Chain Bridge

BANCORP, INC.

2018 ANNUAL REPORT

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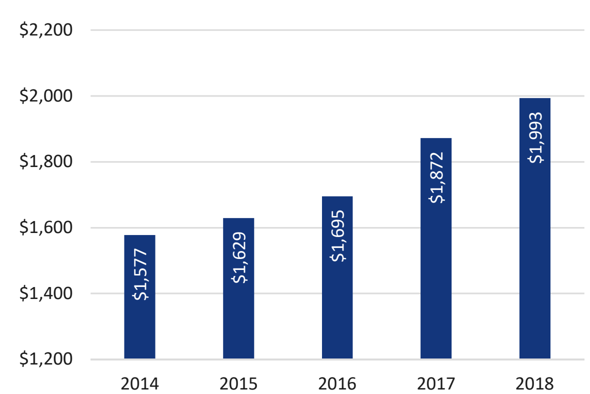
Chain Bridge Bancorp, Inc.
Consolidated Financial Highlights

	Years Ended December 31, 2018	2017	Change
Performance Measures and Yields			
Consolidated net income	$ 5,065,145	$ 2,592,826	95.4%
Return on average assets (ROAA)	0.72%	0.49%	0.23%
Return on average risk-weighted assets [1]	1.85%	0.99%	0.86%
Return on average equity (ROAE)	11.70%	7.04%	4.66%
Net interest margin (Fully Tax Equivalent)	2.57%	2.86%	(0.29%)
Asset Quality (%)			
Non-performing assets / assets	0.00%	0.00%	0.00%
Texas ratio [2]	0.00%	0.00%	0.00%
Loan loss reserves / gross loans	1.40%	1.40%	0.00%
Net (recoveries) charge-offs / average loans	0.00%	0.01%	(0.01%)
Risk-weighted asset density [3]	53.27%	43.88%	9.39%
Balance Sheet Highlights			
Total assets	$ 547,087,424	$ 603,615,786	(9.4%)
Total loans (net of loans held for sale)	$ 260,220,001	$ 235,276,443	10.6%
Total deposits	$ 452,663,986	$ 550,482,129	(17.8%)
Capitalization			
Total equity capital	$ 46,581,712	$ 43,760,342	6.4%
Tangible equity	$ 46,581,712	$ 43,760,342	6.4%
Tier 1 capital	$ 50,111,120	$ 45,396,555	10.4%
Total risk-based capital ratio	18.44%	18.38%	0.06%
Tier 1 risk-based ratio	17.19%	17.14%	0.05%
Tier 1 leverage ratio	8.42%	7.73%	0.69%
Chain Bridge Bancorp, Inc. Share Information			
Number of shares outstanding	23,372	23,372	0.0%
Book value per share	$ 1,993.06	$ 1,872.34	6.4%
Book value per share, excluding unrealized gain/loss on securities	$ 2,114.07	$ 1,942.35	8.8%
Net income per share	$ 216.72	$ 127.41	70.1%
Dividend per share	$ 15.00	$ 14.75	1.7%

[1] Average is calculated using the last five quarter ends.
[2] Texas ratio is defined as nonperforming assets plus delinquent loans as a percent of tangible equity and reserves.
[3] Risk-weighted asset density measures the riskiness of the Bank's assets. It is calculated as total assets divided by risk-weighted assets.

Book Value Per Share
Including Unrealized Gain/Loss on Securities



Book Value Per Share
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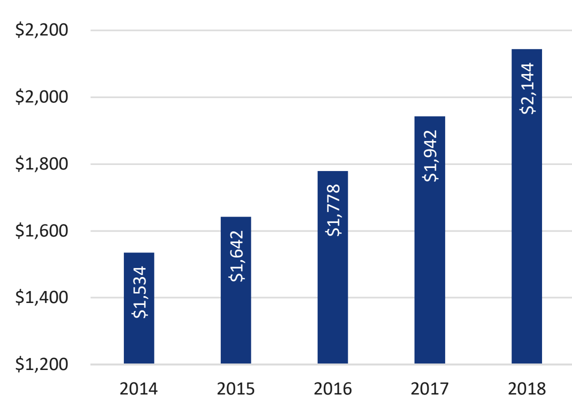

March 15, 2019

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 $5,065,145, or $216.72 per share, in 2018, up from $2,592,826 or $127.41 per share, in 2017. Return on average equity (ROAE) was 11.70% in 2018 versus 7.04% in 2017.

Higher interest rates, higher average assets and lower federal income tax rates all contributed to the year-over-year improvement in earnings. Although net interest income increased by 21% in 2018, current federal income tax expense increased by only 1%.

Reported 2018 net income was 95% higher in 2018 than in 2017. However, 2017 net income included a $694,957 one-time charge for re-valuation of the Bank’s deferred tax asset following the passage of the U.S. *Tax Cuts and Jobs Act*. Excluding that non-recurring charge, 2017 net income was $3,286,783 and earnings rose by $1,778,362, or 54%, in 2018.

Although rising interest rates helped improve the Bank’s interest income, they nevertheless reduced the market value of the Bank’s bond portfolio. That is because when interest rates rise, the market value of older bonds issued at lower rates declines. After accounting for the decline in the market value of the Bank’s bond portfolio, the Company’s book value thus increased only $120.72 per share, far less than the $216.72 that the Company earned per share. Excluding the unrealized loss on securities, book value per share increased, from $1,942.35 to $2,144.07, or by $201.72, an amount equal to the Company’s net income per share of $216.72 less the $15.00 per share it paid out in dividends in 2018.

Average deposits were higher in 2018 than in 2017, but were lower at year-end. As expected, seasonal deposits declined sharply in the second half of 2018. This decline, in turn, improved the Bank’s capital ratios. Tier 1 Risk-based capital rose from 17.91% at year-end 2017 to 19.23% at year-end 2018.

Total loans, net of loans held for sale, and net of allowance for loan losses, grew 10.6%, from $232 million at the end of 2017 to $257 million at year-end 2018. The Bank added $349,000 to its allowance for loan losses and maintained the allowance at 1.40% of loans. For the seventh consecutive year, the Bank had zero delinquent or non-performing loans or other assets.

In January 2019, the Company declared a dividend of $17.00 per share, up from $15.00 per share in 2018.

A Unique Culture and an Insurgent's Mission

Chain Bridge Bank's mission is to combine leading edge technology with attentive, client-centric personal service and a balance sheet second to none. Chain Bridge has a unique culture and a clear sense of direction. Since its founding in 2007, the Bank has been an insurgent, battling against the commission-based compensation schemes, high and opaque fees, illiquid balance sheets, cumbersome legacy technologies, and "one size fits all" practices prevalent throughout the industry. Talented employees, dedicated to its mission, have been critical to the Bank's success.

There are, however, constant threats to the Bank's culture. As the Bank grows larger, it will become more challenging to provide attentive and customized service for every client. The Bank will need to continue adding exceptional employees who fit its culture and relate to its mission.

Moreover, as interest rates rise and the yield curve flattens or the economy slows, pressure could mount to abandon the Bank's client-centric culture. The Bank has thus far grown organically and mainly by reputation and word of mouth. It has had a steadfast, institutional commitment to play the long game — that is, to serve clients well and fairly and grow by the repeat business and referrals of its existing clients. But playing the long game is expensive, requires patience and is often difficult.

As John Kay, the noted British economist and author of *Other People's Money*, has written, banking is a business that "combines a high probability of a small profit with a low probability of a large loss." Of all the temptations that bankers face, none is perhaps more alluring than the temptation to juice those "small" anticipated profits by taking on more risk – risk that would increase what would otherwise be a "low probability of a large loss."

In commercial banking, there are many ways to take on more risk. One way is to invest an excessive percentage of deposits in illiquid assets such as commercial loans. Another way is to make loans to weak borrowers willing to pay high rates. When the economy is expanding (which is most of the time), these strategies often work well to goose a bank's "small" anticipated profits. However, when money gets tight and the economy goes into recession, these strategies can produce not only "large," but even catastrophic losses.

What bank manager, you may ask, would take risks that pay off most of the time but prove catastrophic some of the time? As we saw in the last recession, many bankers employ such strategies. Most often, these bank managers have little skin in the game, as they typically are not material owners. Some, perhaps, may own stock *options*, which allow them to capture the upside benefits of ownership without requiring them to share in any of the downside risks of ownership. It may not make sense for their shareholders, but it makes perfect sense for such managers personally to risk "large" losses (of other people's money, i.e., of the shareholders' money) in order to juice "small" anticipated profits. Poorly crafted management compensation packages can lead to a significant misalignment between management and shareholder interests.

Chain Bridge's ownership structure is much different from that of most of its competitors. The Bank's senior managers and directors are all investors in the Company. Each has an owner's mindset, and each shares fully not only in the Company's upside potential but also in its downside risks. It is not in their interest to take outsize risks.

Similarly, the long-term ownership interests of the board and senior managers make the Company patient and perfectly willing to play the long game of growing the Bank by putting the client first. Substantially all of the largest shareholders have been shareholders since the Company's inception. The Company has no institutional shareholders and faces no outside pressure to think short-term. The Company's ownership has no reason and no motive to emulate competitors whose compensation practices position their managers adversely to their shareholders or to their clients.

The Company's ownership structure underpins its unique culture and its insurgent's mission. Moreover, it no doubt contributes to the Company's continuing aspiration to have asset quality, liquidity, risk-based capital and reserves second to none.

The most commonly used metric of a bank's safety and soundness is its "Texas Ratio" (defined as non-performing assets + loans 90 days past due divided by tangible equity + loan loss reserves). In 2018, Chain Bridge Bank again had a Texas ratio of zero. (The lower the ratio, the more sound the Bank). No other bank headquartered in Virginia, Maryland or the District of Columbia had a Texas Ratio of zero in 2018. Of the 4,626 FDIC-insured commercial banks with loans over $10 million, Chain Bridge Bank is one of only 34, nationwide, to have had a Texas Ratio of zero *for the past seven years in a row*.

<u>Technology</u>

Chain Bridge Bank has always stood for leading-edge technology. When it opened in August 2007, it was among the first banks in the nation to take advantage of the newly passed *Check 21 Act*. Rather than requiring businesses to transport paper checks to the bank for physical deposit, Chain Bridge Bank instead allowed them to remotely deposit digital images of checks. Today, substantially all of the Bank's deposits consist of digital images delivered from remote locations.

But as technology has increasingly redefined convenience in banking – from a physical concept to a digital concept – Chain Bridge Bank has redoubled its efforts to be a banking technology leader. In recent years, the Bank has accelerated its rollout of new digital offerings and significantly added to its technology budget and plans.

Chain Bridge Bank's new Treasury Management platform is a highly configurable, software-as-a-service solution that combines robust capabilities with user-friendly simplicity. It is among the newest and most advanced commercial banking applications available today.

In January 2018, the Bank went live with Treasury Management and began delivering it to all newly opened commercial accounts. Over the summer, the Bank tested the beta version of the Treasury Management mobile app and then went live with it in the fourth quarter.

Treasury Management is currently the Bank's premier commercial product and it is helping the Bank win important new commercial relationships. Although the legacy platforms of other banks offer similar advanced functionality, they are typically old, cumbersome and difficult to navigate. Chain Bridge's Treasury Management platform has many sophisticated features the other platforms lack, but its chief advantage is that it is more modern and easier to use.

While Treasury Management may make Chain Bridge a market leader for the time being, the Bank is under no illusion that this platform will give it a long-term competitive advantage. The Bank fully expects its competitors to update and improve their systems. A market leader, especially in technology, may never rest.

Trust Services

The Bank is now studying whether to apply for trust powers from the Office of the Comptroller of Currency (the "OCC"). If the Bank were to receive trust powers, then it could offer fiduciary and investment management services to the public. Because Chain Bridge is a national banking association whose authority to act in a fiduciary capacity would come from the national banking laws and the OCC, its Trust Department would be able to operate nationwide and would be exempt from regulation by the SEC, FINRA or the various states. Were it to administer its trusts in Virginia, then Virginia's fiduciary law would be its state fiduciary law of reference.

While Virginia has a flexible and progressive fiduciary law, Virginia's fiduciary tax laws have historically been unfavorable to trust administration. Virginia has long had a policy of taxing out-of-state trusts that are administered in Virginia. However, the Virginia legislature recently passed, and the Virginia Governor recently signed, a law to amend the Virginia tax code so that Virginia will no longer tax trusts merely because they are administered in Virginia. This new law goes into effect on July 1, 2019.

Because much of the Bank's current commercial banking business comes from the greater metropolitan area and even from all around the county, the new law makes it much more attractive for the Bank to establish a Trust Department. Had the old law remained in effect, then the Bank would have effectively been limited to offering fiduciary services to Virginia residents. Alternatively, it would have been compelled to administer its trusts in a different state such as Delaware, South Dakota or Florida, all of which have both favorable fiduciary and fiduciary tax laws.

In August of 2018, the Bank spent $2.75 million purchasing the last commercial condominium unit in its headquarters building that it did not already own. This unit has over 5,000 square feet and, following an appropriate build out, would make a suitable headquarters for a Trust Department, should the board decide to offer trust services. If the board decides not to establish a Trust Department, the Bank will use this space for other current and future needs.

Although establishing a Trust Department would be expensive and hurt near term earnings, perhaps significantly, the board views fiduciary and investment management services as compatible with the bank's unique culture, mission, and long term orientation.

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At the end of 2018, organizing shareholder and director, Peter J. "Jerry" FitzGerald (no relation to the undersigned), retired from the boards of both the Company and the Bank. A life-long resident of the Washington, D.C. area, Jerry was the founder of FitzGerald Properties, which today owns over 500 rental units, a mixture of both single-family homes and apartments. Jerry's deep experience in business and real estate – as well as his extensive network of friends – helped the Bank every step of the way. It was he, Jerry, who first proposed the name "Chain Bridge Bank."

Robert L. Hahne, a founding director of the Bank, also retired at year-end. Bob had a distinguished career in public accounting and was formerly the National Managing Partner Energy and Utility Practice at Deloitte & Touche. He served on the Bank's Human Resources Committee and chaired its Audit Committee from 2007-2017.

On behalf of all shareholders, I would like to thank Jerry and Bob for their many contributions. We are eternally grateful for their service, and we look forward to keeping them and their families involved as significant, long-term shareholders.

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While much of this letter has focused on technology, our secret weapon is really our people. Thank you to all our directors, officers and employees. Thank you, especially, to those employees who are on the front lines and who interact daily with our clients. Ultimately, it is your success that we celebrate.

Very truly yours,

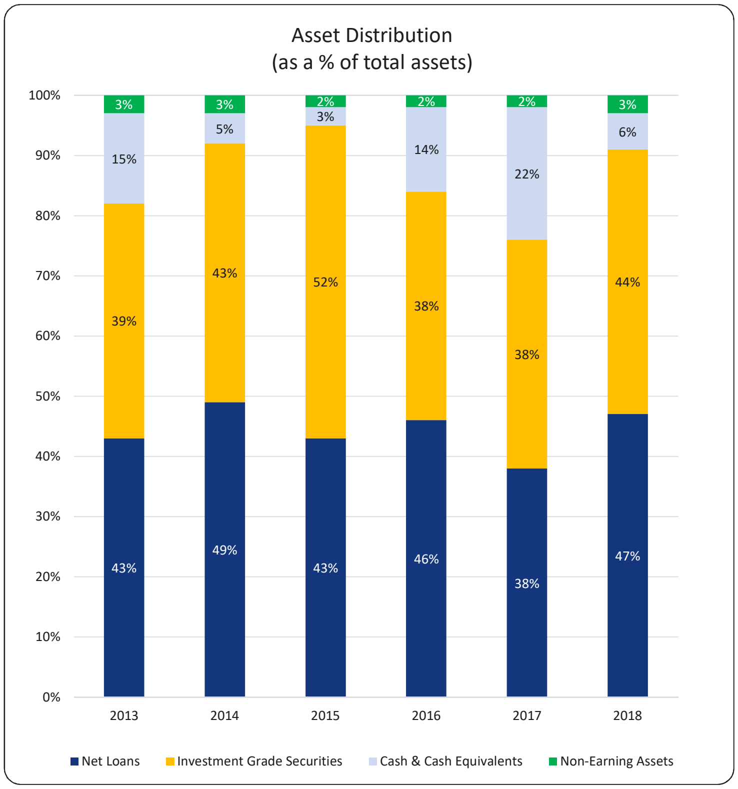
Peter G. Fitzgerald

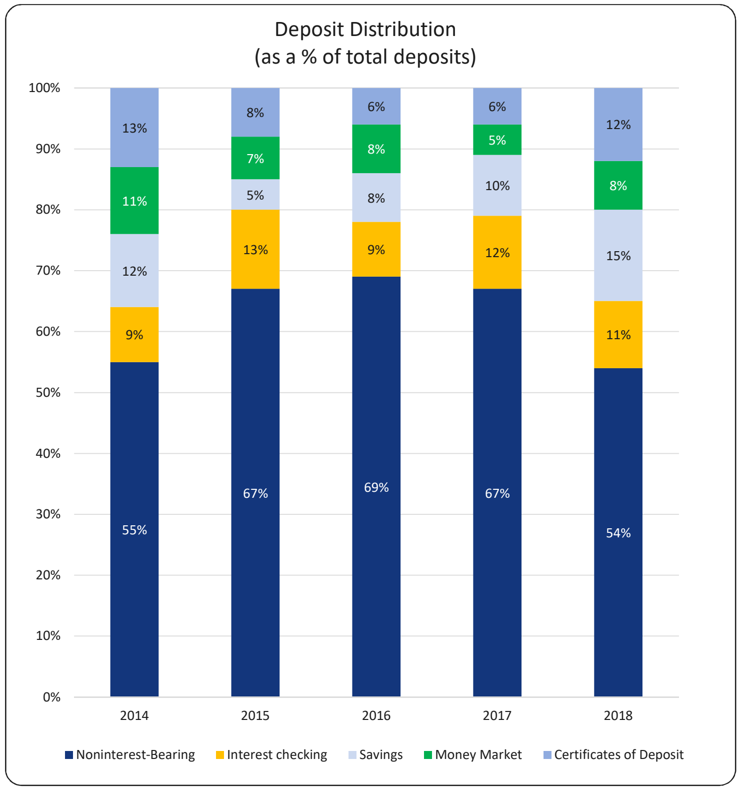
Peter G. Fitzgerald,
Chairman of the Board

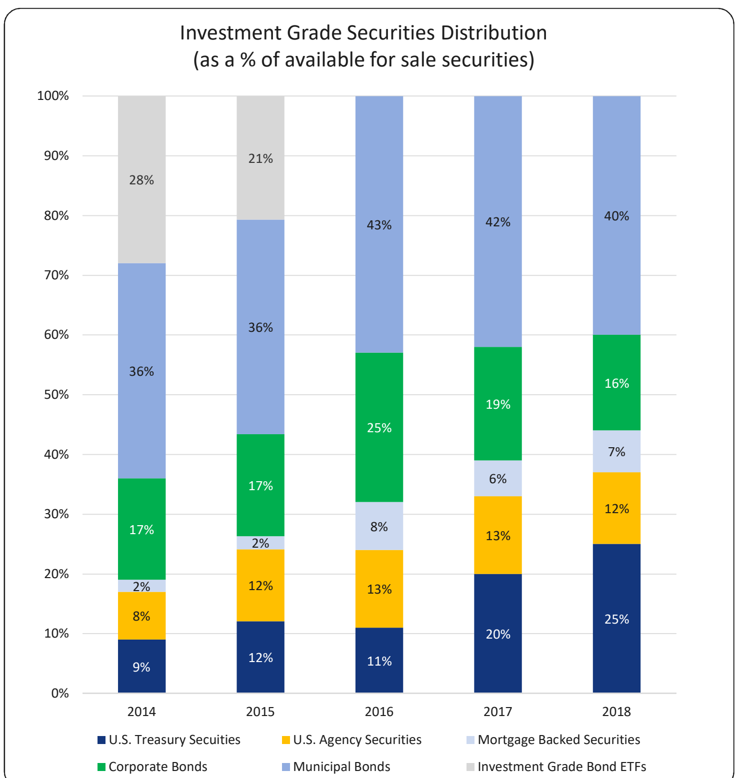
PGF/hn

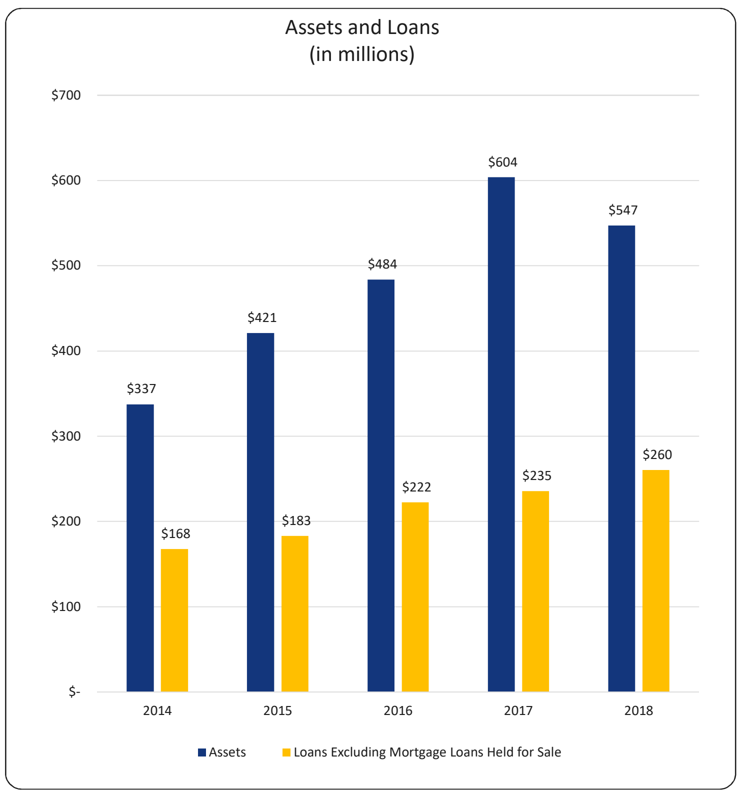
Enclosures

Balance Sheet Information

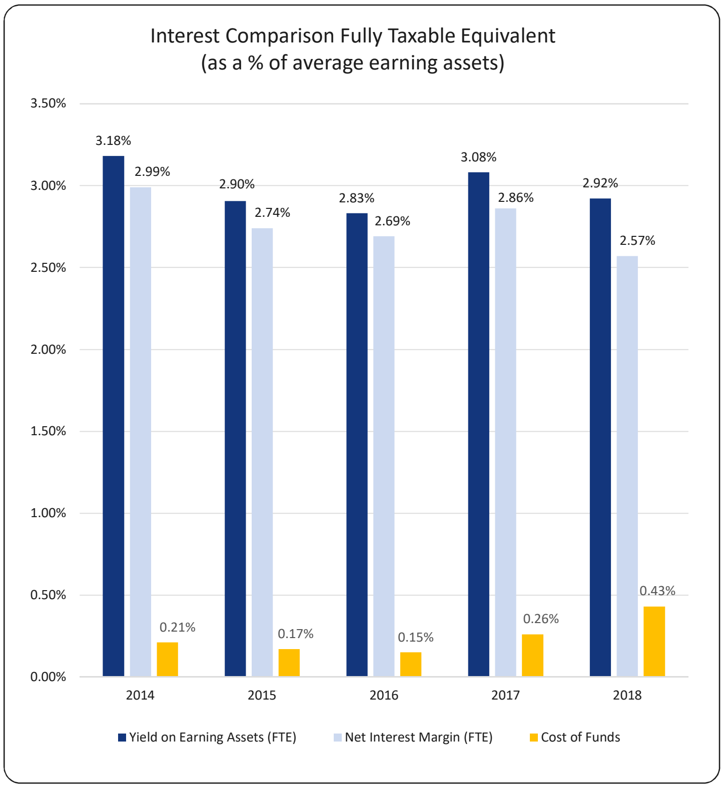


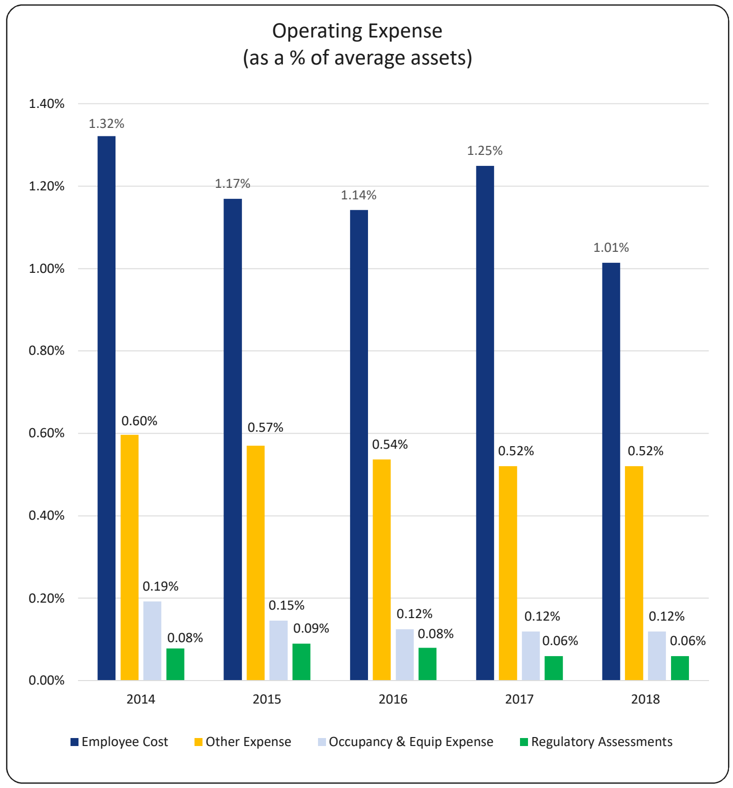


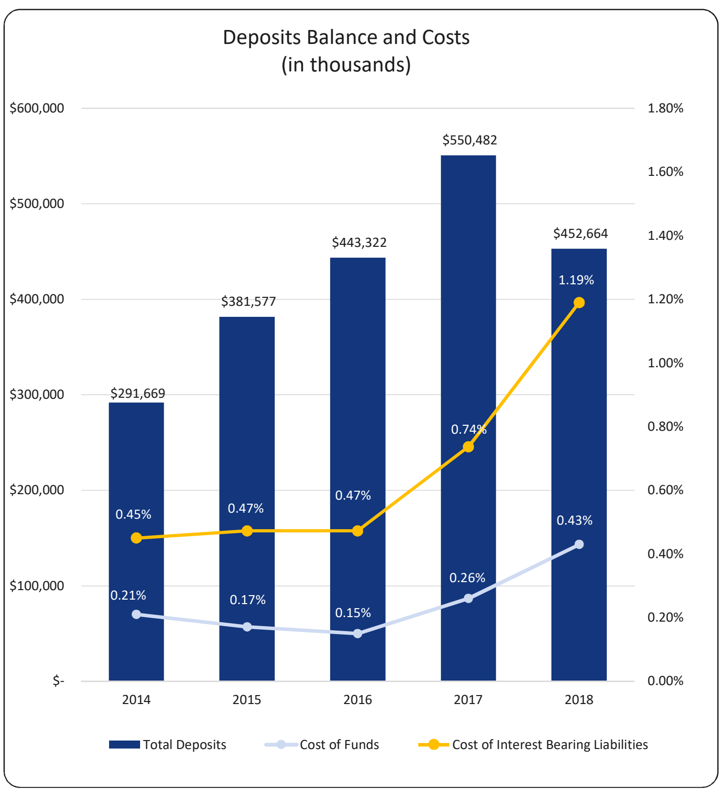


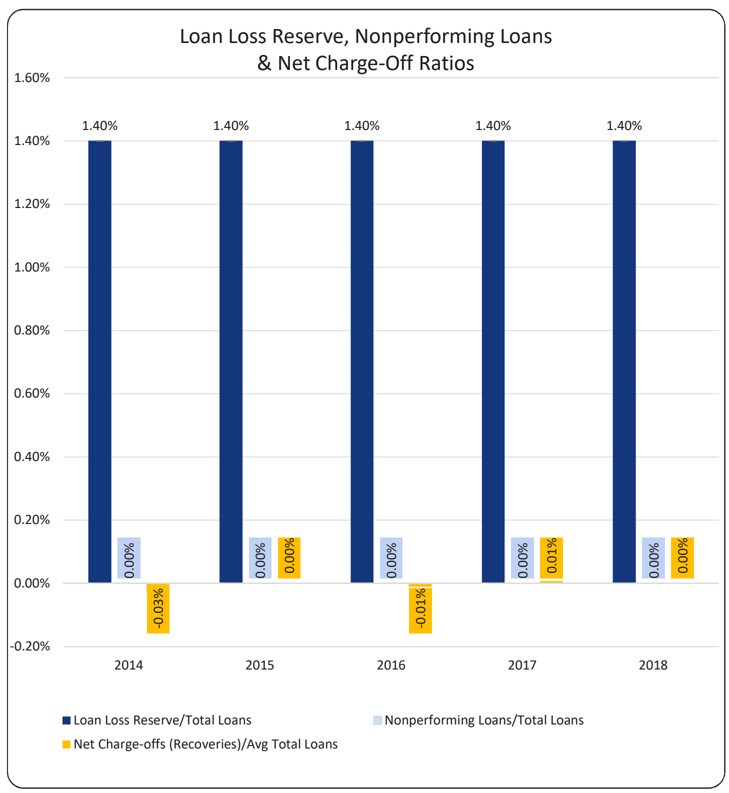


Income Statement and Asset Quality Information

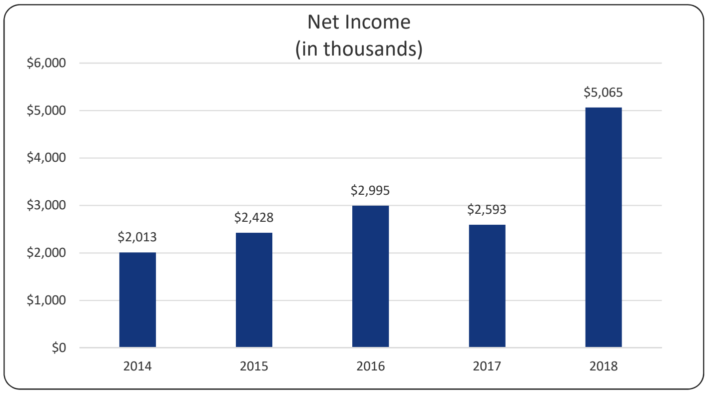


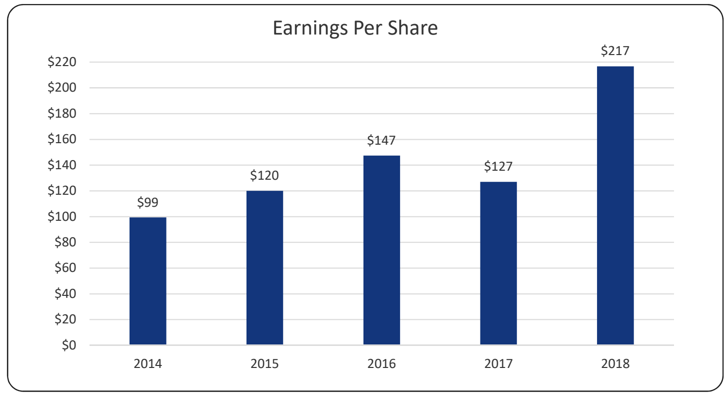


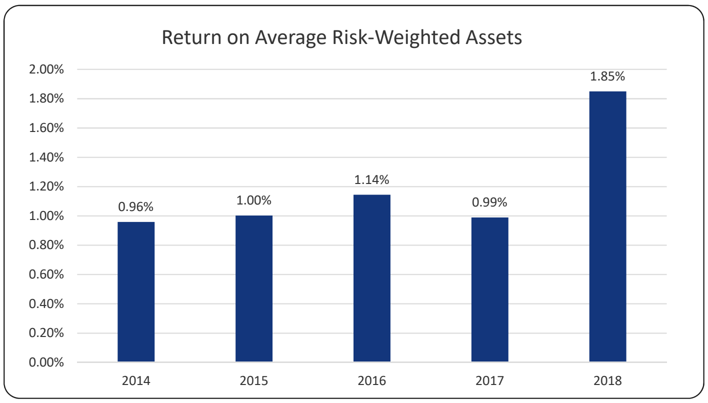


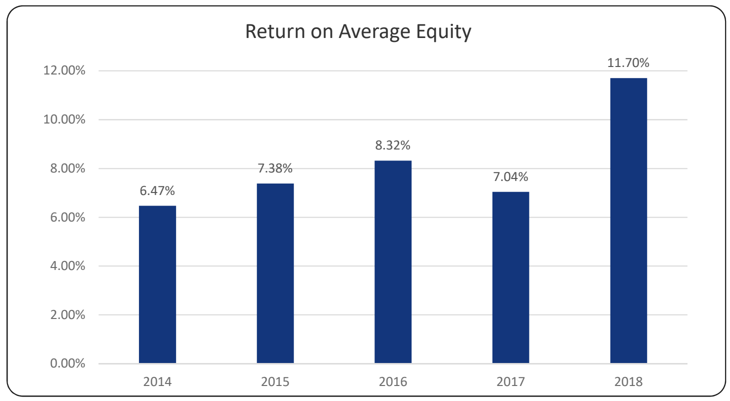


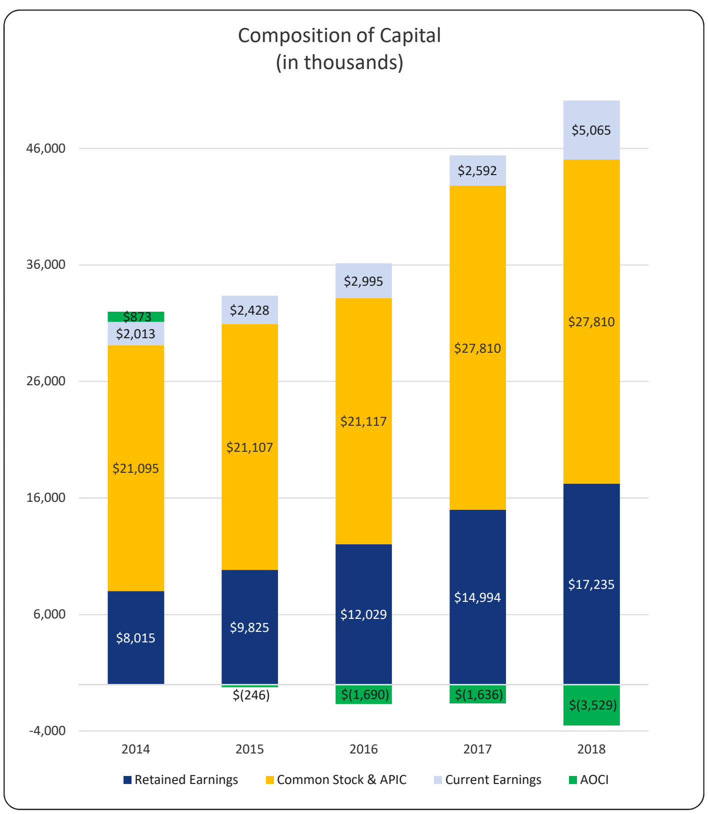
Equity Information and Returns

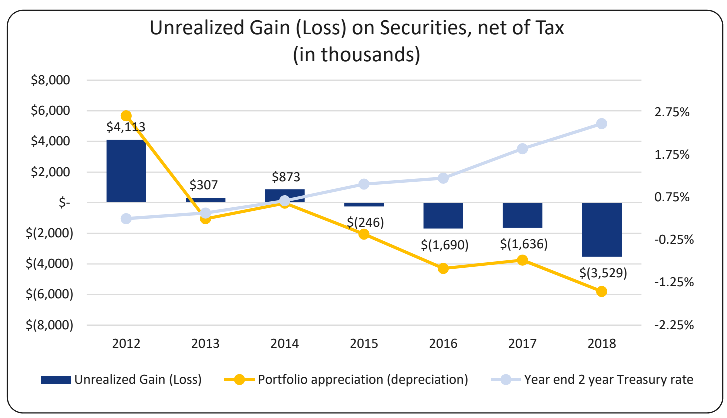


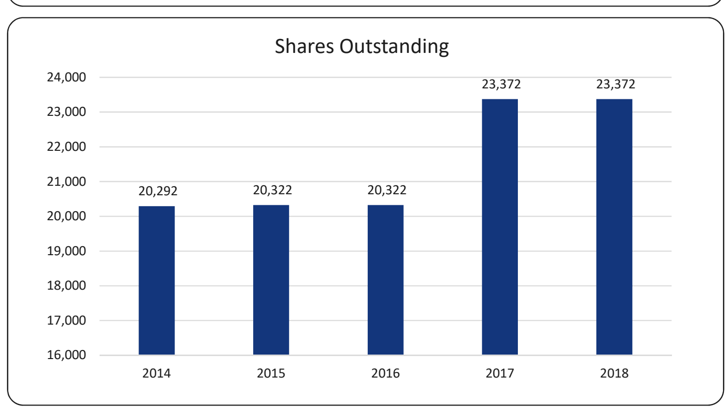




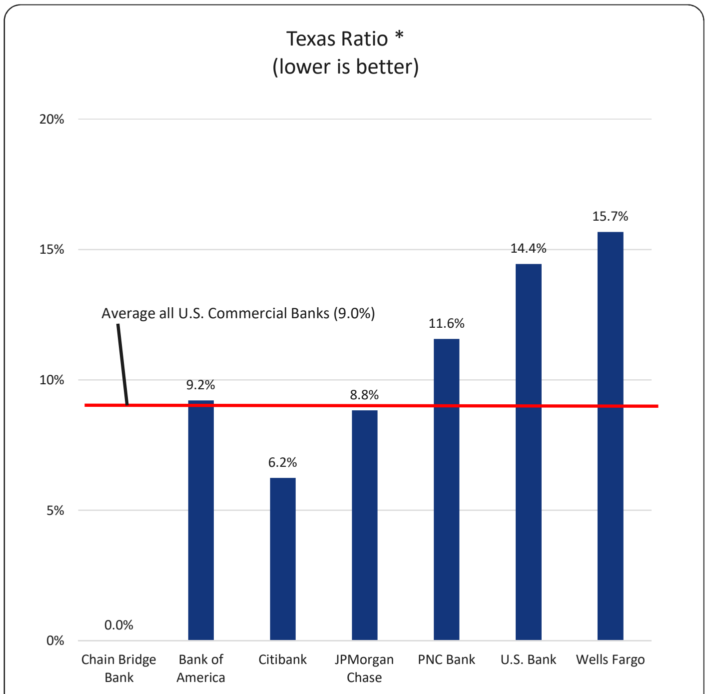








Industry Comparison



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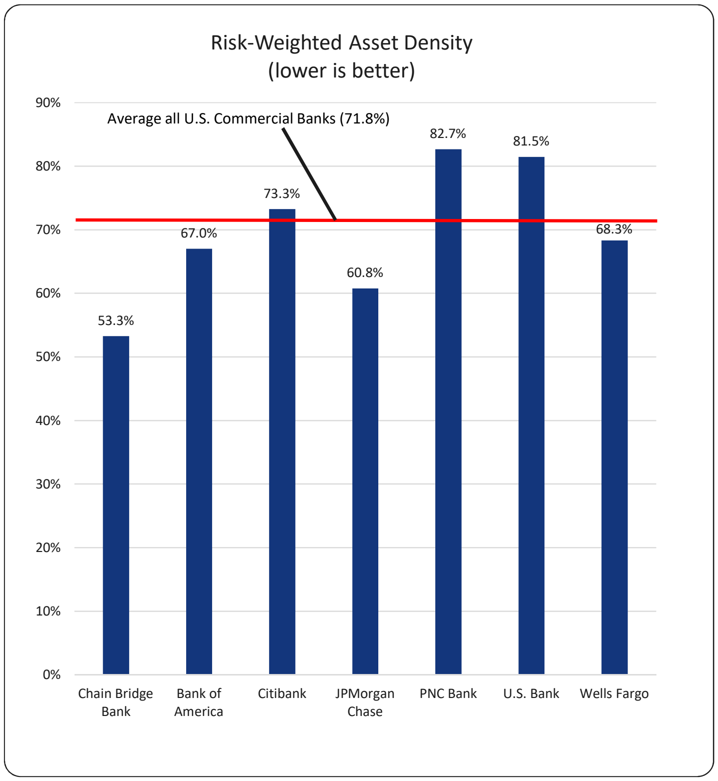

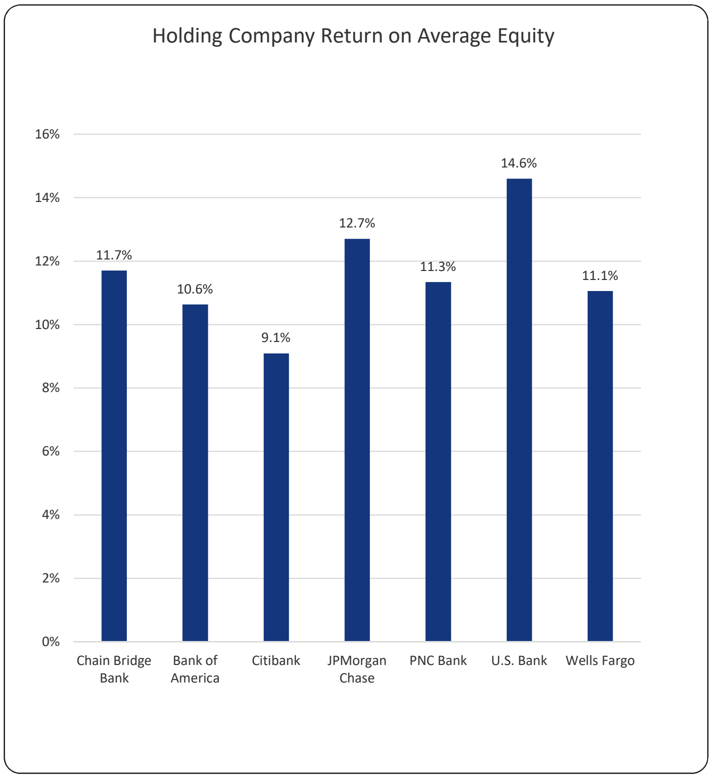

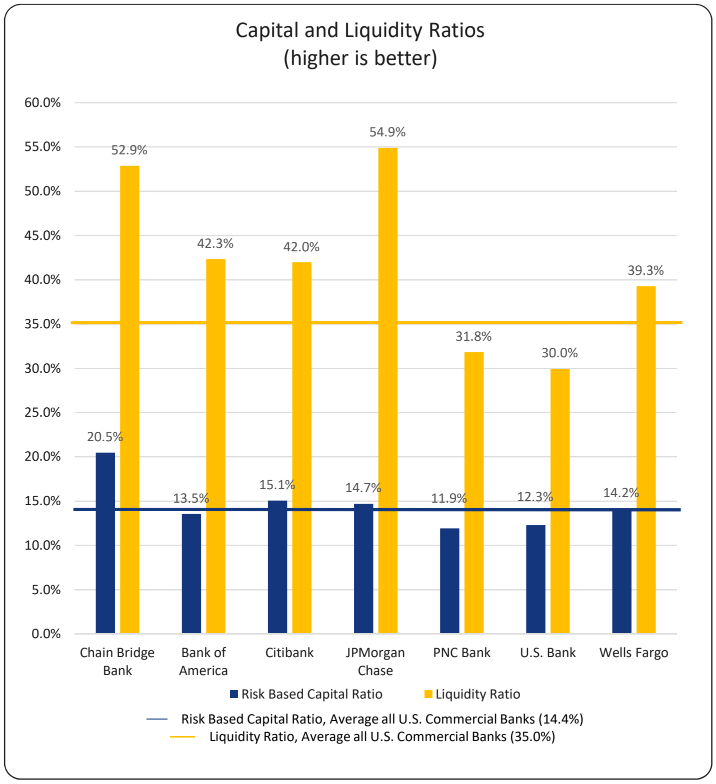

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Chain Bridge Bancorp, Inc.
and Subsidiary

McLean, Virginia

Consolidated Financial Report

December 31, 2018

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C O N T E N T S

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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, 2018 and 2017, 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, 2018 and 2017, 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, 2019

Chain Bridge Bancorp, Inc. and Subsidiary

Consolidated Balance Sheets

	December 31, 2018	December 31, 2017
Assets		
Cash and cash equivalents	$ 31,997,903	$ 133,072,179
Securities available for sale, at fair value	238,538,827	223,898,622
Equity securities, at fair value	500,844	- -
Restricted securities, at cost	3,844,300	1,953,600
Loans held for sale	- -	197,972
Loans, net of allowance for loan losses of $3,643,000 in 2018 and $3,294,000 in 2017	256,577,001	231,982,443
Premises and equipment, net of accumulated depreciation of $4,179,482 in 2018 and $3,773,551 in 2017	11,354,821	8,332,864
Accrued interest receivable	2,152,606	2,246,377
Other assets	2,121,122	1,931,729
Total assets	$ 547,087,424	$ 603,615,786
Liabilities and Stockholders' Equity		
Liabilities		
Deposits:		
Noninterest bearing	$ 246,465,108	$ 368,215,649
Savings, interest-bearing checking and money market accounts	154,316,299	149,073,921
Time, $250,000 and over	20,268,240	18,490,658
Other time	18,217,899	14,701,901
CDARS brokered deposits	13,396,440	- -
Total deposits	$ 452,663,986	$ 550,482,129
Securities sold under agreements to repurchase	473,713	5,407,769
FHLB advances	39,300,000	- -
Short term borrowings	6,000,000	2,250,000
Accrued interest payable	153,620	98,232
Accrued expenses and other liabilities	1,914,393	1,617,314
Total liabilities	$ 500,505,712	$ 559,855,444
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 shares issued and outstanding	23,372	23,372
Additional paid-in capital	27,786,595	27,786,595
Retained earnings	22,301,153	17,586,588
Accumulated other comprehensive loss	(3,529,408)	(1,636,213)
Total stockholders' equity	$ 46,581,712	$ 43,760,342
Total liabilities and stockholders' equity	$ 547,087,424	$ 603,615,786

See Notes to Consolidated Financial Statements.

Chain Bridge Bancorp, Inc. and Subsidiary

Consolidated Statements of Income
For the Years Ended December 31, 2018 and 2017

	2018	2017
Interest and Dividend Income		
Interest and fees on loans	$ 10,428,663	$ 9,721,579
Interest and dividends on securities, taxable	5,751,297	3,543,932
Interest on securities, tax-exempt	997,303	1,119,208
Interest on interest bearing deposits in banks	2,827,470	1,027,015
Total interest and dividend income	$ 20,004,733	$ 15,411,734
Interest Expense		
Interest on deposits	$ 2,524,291	$ 1,173,760
Interest on short-term borrowings	259,055	91,735
Total interest expense	$ 2,783,346	$ 1,265,495
Net Interest Income	$ 17,221,387	$ 14,146,239
Provision for Loan Losses	349,000	198,718
Net interest income after provision for loan losses	$ 16,872,387	$ 13,947,521
Noninterest Income		
Service charges on deposit accounts	$ 197,964	$ 228,597
Rent income	112,127	138,298
Gain (loss) on sale of securities	50,486	(2,349)
Gain on sale of mortgage loans	41,003	183,602
Other income	528,246	292,904
Total noninterest income	$ 929,826	$ 841,052
Noninterest Expenses		
Salaries and employee benefits	$ 7,089,188	$ 6,627,950
Data processing and communication expenses	1,188,634	990,082
Occupancy and equipment expenses	769,227	630,238
Professional services	696,292	495,326
FDIC and regulatory assessments	474,965	313,400
Virginia bank franchise tax	370,375	384,598
Directors fees	241,450	173,000
Other operating expenses	804,240	716,666
Total noninterest expenses	$ 11,634,371	$ 10,331,260
Net income before taxes	$ 6,167,842	$ 4,457,313
Income Tax Expense		
Current tax expense	$ 1,241,477	$ 1,228,935
Deferred tax benefit	(138,780)	(58,405)
Deferred tax asset adjustment for enacted change in federal tax rate	- -	693,957
Total income tax expense	$ 1,102,697	$ 1,864,487
Net income	$ 5,065,145	$ 2,592,826
Earnings per common share, basic and diluted	$ 216.72	$ 127.41

See Notes to Consolidated Financial Statements.

Chain Bridge Bancorp, Inc. and Subsidiary

Consolidated Statements of Comprehensive Income
For the Years Ended December 31, 2018 and 2017

	2018	2017
Net income	$ 5,065,145	$ 2,592,826
Other comprehensive (loss) income:		
Unrealized holding gains (losses) on securities available for sale, net of tax of ($492,652) in 2018 and $165,793 in 2017	$ (1,853,311)	$ 321,833
Reclassification adjustment for losses (gains) included in net income, net of taxes of ($10,602) in 2018 and $799 in 2017	(39,884)	1,550
Other comprehensive (loss) income, net of tax	$ (1,893,195)	$ 323,383
Comprehensive income	$ 3,171,950	$ 2,916,209

See Notes to Consolidated Financial Statements.

Chain Bridge Bancorp, Inc. and Subsidiary

Consolidated Statements of Cash Flows

For the Years Ended December 31, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities		
Net income	$ 5,065,145	$ 2,592,826
Reconciliation of net income to net cash provided by operating activities:		
Depreciation and amortization of premises and equipment	443,876	383,996
Premium amortization and discount accretion on investment securities, net	63,880	1,053,509
Fair value adjustment on equity securities	10,433	-
Provision for loan losses	349,000	198,718
(Gain) loss on sale of securities	(50,486)	2,349
Gain on sale of mortgage loans	(41,003)	(183,602)
Origination of loans held for sale	(5,742,597)	(12,162,998)
Proceeds from sale of loans	5,981,572	14,063,359
Deferred tax adjustment for enacted change in federal tax rate	-	693,957
Deferred income tax benefit	(138,780)	(58,405)
Changes in assets and liabilities:		
Decrease (increase) in accrued interest receivable and other assets	546,411	(1,088,464)
Increase (decrease) in accrued interest payable and other liabilities	352,467	(575,323)
Net cash provided by operating activities	$ 6,839,918	$ 4,919,922
Cash Flows from Investing Activities		
Purchases of securities available for sale	$ (260,727,649)	$ (63,867,024)
Proceeds from calls, maturities, paydowns and sales of securities available for sale	243,177,602	21,790,483
Purchase of restricted securities	(1,890,700)	(257,700)
Reinvestment of dividends on equity securities	(11,277)	-
Net increase in loans	(24,943,558)	(13,096,533)
Purchases of premises and equipment, net	(3,465,833)	(1,278,605)
Net cash used in investing activities	$ (47,861,415)	$ (56,709,379)
Cash Flows from Financing Activities		
Net (decrease) increase in non-interest bearing, savings, interest-bearing checking and money market deposits	$ (116,508,163)	$ 102,723,690
Net increase in time deposits	5,293,580	4,436,210
Net increase in CDARS brokered deposits	13,396,440	-
Net increase in short-term borrowings	43,050,000	250,000
Net (decrease) increase in securities sold under agreements to repurchase	(4,934,056)	3,885,816
Cash dividend	(350,580)	(299,750)
Proceeds from stock issuance	- -	6,692,550
Net cash (used in) provided by financing activities	$ (60,052,779)	$ 117,688,516
Net (decrease) increase in cash and cash equivalents	$ (101,074,276)	$ 65,899,059
Cash and cash equivalents, beginning of period	133,072,179	67,173,120
Cash and cash equivalents, end of period	$ 31,997,903	$ 133,072,179
Supplemental Disclosures of Cash Flow Information		
Cash payments for interest	$ 2,728,408	$ 1,262,194
Cash payments for taxes	$ 1,296,328	$ 1,284,621
Supplemental Disclosures of Noncash Investing Activities		
Fair value adjustment for available for sale securities	$ (2,396,449)	$ 489,975

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, 2018 and 2017

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
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
Net income	- -	- -	5,065,145	- -	5,065,145
Other comprehensive loss	- -	- -	- -	(1,893,195)	(1,893,195)
Cash dividend ($15.00 per share)	- -	- -	(350,580)	- -	(350,580)
Balance at December 31, 2018	$ 23,372	$ 27,786,595	$ 22,301,153	$ (3,529,408)	$ 46,581,712

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

Significant Accounting Policies

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

Principles of Consolidation

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

Use of Estimates

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

Reclassification

Certain amounts in the 2017 consolidated financial statements have been reclassified to conform to the 2018 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. Debt securities not classified as held to maturity or trading, are classified as "available for sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income (loss). The Bank classifies all debt securities as available for sale. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the debt securities. Gains and losses on the sale of debt securities are recorded on the trade date and are determined using the specific identification method.

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

The Bank regularly reviews debt securities for other-than-temporary impairment based on criteria that include the extent to which cost exceeds market price, the duration of that market decline, the financial health of and specific prospects for the issuer, the Bank's best estimate of the present value of cash flows expected to be collected from debt securities, the Bank's intention with regard to holding the security to maturity and the likelihood that the Bank would be required to sell the security before recovery.

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

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

Loans Held for Sale

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

Loans

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

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

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

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

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, 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 when due according to the contractual terms of the loan agreement. Impairment is measured as the difference between the recorded investment in the loan and the evaluation of the present value of expected future cash flows, fair value of collateral 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, 2018 and 2017.

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, 2018 and 2017.

Rate Lock Commitments

The Bank enters into commitments to originate mortgage loans whereby the interest rate on the loan is determined prior to funding (rate lock commitments). Rate lock commitments on mortgage loans that are intended to be sold are considered to be derivatives. The period of time between issuance of a loan commitment and closing and sale of the loan generally ranges from 30 to 120 days. The Bank protects itself from changes in interest rates through the use of best efforts forward delivery commitments, whereby the Bank commits to sell a loan at the time the borrower commits to an interest rate with the intent that the buyer has assumed interest rate risk on the loan. As a result, the Bank is not exposed to losses and will not realize significant gains related to its rate lock commitments due to changes in interest rates. The correlation between the rate lock commitments and the best efforts contracts is very high due to their similarity.

The fair value of rate lock commitments and best efforts contracts is not readily ascertainable with precision because rate lock commitments and best efforts contracts are not actively traded in stand-alone markets. Any gain or loss associated with rate lock commitments would be immaterial. For this reason, there is no recognition of on or off-balance-sheet valuation of rate lock commitments.

Income Taxes

Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences, operating loss carryforwards, and tax credit carryforwards. Deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets and liabilities are measured using the enacted tax rates and laws expected to apply to taxable income in the periods in which the deferred tax asset or liability is expected to be realized or settled.

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, 2018 or 2017.

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, 2018 and 2017, the weighted average number of shares outstanding for calculating basic and diluted earnings per share was 23,372 and 20,350, respectively.

Advertising Costs

The Bank follows the policy of charging the production costs of advertising to expense as incurred. The Bank expensed $29,148 and $47,056 for advertising costs for the years ended December 31, 2018 and 2017, 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, 2018 and 2017, the Bank's other comprehensive income (loss) relates to changes in realized and unrealized gains and losses on available for sale securities, net of tax. Any reclassification out of accumulated other comprehensive income (loss) is a result of realized securities gains or losses and is included in the "Gain (loss) on sale of securities" line item on the Consolidated Statements of Income.

Fair Value Measurements

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

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

Loss Contingencies

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

Dividend Restriction

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

Adoption of New Accounting Standard

On January 1, 2018, the Company adopted 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); and 3) eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost. This ASU requires equity investments with readily determinable fair values to be measured at fair value with changes in fair value recognized in net income. Adoption of ASU 2016-01 did not have a significant impact on the consolidated financial statements, or a material impact to beginning retained earnings or accumulated other comprehensive loss.

Recent Accounting Pronouncement

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. In November 2018, the FASB issued ASU No. 2018-19, "Codification Improvements to Topic 326, Financial Instruments – Credit Losses," which modified the effective date for the amendments in this ASU No. 2018-13 to fiscal years beginning after December 15, 2021, and interim periods within those fiscal years. The Company is currently assessing the impact that ASU 2016-13 will have on its consolidated financial statements.

Note 2. Securities

Amortized cost and fair value of securities available for sale as of December 31, 2018 and 2017 are as follows:

	December 31, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Securities of U.S. government and federal agencies	$ 90,319,566	$ 73,115	$ (1,846,150)	88,546,531
Mortgage backed securities	17,197,901	24,492	(502,788)	16,719,605
Corporate bonds	38,357,838	45,995	(958,691)	37,445,142
Collateralized mortgage obligations	121,080	647	(909)	120,818
State and municipal securities	97,010,047	325,259	(1,628,575)	95,706,731
Total	$ 243,006,432	$ 469,508	$ (4,937,113)	$ 238,538,827

	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

Pursuant to the adoption of ASU 2016-01 on January 1, 2018, the Company reported a $10,433 fair value loss in its equity security holding during 2018. This loss was recorded on the income statement.

At December 31, 2018 and 2017, securities with a carrying value of $9,537,952 and $17,250,046 were pledged to secure public deposits, repurchase agreements, and lines of credit with the Federal Reserve Bank and Community Bankers' Bank.

Proceeds from redemptions, paydowns and sales of securities totaled $243,177,602 and $21,790,483 for 2018 and 2017, respectively. The gross realized gains on securities for 2018 and 2017 totaled $51,149 and $9,005, respectively. The gross realized losses on securities for 2018 and 2017 totaled $663 and $11,354, respectively.

There were no held to maturity securities at December 31, 2018 or 2017.

The amortized cost and fair value of securities by contractual maturity at December 31, 2018 follows:

	Cost	Value
Within one year	$ 26,169,116	$ 26,075,343
After one year through five years	137,962,389	136,191,682
After five years through ten years	49,219,523	47,723,158
Over ten years	29,655,404	28,548,644
Total	$ 243,006,432	$ 238,538,827

Expected maturities may differ from contractual maturities if borrowers have the right to call or repay obligations with or without prepayment penalties. Mutual funds and exchange-traded funds with a fair value of $500,844 have no stated maturites and are excluded from the table above.

At December 31, 2018 and 2017, investments in an unrealized loss position that were temporarily impaired follows:

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

	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)

At December 31, 2018 and 2017, 313 and 268 debt and equity securities had unrealized losses with aggregate depreciation of 2.35 and 1.71 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, 2018 and 2017, 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,	
	2018	2017
Commercial real estate	$ 61,315,019	$ 59,610,546
Commercial	24,793,984	18,300,109
Residential real estate closed-end	149,515,036	136,789,612
Other consumer loans	24,595,962	20,576,176
	$ 260,220,001	$ 235,276,443
Less allowance for loan losses	(3,643,000)	(3,294,000)
Loans, net	$ 256,577,001	$ 231,982,443

Overdrafts totaling $12,300 and $3,861 at December 31, 2018 and 2017, respectively, were reclassified from deposits to loans.

The totals above include deferred fees (net of deferred costs) of $64,028 and $41,461 at December 31, 2018 and 2017, 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, 2018 and 2017:

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

	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	$ 334,865	$ 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

Based on the most recent analysis performed, the risk category of loans by class of loans was as follows as of December 31, 2018 and 2017:

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

	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

There were no impaired loans as of December 31, 2018 or 2017.

There were no nonaccrual loans, loans 90 days past due and still accruing, or past due for 30 or more days at December 31, 2018 and 2017.

There were no loan modifications classified as TDRs during the years ended December 31, 2018 and 2017.

No loan modifications classified as TDRs subsequently defaulted during 2018 or 2017.

Note 4. Premises and Equipment

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

	December 31,	
	2018	2017
Land	$ 2,257,915	$ 1,703,984
Building	9,230,692	7,013,169
Furniture, fixtures and equipment	1,692,118	1,487,537
Building improvements	2,331,364	1,862,657
Construction in process	22,214	39,068
	$ 15,534,303	$ 12,106,415
Less accumulated depreciation	4,179,482	3,773,551
Ending balance	$ 11,354,821	$ 8,332,864

For 2018 and 2017, depreciation expense was $443,876 and $383,996, respectively.

Note 5. Related Party Transactions

Officers, directors and their affiliates had credit outstanding of $5,947,083 and $3,744,923 at December 31, 2018 and 2017, respectively, with the Bank. During 2018, total principal additions were $2,441,515 and total principal payments were $239,355. 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, 2018 and 2017 amounted to $3,938,783 and $4,361,595, respectively.

Note 6. Deposits

Remaining maturities on certificates of deposit are as follows:

2019	$ 29,257,468
2020	3,121,373
2021	3,625,849
2022	1,898,780
2023	582,669
	$ 38,486,139

Brokered deposits totaled $13,396,440 at December 31, 2018. The Bank held no deposits classified as brokered at December 31, 2017. Reciprocal deposits through ICS totaling $18,652,191 and $6,008,233 are included in deposit balances as of December 31, 2018 and 2017, respectively. Brokered deposits are placed through the Certificate of Deposit Account Registry Service (CDARS) or ICS.

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

The Bank had two 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 $473,713 and $5,407,769 at December 31, 2018 and 2017, respectively, and mature on a daily basis. They were secured by municipal securities with a fair value of $985,888 and $6,234,381 as of December 31, 2018 and 2017, respectively. The weighted average interest rate on these agreements was 0.19 percent and 0.15 percent at December 31, 2018 and 2017, respectively.

Federal Home Loan Bank Advance

At December 31, 2018, the Bank had a secured line of credit with the Federal Home Loan Bank totaling $44,130,043. At December 31, 2018, the Bank had an outstanding balance of $39,300,000. Of the total balance outstanding, $27,300,000 had no stated maturity and accrued interest at a rate of 2.65 percent. The fixed rate borrowings had maturities ranging from January 28, 2019 to February 27, 2019 and accrued interest at rates ranging from 2.54 to 2.56 percent. The Bank had no outstanding balance on this line of credit at December 31, 2017. The line is secured by 1-4 family residential real estate loans within the Bank's loan portfolio, and is renewed annually in December.

Short Term Borrowings

At December 31, 2018, the Company had an unsecured line of credit with a correspondent bank totaling $6,000,000 with $6,000,000 outstanding. At December 31, 2017, the same line totaled $6,000,000 with $2,250,000 outstanding. The line matures December 13, 2019 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 4.69 percent and 3.81 percent at December 31, 2018 and 2017, respectively.

The Bank has unsecured federal fund purchase lines of credit with Community Bankers' Bank totaling $8,000,000 maturing June 5, 2019 and Pacific Coast Bankers' Bank totaling $5,000,000 maturing June 30, 2019. There were no outstanding federal funds purchased balances as of December 31, 2018 or 2017.

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, 2018 and 2017 are presented below:

	December 31,	
	2018	**2017**
Deferred Tax Assets		
Securities available for sale	$ 938,197	$ 434,943
Allowance for loan losses	702,312	605,234
Deferred compensation	84,684	- -
Organizational and start-up expenses	38,643	49,428
Other	1,330	31,402
Total deferred tax assets	$ 1,765,166	$ 1,121,007

There were no deferred tax liabilities at December 31, 2018 and December 31, 2017.

The provision for income taxes charged to operations for the years ended December 31, 2018 and 2017, consists of the following:

	December 31,	
	2018	**2017**
Current tax expense	$ 1,241,477	$ 1,228,935
Deferred tax asset adjustment for enacted change in federal tax rate	- -	693,957
Deferred tax benefit	(138,780)	(58,405)
Net provision for income taxes	$ 1,102,697	$ 1,864,487

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,	
	2018	**2017**
Computed tax at applicable rate	$ 1,295,247	$ 1,515,486
Deferred tax asset adjustment for enacted change in tax rate	- -	693,957
Tax-exempt income	(213,880)	(401,771)
Other	21,330	56,815
Net provision for income taxes	$ 1,102,697	$ 1,864,487

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 2015.

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, 2018 and 2017, the following financial instruments whose contract amounts represent credit risk were outstanding:

	December 31,	
	2018	2017
Commitments to grant loans	$ 5,586,000	$ 5,735,809
Unfunded commitments under lines of credit	56,417,089	46,758,462
Standby letters of credit	2,063,815	1,348,511

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, 2018 and 2017 was $2,789,827 and $506,234, respectively.

The Bank is required to maintain average balances with the Federal Reserve Bank. At December 31, 2018 and 2017, this balance was $24,587,000 and $33,012,000, respectively. The Bank held an excess reserve balance of $540,905 and $94,808,220 with the Federal Reserve Bank at December 31, 2018 and 2017, 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 2018 is 1.875%. Although capital conservation buffer is not part of regulatory minimum risk-based capital requirements, it does determine the minimums that must be met to avoid limitation on paying dividends, engaging in share repurchases, and paying discretionary bonuses if capital level fall below the buffer amount. The net unrealized gain or loss is not included in computing regulatory capital.

Quantitative measures established by regulation to ensure capital adequacy require financial institutions to maintain minimum amounts and ratios (set forth in the table below) of Total, Tier 1, and common equity Tier 1 (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2018, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2018, the most recent notification from the Office of the Comptroller of the Currency categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum Total risk-based, Tier 1 risk-based, common equity Tier 1 and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's category.

The following tables set forth the capital position and analysis for the Company and Bank. Because total assets on a consolidated basis are less than $3 billion, the Company is not subject to the consolidated capital requirements imposed by federal regulations. However, the Company elects to include those ratios for this report. Minimum capital ratios below include phase-in of capital conservation buffer. The Company has a borrowing from PNC Bank which it uses to downstream capital to the Bank. At December 31, 2018 and 2017, the outstanding balance was $6,000,000 and $2,250,000, respectively.

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
December 31, 2018	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Amounts in Thousands)			
Total Risk-Based Capital						
Company	$ 53,754	18.445%	N/A	N/A	N/A	N/A
Bank	$ 59,685	20.480%	$ 28,779	9.875%	$ 29,144	10.000%
Tier 1 Risk-Based Capital						
Company	$ 50,111	17.194%	N/A	N/A	N/A	N/A
Bank	$ 56,042	19.230%	$ 22,951	7.875%	$ 23,315	8.000%
Common Equity Tier 1 Capital						
Company	$ 50,111	17.194%	N/A	N/A	N/A	N/A
Bank	$ 56,042	19.230%	$ 18,579	6.375%	$ 18,943	6.500%
Tier 1 Leverage Ratio						
Company	$ 50,111	8.421%	N/A	N/A	N/A	N/A
Bank	$ 56,042	9.417%	$ 23,804	4.000%	$ 29,755	5.000%

	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	18.385%	N/A	N/A	N/A	N/A
Bank	$ 50,722	19.152%	$ 24,498	9.250%	$ 26,484	10.000%
Tier 1 Risk-Based Capital						
Company	$ 45,397	17.141%	N/A	N/A	N/A	N/A
Bank	$ 47,428	17.908%	$ 19,201	7.250%	$ 21,187	8.000%
Common Equity Tier 1 Capital						
Company	$ 45,397	17.141%	N/A	N/A	N/A	N/A
Bank	$ 47,428	17.908%	$ 15,228	5.750%	$ 17,215	6.500%
Tier 1 Leverage Ratio						
Company	$ 45,397	7.733%	N/A	N/A	N/A	N/A
Bank	$ 47,428	8.079%	$ 23,483	4.000%	$ 29,354	5.000%

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 2018 and 2017, expense attributable to the plan amounted to $195,472 and $163,779, respectively.

Note 12. Fair Value Measurements

Fair Value Hierarchy

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

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

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

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

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

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

Securities Available for Sale

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

The Bank's investment portfolio is primarily valued using fair value measurements that are considered to be Level 2. The Bank has contracted with a third party FinSer, a securities portfolio accounting service for valuation of its securities portfolio. Depending on the type of security, FinSer utilizes three sources for security valuations, which include Standards & Poor's and the FinSer Pricing model, which evaluates securities based on their discounted cash flow analysis using the net present value of security's projected cash flow. Generally, the methodology includes broker quotes, proprietary 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, 2018:				
Available for sale securities:				
U.S. government and federal agencies	$ 88,546,531	$ 61,025,707	$ 27,520,824	$ - -
Mortgage backed securities	16,719,605	- -	16,719,605	- -
Corporate bonds	37,445,142	450,576	36,994,566	- -
Collateralized mortgage obligations	120,818	- -	120,818	- -
State and municipal securities	95,706,731	- -	95,706,731	- -
Total available for sale securities	$ 238,538,827	$ 61,476,283	$ 177,062,544	$ - -
Mutual and exchange-traded funds	500,844	500,844	- -	- -
Total	$ 239,039,671	$ 61,977,127	$ 177,062,544	$ - -
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	$ - -

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, 2018 and 2017.

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, 2019.

The Company approved a cash dividend of $17.00 per share to shareholders of record on January 31, 2019 with the dividend payable on February 15, 2019.

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:

	December 31,	
Balance Sheets	**2018**	**2017**
Assets		
Cash	$ 80,659	$ 218,677
Investment in common stock of Chain Bridge Bank	52,512,925	45,792,115
Total assets	$ 52,593,584	$ 46,010,792
Liabilities and Shockholders' Equity		
Short-term borrowings	$ 6,000,000	$ 2,250,000
Accrued interest payable	11,872	450
Total liabilities	$ 6,011,872	$ 2,250,450
Stockholders' equity	46,581,712	43,760,342
Total liabilities and stockholders' equity	$ 52,593,584	$ 46,010,792

	December 31,	
Statements of Income	**2018**	**2017**
Dividend from Chain Bridge Bank	$ 450,580	$ 299,750
Operating Expenses		
Interest expense and fees on borrowings	$ 218,740	$ 94,796
Marketing expenses	30,700	30,000
	$ 249,440	$ 124,796
Income before undistributed net income of Chain Bridge Bank	$ 201,140	$ 174,954
Undistributed net income of Chain Bridge Bank	4,864,005	2,417,872
Net income	$ 5,065,145	$ 2,592,826

Statements of Cash Flows	December 31, 2018	December 31, 2017
Cash Flows from Operating Activities		
Net income	$ 5,065,145	$ 2,592,826
Adjustments to reconcile net income to net cash provided by operating activities:		
Undistributed net income of Chain Bridge Bank	(4,864,005)	(2,417,872)
Increase in accrued interest payable	11,422	450
Net cash provided by operating activities	$ 212,562	$ 175,404
Cash Flows from Investing Activities		
Investment in Chain Bridge Bank	$ (3,750,000)	$ (6,700,000)
Net cash used in investing activities	$ (3,750,000)	$ (6,700,000)
Cash Flows from Financing Activities		
Net proceeds from common stock issued	$ - -	$ 6,692,550
Cash dividend to shareholders	(350,580)	(299,750)
Increase in short term borrowings	3,750,000	250,000
Net cash provided by financing activities	$ 3,399,420	$ 6,642,800
Net (decrease) increase in cash and cash equivalents	$ (138,018)	$ 118,204
Cash and cash equivalents at beginning of period	218,677	100,473
Cash and cash equivalents at end of period	$ 80,659	$ 218,677

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Chain Bridge
BANCORP, INC.

Chain Bridge Bancorp, Inc. Board of Directors:

Peter G. Fitzgerald, Chairman
Paul Shiffman, Vice Chairman
John J. Brough, CEO
David M. Evinger, President & Corporate Secretary
Philip F. Herrick
Thomas E. Jacobi, Sr.
Paul Leavitt
Jon Monett
Philip A. Odeen
Samuel A. Schreiber

Chain Bridge Bank, N.A. Board of Directors:

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Philip F. Herrick, Vice Chairman
John J. Brough, CEO
David M. Evinger, President – Risk Management
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W. Michael Wheat

Directors Emeriti:

Peter J. ("Jerry") FitzGerald
Robert L. Hahne

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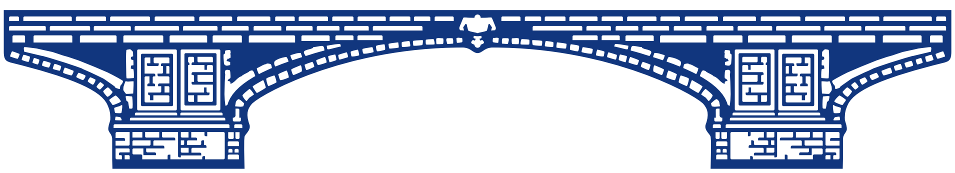

CHAIN BRIDGE BANK, N.A.

1445-A Laughlin Avenue, McLean, VA 22101
703.748.2005 | chainbridgebank.com