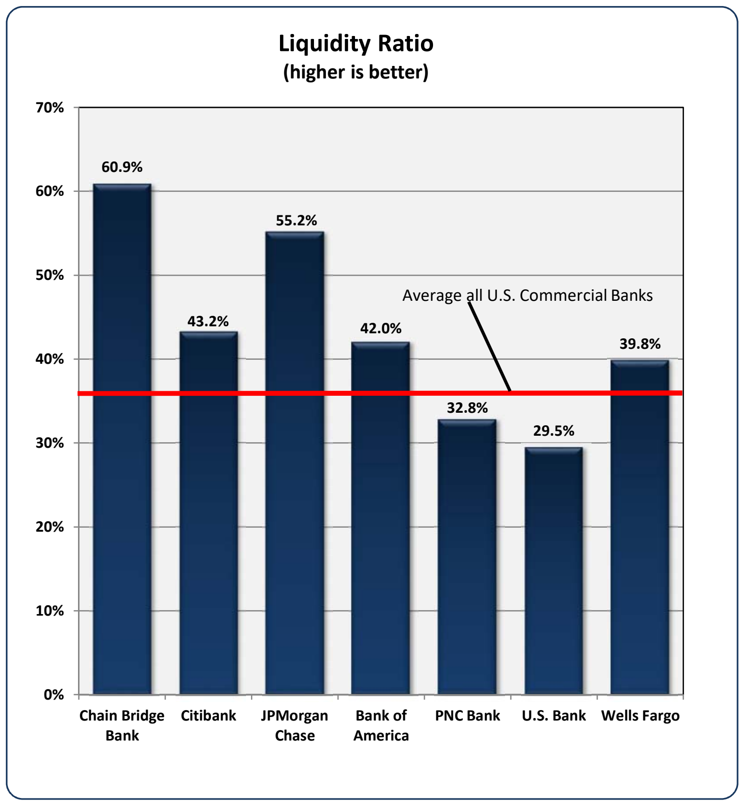



# Industry Safety & Soundness Comparison



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# Chain Bridge Bancorp, Inc.
# and Subsidiary

**McLean, Virginia**

## Consolidated Financial Report

**December 31, 2017**

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Yount
Hyde &
Barbour
Certified Public Accountants
and Consultants

# INDEPENDENT AUDITOR'S REPORT

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

**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, 2017 and 2016, the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

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

**Auditor's Responsibility**
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

**Opinion**
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Chain Bridge Bancorp, Inc. and its subsidiary as of December 31, 2017 and 2016, 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 8, 2018



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(540) 662-3417 Offices located in: Winchester, Middleburg, Leesburg, Culpeper, and Richmond, Virginia
FAX (540) 662-4211 Member: American Institute of Certified Public Accountants / Virginia Society of Certified Public Accountants

# Chain Bridge Bancorp, Inc. and Subsidiary

## Consolidated Balance Sheets

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | $ 133,072,179 | $ 67,173,120 |
| Securities available for sale, at fair market value | 223,898,622 | 182,387,964 |
| Restricted securities, at cost | 1,953,600 | 1,695,900 |
| Loans held for sale | 197,972 | 1,914,731 |
| Loans, net of allowance for loan losses of $3,294,000 in 2017 and $3,110,000 in 2016 | 231,982,443 | 219,084,628 |
| Premises and equipment, net of accumulated depreciation of $3,773,551 in 2017 and $3,389,556 in 2016 | 8,332,864 | 7,438,255 |
| Accrued interest receivable | 2,246,377 | 1,657,750 |
| Other assets | 1,931,729 | 2,234,036 |
| Total assets | $ 603,615,786 | $ 483,586,384 |
| **Liabilities and Stockholders' Equity** | | |
| **Liabilities** | | |
| Deposits: | | |
| Noninterest bearing | $ 368,215,649 | $ 304,861,053 |
| Savings, interest-bearing checking and money market accounts | 149,073,921 | 109,704,827 |
| Time, $250,000 and over | 18,490,658 | 15,822,200 |
| Other time | 14,701,901 | 12,934,149 |
| Total deposits | $ 550,482,129 | $ 443,322,229 |
| Securities sold under agreements to repurchase | 5,407,769 | 1,521,953 |
| Short term borrowings | 2,250,000 | 2,000,000 |
| Accrued interest payable | 98,232 | 94,931 |
| Accrued expenses and other liabilities | 1,617,314 | 2,195,938 |
| Total liabilities | $ 559,855,444 | $ 449,135,051 |
| **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, | | |
| 23,372 and 20,322 shares issued and outstanding | 23,372 | 20,322 |
| Additional paid-in capital | 27,786,595 | 21,097,095 |
| Retained earnings | 17,586,588 | 15,024,262 |
| Accumulated other comprehensive loss | (1,636,213) | (1,690,346) |
| Total stockholders' equity | $ 43,760,342 | $ 34,451,333 |
| Total liabilities and stockholders' equity | $ 603,615,786 | $ 483,586,384 |

See Notes to Consolidated Financial Statements.

## Chain Bridge Bancorp, Inc. and Subsidiary

### Consolidated Statements of Income

For the Years Ended December 31, 2017 and 2016

| | 2017 | 2016 |
|---|---|---|
| **Interest and Dividend Income** | | |
| Interest and fees on loans | $ 9,721,579 | $ 8,398,548 |
| Interest and dividends on securities, taxable | 3,543,932 | 3,225,735 |
| Interest on securities, tax-exempt | 1,119,208 | 1,136,201 |
| Interest on interest bearing deposits in banks | 1,027,015 | 486,296 |
| Total interest and dividend income | $ 15,411,734 | $ 13,246,780 |
| **Interest Expense** | | |
| Interest on deposits | $ 1,173,760 | $ 609,670 |
| Interest on short-term borrowings | 91,735 | 70,762 |
| Total interest expense | $ 1,265,495 | $ 680,432 |
| **Net Interest Income** | $ 14,146,239 | $ 12,566,348 |
| **Provision for Loan Losses** | 198,718 | 530,042 |
| Net interest income after provision for loan losses | $ 13,947,521 | $ 12,036,306 |
| **Noninterest Income** | | |
| Service charges on deposit accounts | $ 228,597 | $ 356,286 |
| Gain on sale of mortgage loans | 183,602 | 191,077 |
| Rent income | 138,298 | 194,076 |
| Other income | 292,904 | 287,673 |
| (Loss) gain on sale of securities | (2,349) | 352,259 |
| Total noninterest income | $ 841,052 | $ 1,381,371 |
| **Noninterest Expenses** | | |
| Salaries and employee benefits | $ 6,627,950 | $ 5,756,034 |
| Data processing and communication expenses | 990,082 | 921,671 |
| Occupancy and equipment expenses | 630,238 | 627,927 |
| Professional services | 495,326 | 396,530 |
| Virginia bank franchise tax | 384,598 | 307,600 |
| FDIC assessments and regulatory assessments | 313,400 | 399,600 |
| Other operating expenses | 889,666 | 1,078,760 |
| Total noninterest expenses | $ 10,331,260 | $ 9,488,122 |
| Net income before taxes | $ 4,457,313 | $ 3,929,555 |
| **Income Tax Expense** | | |
| Current tax expense | $ 1,228,935 | $ 1,129,237 |
| Deferred tax benefit | (58,405) | (194,368) |
| Deferred tax asset adjustment for enacted change in federal tax rate | 693,957 | - - |
| Total income tax expense | $ 1,864,487 | $ 934,869 |
| **Net income** | $ 2,592,826 | $ 2,994,686 |
| Earnings per common share, basic and diluted | $ 127.41 | $ 147.36 |

See Notes to Consolidated Financial Statements.

## Chain Bridge Bancorp, Inc. and Subsidiary

**Consolidated Statements of Comprehensive Income**
For the Years Ended December 31, 2017 and 2016

| | 2017 | 2016 |
|---|---|---|
| Net income | $ 2,592,826 | $ 2,994,686 |
| Other comprehensive income (loss): | | |
| Unrealized holding gains (losses) on securities available for sale, net of tax of $165,793 in 2017 and ($624,156) in 2016 | $ 321,833 | $ (1,211,597) |
| Reclassification adjustment for losses (gains) included in net income, net of taxes of $799 in 2017 and ($119,768) in 2016 | 1,550 | (232,491) |
| Other comprehensive income (loss), net of tax | $ 323,383 | $ (1,444,088) |
| Comprehensive income | $ 2,916,209 | $ 1,550,598 |

See Notes to Consolidated Financial Statements.

## Chain Bridge Bancorp, Inc. and Subsidiary

### Consolidated Statements of Cash Flows

For the Years Ended December 31, 2017 and 2016

| | 2017 | 2016 |
|---|---|---|
| **Cash Flows from Operating Activities** | | |
| Net income | $ 2,592,826 | $ 2,994,686 |
| Reconciliation of net income to net cash provided by operating activities: | | |
| Depreciation and amortization of premises and equipment | 383,996 | 394,082 |
| Premium amortization and discount accretion on investment securities, net | 1,053,509 | 1,168,608 |
| Provision for loan losses | 198,718 | 530,042 |
| Loss (gain) on sale of securities | 2,349 | (352,259) |
| Gain on sale of mortgage loans | (183,602) | (191,077) |
| Origination of loans held for sale | (12,162,998) | (16,929,020) |
| Proceeds from sale of loans | 14,063,359 | 16,242,630 |
| Equity based compensation, including tax benefit | - - | 10,503 |
| Deferred tax adjustment for enacted change in federal tax rate | 693,957 | - - |
| Deferred income tax benefit | (58,405) | (194,368) |
| Changes in assets and liabilities: | | |
| (Increase) in accrued interest and other assets | (1,088,464) | (432,246) |
| (Decrease) increase in accrued expenses and other liabilities | (575,323) | 804,226 |
| Net cash provided by operating activities | $ 4,919,922 | $ 4,045,807 |
| **Cash Flows from Investing Activities** | | |
| Purchases of securities available for sale | $ (63,867,024) | $ (166,098,690) |
| Proceeds from calls, maturities and sales of securities available for sale | 21,790,483 | 196,765,324 |
| (Purchase) redemption of restricted securities | (257,700) | 69,900 |
| Net increase in loans | (13,096,533) | (39,469,870) |
| Purchases of premises and equipment, net | (1,278,605) | (140,896) |
| Net cash (used in) investing activities | $ (56,709,379) | $ (8,874,232) |
| **Cash Flows from Financing Activities** | | |
| Net increase in non-interest bearing, savings, interest-bearing checking and money market deposits | $ 102,723,690 | $ 63,576,792 |
| Net increase (decrease) in time deposits | 4,436,210 | (1,831,565) |
| Net increase (decrease) in short-term borrowings | 250,000 | (2,000,000) |
| Net increase in securities sold under agreements to repurchase | 3,885,816 | 994,743 |
| Cash dividend | (299,750) | (223,542) |
| Proceeds from stock issuance | 6,692,550 | - - |
| Net cash provided by financing activities | $ 117,688,516 | $ 60,516,428 |
| Net increase in cash and cash equivalents | $ 65,899,059 | $ 55,688,003 |
| Cash and cash equivalents, beginning of period | 67,173,120 | 11,485,117 |
| Cash and cash equivalents, end of period | $ 133,072,179 | $ 67,173,120 |
| **Supplemental Disclosures of Cash Flow Information** | | |
| Cash payments for interest | $ 1,262,194 | $ 679,424 |
| Cash payments for taxes | $ 1,284,621 | $ 1,125,803 |
| **Supplemental Disclosures of Noncash Investing Activities** | | |
| Fair value adjustment for securities | $ 489,975 | $ (2,188,014) |

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, 2017 and 2016

| | Common Stock | Additional Paid-In Capital | Retained Earnings | Accumulated Other Comprehensive (loss) | Total |
|---|---|---|---|---|---|
| **Balance at December 31, 2015** | $ 20,322 | $ 21,086,592 | $ 12,253,118 | $ (246,258) | $ 33,113,774 |
| 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 ($11.00 per share) | - - | - - | (223,542) | - - | (223,542) |
| **Balance at December 31, 2016** | $ 20,322 | $ 21,097,095 | $ 15,024,262 | $ (1,690,346) | $ 34,451,333 |
| Net income | - - | - - | 2,592,826 | - - | 2,592,826 |
| Other comprehensive income | - - | - - | - - | 323,383 | 323,383 |
| Reclassification of stranded tax effects from change in tax rate | - - | - - | 269,250 | (269,250) | - - |
| Issuance of common stock | 3,050 | 6,689,500 | - - | - - | 6,692,550 |
| Cash dividend ($14.75 per share) | - - | - - | (299,750) | - - | (299,750) |
| **Balance at December 31, 2017** | $ 23,372 | $ 27,786,595 | $ 17,586,588 | $ (1,636,213) | $ 43,760,342 |

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.

## Reclassification

Certain amounts in the 2016 consolidated financial statements have been reclassified to conform to the 2017 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 income (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 income (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 debt securities for other-than-temporary impairment based on criteria that include the extent to which cost exceeds market price, the duration of that market decline, the financial health of and specific prospects for the issuer, the Bank's best estimate of the present value of cash flows expected to be collected from debt securities, the Bank's intention with regard to holding the security to maturity and the likelihood that the Bank would be required to sell the security before recovery.

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.

**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.

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.

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 less estimated selling costs. Large groups of smaller balance, homogeneous loans are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual consumer and residential loans for impairment disclosures.

**Troubled Debt Restructurings**

In situations where, for economic or legal reasons related to a borrower's financial condition, management may grant a concession to the borrower that it would not otherwise consider, the related loan is classified as a troubled debt restructuring (TDR). Management strives to identify borrowers in financial difficulty early and work with them to modify their loan to more affordable terms before their loan reaches nonaccrual status. These modified terms may include rate reductions, principal forgiveness, payment forbearance and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. In cases where borrowers are granted new terms that provide for a reduction of either interest or principal, management measures any impairment on the restructuring as noted above for impaired loans. The Bank had no TDRs as of December 31, 2017 and 2016.

**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, 2017 and 2016.

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

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, 2017 or 2016.

**Transfers of Financial Assets**

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

**Earnings Per Share**

Basic earnings per share represents income available to common stockholders divided by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. For the years ended December 31, 2017 and 2016, the weighted average number of shares outstanding for calculating basic and diluted earnings per share was 20,350 and 20,322, respectively.

**Advertising Costs**

The Bank follows the policy of charging the production costs of advertising to expense as incurred. The Bank expensed $47,056 and $94,379 for advertising costs for the years ended December 31, 2017 and 2016, respectively.

**Comprehensive Income**

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities, are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income. For the years ended December 31, 2017 and 2016, the Bank's other comprehensive income (loss) relates to changes in realized and unrealized gains and losses on available for sale securities, net of tax. Any reclassification out of accumulated other comprehensive income (loss) is a result of realized securities gains or losses and is included in the "(Loss) gain on sale of securities" line item on the Consolidated Statements of Income.

In February 2018, the FASB issued ASU 2018-02, "Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income ("AOCI")." The Company early adopted this new standard in the current year. ASU 2018-01 requires reclassification from AOCI to retained earnings for stranded tax effects resulting from the impact of the newly enacted federal corporate income tax rate on items included in AOCI. The amount of this reclassification in 2017 was $269,250.

**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.

**Loss Contingencies**

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

**Dividend Restriction**

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

**Recent Accounting Pronouncements**

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.

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 does not expect the adoption of ASU 2016-02 to have a material impact 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.

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.

During January 2017, the FASB issued ASU No. 2017-01, "Business Combinations (Topic 805): Clarifying the Definition of a Business." The amendments in this ASU clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. Under the current implementation guidance in Topic 805, there are three elements of a business—inputs, processes, and outputs. While an integrated set of assets and activities (collectively referred to as a "set") that is a business usually has outputs, outputs are not required to be present. In addition, all the inputs and processes that a seller uses in operating a set are not required if market participants can acquire the set and continue to produce outputs. The amendments in this ASU provide a screen to determine when a set is not a business. If the screen is not met, the amendments (1) require that to be considered a business, a set must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output and (2) remove the evaluation of whether a market participant could replace missing elements. The ASU provides a framework to assist entities in evaluating whether both an input and a substantive process are present. The amendments in this ASU are effective for annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. The amendments in this ASU should be applied prospectively on or after the effective date. No disclosures are required at transition. The Company does not expect the adoption of ASU 2017-01 to have a material impact on its consolidated financial statements.

During March 2017, the FASB issued ASU 2017-08, "Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20), Premium Amortization on Purchased Callable Debt Securities." The amendments in this ASU shorten the amortization period for certain callable debt securities purchased at a premium. Upon adoption of the standard, premiums on these qualifying callable debt securities will be amortized to the earliest call date. Discounts on purchased debt securities will continue to be accreted to maturity. The amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted, including adoption in an interim period. Upon transition, entities should apply the guidance on a modified retrospective basis, with a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption and provide the disclosures required for a change in accounting principle. The Company does not expect the adoption of ASU 2017-08 to have a material impact on its consolidated financial statements.

During May 2017, the FASB issued ASU 2017-09, "Compensation – Stock Compensation (Topic 718): Scope of Modification Accounting." The amendments provide guidance on determining which changes to the terms and conditions of share-based payment awards require an entity to apply modification accounting under Topic 718. The amendments are effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted, including adoption in any interim period, for reporting periods for which financial statements have not yet been issued. The Company is currently assessing the impact that ASU 2017-09 will have on its consolidated financial statements.

## Note 2. Securities

Amortized cost and fair value of securities available for sale as of December 31, 2017 and 2016 are as follows:

| | December 31, 2017 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized (Losses) | Fair Value |
| Securities of U.S. government and federal agencies | $ 74,532,954 | $ 13,008 | $ (1,354,448) | 73,191,514 |
| Mortgage backed securities | 13,906,708 | 45,152 | (310,235) | 13,641,625 |
| Corporate bonds | 42,301,371 | 326,377 | (382,932) | 42,244,816 |
| Collateralized mortgage obligations | 257,090 | 1,683 | (803) | 257,970 |
| State and municipal securities | 94,471,655 | 602,624 | (1,012,055) | 94,062,224 |
| Mutual and exchange-traded funds | 500,000 | 473 | - - | 500,473 |
| Total | $ 225,969,778 | $ 989,317 | $ (3,060,473) | $ 223,898,622 |

| | 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 | $ 184,949,095 | $ 1,255,241 | $ (3,816,372) | $ 182,387,964 |

At December 31, 2017 and 2016, securities with a carrying value of $17,250,046 and $20,182,734 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 $21,790,483 and $196,765,324 for 2017 and 2016, respectively. The gross realized gains on securities for 2017 and 2016 totaled $9,005 and $406,815, respectively. The gross realized losses on securities for 2017 and 2016 totaled $11,354 and $54,556, respectively.

There were no held to maturity securities at December 31, 2017 or 2016.

The amortized cost and fair value of securities by contractual maturity at December 31, 2017 follows:

| | Cost | Value |
|---|---|---|
| Within one year | $ 17,282,156 | $ 17,292,121 |
| After one year through five years | 120,656,008 | 120,124,055 |
| After five years through ten years | 58,189,386 | 57,190,617 |
| Over ten years | 29,342,228 | 28,791,356 |
| Total | $ 225,469,778 | $ 223,398,149 |

Expected maturities may differ from contractual maturities if borrowers have the right to call or repay obligations with or without prepayment penalties. Mutual funds and exchange-traded funds with a cost of $500,000 and fair value of $500,472 have no stated maturites and are excluded from the table above.

At December 31, 2017 and 2016, investments in an unrealized loss position that were temporarily impaired follows:

| | December 31, 2017 | | | | |
|---|---|---|---|---|---|
| | Less Than Twelve Months | | Over Twelve Months | | |
| | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses | Fair Value | Total Unrealized Losses |
| Securities of U.S. government and federal agencies | $ (267,566) | $ 31,098,633 | $ (1,086,882) | $ 37,156,711 | $ (1,354,448) |
| Mortgage backed securities | (36,689) | 2,213,978 | (273,546) | 9,791,201 | (310,235) |
| Corporate bonds | (134,660) | 18,936,507 | (248,272) | 14,005,059 | (382,932) |
| Collateralized mortgage obligations | (360) | 55,421 | (443) | 27,602 | (803) |
| State and municipal securities | (390,183) | 42,195,371 | (621,872) | 20,165,449 | (1,012,055) |
| Total | $ (829,458) | $ 94,499,910 | $ (2,231,015) | $ 81,146,022 | $ (3,060,473) |

| | December 31, 2016 | | | | |
|---|---|---|---|---|---|
| | Less Than Twelve Months | | Over Twelve Months | | |
| | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses | Fair Value | Total Unrealized Losses |
| Securities of U.S. government and federal agencies | $ (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 | $ (3,715,058) | $ 124,468,152 | $ (101,314) | $ 5,182,753 | $ (3,816,372) |

At December 31, 2017 and 2016, 268 and 215 debt and equity securities had unrealized losses with aggregate depreciation of 1.71 and 2.06 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, 2017 and 2016, 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, | |
|---|---|---|
| | 2017 | 2016 |
| Commercial real estate | $ 59,610,546 | $ 49,263,991 |
| Commercial | 18,300,109 | 24,789,254 |
| Residential real estate closed-end | 136,789,612 | 126,087,268 |
| Other consumer loans | 20,576,176 | 22,054,115 |
| | $ 235,276,443 | $ 222,194,628 |
| Less allowance for loan losses | (3,294,000) | (3,110,000) |
| Loans, net | $ 231,982,443 | $ 219,084,628 |

Overdrafts totaling $3,861 and $17,664 at December 31, 2017 and 2016, respectively, were reclassified from deposits to loans.

The totals above include deferred fees (net of deferred costs) of $41,461 and $102,147 at December 31, 2017 and 2016, respectively.

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, 2017 and 2016:

| | December 31, 2017 | | | | |
|---|---|---|---|---|---|
| | Commercial Real Estate | Commercial | Residential Real Estate Closed-End | Other Consumer Loans | Total |
| Allowance for loan losses: | | | | | |
| Beginning of year | $ 635,291 | $ 506,305 | $ 1,620,062 | $ 348,342 | $ 3,110,000 |
| Provision | 158,369 | (134,476) | 173,584 | 1,241 | 198,718 |
| Charge-offs | - - | - - | - - | (14,718) | (14,718) |
| Recoveries | - - | - - | - - | - - | - - |
| End of year | $ 793,660 | $ 371,829 | $ 1,793,646 | $ 334,865 | $ 3,294,000 |
| Reserves: | | | | | |
| Specific | $ - - | $ - - | $ - - | $ - - | $ - - |
| General | 793,660 | 371,829 | 1,793,646 | 334,865 | 3,294,000 |
| Total reserves | $ 793,660 | $ 371,829 | $ 1,793,646 | $ 334,864 | $ 3,294,000 |
| Loans evaluated for impairment: | | | | | |
| Individually | $ - - | $ - - | $ - - | $ - - | $ - - |
| Collectively | 59,610,546 | 18,300,109 | 136,789,612 | 20,576,176 | 235,276,443 |
| Total Loans | $ 59,610,546 | $ 18,300,109 | $ 136,789,612 | $ 20,576,176 | $ 235,276,443 |

| | 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 | $ 635,291 | $ 506,305 | $ 1,620,062 | $ 348,342 | $ 3,110,000 |
| Reserves: | | | | | |
| Specific | $ - - | $ - - | $ - - | $ - - | $ - - |
| General | 635,291 | 506,305 | 1,620,062 | 348,342 | 3,110,000 |
| Total reserves | $ 635,291 | $ 506,305 | $ 1,620,062 | $ 348,342 | $ 3,110,000 |
| Loans evaluated for impairment: | | | | | |
| Individually | $ - - | $ - - | $ - - | $ - - | $ - - |
| Collectively | 49,263,991 | 24,789,254 | 126,087,268 | 22,054,115 | 222,194,628 |
| Total Loans | $ 49,263,991 | $ 24,789,254 | $ 126,087,268 | $ 22,054,115 | $ 222,194,628 |

Based on the most recent analysis performed, the risk category of loans by class of loans was as follows as of December 31, 2017 and 2016:

| | December 31, 2017 | | | | | |
|---|---|---|---|---|---|---|
| | Pass | Special Mention | Substandard | Doubtful | Loss | Total |
| Commercial real estate | $ 59,610,546 | $ - - | $ - - | $ - - | $ - - | $ 59,610,546 |
| Commercial | 13,060,708 | 5,239,401 | - - | - - | - - | 18,300,109 |
| Residential real estate closed-end | 136,789,612 | - - | - - | - - | - - | 136,789,612 |
| Other consumer loans | 20,401,763 | 174,413 | - - | - - | - - | 20,576,176 |
| Total Loans | $ 229,862,629 | $ 5,413,814 | $ - - | $ - - | $ - - | $ 235,276,443 |

| | 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 | $ 221,474,365 | $ 720,263 | $ - - | $ - - | $ - - | $ 222,194,628 |

There were no impaired loans as of December 31, 2017 or 2016.

There were no nonaccrual loans, loans 90 days past due and still accruing, or past due for 30 or more days at December 31, 2017 and 2016.

There were no loan modifications classified as TDRs during the years ended December 31, 2017 and 2016.

No loan modifications classified as TDRs subsequently defaulted during 2017 or 2016.

## Note 4. Premises and Equipment

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

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Land | $ 1,703,984 | $ 1,585,513 |
| Building | 7,013,169 | 6,539,284 |
| Furniture, fixtures and equipment | 1,487,537 | 1,377,219 |
| Building improvements | 1,862,657 | 1,325,795 |
| Construction in process | 39,068 | - - |
| | $ 12,106,415 | $ 10,827,811 |
| Less accumulated depreciation | 3,773,551 | 3,389,556 |
| Ending balance | $ 8,332,864 | $ 7,438,255 |

For 2017 and 2016, depreciation expense was $383,996 and $394,082, respectively.

**Note 5. Related Party Transactions**

Officers, directors and their affiliates had credit outstanding of $3,744,923 and $4,867,316 at December 31, 2017 and 2016, respectively, with the Bank. During 2017, there were no principal additions, and total principal payments were $1,122,393. 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, 2017 and 2016 amounted to $4,361,595 and $4,394,172, respectively.

**Note 6. Deposits**

Remaining maturities on certificates of deposit are as follows:

| | |
|---|---|
| 2018 | $ 13,758,513 |
| 2019 | 10,368,499 |
| 2020 | 1,409,439 |
| 2021 | 4,718,973 |
| 2022 | 2,937,135 |
| | $ 33,192,559 |

Brokered deposits totaled $6,008,233 and $195,561 at December 31, 2017 and 2016, respectively. Brokered deposits are placed through the Certificate of Deposit Account Registry Service (CDARS) or ICS.

The Bank had 2 customers with individual deposit balances exceeding five percent of total deposits as of December 31, 2017. The total deposit balances related to these customers as of December 31, 2017 were $82,966,920 or 15.07 percent of total deposits.

**Note 7. Borrowings**

**Securities Sold Under Agreements to Repurchase**

Securities sold under agreements to repurchase amounted to $5,407,769 and $1,521,953 at December 31, 2017 and 2016, respectively, and mature on a daily basis. They were secured by municipal securities with a fair value of $6,234,381 and $1,995,787 as of December 31, 2017 and 2016, respectively. The weighted average interest rate on these agreements was 0.15 percent at December 31, 2017 and 2016.

**Federal Home Loan Bank Advance**

At December 31, 2017, the Bank had a secured line of credit with the Federal Home Loan Bank totaling $12,318,319. At December 31, 2017 and 2016, 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 Bank's loan portfolio. The line is renewed annually in September.

**Short Term Borrowings**

At December 31, 2017, the Company had an unsecured line of credit with a correspondent bank totaling $6,000,000 with $2,250,000 outstanding. At December 31, 2016, the same line totaled $4,000,000 with $2,000,000 outstanding. The line matures December 14, 2018 and contains certain covenants regarding the Company's return on average assets, risk-based capital and payment of dividends. The interest rate on the line of credit was 3.81 percent and 2.78 percent at December 31, 2017 and 2016, respectively.

The Bank has unsecured federal fund purchase lines of credit with Community Bankers' Bank totaling $5,000,000 maturing June 6, 2018 and Pacific Coast Bankers' Bank totaling $5,000,000 maturing June 30, 2018. There were no outstanding federal funds purchased balances as of December 31, 2017 or 2016.

## 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, 2017 and 2016 are presented below:

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| **Deferred Tax Assets** | | |
| Allowance for loan losses | $ 605,234 | $ 912,339 |
| Organizational and start-up expenses | 49,428 | 97,486 |
| Deferred loan fees | 8,707 | 34,730 |
| Depreciation | 22,695 | 7,810 |
| Securities available for sale | 434,943 | 870,784 |
| Total deferred tax assets | $ 1,121,007 | $ 1,923,149 |

There were no deferred tax liabilities at December 31, 2017 and December 31, 2016.

The provision for income taxes charged to operations for the years ended December 31, 2017 and 2016, consists of the following:

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Computed tax at applicable rate | $ 1,515,486 | $ 1,336,049 |
| Deferred tax asset adjustment for enacted change in tax rate | 693,957 | - - |
| Tax-exempt income | (401,771) | (408,866) |
| Other | 56,815 | 7,686 |
| Net provision for income taxes | $ 1,864,487 | $ 934,869 |

Income tax expense for 2017 includes a downward adjustment of net deferred tax assets in the amount of $693,957, recorded as a result of the enactment of H.R.1 Tax Cuts and Jobs Act on December 22, 2017. The Act reduced the corporate Federal tax rate from 34% to 21% effective January 1, 2018.

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, 2017 | December 31, 2016 |
|---|---|---|
| Computed tax at applicable rate | $ 1,515,486 | $ 1,336,049 |
| Deferred tax asset adjustment for enacted change in tax rate | 693,957 | - - |
| Tax-exempt income | (401,771) | (408,866) |
| Other | 56,815 | 7,686 |
| Net provision for income taxes | $ 1,864,487 | $ 934,869 |

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 2014.

## 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, 2017 and 2016, the following financial instruments whose contract amounts represent credit risk were outstanding:

| | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Commitments to grant loans | $ 5,735,809 | $ 23,932,955 |
| Unfunded commitments under lines of credit | 46,758,462 | 48,642,083 |
| Standby letters of credit | 1,348,511 | 2,085,688 |

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, 2017 and 2016 was $506,234 and $504,422, respectively.

The Bank is required to maintain average balances with the Federal Reserve Bank. At December 31, 2017 and 2016, this balance was $33,012,000 and $23,628,000, respectively. The Bank held an excess reserve balance of $94,808,220 and $39,086,242 with the Federal Reserve Bank at December 31, 2017 and 2016, respectively.

## Note 10. Minimum Regulatory Capital Requirements

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

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 2017 is 1.25%. Although capital conservation buffer is not part of regulatory minimum risk-based capital requirements, it does determine the minimums that must be met to avoid limitation on paying dividends, engaging in share repurchases, and paying discretionary bonuses if capital level fall below the buffer amount. The net unrealized gain or loss is not included in computing regulatory capital.

Quantitative measures established by regulation to ensure capital adequacy require financial institutions to maintain minimum amounts and ratios (set forth in the table below) of Total, Tier 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, 2017, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2017, 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.

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. Minimum capital ratios below include phase-in of capital conservation buffer. The Company has a borrowing from PNC Bank which it uses to downstream capital to the Bank. At December 31, 2016, the outstanding balance was $2,000,000. In September 2017, the Company borrowed an additional $2,000,000. In December 2017, the Company increased the credit limit from $4,000,000 to $6,000,000 and repaid $1,750,000 for a remaining outstanding balance of $2,250,000 at the end of the year.

| | **Actual** | | **Minimum Capital Requirement** | | **Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions** | |
|---|---|---|---|---|---|---|
| December 31, 2017 | **Amount** | **Ratio** | **Amount** | **Ratio** | **Amount** | **Ratio** |
| | | | (Amounts in Thousands) | | | |
| Total Risk-Based Capital | | | | | | |
| Company | $ 48,691 | 18.38% | N/A | N/A | N/A | N/A |
| Bank | $ 50,722 | 19.15% | $ 24,498 | 9.250% | $ 26,484 | 10.00% |
| Tier 1 Risk-Based Capital | | | | | | |
| Company | $ 45,397 | 17.14% | N/A | N/A | N/A | N/A |
| Bank | $ 47,428 | 17.91% | $ 19,201 | 7.250% | $ 21,187 | 8.00% |
| Common Equity Tier 1 Capital | | | | | | |
| Company | $ 45,397 | 17.14% | N/A | N/A | N/A | N/A |
| Bank | $ 47,428 | 17.91% | $ 15,228 | 5.750% | $ 17,215 | 6.50% |
| Tier 1 Leverage Ratio | | | | | | |
| Company | $ 45,397 | 7.73% | N/A | N/A | N/A | N/A |
| Bank | $ 47,428 | 8.08% | $ 23,483 | 4.00% | $ 29,354 | 5.00% |

| | **Actual** | | **Minimum Capital Requirement** | | **Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions** | |
|---|---|---|---|---|---|---|
| December 31, 2016 | **Amount** | **Ratio** | **Amount** | **Ratio** | **Amount** | **Ratio** |
| | | | (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% |

## Note 11. Employee Benefit Plans

### 401(k) Plan

The Bank has a 401(k) Plan whereby substantially all employees participate in the plan. Employees may contribute portions of their compensation subject to limits based on federal tax laws. The Bank may make discretionary matching contributions to the plan. For 2017 and 2016, expense attributable to the plan amounted to $163,779 and $134,328, respectively.

## Note 12. Fair Value Measurements

### Fair Value Hierarchy

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

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

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

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

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

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

**Securities Available for Sale**

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

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, 2017: | | | | |
| Available for sale securities: | | | | |
| U.S. government and federal agencies | $ 73,191,514 | $ 44,485,898 | $ 28,705,616 | $ - - |
| Mortgage backed securities | 13,641,625 | - - | 13,641,625 | - - |
| Corporate bonds | 42,244,816 | 52,480 | 42,192,336 | - - |
| Collateralized mortgage obligations | 257,970 | - - | 257,970 | - - |
| State and municipal securities | 94,062,224 | - - | 94,062,224 | - - |
| Mutual and exchange-traded funds | 500,473 | 500,473 | - - | - - |
| Total | $ 223,898,622 | $ 45,038,851 | $ 178,859,771 | $ - - |
| As of December 31, 2016: | | | | |
| Available for sale securities: | | | | |
| U.S. government and federal agencies | $ 44,219,452 | $ 21,498,281 | $ 22,721,171 | $ - - |
| Mortgage backed securities | 13,894,173 | - - | 13,894,173 | - - |
| Corporate bonds | 46,178,722 | - - | 46,178,722 | - - |
| Collateralized mortgage obligations | 523,691 | - - | 523,691 | - - |
| State and municipal securities | 77,571,926 | - - | 77,571,926 | - - |
| Total | $ 182,387,964 | $ 21,498,281 | $ 160,889,683 | $ - - |

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

The following describes the valuation techniques used by the 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, 2017 and 2016.

## Note 13. Subsequent Events

The Company evaluates subsequent events that have occurred after the balance sheet date but before the financial statements are issued. There are two types of subsequent events: (1) recognized, or those that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements, and (2) non-recognized, or those that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date. The Company evaluated subsequent events through March 8, 2018.

Based on the evaluation, the Company approved a cash dividend of $15.00 per share to shareholders of record on January 31, 2018 with the dividend payable on February 15, 2018.

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

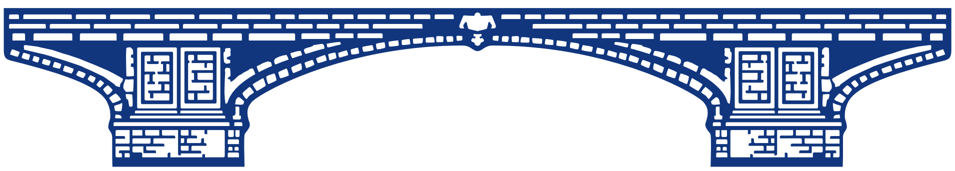
## Note 14. Condensed Financial Statements of Parent Company

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

| Balance Sheets | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Assets | | |
| Cash | $ 218,677 | $ 100,473 |
| Investment in common stock of Chain Bridge Bank | 45,792,115 | 36,350,860 |
| Total assets | $ 46,010,792 | $ 36,451,333 |
| Liabilities and Shockholders' Equity | | |
| Short-term borrowings | $ 2,250,000 | $ 2,000,000 |
| Accrued interest payable | 450 | - - |
| Total liabilities | $ 2,250,450 | $ 2,000,000 |
| Stockholders' equity | 43,760,342 | 34,451,333 |
| Total liabilities and stockholders' equity | $ 46,010,792 | $ 36,451,333 |

| Statements of Income | December 31, 2017 | December 31, 2016 |
|---|---|---|
| Dividend from Chain Bridge Bank | $ 299,750 | $ 223,542 |
| Operating Expenses | | |
| Interest expense and fees on borrowings | $ 94,796 | $ 70,997 |
| Marketing expenses | 30,000 | 27,500 |
| Equity based compensation, including tax benefit | - - | 10,503 |
| | $ 124,796 | $ 109,000 |
| Income before undistributed net income of Chain Bridge Bank | $ 174,954 | $ 114,542 |
| Undistributed net income of Chain Bridge Bank | 2,417,872 | 2,880,144 |
| Net income | $ 2,592,826 | $ 2,994,686 |

| Statements of Cash Flows | December 31, 2017 | 2016 |
|---|---|---|
| Cash Flows from Operating Activities | | |
| Net income | $ 2,592,826 | $ 2,994,686 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Undistributed net income of Chain Bridge Bank | (2,417,872) | (2,880,144) |
| Equity based compensation, including tax benefit | - - | 10,503 |
| Increase in other liabilities and accrued interest payable | 450 | 10,503 |
| Net cash provided by operating activities | $ 175,404 | $ 135,548 |
| Cash Flows from Investing Activities | | |
| Redemption (investment) in Chain Bridge Bank | $ (6,700,000) | $ 2,000,000 |
| Net cash provided by (used in) investing activities | $ (6,700,000) | $ 2,000,000 |
| Cash Flows from Financing Activities | | |
| Net proceeds from common stock issued | $ 6,692,550 | $ - - |
| Cash dividend to shareholders | (299,750) | (223,542) |
| Increase (decrease) in short term borrowings | 250,000 | (2,000,000) |
| Net cash (used in) provided by financing activities | $ 6,642,800 | $ (2,223,542) |
| Net increase (decrease) in cash and cash equivalents | $ 118,204 | $ (87,994) |
| Cash and cash equivalents at beginning of period | 100,473 | 188,467 |
| Cash and cash equivalents at end of period | $ 218,677 | $ 100,473 |



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