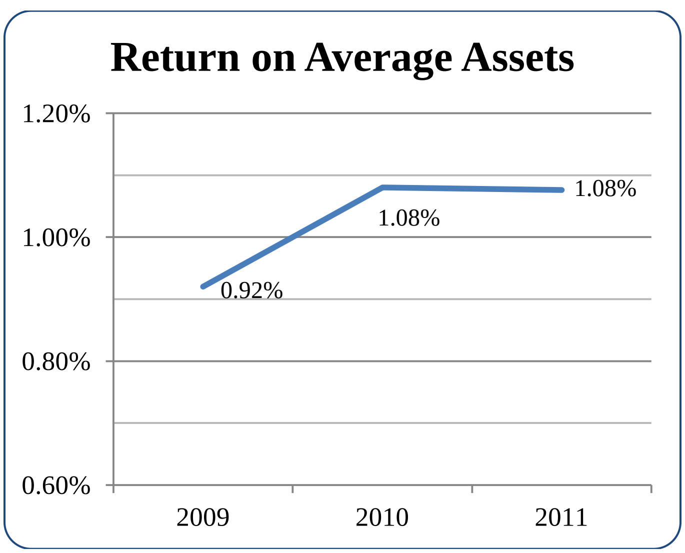
Chain Bridge
BANCORP, INC.

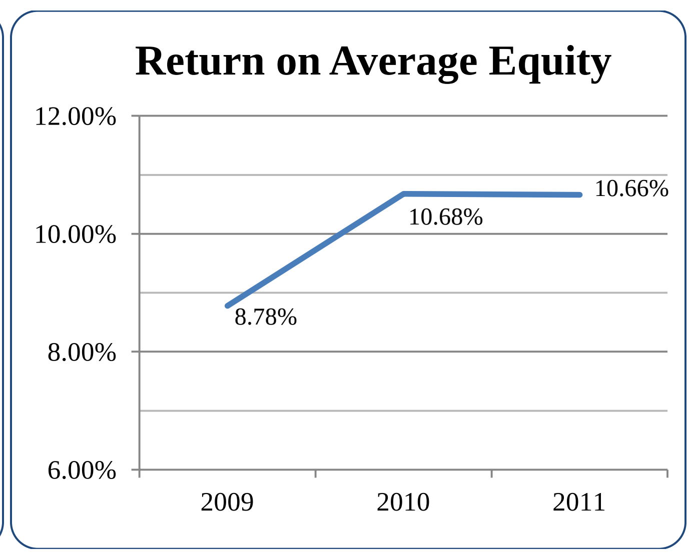
2011 Annual Report

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

For the Years Ended December 31, 2011 and 2010

	2011	2010
Performance Measures and Yields		
Consolidated net income (dollars)	$ 2,403,357	$ 2,097,863
Return on average assets (ROAA)	1.08%	1.08%
Return on average equity (ROAE)	10.66%	10.68%
Net interest margin (NIM)	4.09%	4.03%
Asset Quality		
Non-performing assets / assets	0.08%	0.13%
Loan loss reserves / gross loans	1.78%	1.80%
Reserves / non-performing assets	642.22%	578.00%
Net charge-offs / average loans	0.08%	0.07%
Chain Bridge Bancorp, Inc. Share Information		
Number of shares outstanding	20,086	18,581
Book value per share (dollars)	$ 1,335	$ 1,079
Percent change in book value per share	23.68%	12.61%
Net income per share (dollars)	$ 128.82	$ 113.40





March 16, 2012

Dear Fellow Shareholder:

Chain Bridge Bancorp, Inc. and its subsidiary, Chain Bridge Bank, National Association ("Chain Bridge" or the "Bank"), enjoyed a productive and profitable 2011. The Bank's earnings, deposits and client base all grew significantly during the year while the quality of the Bank's assets remained excellent.

Earnings in 2011 were $2.4 million, up from $2.1 million in 2010. Return on average assets was 1.08% and return on average equity was 10.66% in 2011, compared to 1.08% and 10.68%, respectively, in 2010.

Net interest income was $8.1 million in 2011, up from $6.9 million in 2010. The Bank realized net securities gains of $181,000 in 2011, down from $671,000 in 2010.

Growth

Average total assets increased by $28 million, or 14%, from $195 million in 2010 to $223 million in 2011. Average total deposits grew by 17%, from $169 million in 2010 to $198 million in 2011. The deposits were comprised primarily of business-oriented transaction accounts, with non-interest bearing checking accounts making up 57% of the total as of year-end 2011.

The Bank's investment securities portfolio grew from $89.5 million in 2010 to $161.4 million at year-end 2011. Net loans grew 8%, rising from $78.8 million to $85.1 million.

Asset Quality and Capital

At year end 2011, the Bank had zero ($0) past due loans, zero ($0) non-accrual loans, and zero ($0) Other Real Estate Owned (OREO). Net charge-offs for the year were 0.08% of average total loans. As of December 31, 2011, the Bank's loan loss reserve stood at $1.5 million or 1.78% of total loans.

In December 2011, Chain Bridge Bancorp, Inc. raised $2.1 million in additional capital via a "rights" offering to its existing shareholders, directors and executive officers only. The holding company used the proceeds of the offering to purchase additional shares of stock in the Bank. The Bank's Tier 1 Risk Based Capital Ratio was 14.69% and its total Risk Based Capital Ratio was 15.66%, at year-end 2011.

Yields on Earning Assets

Due to falling interest rates, the Bank's yield on its earning assets fell 27 basis points, from 4.77% to 4.50%, during the course of the year. However, the Bank's Cost of Funds fell by 34 basis points, from .77% to .43%. As a result, the Bank's interest margin improved from 4.03% in 2010 to 4.09% in 2011.

New Product and Service Offerings

The Bank introduced two new services in 2011, Lock-Box and Positive Pay.

The Lock-Box service allows clients to cut down on clerical expenses, reduce deposit delays, and enhance audit controls, by outsourcing their remittance processing. Chain Bridge collects the client's remittances from the post office, processes them promptly, and immediately deposits them into the client's account.

Positive Pay helps to prevent check and ACH fraud by matching a list of the client's previously authorized debits to the checks actually presented against the account. By using Positive Pay, the client can immediately suspend suspicious items, place stop pays and return fraudulent checks. Positive Pay is a valuable tool for commercial clients who issue a large volume of checks each month.

Outlook for the Year Ahead

The current low interest rate environment creates challenges for all banks. Yields on investments and loans are at historic lows and little room remains to reduce rates paid on deposits. As a result, there is significant downward pressure on the net interest margins of all banks.

Chain Bridge's management is responding to the low interest rate environment in three ways. First, it is attempting to control expenses and seeking to keep the Bank's costs and overhead low. Second, it is strengthening the loan department in an effort to increase loan production. Third, it is considering the establishment of a mortgage division which would increase the Bank's non-interest revenue. At the same time, management is moving forward to improve operational efficiencies and client services by upgrading the Bank's core-processing platform and adding new services.

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The Bank's success is due to its mix of outstanding officers, employees, directors, advisory board members and shareholders who all work together to provide some of the best banking services available anywhere in the D.C. metropolitan area. As in prior years, we thank the management, staff, board, advisory board and shareholders for all of their efforts and we look forward to working with them in the future as the Bank continues to grow and serve an expanding clientele.

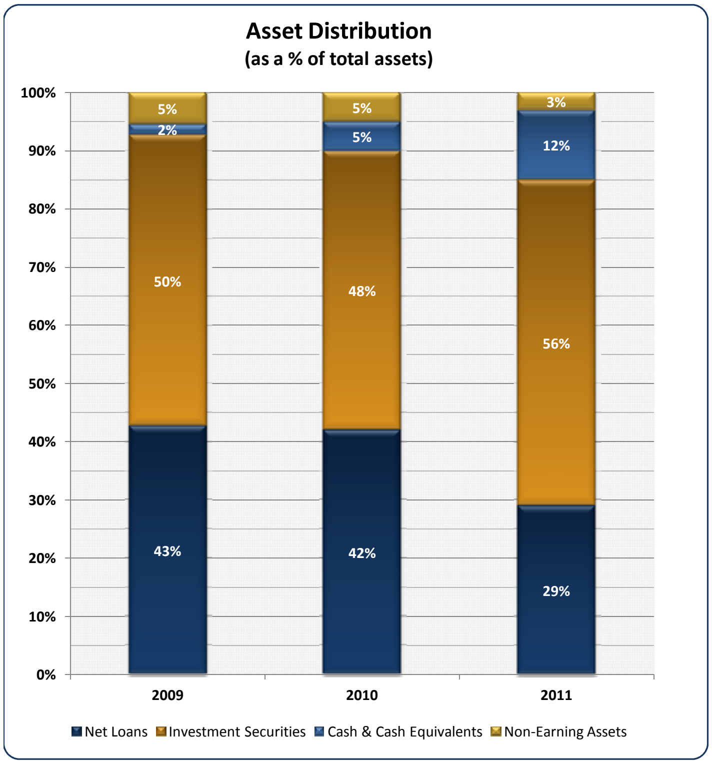
Sincerely,

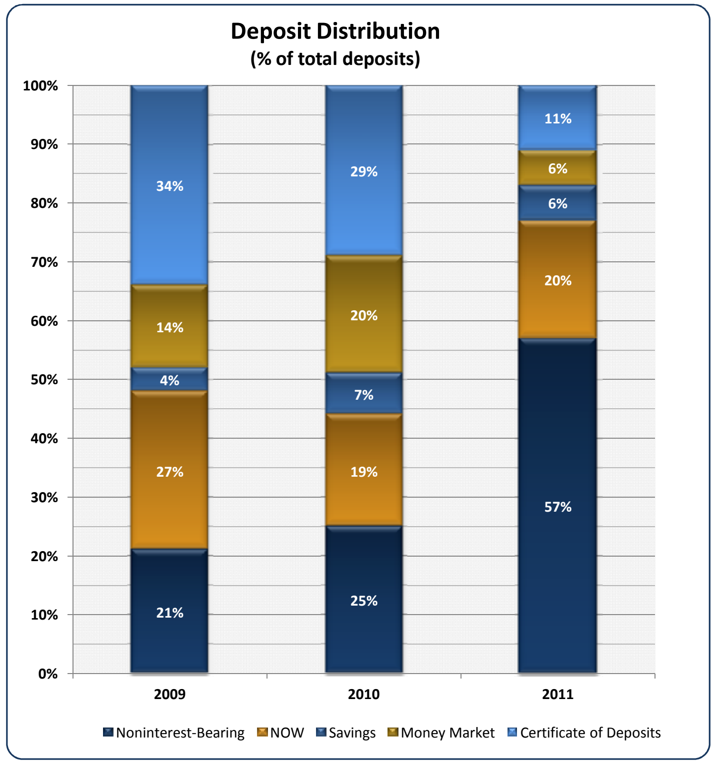
Peter G. Fitzgerald
Chairman of the Board

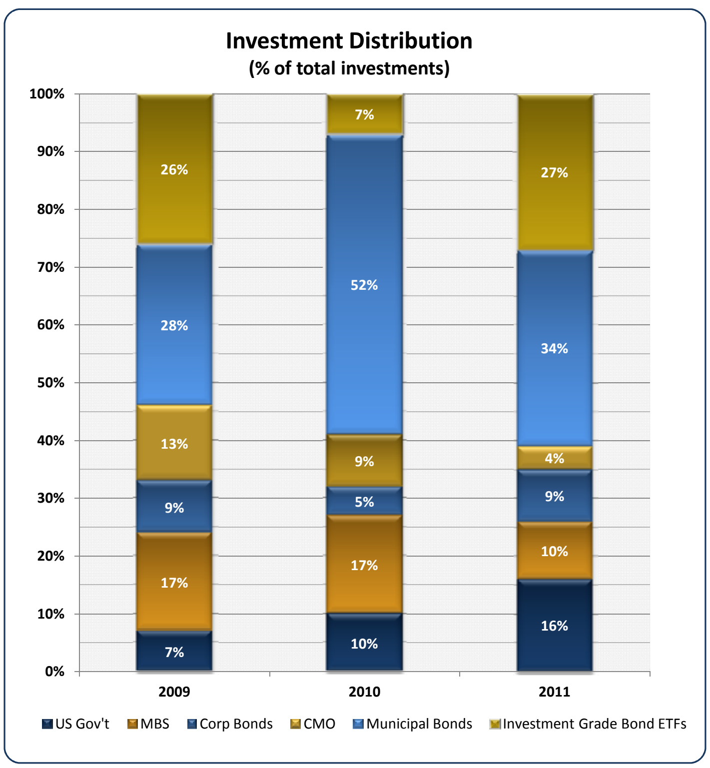
John J. Brough
Chief Executive Officer

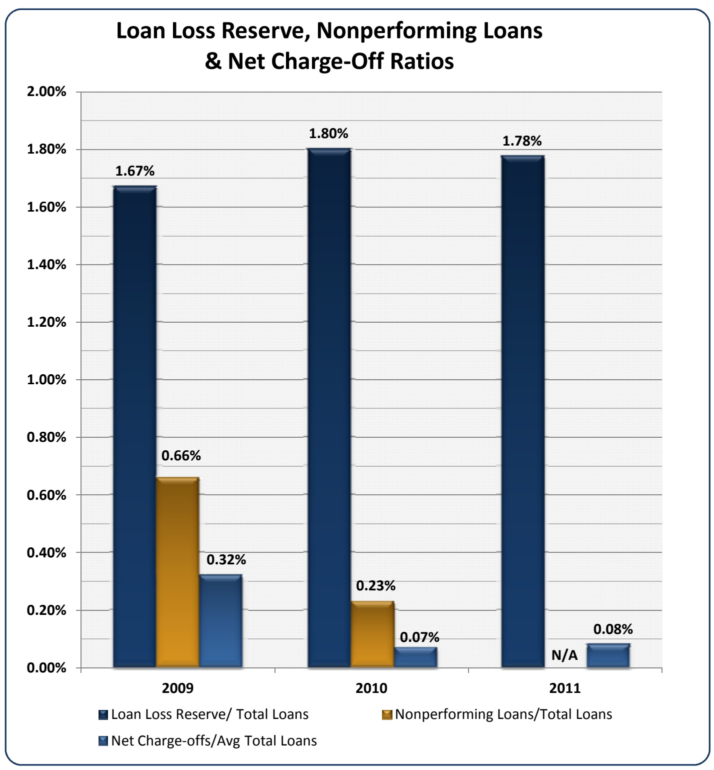
PGF/JJB/hn
Enclosures

Balance Sheet Information

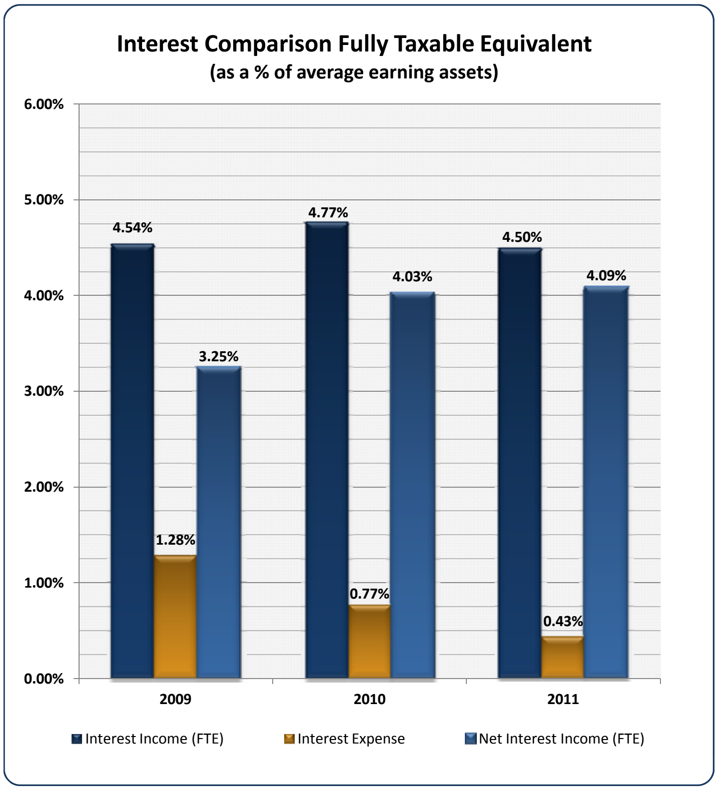


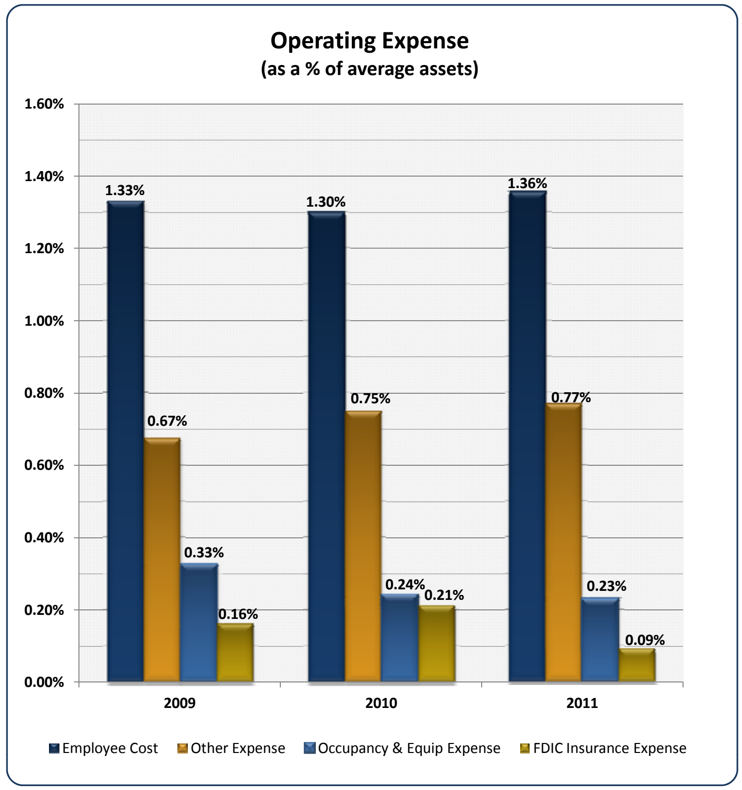


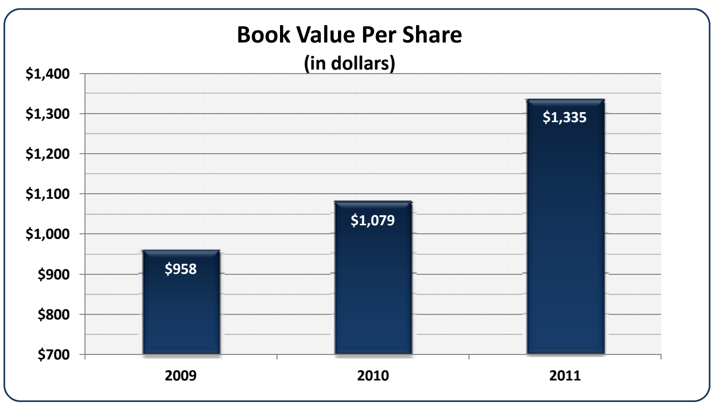


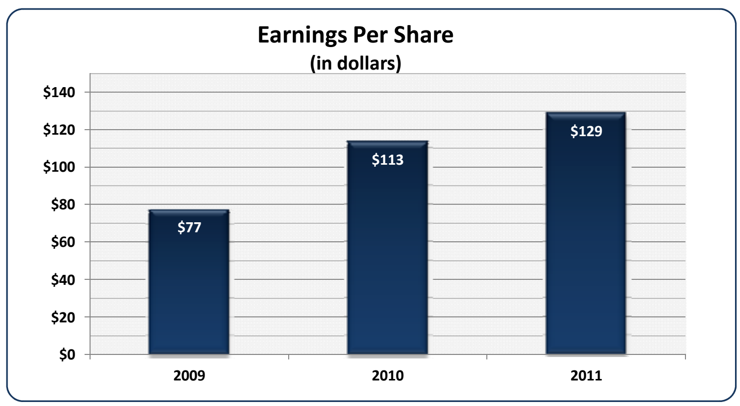


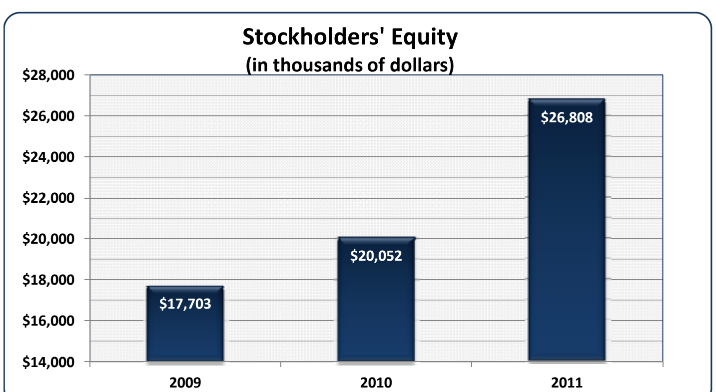
Income Statement and Equity Information

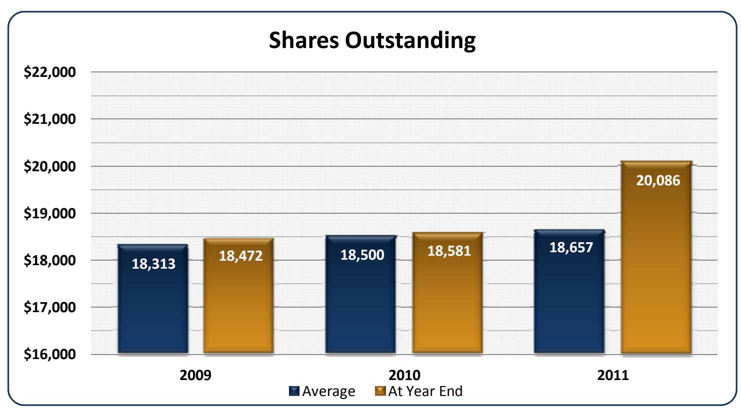












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Chain Bridge Bancorp, Inc.
and Subsidiary

McLean, Virginia

Consolidated Financial Report

December 31, 2011

C O N T E N T S

Yount
Hyde &
Barbour
Certified Public Accountants
and Consultants

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated balance sheets of Chain Bridge Bancorp, Inc. and Subsidiary as of December 31, 2011 and 2010, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Chain Bridge Bancorp, Inc. and Subsidiary as of December 31, 2011 and 2010, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Yount, Hyde & Barbour, P.C.

Winchester, Virginia
March 12, 2012

Chain Bridge Bancorp, Inc. and Subsidiary

Consolidated Balance Sheets

	December 31, 2011	December 31, 2010
Assets		
Cash and due from banks	$ 35,973,941	$ 10,153,072
Federal funds sold	8,000	41,000
FDIC-insured certificates of deposits in banks	- -	50,000
Securities available for sale, at fair market value	161,361,863	89,537,625
Restricted securities, at cost	1,229,000	1,486,400
Loans, net of allowance for loan losses of $1,541,323 in 2011 and $1,447,180 in 2010	85,049,849	78,876,231
Premises and equipment, net of accumulated depreciation of $ 1,435,150 in 2011 and $1,101,613 in 2010	6,657,501	6,796,571
Accrued interest receivable	1,276,618	1,040,124
Other assets	541,794	1,005,433
Total assets	$ 292,098,566	$ 188,986,456
Liabilities and Stockholders' Equity		
Liabilities		
Deposits:		
Noninterest bearing	$ 149,435,759	$ 37,998,462
Savings, interest-bearing checking and money market accounts	83,482,888	73,103,050
Time, $100,000 and over	22,102,747	21,750,812
Other time	7,997,455	22,726,396
Total deposits	$ 263,018,849	$ 155,578,720
Securities sold under agreements to repurchase	151,261	2,077,636
Federal Home Loan Bank advance	- -	10,210,000
Accrued interest payable	196,558	172,550
Accrued expenses and other liabilities	1,923,295	895,575
Total liabilities	$ 265,289,963	$ 168,934,481
Stockholders' Equity		
Preferred stock		
$1 par value, authorized 10,000 shares, no shares issued and outstanding	$ - -	$ - -
Common stock		
$1 par value, authorized 50,000 shares, 20,086 and 18,581 shares issued and outstanding	20,086	18,581
Additional paid-in capital	20,815,002	18,658,175
Retained earnings	2,885,905	482,548
Accumulated other comprehensive income	3,087,610	892,671
Total stockholders' equity	$ 26,808,603	$ 20,051,975
Total liabilities and stockholders' equity	$ 292,098,566	$ 188,986,456

See Notes to Consolidated Financial Statements.

Chain Bridge Bancorp, Inc. and Subsidiary

Consolidated Statements of Income

For the Years Ended December 31, 2011 and 2010

	2011	2010
Interest and Dividend Income		
Interest and fees on loans	$ 4,531,422	$ 4,102,508
Interest on securities, taxable	3,314,693	3,446,663
Interest on securities, tax-exempt	1,033,921	676,871
Dividends	37,982	31,800
Interest on interest bearing deposits in banks	43,383	32,739
Interest on federal funds sold and resell agreements	41	111
Total interest and dividend income	$ 8,961,442	$ 8,290,692
Interest Expense		
Interest on deposits	$ 857,318	$ 1,331,963
Interest on repurchase agreements	1,154	8,545
Interest on FHLB advance	3,904	8,806
Total interest expense	$ 862,376	$ 1,349,314
Net Interest Income	$ 8,099,066	$ 6,941,378
Provision for Loan Losses	159,984	274,400
Net interest income after provision for loan losses	$ 7,939,082	$ 6,666,978
Noninterest Income		
Service charges on deposit accounts	$ 103,322	$ 108,978
Other income	126,108	97,434
Gain on sale of securities	224,799	562,023
Other than temporary impairment of securities (total losses of $338,258 net of $58,958 recognized in other comprehensive income)	(279,300)	- -
Mutual funds distributions	235,901	108,895
Rent income	180,822	188,249
Total noninterest income	$ 591,652	$ 1,065,579
Noninterest Expenses		
Salaries and employee benefits	$ 3,028,391	$ 2,535,153
Occupancy and equipment expenses	510,313	470,011
Professional services	433,890	318,945
Communication and data processing expenses	535,241	478,197
Virginia bank franchise tax	192,000	189,000
FDIC assessments	202,515	412,748
Other operating expenses	555,892	475,873
Total noninterest expenses	$ 5,458,242	$ 4,879,927
Net income before taxes	$ 3,072,492	$ 2,852,630
Income tax expense	669,135	754,767
Net income	$ 2,403,357	$ 2,097,863

See Notes to Consolidated Financial Statements.

Chain Bridge Bancorp, Inc. and Subsidiary

Consolidated Statements of Cash Flows
For the Years Ended December 31, 2011 and 2010

	2011	2010
Cash Flows from Operating Activities		
Net income	$ 2,403,357	$ 2,097,863
Reconciliation of net income to net cash provided by operating activities:		
Premium amortization (discount accretion) on investment securities	166,607	(81,161)
Depreciation and amortization	333,537	349,509
Provision for loan losses	159,984	274,400
(Gain) on sale of securities	(224,799)	(562,023)
Other than temporary impairment on securities	279,300	- -
Equity based compensation	80,832	163,516
Deferred tax expense	3,117	7,075
Changes in assets and liabilities:		
(Increase) decrease in accrued interest and other assets	(71,158)	12,053
Increase (decrease) in accrued expenses and other liabilities	216,190	(85,577)
Net cash provided by operating activities	$ 3,346,967	$ 2,175,655
Cash Flows from Investing Activities		
Purchases of securities available for sale	$ (95,168,327)	$ (64,903,088)
Proceeds from calls and sales of securities available for sale	26,448,644	59,700,073
Proceeds from calls (purchase) of restricted securities	257,400	(623,450)
Decrease in interest-bearing FDIC insured deposits in banks	50,000	1,068,116
Net (increase) in loans	(6,333,602)	(7,253,504)
Purchases of premises and equipment	(194,467)	(95,710)
Net cash (used in) investing activities	$ (74,940,352)	$ (12,107,563)
Cash Flows from Financing Activities		
Net increase in demand, savings, interest-bearing checking and money market deposits	$ 121,817,135	$ 14,463,510
Net (decrease) in time deposits	(14,377,006)	(4,665,702)
Net (decrease) increase in Federal Home Loan Bank advance	(10,210,000)	10,210,000
Net (decrease) in securities sold under agreements to repurchase	(1,926,375)	(1,837,870)
Net (increase) in stock issuance	2,077,500	- -
Net cash provided by financing activities	$ 97,381,254	$ 18,169,938
Net increase in cash and cash equivalents	$ 25,787,869	$ 8,238,030
Cash and cash equivalents, beginning of period	10,194,072	1,956,042
Cash and cash equivalents, end of period	$ 35,981,941	$ 10,194,072
Supplemental Disclosures of Cash Flow Information		
Cash payments for interest	$ 838,368	$ 1,726,945
Cash payments for taxes	$ 578,766	$ 708,814
Supplemental Disclosures of Noncash Investing Activities		
Fair value adjustment for securities	$ 3,325,663	$ 132,845

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, 2011 and 2010

	Common Stock	Additional Paid-In Capital	Retained Earnings (Deficit)	Accumulated Other Compre-hensive Income	Compre-hensive Income	Total
Balance at December 31, 2009	$ 18,472	$ 18,494,768	$ (1,615,315)	$ 804,993		$ 17,702,918
Net income	- -	- -	2,097,863	- -	$ 2,097,863	2,097,863
Other comprehensive income:						
Unrealized gain on securities available for sale, net of tax ($236,255)	- -	- -	- -	- -	458,613	- -
Reclassification adjustment, net of tax ($191,088)	- -	- -	- -	- -	(370,935)	- -
Total other comprehensive income, net of tax	- -	- -	- -	87,678	$ 87,678	87,678
Total comprehensive income	- -	- -	- -	- -	$ 2,185,541	- -
Vesting of restricted stock	109	(109)	- -	- -		- -
Equity based compensation	- -	163,516	- -	- -		163,516
Balance at December 31, 2010	$ 18,581	$ 18,658,175	$ 482,548	$ 892,671		$ 20,051,975
Net income	- -	- -	2,403,357	- -	$ 2,403,357	2,403,357
Other comprehensive income:						
Unrealized gain on securities available for sale, net of tax ($1,112,193)	- -	- -	- -	- -	2,158,969	- -
Reclassification adjustment, net of tax ($18,531)	- -	- -	- -	- -	35,970	- -
Total other comprehensive income, net of tax	- -	- -	- -	2,194,939	$ 2,194,939	2,194,939
Total comprehensive income	- -	- -	- -	- -	$ 4,598,296	- -
Vesting of restricted stock	120	(120)	- -	- -		- -
Issue common stock	1,385	2,076,115	- -	- -		2,077,500
Equity based compensation		80,832	- -	- -		80,832
Balance at December 31, 2011	$ 20,086	$ 20,815,002	$ 2,885,905	$ 3,087,610		$ 26,808,603

See Notes to Consolidated Financial Statements.

Chain Bridge Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 1. Organization and Summary of Significant Accounting Policies

Organization and Nature of Operations

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

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

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

Significant Accounting Policies

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

Principles of Consolidation

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

Use of Estimates

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

Reclassification

Certain amounts in the 2010 consolidated financial statements have been reclassified to conform to the 2011 presentation.

Cash and Cash Equivalents

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

Securities

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

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

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

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

Loans

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

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

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

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

Allowance for Loan Losses

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

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 President. It is a primary responsibility of the loan officer to manage the credit risk within their loan portfolio. As such they should be proactive rather than reactive when considering adding 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 auditors, Chief Credit Officer or President 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.

When a loan is added to the watch list report, both the Chief Credit Officer and President will estimate the need for a specific loss to be allocated in the Bank's allowance for loan losses.

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 should be immediately analyzed to see if there are any significant changes in the financial position or operating results.
- Delayed Financial Statements – If we are 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. We carefully review 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 Red Flags – The following are additional red flags 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, substandard or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified and special mention loans and is based on historical loss experience adjusted for qualitative factors including the economic environment, concentration and growth trends and the nature and volume of the loan portfolio. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects that margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

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

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

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

Troubled Debt Restructurings

In situations where, for economic or legal reasons related to a borrower's financial condition, management may grant a concession to the borrower that it would not otherwise consider, the related loan is classified as a troubled debt restructuring (TDR). Management strives to identify borrowers in financial difficulty early and work with them to modify their loan to more affordable terms before their loan reaches nonaccrual status. These modified terms may include rate reductions, principal forgiveness, payment forbearance and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. In cases where borrowers are granted new terms that provide for a reduction of either interest or principal, management measures any impairment on the restructuring as noted above for impaired loans.

Premises and Equipment

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

Foreclosed Properties

Assets acquired through, or in lieu of, loan foreclosure are held for sale. They are initially recorded at the lower of the Bank’s cost or the assets’ fair market value at the date of foreclosure less estimated selling costs thus establishing a new cost basis. Subsequent to foreclosure, valuations of the assets are periodically performed by management. Adjustments are made to the lower of the carrying amount or fair market value of the assets less selling costs. Revenue and expenses from operations and valuation changes are included in net expenses from foreclosed assets. The Bank had no foreclosed assets during the periods ended December 31, 2011 and 2010.

Income Taxes

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

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

Advertising Costs

The Company follows the policy of charging the production costs of advertising to expense as incurred. The Company expensed $23,349 and $25,405 for advertising costs for the years ended December 31, 2011 and 2010, respectively.

Comprehensive Income

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

Fair Value Measurements

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

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

Stock-Based Compensation

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

Recent Accounting Pronouncements

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

In July 2010, the FASB issued ASU 2010-20, “Receivables (Topic 310) – Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses.” The new disclosure guidance significantly expands the existing requirements and will lead to greater transparency into an entity’s exposure to credit losses from lending arrangements. The extensive new disclosures of information as of the end of a reporting period became effective for annual reporting periods ending on or after December 15, 2011. Specific disclosures regarding activity that occurred before the issuance of the ASU, such as the allowance roll forward and modification disclosures, will be required for periods beginning on or after December 15, 2011. The Company has included the required disclosures in its consolidated financial statements.

In April 2011, the FASB issued ASU 2011-02, “Receivables (Topic 310) – A Creditor’s Determination of Whether a Restructuring Is a Troubled Debt Restructuring.” The amendments in this ASU clarify the guidance on a creditor’s evaluation of whether it has granted a concession to a debtor. They also clarify the guidance on a creditor’s evaluation of whether a debtor is experiencing financial difficulty. The amendments in this ASU are effective for annual periods ending on or after December 15, 2012. Early adoption is permitted. A nonpublic entity that elects early adoption should apply the provisions of this ASU retrospectively to restructurings occurring on or after the beginning of the fiscal year of adoption. The Company has adopted ASU 2011-02 and included the required disclosures in its consolidated financial statements.

In April 2011, the FASB issued ASU 2011-03, “Transfers and Servicing (Topic 860) – Reconsideration of Effective Control for Repurchase Agreements.” The amendments in this ASU remove from the assessment of effective control (1) the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee and (2) the collateral maintenance implementation guidance related to that criterion. The amendments in this ASU are effective for annual periods beginning on or after December 15, 2011. The guidance should be applied prospectively to transactions or modifications of existing transactions that occur on or after the effective date. Early adoption is not permitted. The Company is currently assessing the impact that ASU 2011-03 will have on its consolidated financial statements.

In May 2011, the FASB issued ASU 2011-04, “Fair Value Measurement (Topic 820) – Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs.” This ASU is the result of joint efforts by the FASB and International Accounting Standards Board (IASB) to develop a single, converged fair value framework on how (not when) to measure fair value and what disclosures to provide about fair value measurements. The ASU is largely consistent with existing fair value measurement principles in U.S. generally accepted accounting principles (GAAP) (Topic 820), with many of the amendments made to eliminate unnecessary wording differences between U.S. GAAP and International Financial Reporting Standards (IFRS). The amendments are effective for annual periods beginning after December 15, 2011 with prospective application. Nonpublic entities may apply the amendments in this ASU early, but no earlier than for interim periods beginning after December 15, 2011. The Company is currently assessing the impact that ASU 2011-04 will have on its consolidated financial statements.

In June 2011, the FASB issued ASU 2011-05, “Comprehensive Income (Topic 220) – Presentation of Comprehensive Income.” The objective of this ASU is to improve the comparability, consistency and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income by eliminating the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity. The amendments require that all non-owner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The single statement of comprehensive income should include the components of net income, a total for net income, the components of other comprehensive income, a total for other comprehensive income, and a total for comprehensive income. In the two-statement approach, the first statement should present total net income and its components followed consecutively by a second statement that should present all the components of other comprehensive income, a total for other comprehensive income, and a total for comprehensive income. The amendments do not change the items that must be reported in other comprehensive income, the option for an entity to present components of other comprehensive income either net of related tax effects or before related tax effects, or the calculation or reporting of earnings per share. The amendments in this ASU should be applied retrospectively. The amendments are effective for fiscal years beginning after December 15, 2012. Early adoption is permitted because compliance with the amendments is already permitted. The amendments do not require transition disclosures. The Company is currently assessing the impact that ASU 2011-05 will have on its consolidated financial statements.

In December 2011, the FASB issued ASU 2011-11, "Balance Sheet (Topic 210) – Disclosures about Offsetting Assets and Liabilities." This ASU requires entities to disclose both gross information and net information about both instruments and transactions eligible for offset in the balance sheet, and instruments and transactions subject to an agreement similar to a master netting arrangement. An entity is required to apply the amendments for annual reporting periods beginning on or after January 1, 2013. An entity should provide the disclosures required by those amendments retrospectively for all comparative periods presented. The Company is currently assessing the impact that ASU 2011-11 will have on its consolidated financial statements.

In December 2011, the FASB issued ASU 2011-12, "Comprehensive Income (Topic 220) – Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05." The amendments are being made to allow the Board time to redeliberate whether to present on the face of the financial statements the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income for all periods presented. While the Board is considering the operational concerns about the presentation requirements for reclassification adjustments and the needs of financial statement users for additional information about reclassification adjustments, entities should continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect before ASU 2011-05. All other requirements in ASU 2011-05 are not affected by ASU 2011-12, including the requirement to report comprehensive income either in a single continuous financial statement or in two separate but consecutive financial statements. Nonpublic entities should begin applying these requirements for fiscal years ending after December 15, 2012, and interim and annual periods thereafter. The Company is currently assessing the impact that ASU 2011-12 will have on its consolidated financial statements.

Note 2. Securities

Amortized cost and fair value of securities available for sale as of December 31, 2011 and 2010 are as follows:

	December 31, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Securities of U.S. government and federal agencies	$ 24,940,683	$ 939,833	$ (25,448)	$ 25,855,068
Mortgage backed securities	14,884,640	872,051	- -	15,756,691
Corporate bonds	13,721,676	221,347	(257,093)	13,685,930
FDIC-insured bonds	500,130	6,595	- -	506,725
Collateralized mortgage obligations	5,588,078	255,096	(19,706)	5,823,468
State and municipal securities	53,050,704	2,467,333	(186,955)	55,331,082
Mutual and exchange-traded funds	43,997,757	463,011	(57,869)	44,402,899
Total	$ 156,683,668	$ 5,225,266	$ (547,071)	$ 161,361,863

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

At December 31, 2011, securities with a carrying value of $13,493,183 were pledged to secure public deposits, repurchase agreements, and a line of credit with the Federal Reserve Bank and Community Bankers' Bank.

Proceeds from redemptions and sales of securities totaled $26,448,644 and $59,700,073 for 2011 and 2010, respectively. Gross gains on the sale of securities for 2011 and 2010 totaled $224,799 and $562,023, respectively. Other than temporary impairment on securities totaled $279,300 and $0 for 2011 and 2010, respectively

There were no held to maturity securities at December 31, 2011 or 2010.

The amortized cost and fair value of securities by contractual maturity at December 31, 2011 follows:

	Amortized Cost	Fair Value
Within one year	$ 4,269,209	$ 4,285,776
After one year through five years	35,126,252	36,209,456
After five years through ten years	37,529,564	38,823,931
Over ten years	35,760,886	37,639,802
Mutual and exchange-traded funds	43,997,757	44,402,898
Total	$ 156,683,668	$ 161,361,863

At December 31, 2011 and 2010 investments in an unrealized loss position that are temporarily impaired are as follows:

	December 31, 2011				
	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	$ (25,448)	$ 6,124,552	$ - -	$ - -	$ (25,448)
Corporate bonds	(257,093)	7,680,970	- -	- -	(257,093)
Collateralized mortgage obligations	(19,706)	1,030,048	- -	- -	(19,706)
State and municipal securities	(120,010)	6,902,096	(66,945)	668,350	(186,955)
Mutual and exchange-traded funds	(57,869)	13,964,758	- -	- -	(57,869)
Total	$ (480,126)	$ 35,702,424	$ (66,945)	$ 668,350	$ (547,071)

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

At December 31, 2011 and 2010, 51 and 62 debt securities had unrealized losses with aggregate depreciation of 1.50 and 3.04 percent, respectively, from the Company's amortized cost basis. These unrealized losses related principally to interest rate movements and not the credit-worthiness of the issuer. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and industry analysts' reports. As of December 31, 2011 and 2010, management determined that the unrealized losses in the investment portfolio were temporary. Management does not expect to be required to sell these securities before such time that they recover in value. Management will continue to monitor the securities in a loss position for future impairment.

The Company 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%, 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.

As of 12/31/2011, the Company had two other-than-temporary impairment securities, one was subsequently sold and the other was a municipal debt security. The credit loss on the municipal debt security was determined by the difference in the amortized book value of the asset less the remaining bond series project funds held in trust, which was further discounted over a two year period. The following rollforward reflects credit losses recognized in earnings:

	2011
Beginning balance	$ - -
Initial other-than-temporary impairment	279,300
Realized losses for securities sold	(19,300)
Ending balance	$ 260,000

Note 3. Loans

A summary of the balances of loans follows:

	December 31,	
	2011	**2010**
Commercial real estate	$ 33,323,890	$ 28,450,605
Commercial	10,106,298	11,934,350
Residential real estate closed-end	30,642,554	26,903,435
Other consumer loans	12,518,430	13,035,021
	$ 86,591,172	$ 80,323,411
Less allowance for loan losses	(1,541,323)	(1,447,180)
Loans, net	$ 85,049,849	$ 78,876,231

Overdrafts totaling $2,478 and $163 at December 31, 2011 and 2010, respectively, were reclassified from deposits to loans.

An analysis of the allowance for loan losses follows:

	December 31, 2011	December 31, 2010
Beginning balance	$ 1,447,180	$ 1,221,744
Provision for loan losses	159,984	274,400
Loans and leases charged off	(116,286)	(51,000)
Recoveries on loans previously charged off	50,445	2,036
Ending Balance	$ 1,541,323	$ 1,447,180

The following table presents the activity in the allowance for loan losses for the year 2011 and the recorded investment in loans and impairment method as of December 31, 2011 by portfolio segment:

	Commercial Real Estate	Commercial	Residential Real Estate Closed-End	Other Consumer Loans	Total
Allowance for Loan Losses:					
Beginning of Year	$ 433,000	$ 280,000	$ 398,000	$ 336,180	$ 1,447,180
Provisions	97,000	38,841	103,000	(78,857)	159,984
Charge-offs	- -	(74,357)	- -	(41,929)	(116,286)
Recoveries	- -	8,516	- -	41,929	50,445
End of Year	$ 530,000	$ 253,000	$ 501,000	$ 257,323	$ 1,541,323
Reserves:					
Specific	$ - -	$ - -	$ - -	$ 1,161	$ 1,161
General	530,000	253,000	501,000	256,162	1,540,162
	$ 530,000	$ 253,000	$ 501,000	$ 257,323	$ 1,541,323
Evaluated for Impairment:					
Individually	$ - -	$ - -	$ - -	$ 61,042	$ 61,042
Collectively	33,323,890	10,106,298	30,642,554	12,457,388	86,530,130
	$ 33,323,890	$ 10,106,298	$ 30,642,554	$ 12,518,430	$ 86,591,172

Based on the most recent analysis performed, the risk category of loans by class of loans was as follows as of December 31, 2011:

	Pass	Special Mention	Substandard	Doubtful	Loss	Total
Commercial real estate	$ 31,874,735	$ 508,754	$ 940,401	$ - -	$ - -	$ 33,323,890
Commercial	10,021,827	- -	84,471	- -	- -	10,106,298
Residential real estate closed-end	30,642,554	- -	- -	- -	- -	30,642,554
Other consumer loans	11,957,213	- -	500,175	61,042	- -	12,518,430
	$ 84,496,329	$ 508,754	$ 1,525,047	$ 61,042	$ - -	$ 86,591,172

Information relating to individually impaired loans presented by class of loans was as follows:

	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
With No Related Allowance Recorded:					
Commercial real estate	$ - -	$ - -	$ - -	$ - -	$ - -
Commercial	- -	- -	- -	- -	- -
Residential real estate closed-end	- -	- -	- -	- -	- -
Other consumer loans	- -	- -	- -	- -	- -
	$ - -	$ - -	$ - -	$ - -	$ - -

	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
With An Allowance Recorded:					
Commercial real estate	$ - -	$ - -	$ - -	$ - -	$ - -
Commercial	- -	- -	- -	- -	- -
Residential real estate closed-end	- -	- -	- -	- -	- -
Other consumer loans	61,042	61,042	1,161	63,350	1,919
	$ 61,042	$ 61,042	$ 1,161	$ 63,350	$ 1,919

A summary of the investment in impaired loans, the related allowance for loan losses, income recognized thereon and information pertaining to nonaccrual and past due loans follows:

	December 31, 2010
Recorded Investment in Impaired Loans:	
With a valuation allowance	$ 66,655
Without a valuation allowance	225,385
Related allowance for loan losses	$ 2,100
Average recorded investment in impaired loans	$ 612,670
Interest income recognized during impairment	$ 23,407
Cash basis interest income recognized	$ 23,407
Past due over 90 days and still on accrual	$ - -
Nonaccrual loans	$ - -

There were no nonaccrual loans excluded from impaired loan disclosure and no loans 90 days past due and still accruing at December 31, 2011 and 2010. The Bank had no past due loans at December 31, 2011.

The following table presents information related to loan modifications as TDRs during the year ended December 31, 2011:

	Number of Contracts	Pre-Modification Investment	Post-Modification Investment
Commercial real estate	$ - -	$ - -	$ - -
Commercial	- -	- -	- -
Residential real estate closed-end	- -	- -	- -
Other consumer loans	1	61,042	61,042
	$ 1	$ 61,042	$ 61,042

No loan modifications classified as TDRs subsequently defaulted during 2011.

Note 4. Premises and Equipment

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

	December 31, 2011	December 31, 2010
Land	$ 1,240,000	$ 1,240,000
Building	5,144,911	5,128,675
Furniture, fixtures and equipment	917,202	756,503
Leasehold improvements	790,538	773,006
	$ 8,092,651	$ 7,898,184
Less accumulated depreciation	1,435,150	1,101,613
Ending balance	$ 6,657,501	$ 6,796,571

For 2011 and 2010, depreciation expense was $ 333,537 and $349,509, respectively.

The Company leases additional office space for operations support. The lease has a term of three years and is classified as an operating lease. The lease calls for annual payments of $60,036 through March 2014, subject to annual adjustments. Rent expense for the year ended December 31, 2011 was $45,572.

Note 5. Related Party Transactions

Officers, directors and their affiliates had credit outstanding of $5,004,249 and $5,492,316 at December 31, 2011 and 2010, respectively, with the Bank. During 2011, total principal additions were $407,148 and total principal payments were $895,215. 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, 2011 and 2010 amounted to $9,943,110 and $10,206,608, respectively.

Note 6. Deposits

Remaining maturities on certificates of deposit are as follows:

2012	$ 18,654,013
2013	4,986,211
2014	1,102,363
2015	319,584
2016	5,038,031
	$ 30,100,202

Brokered deposits totaled $0 and $16,628,864 at December 31, 2011 and 2010, respectively. Brokered deposits are placed through the Certificate of Deposit Account Registry Service or CDARS.

The Company had three customers with individual deposit balances exceeding five percent of total deposits as of December 31, 2011. The total deposit balances related to these customers as of December 31, 2011 were $66,945,633 or 25 percent of total deposits.

Note 7. Borrowings

Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase amounted to $151,261 and $2,077,636 at December 31, 2011 and 2010, respectively, and mature on a daily basis and are secured by municipal securities with a fair value of $558,535. The weighted average interest rate on these agreements was 0.25 percent at December 31, 2011 and 2010.

Federal Home Loan Bank Advance

The Company has a secured line of credit with the Federal Home Loan Bank totaling $25,690,000. At December 31, 2011, the Company had no outstanding advances. The line has a variable rate and is secured by 1-4 family residential real estate loans and home equity lines of credit within the Company's loan portfolio. The line is renewed annually in September.

Note 8. Income Taxes

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2011 and 2010 are presented below:

	December 31,	
	2011	**2010**
Deferred Tax Assets		
Allowance for loan losses	$ 496,323	$ 459,288
Organizational and start-up expenses	184,788	202,248
Deferred loan fees	20,519	15,171
Depreciation	10,165	37,822
Restricted stock	8,992	33,937
Other	34,260	9,698
	$ 755,047	$ 758,164
Deferred Tax Liabilities		
Securities available for sale	$ 1,590,587	$ 459,861
Net deferred tax asset (liability)	$ (835,540)	$ 298,303

The provision for income taxes charged to operations for the years ended December 31, 2011 and 2010, consists of the following:

	December 31, 2011	December 31, 2010
Current tax expense	$ 666,018	$ 747,692
Deferred tax expense	3,117	7,075
	$ 669,135	$ 754,767

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 2008.

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

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

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

At December 31, 2011 and 2010, the following financial instruments were outstanding whose contract amounts represent credit risk:

	December 31, 2011	December 31, 2010
Commitments to grant loans	$ 11,595,000	$ 10,065,000
Unfunded commitments under lines of credit	24,267,000	19,916,000
Standby letters of credit	201,000	80,000

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

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

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

The Company maintains its cash accounts in several correspondent banks. The total amount by which cash on deposit in those banks and federal funds sold exceeded the federally insured limits at December 31, 2011 and 2010 was $744,609 and $732,831, respectively.

The Company is required to maintain average balances with the Federal Reserve Bank. At December 31, 2011, this balance was $12,262,000.

Note 10. Minimum Regulatory Capital Requirements

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

Quantitative measures established by regulation to ensure capital adequacy require financial institutions to maintain minimum amounts and ratios (set forth in the table below) of Total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2011, that the Company and the Bank meet all capital adequacy requirements to which they are subject.

As of December 31, 2011, the most recent notification from the Office of the Comptroller of the Currency categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum Total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's category.

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

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
December 31, 2011	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Amounts in Thousands)			
Total Risk-Based Capital						
Company	$ 25,262	15.86%	$ 12,743	8.00%	N/A	N/A
Bank	$ 24,947	15.66%	$ 12,743	8.00%	$ 15,928	10.00%
Tier 1 Risk-Based Capital						
Company	$ 23,721	14.89%	$ 6,371	4.00%	N/A	N/A
Bank	$ 23,406	14.69%	$ 6,371	4.00%	$ 9,557	6.00%
Tier 1 Leverage Ratio						
Company	$ 23,721	8.84%	$ 10,731	4.00%	N/A	N/A
Bank	$ 23,406	8.72%	$ 10,731	4.00%	$ 13,414	5.00%
December 31, 2010						
Total Risk-Based Capital						
Company	$ 20,606	17.25%	$ 9,558	8.00%	N/A	N/A
Bank	$ 20,350	17.03%	$ 9,558	8.00%	$ 11,947	10.00%
Tier 1 Risk-Based Capital						
Company	$ 19,159	16.04%	$ 4,779	4.00%	N/A	N/A
Bank	$ 18,903	15.82%	$ 4,779	4.00%	$ 7,168	6.00%
Tier 1 Leverage Ratio						
Company	$ 19,159	9.56%	$ 8,013	4.00%	N/A	N/A
Bank	$ 18,903	9.44%	$ 8,013	4.00%	$ 10,016	5.00%

Note 11. Restricted Stock Plan

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

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

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

The 2007 Plan provides for the grant of an aggregate of 750 shares of restricted stock to full-time executive officers or other key employees. The number of shares issuable under the 2007 Plan and outstanding awards is subject to adjustment in the event of any stock split, reverse stock split, stock dividend, split up or combination or shares, reclassification, reorganization, merger, consolidation or similar event which changes the number or kind of outstanding shares, without the receipt of consideration by the Company. Shares subject to awards which are forfeited or not earned may be reissued. Of the 750 shares of restricted stock subject to the Plan, 582 have been awarded to date, and 168 will remain available for future awards. The following table presents the activity for the Plan for 2011:

	Shares	Weighted Average Grant Date Fair Value
Nonvested, beginning of period	248	$ 1,079
Vested	(120)	1,033
Granted	13	1,285
Nonvested, end of period	141	1,138

Compensation expense attributable to the Plan was $80,832 and $163,516 for 2011 and 2010, respectively. As of December 31, 2011, the total compensation cost related to nonvested awards not yet recognized was $109,146. This compensation cost will be recognized over the remaining vesting period of the awards.

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

Note 12. 401(k) Plan

The Company has a 401(k) Plan whereby substantially all employees participate in the plan. Employees may contribute portions of their compensation subject to limits based on federal tax laws. The Company may make discretionary matching contributions to the plan. For 2011 and 2010, expense attributable to the plan amounted to $51,531 and $54,244, respectively.

Note 13. Fair Value Measurements

Fair Value Hierarchy

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

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

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

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

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

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

Securities Available for Sale

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

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

		Fair Value Measurements Using		
Description	**Balances**	**Level 1**	**Level 2**	**Level 3**
Assets:				
As of December 31, 2011:				
Available for sale securities:				
U.S. government and federal agencies	$ 25,855,068	$ - -	$ 25,855,068	$ - -
Mortgage backed securities	15,756,691	- -	15,756,691	- -
Corporate bonds	13,685,930	- -	13,685,930	- -
FDIC-insured bonds	506,725	- -	506,725	- -
Collateralized mortgage obligations	5,823,468	- -	5,823,468	- -
State and municipal securities	55,331,082	- -	55,331,082	- -
Mutual and exchange-traded funds	44,402,899	44,402,899	- -	- -
Total	$ 161,361,863	$ 44,402,899	$ 116,958,964	$ - -
As of December 31, 2010:				
Available for sale securities:				
U.S. government and federal agencies	$ 7,006,208	$ - -	$ 7,006,208	$ - -
Mortgage backed securities	15,643,600	- -	15,643,600	- -
Corporate bonds	4,490,032	- -	4,490,032	- -
FDIC-insured bonds	1,544,582	- -	1,544,582	- -
Collateralized mortgage obligations	7,782,036	- -	7,782,036	- -
State and municipal securities	46,927,336	- -	46,927,336	- -
Mutual and exchange-traded funds	6,143,831	6,143,831	- -	- -
Total	$ 89,537,625	$ 6,143,831	$ 83,393,794	$ - -

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

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

Impaired Loans

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

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

		Fair Value Measurements Using		
Description	Balances	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
As of December 31, 2011:				
Impaired loans, net of valuation allowance	$ 59,881	$ - -	$ - -	$ 59,881
As of December 31, 2010:				
Impaired loans, net of valuation allowance	$ 64,555	$ - -	$ - -	$ 64,555

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

Cash and Cash Equivalents

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

Interest-Bearing Deposits in Banks

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

Securities

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

Loans Receivable

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

Deposit Liabilities

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

Borrowings

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

Accrued Interest

The carrying amounts of accrued interest approximate fair value.

Off-Balance Sheet Credit-Related Instruments

Fair values for off-balance-sheet, credit-related financial instrument are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. These fees were not deemed significant at December 31, 2011 and 2010 have not been included in the disclosure.

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

	December 31, 2011		December 31, 2010	
(in thousands)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	$ 35,982	$ 35,982	$ 10,194	$ 10,194
Interest-bearing deposits in banks	- -	- -	50	50
Securities available for sale	161,362	161,362	89,538	89,538
Loans, net	85,050	85,167	78,876	78,216
Accrued interest receivable	1,277	1,277	1,040	1,040
Financial liabilities:				
Deposits	$ 263,019	$ 262,134	$ 155,579	$ 149,167
Repurchase agreements	151	151	2,078	2,078
FHLB advance	- -	- -	10,210	10,210
Accrued interest payable	197	197	173	173

Note 14. Subsequent Events

The Company evaluates subsequent events that have occurred after the balance sheet date but before the financial statements are issued. There are two types of subsequent events: (1) recognized, or those that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements, and (2) non-recognized, or those that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date. The Company evaluated subsequent events through March 12, 2012.

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

Note 15. Condensed Financial Statements of Parent Company

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

Balance Sheets	December 31, 2011	December 31, 2010
Assets		
Cash	$ 314,781	$ 256,449
Investment in common stock of Chain Bridge Bank	26,493,822	19,795,526
Total assets	$ 26,808,603	$ 20,051,975
Liabilities and Stockholders' Equity		
Stockholders' equity	$ 26,808,603	$ 20,051,975
Total liabilities and stockholders' equity	$ 26,808,603	$ 20,051,975

Statements of Income	December 31, 2011	December 31, 2010
Operating expenses - equity based compensation	$ 80,832	$ 163,516
(Loss) before undistributed net income of Chain Bridge Bank	$ (80,832)	$ (163,516)
Undistributed net income of Chain Bridge Bank	2,484,189	2,261,379
Net income	$ 2,403,357	$ 2,097,863

Statements of Cash Flows	**December 31, 2011**	**December 31, 2010**
Cash Flows from Operating Activities		
Net income	$ 2,403,357	$ 2,097,863
Adjustments to reconcile net income to net cash provided by operating activities:		
Undistributed net (income) of Chain Bridge Bank	(2,484,189)	(2,261,379)
Equity based compensation	80,832	163,516
Increase in other liabilities	80,832	163,516
Net cash provided by operating activities	$ 80,832	$ 163,516
Cash Flows from Investing Activities		
Investment in Chain Bridge Bank	$ (2,100,000)	$ (250,000)
Net cash (used in) investing activities	$ (2,100,000)	$ (250,000)
Cash Flows from Financing Activities		
Net proceeds from common stock issued	$ 2,077,500	$ - -
Net cash provided by financing activities	$ 2,077,500	$ - -
Net increase (decrease) in cash and cash equivalents	$ 58,332	$ (86,484)
Cash and cash equivalents at beginning of period	256,449	342,933
Cash and cash equivalents at end of period	$ 314,781	$ 256,449

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