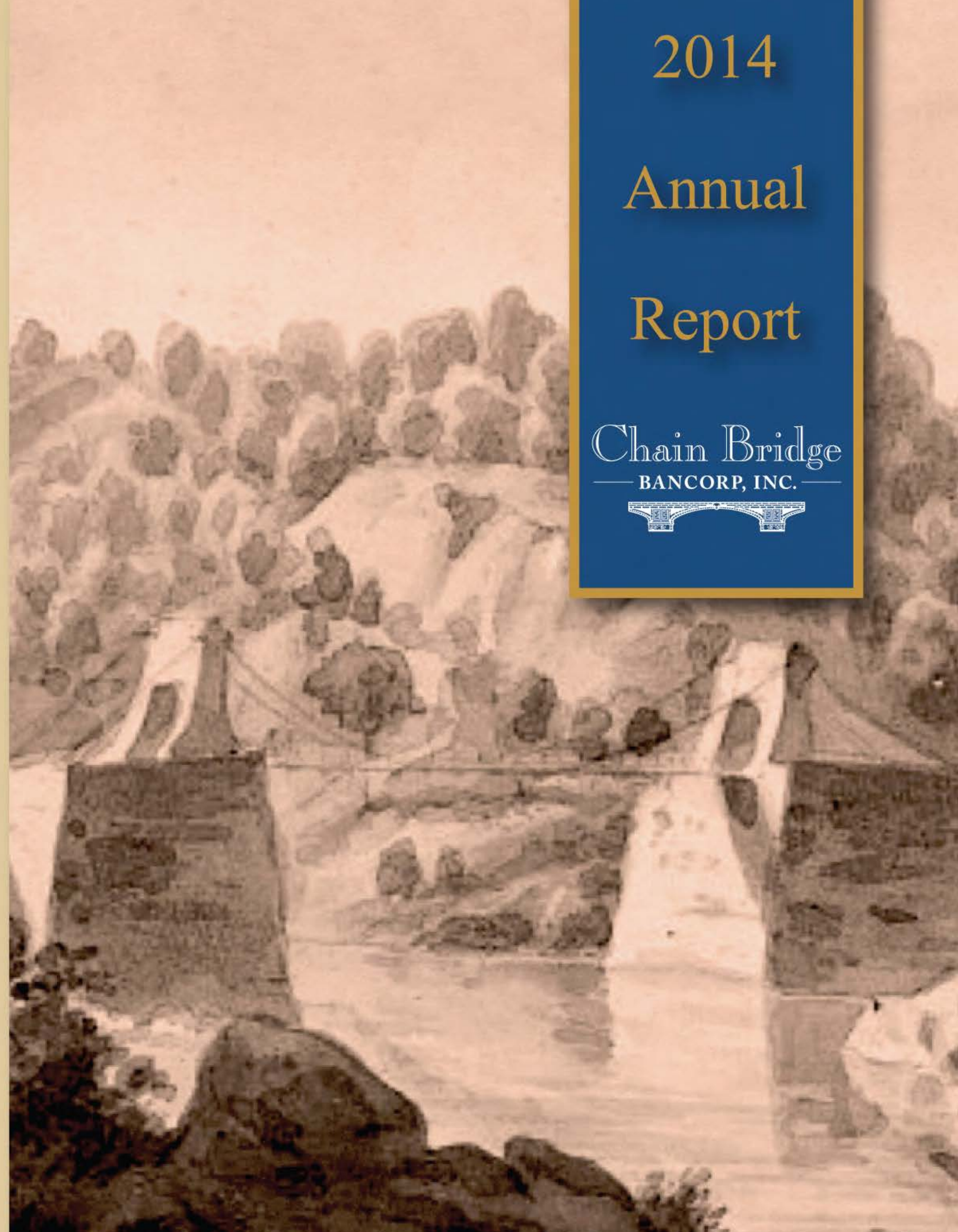
2014 Annual Report

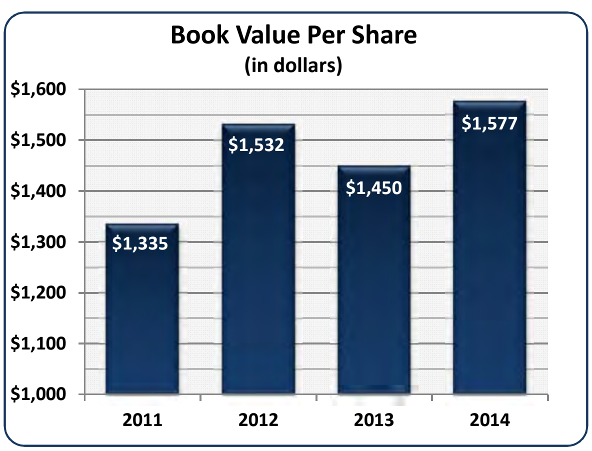
Chain Bridge
BANCORP, INC.

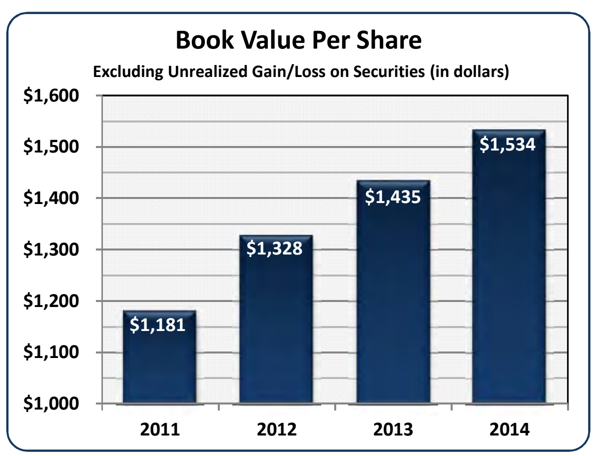


Chain Bridge Bancorp, Inc.
and
Chain Bridge Bank, National Association
Consolidated Financial Highlights

For the Periods Ending December 31, 2014 and 2013

	2014	2013
Performance Measures and Yields		
Consolidated net income (in thousands)	$ 2,013	$ 2,173
Return on average assets (ROAA)	0.57 %	0.71 %
Return on average equity (ROAE)	6.47 %	7.29 %
Net interest margin	2.99 %	3.41 %
Asset Quality (%)		
Non-performing assets / assets	0.00 %	0.00 %
Loan loss reserves / gross loans	1.40 %	1.50 %
Net (recoveries) charge-offs / average loans	(0.03) %	(0.16) %
Balance Sheet Highlights		
Total assets (in thousands)	$ 337,330	$ 321,357
Total loans (net of loans held for sale)	$ 167,564	$ 141,357
Total deposits (in thousands)	$ 291,669	$ 289,869
Capitalization		
Total equity capital (in thousands)	$ 31,996	$ 29,317
Percent change in total equity capital	9.14 %	(5.04) %
Tier 1 capital (in thousands)	$ 31,123	$ 28,482
Tier 1 risk-based ratio (%)	13.98 %	15.08 %
Total risk-based capital ratio (%)	15.04 %	16.21 %
Chain Bridge Bancorp, Inc. Share Information		
Number of shares outstanding	20,292	20,219
Book value per share (dollars)	$ 1,577	$ 1,450
Net income per share (dollars)	$ 99.36	$ 107.67





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Chain Bridge
BANCORP, INC.

March 13, 2015

Dear Fellow Shareholder:

Chain Bridge Bancorp, Inc. (the "Company"), the parent of Chain Bridge Bank, N.A. (the "Bank") (collectively, "Chain Bridge"), earned net income of $2.01 million or $99.36 per share in 2014 versus $2.17 million, or $107.67 per share in 2013. The Company's return on equity was 6.47% in 2014 versus 7.29% in 2013. Book value per share of the Company increased by 8.75%, from $1,449.96 at year end 2013 to $1,576.77 at year end 2014.

Since its founding in 2007, Chain Bridge has retained over $10 million in earnings, had accumulated other comprehensive income of $874 thousand and set aside an additional $2.35 million in reserves.

Declaration of Dividend

In January of this year, the Board of Directors declared a cash dividend of $10 per share which was paid in February. The Board also announced a policy of paying out between 10% and 25% of the Company's earnings, over time, as dividends to its shareholders. Future dividends will be contingent on the Company retaining sufficient capital to support anticipated business growth, fund strategic initiatives and provide continued support for its depositors.

Business Growth

Average assets grew from $307 million in 2013 to $355 million in 2014. Total loans grew by 19%, from $141.4 million at year end 2013 to $167.6 million at year end 2014. Tangible common equity grew from $29.0 million to $31.8 million.

In his first full year as President, Sam Schreiber helped energize the Bank's business development activities. A former Chairman of the Greater Washington Board of Trade, Sam introduced many new deposit and loan clients to the Bank and also involved the Bank in many new business organizations throughout the D.C. metro area. Sam has deep relations with a significant percentage of the region's business leaders and he has widened the focus of the Bank's deposit and loan gathering efforts. In December, 2014, the Bank hired Marcia Bradford, a seasoned lender who has worked in non-profit banking at both SunTrust and Wells Fargo for the last 20 years. Marcia joins Mike Richardson in leading the Bank's non-profit banking group, which focuses on trade associations, political committees, educational and religious institutions and other non-profit entities.

Residential mortgage demand was strong as interest rates were low and home buying activity was high. The Bank's residential mortgage division, now beginning its third full year, has increased its penetration of the local markets. Led by Joe Nelson, the Mortgage Division continues to grow primarily by word of mouth and referrals. The Bank is typically able to close loans faster than its competitors and – because the Bank keeps most of its mortgages on its own books – is frequently able to offer customized solutions that are unavailable elsewhere. In 2014, the Bank sponsored many broker and builder open houses and received a steady stream of referrals from some of the area's premier realtors. Because Chain Bridge is a national banking association, it can write loans and mortgages in all jurisdictions. Joe and his expert team have helped many of the Bank's clients purchase residential investment properties in a variety of other states.

Safety and Soundness

The Bank continues to stand out for its asset quality. The most commonly used metric of a bank's safety and soundness is its "Texas Ratio." The Texas Ratio takes the amount of a bank's non-performing assets and loans, as well as loans delinquent for more than 90 days, and divides that amount by the firm's tangible equity capital plus its loan loss reserve. The lower a bank's Texas Ratio, the safer it is.

Because it had zero non-performing loans or other assets in 2014, Chain Bridge Bank had a "Texas Ratio" of zero, the best possible ratio. As of the end of 2014, Chain Bridge was the only commercial bank headquartered in Virginia and one of only 261 (out of 5,660) commercial banks in the United States to have a "Texas Ratio" of zero. Because it had no non-performing or delinquent assets in 2012, 2013 or 2014, Chain Bridge has maintained a zero Texas Ratio for three years in a row.

One of the most important measures of a bank's safety and soundness is its liquidity. For regulatory purposes, a bank's "liquidity ratio" is defined as its cash plus its unpledged securities divided by its total liabilities. Chain Bridge Bank has always maintained a high degree of liquidity and a relatively low loan to deposit ratio. Chain Bridge rarely pledges securities and usually only for backup emergency lines of credit from the Federal Reserve Bank of Richmond or the Federal Home Loan Bank of Atlanta. As of December 31, 2014, Chain Bridge's liquidity ratio was 44.87%, substantially in excess of all its local peers and ahead of three of the five largest banks in the U.S. Similarly, its ratio of pledged to total securities was 14.89%, which was a lower and better percentage than that of any of the five largest U.S. banks and a substantially lower and better percentage than that of any of its local peers.

Chain Bridge has earned a 5-Star rating, the highest available, from BauerFinancial, Inc., for 19 consecutive quarters through September 30, 2014. The 5-Star award recognizes the Bank's superior performance and financial strength. The award is based on an analysis of regulatory financial data. In comparison, BauerFinancial rates JPMorgan Chase, Bank of America, Citibank and Wells Fargo as 4-Stars and Bank of New York Mellon as 3.5-Stars.

Similarly, Chain Bridge has earned a Green/3-Star Safety rating, the highest possible, from Veribanc. The Green designation indicates that Chain Bridge is well-capitalized and profitable. The 3-Stars designation indicates that an institution has maintained a stable balance sheet for ten quarters, has few problem assets and faces no regulatory sanctions. While the five largest banks each earns a "Green" designation for adequacy of capital and profitability, none earns more than one star under the Veribanc Safety Rating system.

Efficiency and Returns

The yields earned on both loans and bonds declined in 2014 as market interest rates fell sharply. The yield on Chain Bridge's loan book dropped from an average of 4.57% in 2013 to 4.37% in 2014. The yield on the securities portfolio dropped even more, from 3.12% in 2013 to 2.40% in 2014, as higher yielding, older bonds matured or were called and the bank bought new bonds at lower yields. As a result, the Bank's net interest margin – the spread between what it pays for deposits and how much it earns on loans and bonds – continued to compress.

In an effort to keep up their margins, many community banks have responded to the ultra-low interest rate environment by taking on more credit and liquidity risk. In contrast, Chain Bridge has maintained its conservative loan and investment underwriting standards and has resisted the temptation to "reach for yield". This conservative posture may weigh on shareholder returns in the short term. In the long term, however, management believes that the Bank's strong balance sheet will prove a competitive advantage against its more aggressive and illiquid competitors – particularly when the current economic expansion ends and the next recession begins.

Chain Bridge's cost of funds, at 0.21% as of December 31, 2014, is much lower than that of its peers and similar to that of the largest U.S. banks. In a normal interest rate environment, a strong deposit franchise, such as Chain Bridge's, would have enormous value. That is because, in normal interest rate environments, a good bank can earn a return on its deposit franchise even before taking credit or interest rate risk. With short term rates at zero, however, it is difficult, if not impossible, to earn a spread on deposits without taking credit, liquidity or interest rate risk. Management anticipates that when interest rates rise, Chain Bridge's high quality deposit franchise will facilitate additional spread income that is unavailable when short term interest rates are at zero.

Due to Chain Bridge's strategy of investing in technology rather than in a "bricks and mortar" branch network, its non-interest expense as a percentage of its average assets is lower than that of most other banks. While the Bank may eventually establish a few strategically located branches around the metro region, it will likely wait until interest rates and banking margins are higher before taking on that additional expense.

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On behalf of the Board of Directors, I wish to thank the officers and employees of the Bank for the exceptional service they give to every one of our clients. I also wish to thank you, the shareholders, for your loyal support. Please continue to refer your friends and associates to our team.

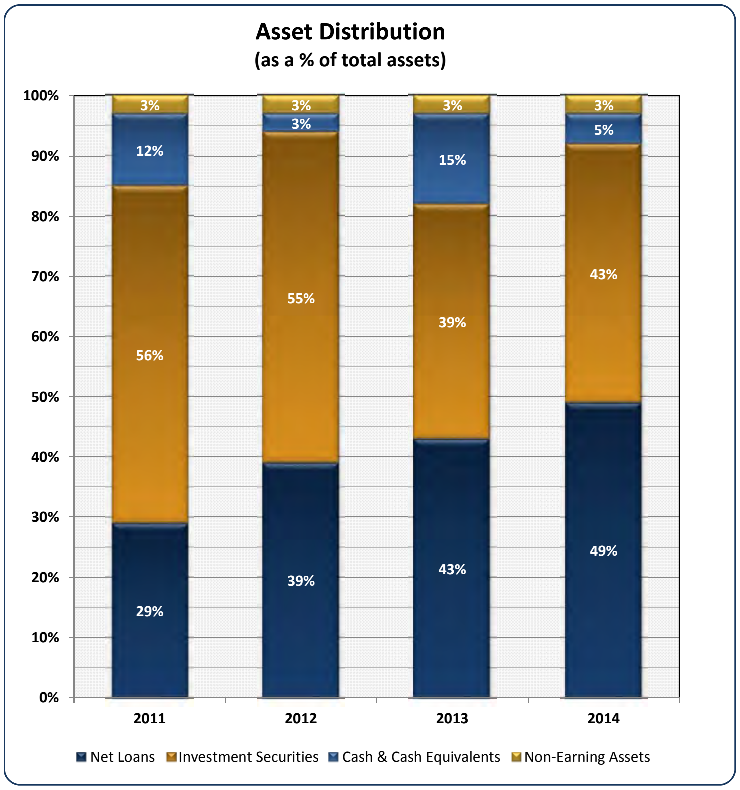
Very truly yours,

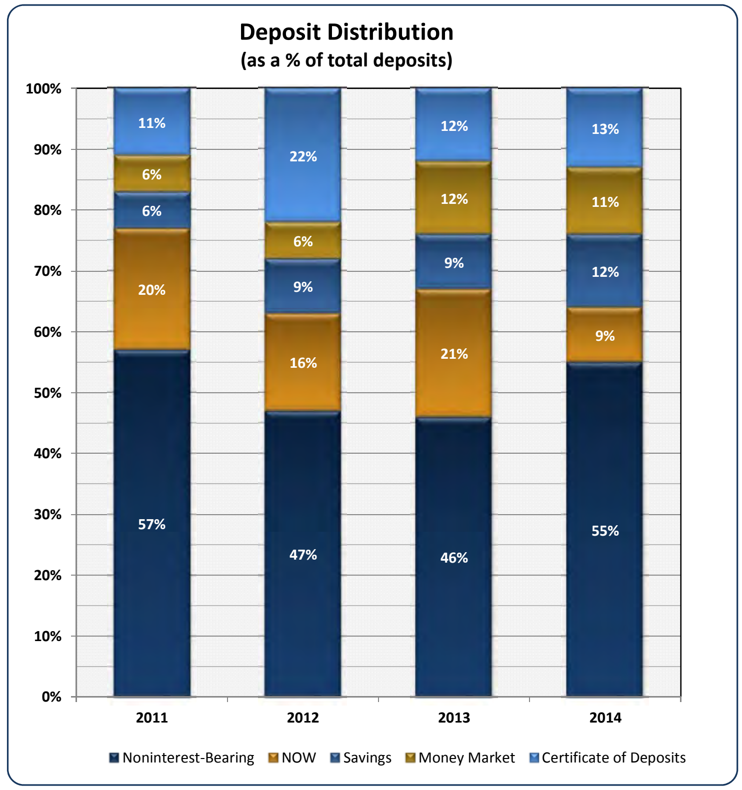
Peter G. Fitzgerald,
Chairman of the Board

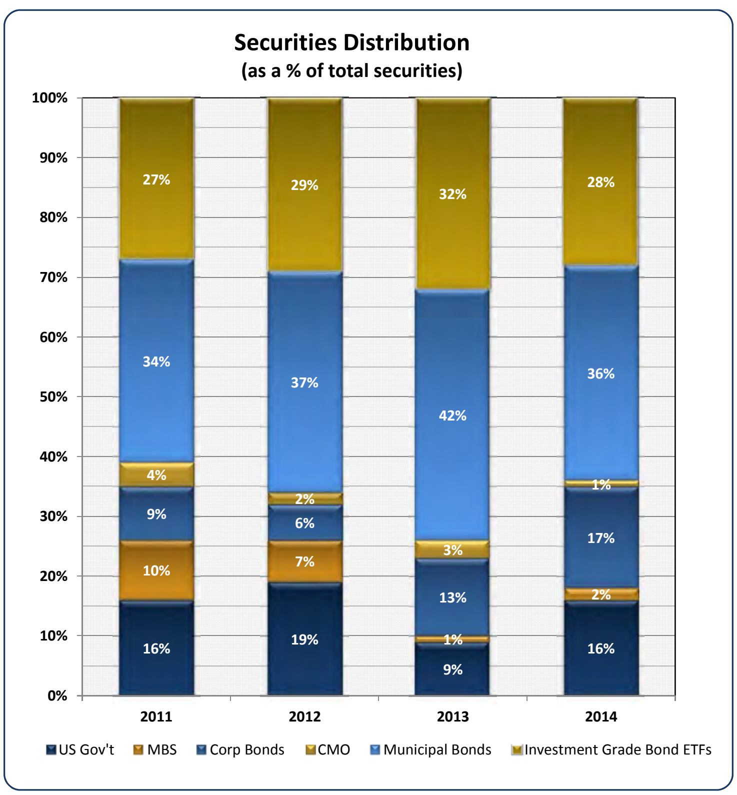
PGF/hn

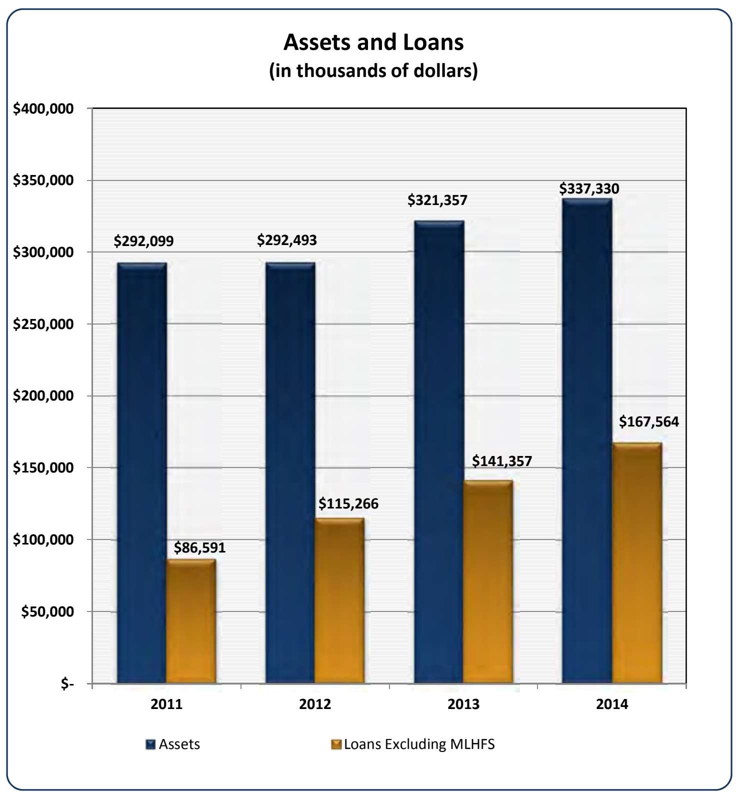
Enclosures

Balance Sheet Information





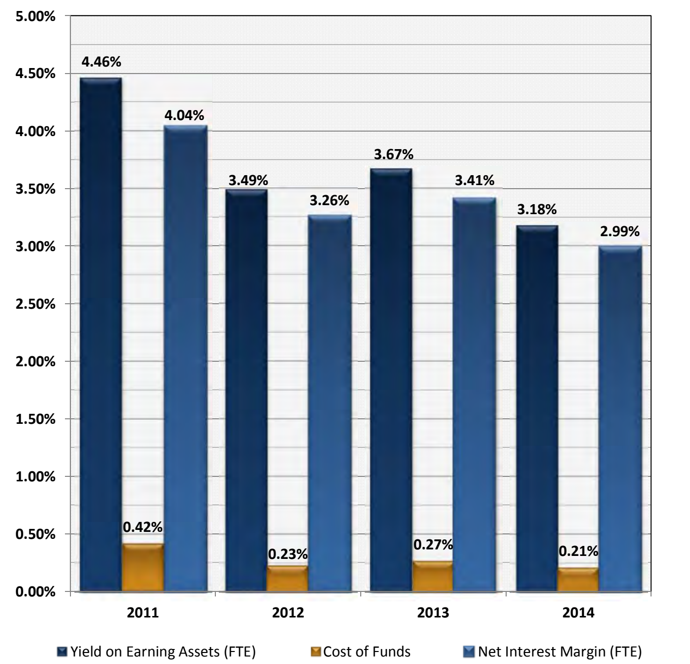




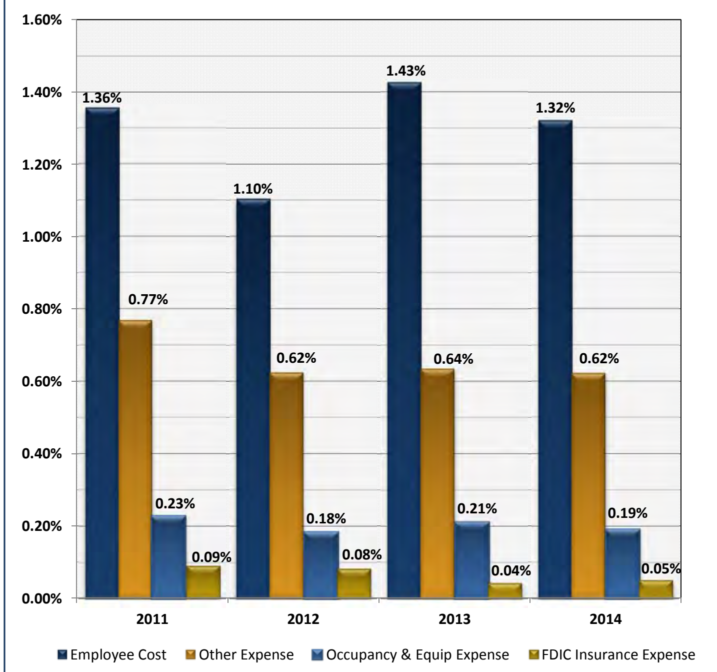
Chain Bridge BANCORP, INC.

Income Statement and Asset Quality Information

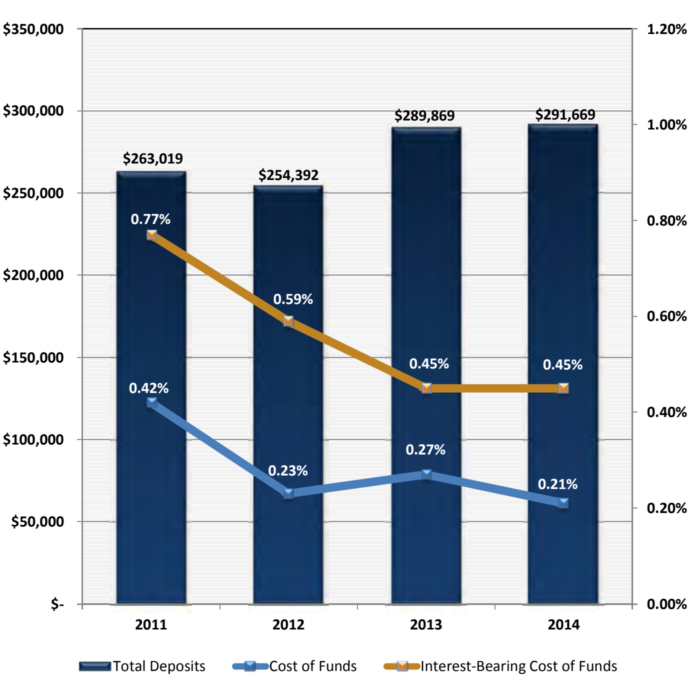
Interest Comparison Fully Taxable Equivalent
(as a % of average earning assets)



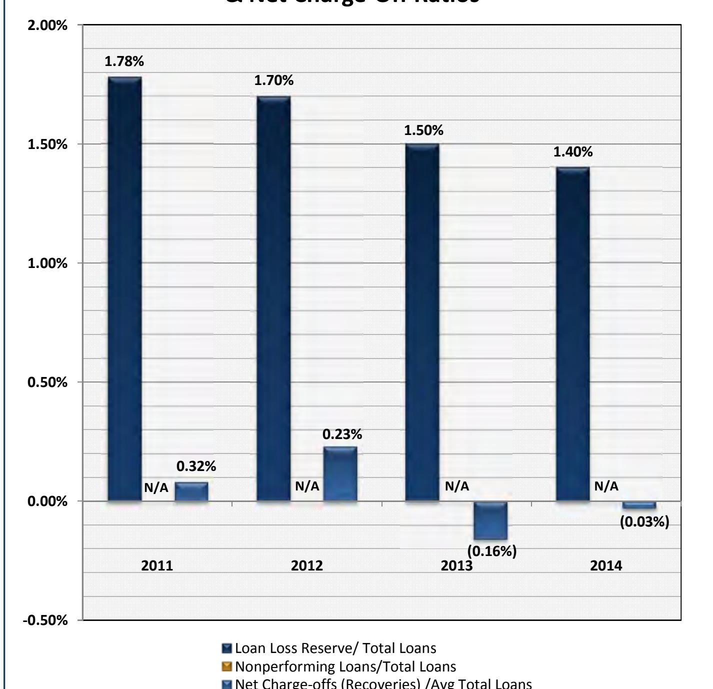
Operating Expense
(as a % of average assets)



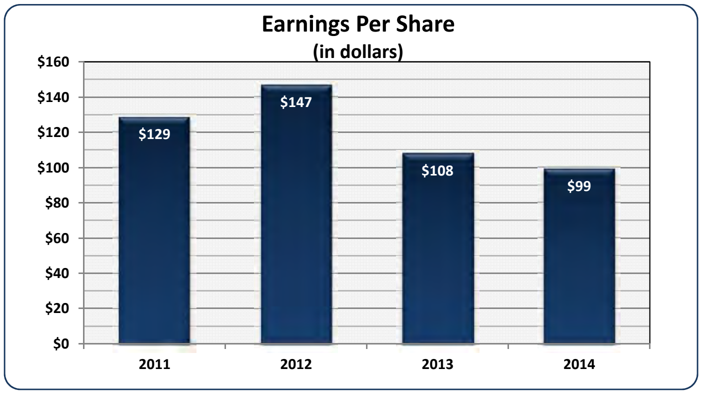
Deposits Balance and Costs
(in thousands of dollars)

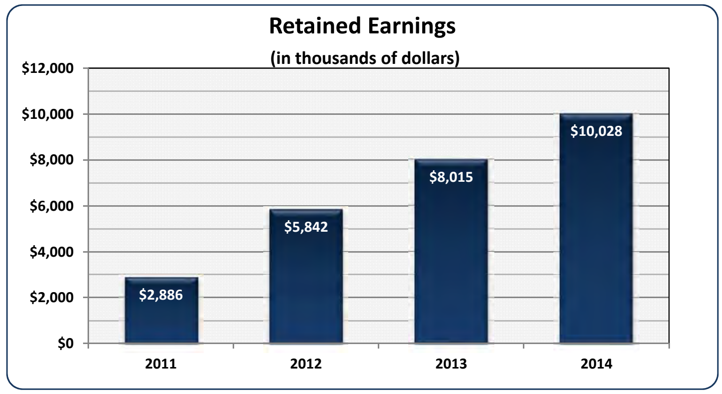


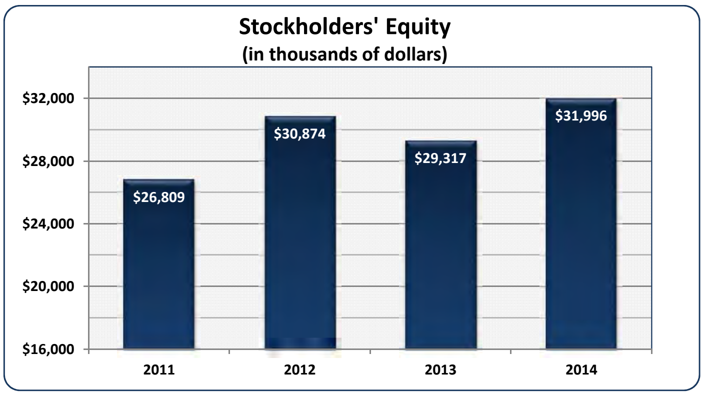
Loan Loss Reserve, Nonperforming Loans & Net Charge-Off Ratios

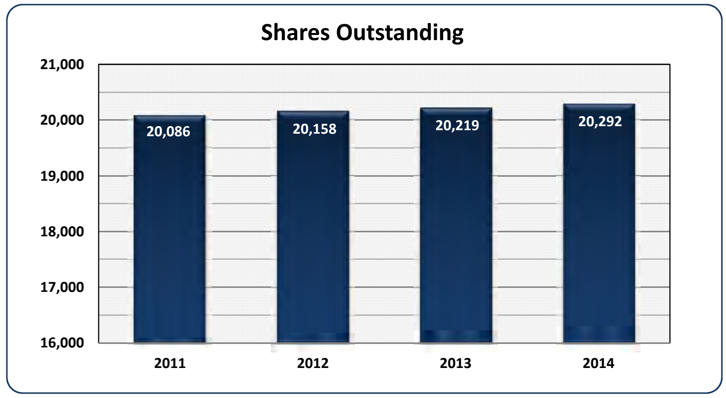


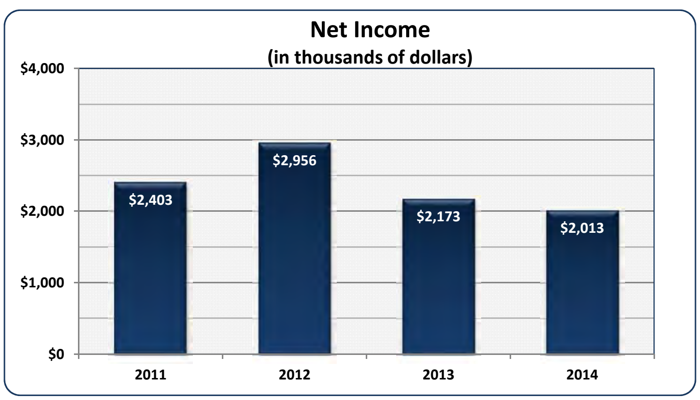
Equity Information and Returns

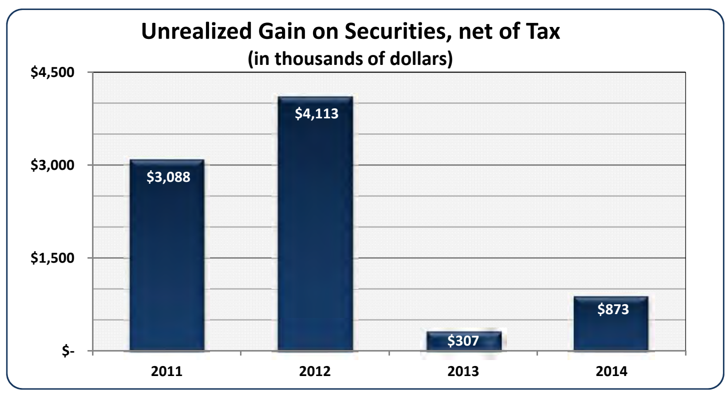


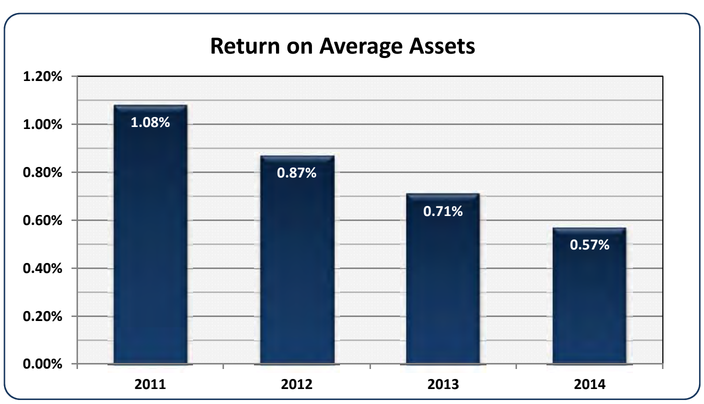


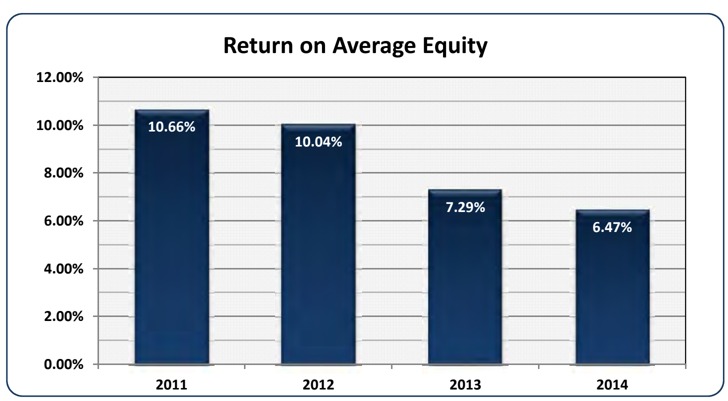












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Chain Bridge Bancorp, Inc.
and Subsidiary

McLean, Virginia

Consolidated Financial Report

December 31, 2014

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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 Subsidiary which comprise the consolidated balance sheets as of December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income (loss), changes in stockholders' equity and cash flows for the years then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 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, 2014 and 2013, 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 13, 2015

50 South Cameron, Street P.O. Box 2560, Winchester, VA 22604
(540) 662-3417 Offices located in: Winchester, Middleburg, Leesburg, Culpeper, and Richmond, Virginia
FAX (540) 662-4211 Member: American Institute of Certified Public Accountants / Virginia Society of Certified Public Accountants

Chain Bridge Bancorp, Inc. and Subsidiary

Consolidated Balance Sheets

	December 31,	
	2014	2013
Assets		
Cash and due from banks	$ 15,347,448	$ 46,292,232
Securities available for sale, at fair market value	143,072,031	124,438,849
Restricted securities, at cost	2,086,500	1,608,200
Loans held for sale	1,839,119	- -
Loans, net of allowance for loan losses of $2,346,000 in 2014 and $2,120,959 in 2013	165,217,814	139,236,361
Premises and equipment, net of accumulated depreciation of $2,600,175 in 2014 and $2,193,851 in 2013	7,965,487	7,885,729
Accrued interest receivable	1,029,253	1,059,537
Other assets	771,937	835,595
Total assets	$ 337,329,589	$ 321,356,503
Liabilities and Stockholders' Equity		
Liabilities		
Deposits:		
Noninterest bearing	$ 159,352,320	$ 133,416,011
Savings, interest-bearing checking and money market accounts	95,402,528	120,616,297
Time, $250,000 and over	16,688,056	21,074,962
Other time	20,225,846	14,762,226
Total deposits	$ 291,668,750	$ 289,869,496
Securities sold under agreements to repurchase	482,625	909,811
FHLB advances	12,000,000	- -
Accrued interest payable	97,626	92,470
Accrued expenses and other liabilities	1,084,793	1,168,072
Total liabilities	$ 305,333,794	$ 292,039,849
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, 20,292 and 20,219 shares issued and outstanding	20,292	20,219
Additional paid-in capital	21,074,399	20,974,597
Retained earnings	10,027,614	8,014,654
Accumulated other comprehensive income	873,490	307,184
Total stockholders' equity	$ 31,995,795	$ 29,316,654
Total liabilities and stockholders' equity	$ 337,329,589	$ 321,356,503

See Notes to Consolidated Financial Statements.

Chain Bridge Bancorp, Inc. and Subsidiary

Consolidated Statements of Income

For the Years Ended December 31, 2014 and 2013

	2014	2013
Interest and Dividend Income		
Interest and fees on loans	$ 6,516,283	$ 5,859,406
Interest on securities, taxable	2,508,923	3,072,020
Interest on securities, tax-exempt	1,112,245	1,191,726
Dividends	61,014	65,374
Interest on interest bearing deposits in banks	109,369	67,551
Total interest and dividend income	$ 10,307,834	$ 10,256,077
Interest Expense		
Interest on deposits	$ 671,834	$ 755,572
Interest on repurchase agreements	948	742
Interest on FHLB advances	3,786	8,803
Interest on short-term borrowings	- -	7,337
Total interest expense	$ 676,568	$ 772,454
Net Interest Income	$ 9,631,266	$ 9,483,623
Provision for (Recovery of) Loan Losses	178,219	(41,428)
Net interest income after provision for (recovery of) loan losses	$ 9,453,047	$ 9,525,051
Noninterest Income		
Service charges on deposit accounts	$ 152,889	$ 121,313
Brokered fees on mortgage banking activities	2,250	44,134
Gain on sale of mortgage loans	166,029	176,796
Rent income	193,383	245,264
Other income	186,664	216,414
Securities gains (losses), net		
(Loss) on sale of securities	(4,690)	(749,915)
Mutual funds income	99,486	211,738
Total securities gains (losses), net	94,796	(538,177)
Total noninterest income	$ 796,011	$ 265,744
Noninterest Expenses		
Salaries and employee benefits	$ 4,697,735	$ 4,384,904
Occupancy and equipment expenses	681,123	651,121
Professional services	364,544	347,117
Communication and data processing expenses	714,296	635,501
Virginia bank franchise tax	227,500	185,000
FDIC assessments	180,000	130,821
Other operating expenses	909,657	784,453
Total noninterest expenses	$ 7,774,855	$ 7,118,917
Net income before taxes	$ 2,474,203	$ 2,671,878
Income Tax Expense	461,243	499,076
Net income	$ 2,012,960	$ 2,172,802
Earnings per common share, basic	$ 99.36	$ 107.67
Earnings per common share, diluted	$ 99.21	$ 107.39

See Notes to Consolidated Financial Statements.

CHAIN BRIDGE BANCORP, INC

Consolidated Statements of Comprehensive Income (Loss)
Years Ended December 31, 2014 and 2013

	2014		2013	
Net income	$	2,012,960	$	2,172,802
Other comprehensive income (loss):				
Unrealized holding gains (losses) on securities available for sale (net of tax of $289,513 and $2,215,420)	$	563,211	$	(4,300,109)
Reclassification adjustment (net of income taxes of $1,595 and $255,384)		3,095		494,531
Other comprehensive income (loss), net of tax	$	566,306	$	(3,805,578)
Comprehensive income (loss)	$	2,579,266	$	(1,632,776)

See Notes to Consolidated Financial Statements.

Chain Bridge Bancorp, Inc. and Subsidiary

Consolidated Statements of Cash Flows
For the Years Ended December 31, 2014 and 2013

	2014	2013
Cash Flows from Operating Activities		
Net income	$ 2,012,960	$ 2,172,802
Reconciliation of net income to net cash provided by operating activities:		
Depreciation and amortization	406,324	387,875
Premium amortization on investment securities	1,011,368	422,616
Provision for (recovery of) loan losses	178,219	(41,428)
Loss on sale of securities	4,690	749,915
(Gain) on sale of mortgage loans	(166,029)	(176,796)
(Origination) of loans held for sale	(13,863,165)	(12,464,982)
Proceeds from sale of loans	12,190,075	13,667,324
Equity based compensation	26,352	75,236
Deferred tax expense	70,630	12,507
Changes in assets and liabilities:		
Increase in accrued interest and other assets	(267,796)	(376,849)
(Decrease) in accrued expenses and other liabilities	(78,123)	(708,839)
Net cash provided by operating activities	$ 1,525,505	$ 3,719,381
Cash Flows from Investing Activities		
Purchases of securities available for sale	$ (90,860,951)	$ (36,794,704)
Proceeds from calls and sales of securities available for sale	72,069,125	63,945,601
(Purchases) redemption of restricted securities	(478,300)	162,200
Net (increase) in loans	(26,159,672)	(25,888,292)
Purchases of premises and equipment	(486,082)	(141,000)
Net cash (used in) provided by investing activities	$ (45,915,880)	$ 1,283,805
Cash Flows from Financing Activities		
Net increase in demand, savings, interest-bearing checking and money market deposits	$ 722,540	$ 54,652,054
Net increase (decrease) in time deposits	1,076,714	(19,174,653)
Net increase (decrease) in short-term borrowings	12,000,000	(2,500,000)
Net (decrease) increase in securities sold under agreements to repurchase	(427,186)	111,963
Proceeds from stock issuance	73,523	- -
Net cash provided by financing activities	$ 13,445,591	$ 33,089,364
Net increase in cash and cash equivalents	$ (30,944,784)	$ 38,092,550
Cash and cash equivalents, beginning of period	46,292,232	8,199,682
Cash and cash equivalents, end of period	$ 15,347,448	$ 46,292,232
Supplemental Disclosures of Cash Flow Information		
Cash payments for interest	$ 671,412	$ 828,071
Cash payments for taxes	$ 379,953	$ 495,230
Supplemental Disclosures of Noncash Investing Activities		
Fair value adjustment for securities	$ 857,414	$ (5,765,402)

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, 2014 and 2013

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance at December 31, 2012	$ 20,158	$ 20,899,422	$ 5,841,852	$ 4,112,762	$ 30,874,194
Net income	- -	- -	2,172,802	- -	2,172,802
Other comprehensive (loss)	- -	- -	- -	(3,805,578)	(3,805,578)
Vesting of restricted stock	61	(61)	- -	- -	- -
Equity based compensation	- -	75,236	- -	- -	75,236
Balance at December 31, 2013	$ 20,219	$ 20,974,597	$ 8,014,654	$ 307,184	$ 29,316,654
Net income	- -	- -	2,012,960	- -	2,012,960
Other comprehensive income	- -	- -	- -	566,306	566,306
Vesting of restricted stock	23	(23)	- -	- -	- -
Issuance of common stock	50	73,473	- -	- -	73,523
Equity based compensation	- -	26,352	- -	- -	26,352
Balance at December 31, 2014	$ 20,292	$ 21,074,399	$ 10,027,614	$ 873,490	$ 31,995,795

See Notes to Consolidated Financial Statements.

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Note 1. Organization and Summary of Significant Accounting Policies

Organization and Nature of Operations

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

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

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

Significant Accounting Policies

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

Principles of Consolidation

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

Use of Estimates

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

Reclassification

Certain amounts in the 2013 consolidated financial statements have been reclassified to conform to the 2014 presentation. None of those reclassifications were significant.

Cash and Cash Equivalents

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

Securities

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

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

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

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

Loans

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

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding unpaid principal balances adjusted for the allowance for loan losses and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. Loan origination and commitment fees and certain direct costs are deferred and the net amount is amortized as an adjustment of the related loan'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 CEO. 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 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 loan review, Chief Credit Officer or CEO 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 (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 national and local economic environment, concentration growth trends in the nature and volume of the loan portfolio, levels and trends in delinquencies, impaired loans, and charge-off/recovery activity, changes in underwriting standards and lending policies, experience and depth of lending management and staff, and industry conditions. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects that margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

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

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

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

Troubled Debt Restructurings

In situations where, for economic or legal reasons related to a borrower's financial condition, management may grant a concession to the borrower that it would not otherwise consider, the related loan is classified as a troubled debt restructuring (TDR). Management strives to identify borrowers in financial difficulty early and work with them to modify their loan to more affordable terms before their loan reaches nonaccrual status. These modified terms may include rate reductions, principal forgiveness, payment forbearance and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. In cases where borrowers are granted new terms that provide for a reduction of either interest or principal, management measures any impairment on the restructuring as noted above for impaired loans. The Bank had no TDRs at year end 2014 and 2013.

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 net expenses from foreclosed assets. The Bank had no foreclosed assets during the periods ending December 31, 2014 and 2013.

Rate Lock Commitments

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

The market value of rate lock commitments and best efforts contracts is not readily ascertainable with precision because rate lock commitments and best efforts contracts are not actively traded in stand-alone markets. The Bank determines the fair value of rate lock commitments and best efforts contracts. No gain or loss occurs on the rate lock commitments. 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.

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, 2014 or 2013.

Earnings Per Share

Basic earnings per share represents income available to common stockholders divided by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares relate solely to outstanding restricted stock. For the years ended December 31, 2014 and 2013, the weighted average number of shares outstanding for calculating basic earnings per share was 20,260 and 20,180, respectively. For the years ended December 31, 2014 and 2013, the weighted average number of shares outstanding for calculating diluted earnings per share was 20,290 and 20,233, respectively.

Advertising Costs

The Bank follows the policy of charging the production costs of advertising to expense as incurred. The Bank expensed $80,221 and $25,834 for advertising costs for the years ended December 31, 2014 and 2013, 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, 2014 and 2013, the Bank’s other comprehensive income relates solely to changes in unrealized gains and losses on available for sale securities.

Fair Value Measurements

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

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

Stock-Based Compensation

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

Recent Accounting Pronouncements

In January 2014, the FASB issued ASU 2014-01, “Investments—Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Qualified Affordable Housing Projects (a consensus of the FASB Emerging Issues Task Force).” The amendments in this ASU permit reporting entities to make an accounting policy election to account for their investments in qualified affordable housing projects using the proportional amortization method if certain conditions are met. Under the proportional amortization method, an entity amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense (benefit). The amendments in this ASU should be applied retrospectively to all periods presented. A reporting entity that uses the effective yield method to account for its investments in qualified affordable housing projects before the date of adoption may continue to apply the effective yield method for those preexisting investments. The amendments in this ASU are effective for nonpublic business entities for annual periods and interim reporting periods within those annual periods, beginning after December 15, 2015. Early adoption is permitted. The Company is currently assessing the impact that ASU 2014-01 will have on its consolidated financial statements.

In January 2014, the FASB issued ASU 2014-04, “Receivables—Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure (a consensus of the FASB Emerging Issues Task Force).” The amendments in this ASU clarify that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendments require interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. The amendments in this ASU are effective for entities other than public business entities for annual periods beginning after December 15, 2014, and interim periods within annual periods beginning after December 15, 2015. The Company is currently assessing the impact that ASU 2014-04 will have on its consolidated financial statements.

In April 2014, the FASB issued ASU 2014-08, "Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity." The amendments in this ASU change the criteria for reporting discontinued operations while enhancing disclosures in this area. Under the new guidance, only disposals representing a strategic shift in operations should be presented as discontinued operations. Those strategic shifts should have a major effect on the organization's operations and financial results and include disposals of a major geographic area, a major line of business, or a major equity method investment. The new guidance requires expanded disclosures about discontinued operations that will provide financial statement users with more information about the assets, liabilities, income, and expenses of discontinued operations. Additionally, the new guidance requires disclosure of the pre-tax income attributable to a disposal of a significant part of an organization that does not qualify for discontinued operations reporting. The amendments in the ASU are effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2015. Early adoption is permitted. The Company does not expect the adoption of ASU 2014-08 to have a material impact on its consolidated financial statements.

In June 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers: Topic 606." This ASU applies to any entity using U.S. GAAP that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards. The guidance supersedes the revenue recognition requirements in Topic 605, "Revenue Recognition," most industry-specific guidance, and some cost guidance included in Subtopic 605-35, "Revenue Recognition—Construction-Type and Production-Type Contracts." The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To be in alignment with the core principle, an entity must apply a five step process including: identification of the contract(s) with a customer, identification of performance obligations in the contract(s), determination of the transaction price, allocation of the transaction price to the performance obligations, and recognition of revenue when (or as) the entity satisfies a performance obligation. Additionally, the existing requirements for the recognition of a gain or loss on the transfer of nonfinancial assets that are not in a contract with a customer have also been amended to be consistent with the guidance on recognition and measurement. The amendments in this ASU are effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early adoption is not permitted. The Company is currently assessing the impact that ASU 2014-09 will have on its consolidated financial statements.

In June 2014, the FASB issued ASU No. 2014-11, "Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures." This ASU aligns the accounting for repurchase-to-maturity transactions and repurchase agreements executed as a repurchase financing with the accounting for other typical repurchase agreements. The new guidance eliminates sale accounting for repurchase-to-maturity transactions and supersedes the guidance under which a transfer of a financial asset and a contemporaneous repurchase financing could be accounted for on a combined basis as a forward agreement. The amendments in the ASU also require a new disclosure for transactions economically similar to repurchase agreements in which the transferor retains substantially all of the exposure to the economic return on the transferred financial assets throughout the term of the transaction. Additional disclosures will be required for the nature of collateral pledged in repurchase agreements and similar transactions accounted for as secured borrowings. The amendments in this ASU are effective for annual periods beginning after December 15, 2014; however, new disclosures are required to be presented for annual periods beginning after December 15, 2014, and interim periods beginning after December 15, 2015. Early adoption is not permitted. The Company is currently assessing the impact that ASU 2014-11 will have on its consolidated financial statements.

In June 2014, the FASB issued ASU No. 2014-12, "Compensation – Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period." The new guidance applies to reporting entities that grant employees share-based payments in which the terms of the award allow a performance target to be achieved after the requisite service period. The amendments in the ASU require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. Existing guidance in "Compensation – Stock Compensation (Topic 718)," should be applied to account for these types of awards. The amendments in this ASU are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Early adoption is permitted and reporting entities may choose to apply the amendments in the ASU either on a prospective or retrospective basis. The Company is currently assessing the impact that ASU 2014-12 will have on its consolidated financial statements.

In August 2014, the FASB issued ASU No. 2014-14, "Receivables – Troubled Debt Restructurings by Creditors (Subtopic 310-40): Classification of Certain Government-Guaranteed Mortgage Loans upon Foreclosure." The amendments in this ASU apply to creditors that hold government-guaranteed mortgage loans and are intended to eliminate the diversity in practice related to the classification of these guaranteed loans upon foreclosure. The new guidance stipulates that a mortgage loan be derecognized and a separate other receivable be recognized upon foreclosure if (1) the loan has a government guarantee that is not separable from the loan prior to foreclosure, (2) at the time of foreclosure, the creditor has the intent to convey the real estate property to the guarantor and make a claim on the guarantee, and the creditor has the ability to recover under that claim, and (3) at the time of foreclosure, any amount of the claim that is determined on the basis of the fair value of the real estate is fixed. Upon foreclosure, the other receivable should be measured on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. The amendments in this ASU are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Entities may adopt the amendments on a prospective basis or modified retrospective basis as of the beginning of the annual period of adoption; however, the entity must apply the same method of transition as elected under ASU 2014-04. Early adoption is permitted provided the entity has already adopted ASU 2014-04. The Company is currently assessing the impact that ASU 2014-14 will have on its consolidated financial statements.

In November 2014, the FASB issued ASU No. 2014-17, "Business Combinations (Topic 805): Pushdown Accounting." The amendments in ASU provide an acquired entity with an option to apply pushdown accounting in its separate financial statements upon occurrence of an event in which an acquirer obtains control of the acquired entity. An acquired entity may elect the option to apply pushdown accounting in the reporting period in which the change-in-control event occurs. An acquired entity should determine whether to elect to apply pushdown accounting for each individual change-in-control event in which an acquirer obtains control of the acquired entity. If pushdown accounting is not applied in the reporting period in which the change-in-control event occurs, an acquired entity will have the option to elect to apply pushdown accounting in a subsequent reporting period to the acquired entity's most recent change-in-control event. An election to apply pushdown accounting in a reporting period after the reporting period in which the change-in-control event occurred should be considered a change in accounting principle in accordance with Topic 250, Accounting Changes and Error Corrections. If pushdown accounting is applied to an individual change-in-control event, that election is irrevocable. The amendments in this ASU are effective on November 18, 2014. After the effective date, an acquired entity can make an election to apply the guidance to future change-in-control events or to its most recent change-in-control event. However, if the financial statements for the period in which the most recent change-in-control event occurred already have been issued or made available to be issued, the application of this guidance would be a change in accounting principle. The Company does not expect the adoption of ASU 2014-17 to have a material impact on its consolidated financial statements.

In December 2014, the FASB issued ASU No. 2014-18, "Business Combinations (Topic 805): Accounting for Identifiable Intangible Assets in a Business Combination." The amendments this ASU allow a private company that elects this accounting alternative to recognize or otherwise consider the fair value of intangible assets as a result of any in-scope transactions and should no longer recognize separately from goodwill: (1) customer-related intangible assets unless they are capable of being sold or licensed independently from the other assets of the business, and (2) noncompetition agreements. An entity that elects the accounting alternative in this ASU must adopt the private company alternative to amortize goodwill as described in ASU No. 2014-02, Intangibles—Goodwill and Other (Topic 350): Accounting for Goodwill. However, an entity that elects the accounting alternative in Update 2014-02 is not required to adopt the amendments in this ASU. The decision to adopt the accounting alternative in this ASU must be made upon the occurrence of the first transaction within the scope of this accounting alternative (transaction) in fiscal years beginning after December 15, 2015, and the effective date of adoption depends on the timing of that first transaction. If the first transaction occurs in the first fiscal year beginning after December 15, 2015, the elective adoption will be effective for that fiscal year's annual financial reporting and all interim and annual periods thereafter. If the first transaction occurs in fiscal years beginning after December 15, 2016, the elective adoption will be effective in the interim period that includes the date of that first transaction and subsequent interim and annual periods thereafter. Early adoption is permitted for any interim and annual financial statements that have not yet been made available for issuance. The Company does not expect the adoption of ASU 2014-18 to have a material impact on its consolidated financial statements.

In January 2015, the FASB issued ASU No. 2015-01, "Income Statement—Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items." The amendments in this ASU eliminate from U.S. GAAP the concept of extraordinary items. Subtopic 225-20, Income Statement - Extraordinary and Unusual Items, required that an entity separately classify, present, and disclose extraordinary events and transactions. Presently, an event or transaction is presumed to be an ordinary and usual activity of the reporting entity unless evidence clearly supports its classification as an extraordinary item. If an event or transaction meets the criteria for extraordinary classification, an entity is required to segregate the extraordinary item from the results of ordinary operations and show the item separately in the income statement, net of tax, after income from continuing operations. The entity also is required to disclose applicable income taxes and either present or disclose earnings-per-share data applicable to the extraordinary item. The amendments in this ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. The Company does not expect the adoption of ASU 2015-01 to have a material impact on its consolidated financial statements.

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Note 2. Securities

Amortized cost and fair value of securities available for sale as of December 31, 2014 and 2013 are as follows:

	December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Securities of U.S. government and federal agencies	$ 22,419,257	$ 16,573	$ (357,558)	$ 22,078,272
Mortgage backed securities	2,635,495	189,967	(7,981)	2,817,481
Corporate bonds	23,561,642	144,377	(195,763)	23,510,256
Collateralized mortgage obligations	1,348,032	35,693	(1,347)	1,382,378
State and municipal securities	51,680,138	1,521,726	(105,520)	53,096,344
Mutual and exchange-traded funds	40,103,998	193,601	(110,299)	40,187,300
Total	$ 141,748,562	$ 2,101,937	$ (778,468)	$ 143,072,031

	December 31, 2013			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Securities of U.S. government and federal agencies	$ 11,306,120	$ 506	$ (377,420)	$ 10,929,206
Mortgage backed securities	1,488,604	37,201	(16,716)	1,509,089
Corporate bonds	15,356,625	257,282	(95,440)	15,518,467
Collateralized mortgage obligations	3,596,067	114,163	(3,045)	3,707,185
State and municipal securities	52,121,380	1,716,829	(367,611)	53,470,598
Mutual and exchange-traded funds	40,103,998	60,828	(860,522)	39,304,304
Total	$ 123,972,794	$ 2,186,809	$ (1,720,754)	$ 124,438,849

At December 31, 2014 and 2013, securities with a carrying value of $21,303,100 and $15,895,285 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 $72,069,125 and $63,945,601 for 2014 and 2013, respectively. The gross losses on securities for 2014 and 2013 totaled $4,690 and $749,915, respectively.

There were no held to maturity securities at December 31, 2014 or 2013.

The amortized cost and fair value of securities by contractual maturity at December 31, 2014 follows:

	Amortized Cost	Fair Value
Within one year	$ 8,410,962	$ 8,490,525
After one year through five years	56,565,594	56,634,235
After five years through ten years	30,510,688	31,349,879
Over ten years	6,157,320	6,410,092
Mutual and exchange-traded funds	40,103,998	40,187,300
Total	$ 141,748,562	$ 143,072,031

At December 31, 2014 and 2013, investments in an unrealized loss position that were temporarily impaired follows:

	December 31, 2014				
	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	$ (169,583)	$ 12,323,234	$ (187,975)	$ 6,739,537	$ (357,558)
Mortgage backed securities	- -	- -	(7,981)	632,479	(7,981)
Corporate bonds	(128,460)	13,960,431	(67,303)	2,489,485	(195,763)
Collateralized mortgage obligations	(1,347)	63,699	- -	- -	(1,347)
State and municipal securities	(54,375)	8,533,849	(51,145)	1,653,257	(105,520)
Mutual and exchange-traded funds	(9,596)	7,233,157	(100,703)	6,264,789	(110,299)
Total	$ (363,361)	$ 42,114,370	$ (415,107)	$ 17,779,547	$ (778,468)

	December 31, 2013				
	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	$ (293,816)	$ 8,731,207	$ (83,605)	$ 933,281	$ (377,421)
Mortgage backed securities	(16,716)	746,947	- -	- -	(16,716)
Corporate bonds	(95,440)	6,213,929	- -	- -	(95,440)
Collateralized mortgage obligations	(3,045)	242,744	- -	- -	(3,045)
State and municipal securities	(337,758)	9,613,375	(29,853)	960,259	(367,611)
Mutual and exchange-traded funds	(860,521)	22,741,820	- -	- -	(860,521)
Total	$ (1,607,296)	$ 48,290,022	$ (113,458)	$ 1,893,540	$ (1,720,754)

At December 31, 2014 and 2013, 85 and 65 debt and equity securities had unrealized losses with aggregate depreciation of 1.28 and 3.43 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, 2014 and 2013, 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 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%, 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, 2014	December 31, 2013
Commercial real estate	$ 43,497,107	$ 44,032,104
Commercial	15,806,665	9,725,990
Residential real estate closed-end	89,972,446	71,585,107
Other consumer loans	18,287,596	16,014,119
	$ 167,563,814	$ 141,357,320
Less allowance for loan losses	(2,346,000)	(2,120,959)
Loans, net	$ 165,217,814	$ 139,236,361

Overdrafts totaling $17,678 and $11,445 at December 31, 2014 and 2013, respectively, were reclassified from deposits to loans.

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, 2014 and 2013:

	December 31, 2014				
	Commercial Real Estate	**Commercial**	**Residential Real Estate Closed-End**	**Other Consumer Loans**	**Total**
Allowance for Loan Losses:					
Beginning of Year	$ 571,413	$ 217,337	$ 1,069,116	$ 263,093	$ 2,120,959
(Recovery) provision	(21,088)	51,680	126,727	20,900	178,219
Charge-offs	- -	- -	- -	- -	- -
Recoveries	- -	46,822	- -	- -	46,822
End of Year	$ 550,325	$ 315,839	$ 1,195,843	$ 283,993	$ 2,346,000
Reserves:					
Specific	$ - -	$ - -	$ - -	$ - -	$ - -
General	550,325	315,839	1,195,843	283,993	2,346,000
	$ 550,325	$ 315,839	$ 1,195,843	$ 283,993	$ 2,346,000
Evaluated for Impairment:					
Individually	$ - -	$ 897,020	$ - -	$ - -	$ 897,020
Collectively	43,497,107	14,909,645	89,972,446	18,287,596	166,666,794
	$ 43,497,107	$ 15,806,665	$ 89,972,446	$ 18,287,596	$ 167,563,814

	December 31, 2013				
	Commercial Real Estate	Commercial	Residential Real Estate Closed-End	Other Consumer Loans	Total
Allowance for Loan Losses:					
Beginning of Year	$ 522,000	$ 291,000	$ 834,000	$ 312,628	$ 1,959,628
(Recovery) provision	49,413	(276,422)	235,116	(49,535)	(41,428)
Charge-offs	- -	- -	- -	- -	- -
Recoveries	- -	202,759	- -	- -	202,759
End of Year	$ 571,413	$ 217,337	$ 1,069,116	$ 263,093	$ 2,120,959
Reserves:					
Specific	$ - -	$ - -	$ - -	$ - -	$ - -
General	571,413	217,337	1,069,116	263,093	2,120,959
	$ 571,413	$ 217,337	$ 1,069,116	$ 263,093	$ 2,120,959
Evaluated for Impairment:					
Individually	$ - -	$ - -	$ - -	$ - -	$ - -
Collectively	44,032,104	9,725,990	71,585,107	16,014,119	141,357,320
	$ 44,032,104	$ 9,725,990	$ 71,585,107	$ 16,014,119	$ 141,357,320

Based on the most recent analysis performed, the risk category of loans by class of loans was as follows as of December 31, 2014 and 2013:

	December 31, 2014					
	Pass	Special Mention	Substandard	Doubtful	Loss	Total
Commercial real estate	$ 42,668,214	$ 828,893	$ - -	$ - -	$ - -	$ 43,497,107
Commercial	14,867,222	42,423	897,020	- -	- -	15,806,665
Residential real estate closed-end	89,972,446	- -	- -	- -	- -	89,972,446
Other consumer loans	18,287,596	- -	- -	- -	- -	18,287,596
	$165,795,478	$ 871,316	$ 897,020	$ - -	$ - -	$167,563,814

	December 31, 2013					
	Pass	Special Mention	Substandard	Doubtful	Loss	Total
Commercial real estate	$ 43,769,625	$ 262,479	$ - -	$ - -	$ - -	$ 44,032,104
Commercial	9,725,990	- -	- -	- -	- -	9,725,990
Residential real estate closed-end	71,585,107	- -	- -	- -	- -	71,585,107
Other consumer loans	16,014,119	- -	- -	- -	- -	16,014,119
	$141,094,841	$ 262,479	$ - -	$ - -	$ - -	$141,357,320

There was one individually impaired loan as of December 31, 2014 with a balance of $897,020. There were no impaired loans as of December 31, 2013.

There were no nonaccrual loans excluded from impaired loan disclosure and no loans 90 days past due and still accruing at December 31, 2014 and 2013. The Bank had one commercial loan past due 30 days for $42,423 that subsequently paid current on January 5, 2015, and there were no past due loans at December 31, 2013.

There were no loan modifications as TDRs during the year ended December 31, 2014 or 2013.

No loan modifications classified as TDRs subsequently defaulted during 2014 or 2013.

Note 4. Premises and Equipment

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

	December 31,	
	2014	2013
Land	$ 1,585,513	$ 1,585,513
Building	6,539,284	6,539,284
Furniture, fixtures and equipment	1,301,629	1,158,031
Building improvements	1,139,236	796,752
	$ 10,565,662	$ 10,079,580
Less accumulated depreciation	2,600,175	2,193,851
Ending balance	$ 7,965,487	$ 7,885,729

For 2014 and 2013, depreciation expense was $406,324 and $387,875, respectively.

The Company leased additional office space for operations support. The lease had a term of three years and was classified as an operating lease. The lease called for annual payments of $60,036 through May 2014, subject to annual adjustments. The lease was terminated as of May 2014. Rent expense for the year ended December 31, 2014 and 2013 was $29,761 and $61,975, respectively.

Note 5. Related Party Transactions

Officers, directors and their affiliates had credit outstanding of $2,439,032 and $4,949,060 at December 31, 2014 and 2013, respectively, with the Bank. During 2014, total principal additions were $15,856 and total principal payments were $2,525,884. 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, 2014 and 2013 amounted to $4,889,347 and $4,153,896, respectively.

Note 6. Deposits

Remaining maturities on certificates of deposit are as follows:

2015	$ 20,626,500
2016	8,456,437
2017	3,745,891
2018	1,034,916
2019	3,050,158
	$ 36,913,902

Brokered deposits totaled $4,747,982 and $459,232 at December 31, 2014 and 2013, respectively. Brokered deposits are placed through the Certificate of Deposit Account Registry Service or CDARS.

The Bank had two customers with individual deposit balances exceeding five percent of total deposits as of December 31, 2014. The total deposit balances related to these customer as of December 31, 2014 were $42,042,544 or 14.41 percent of total deposits.

Note 7. Borrowings

Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase amounted to $482,625 and $909,811 at December 31, 2014 and 2013, respectively, and mature on a daily basis and are secured by municipal securities with a fair value of $3,216,941 and $1,551,543. The weighted average interest rate on these agreements was 0.15 percent at December 31, 2014 and 2013.

Federal Home Loan Bank Advance

The Bank has a secured line of credit with the Federal Home Loan Bank totaling $37,030,000. At December 31, 2014, the Company had $12,000,000 in outstanding advances of which $8,000,000 was fixed at 0.21 percent and matured on January 20, 2015 and $4,000,000 that had a variable rate with no fixed maturity. The weighted average rate on the borrowings was 0.31 percent. The line is secured by 1-4 family residential real estate loans within the Company's loan portfolio. The line is renewed annually in September.

Short Term Borrowings

At December 31, 2014, the Company had an unsecured line of credit with a correspondent bank totaling $3,000,000 with $0 outstanding. The line matures December 17, 2015 and contains certain covenants regarding the Company's return on average assets, risk-based capital and payment of dividends. The Bank has unsecured federal fund purchase lines of credit with Community Bankers' Bank totaling $5,000,000 maturing May 15, 2015 and Pacific Coast Bankers' Bank totaling $3,000,000 maturing June 30, 2015. The Bank has a secure federal fund purchase line of credit with Community Bankers' Bank totaling $5,288,000 with no maturity. There are no outstanding federal fund purchase balances as of December 31, 2014 or 2013.

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, 2014 and 2013 are presented below:

	December 31,	
	2014	2013
Deferred Tax Assets		
Allowance for loan losses	$ 660,044	$ 599,450
Organizational and start-up expenses	132,407	149,867
Deferred loan fees	6,665	8,045
Depreciation	- -	58,116
Restricted stock	4,008	5,473
	$ 803,124	$ 820,951
Deferred Tax Liabilities		
Securities available for sale	$ (449,979)	$ (158,871)
Depreciation	(52,803)	- -
	$ (502,782)	$ (158,871)
Net deferred tax assets	$ 300,342	$ 662,080

The provision for income taxes charged to operations for the years ended December 31, 2014 and 2013, consists of the following:

	December 31,	
	2014	2013
Current tax expense	$ 390,613	$ 486,569
Deferred tax expense	70,630	12,507
	$ 461,243	$ 499,076

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

	December 31, 2014	December 31, 2013
Computed tax at applicable rate	$ 841,229	$ 908,439
Tax-exempt income	(409,025)	(420,419)
Other	29,039	11,056
	$ 461,243	$ 499,076

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 2011.

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 consolidated balance sheets.

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, 2014 and 2013, the following financial instruments were outstanding whose contract amounts represent credit risk:

	December 31, 2014	December 31, 2013
Commitments to grant loans	$ 3,948,950	$ 5,147,000
Unfunded commitments under lines of credit	35,395,000	25,985,000
Standby letters of credit	97,000	97,000

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 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 generally 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, 2014 and 2013 was $2,204,420 and $363,394, respectively.

The Bank is required to maintain average balances with the Federal Reserve Bank. At December 31, 2014 and 2013, this balance was $11,291,000 and $10,950,000, respectively. Excess reserve balance maintained with the Federal Reserve Bank at December 31, 2014 and 2013 was $0 and $33,126,727, 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.

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 I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2014, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2014, the most recent notification from the Office of the Comptroller of the Currency categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum Total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's category.

The following tables set forth the capital position and analysis for the Company and Bank. Because total assets on a consolidated basis are less than $500 million, 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.

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
December 31, 2014	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Amounts in Thousands)			
Total Risk-Based Capital						
Company	$ 33,469	15.04%	N/A	N/A	N/A	N/A
Bank	$ 33,239	14.93%	$ 17,806	8.00%	$ 22,258	10.00%
Tier 1 Risk-Based Capital						
Company	$ 31,123	13.98%	N/A	N/A	N/A	N/A
Bank	$ 30,893	13.88%	$ 8,903	4.00%	$ 13,355	6.00%
Tier 1 Leverage Ratio						
Company	$ 31,123	9.01%	N/A	N/A	N/A	N/A
Bank	$ 30,893	8.94%	$ 13,816	4.00%	$ 17,269	5.00%
December 31, 2013						
Total Risk-Based Capital						
Company	$ 30,603	16.21%	N/A	N/A	N/A	N/A
Bank	$ 30,472	16.14%	$ 15,105	8.00%	$ 18,881	10.00%
Tier 1 Risk-Based Capital						
Company	$ 28,482	15.08%	N/A	N/A	N/A	N/A
Bank	$ 28,351	15.02%	$ 7,552	4.00%	$ 11,329	6.00%
Tier 1 Leverage Ratio						
Company	$ 28,482	9.28%	N/A	N/A	N/A	N/A
Bank	$ 28,351	9.24%	$ 12,278	4.00%	$ 15,347	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 had a 5-year term from the date of approval.

The Company decided to make restricted stock available to its executives and officers pursuant to the 2007 Plan. Grants were made in two pieces: (1) a service based component, which 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 received a non-performance based award unless the officer was simultaneously granted a performance based award of at least equal size.

Grants were approved by the Human Resources Committee on an annual basis, and periodically for certain key new officer hires during the year. The Human Resource Committee awarded grants based on a number of criteria including the relative rank of the executive within the Bank 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 were not full time employees were not eligible to receive awards under the 2007 Plan.

The 2007 Plan provided for the grant of an aggregate of 750 shares of restricted stock to full-time executive officers or other key employees. The number of shares issuable under the 2007 Plan and outstanding awards was subject to adjustment in the event of any stock split, reverse stock split, stock dividend, split up or combination or shares, reclassification, reorganization, merger, consolidation or similar event which changed the number or kind of outstanding shares, without the receipt of consideration by the Company. Shares subject to awards which are forfeited or not earned may be reissued. Of the 750 shares of restricted stock subject to the Plan, 619 were awarded. The following table presents the activity for the Plan for 2014:

	Shares	Weighted Average Grant Date Fair Value
Nonvested, beginning of period	53	$ 1,293
Vested	(23)	1,333
Forfeited	- -	
Nonvested, end of period	30	1,263

Compensation expense attributable to the Plan was $26,352 and $75,236 for 2014 and 2013, respectively. As of December 31, 2014, the total compensation cost related to nonvested awards not yet recognized was $37,890. 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 were issued only upon satisfaction of the service or performance condition. All grants provided that no shares were issued until the service or performance condition was satisfied.

Note 12. 401(k) Plan

The Bank has a 401(k) Plan whereby substantially all employees participate in the plan. Employees may contribute portions of their compensation subject to limits based on federal tax laws. The Bank may make discretionary matching contributions to the plan. For 2014 and 2013, expense attributable to the plan amounted to $104,422 and $101,880, respectively.

Note 13. Fair Value Measurements

Fair Value Hierarchy

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

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

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

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

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

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

Securities Available for Sale

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

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

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

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

		Fair Value Measurements Using		
Description	**Balances**	**Level 1**	**Level 2**	**Level 3**
Assets:				
As of December 31, 2014:				
Available for sale securities:				
U.S. government and federal agencies	$ 22,078,272	$ 1,996,406	$ 20,081,866	$ - -
Mortgage backed securities	2,817,481	- -	2,817,481	- -
Corporate bonds	23,510,256	- -	23,510,256	- -
Collateralized mortgage obligations	1,382,378	- -	1,382,378	- -
State and municipal securities	53,096,344	- -	53,096,344	- -
Mutual and exchange-traded funds	40,187,300	40,187,300	- -	- -
Total	$ 143,072,031	$ 42,183,706	$ 100,888,325	$ - -
As of December 31, 2013:				
Available for sale securities:				
U.S. government and federal agencies	$ 10,929,206	$ 1,911,094	$ 9,018,112	$ - -
Mortgage backed securities	1,509,089	- -	1,509,089	- -
Corporate bonds	15,518,467	- -	15,518,467	- -
Collateralized mortgage obligations	3,707,185	- -	3,707,185	- -
State and municipal securities	53,470,598	- -	53,470,598	- -
Mutual and exchange-traded funds	39,304,304	39,304,304	- -	- -
Total	$ 124,438,849	$ 41,215,398	$ 83,223,451	$ - -

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 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. No impaired loans were measured at fair value as of December 31, 2014 and 2013.

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.

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, 2014 and 2013 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, 2014		December 31, 2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
(in thousands)				
Financial assets:				
Cash and cash equivalents	$ 15,347	$ 15,437	$ 46,292	$ 46,292
Securities available for sale	143,072	143,072	124,439	124,439
Loans held for sale	1,839	1,839	- -	- -
Loans, net	165,218	167,868	139,236	140,628
Accrued interest receivable	1,029	1,029	1,060	1,060
Financial liabilities:				
Deposits	$ 291,669	$ 287,403	$ 289,870	$ 289,029
Repurchase agreements	483	483	910	910
Short-term borrowings	12,000	12,000	- -	- -
Accrued interest payable	98	98	92	92

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 13, 2015.

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:

	December 31,	
Balance Sheets	**2014**	**2013**
Assets		
Cash	$ 230,190	$ 130,315
Investment in common stock of Chain Bridge Bank	31,765,605	29,186,339
Total assets	$ 31,995,795	$ 29,316,654
Stockholders' equity	$ 31,995,795	$ 29,316,654
Total stockholders' equity	$ 31,995,795	$ 29,316,654

	December 31,	
Statements of Income	**2014**	**2013**
Operating Expenses		
Interest expense and fees on borrowings	$ - -	$ 7,337
Equity based compensation	26,352	75,236
(Loss) before undistributed net income of Chain Bridge Bank	$ (26,352)	$ (82,573)
Undistributed net income of Chain Bridge Bank	2,039,312	2,255,375
Net income	$ 2,012,960	$ 2,172,802

Notes to Consolidated Financial Statements

Statements of Cash Flows	**December 31, 2014**	**December 31, 2013**
Cash Flows from Operating Activities		
Net income	$ 2,012,960	$ 2,172,802
Adjustments to reconcile net income to net cash provided by operating activities:		
Undistributed net (income) of Chain Bridge Bank	(2,039,312)	(2,255,375)
Equity based compensation	26,352	75,236
Increase in other liabilities	26,329	73,356
Net cash provided by operating activities	$ 26,329	$ 66,019
Cash Flows from Investing Activities		
Redemption in Chain Bridge Bank	$ - -	$ 2,500,000
Net cash provided by investing activities	$ - -	$ 2,500,000
Cash Flows from Financing Activities		
Net proceeds from common stock issued	$ 73,523	$ - -
Increase in short term borrowings	- -	(2,500,000)
Net cash provided by (used in) financing activities	$ 73,523	$ (2,500,000)
Net increase in cash and cash equivalents	$ 99,852	$ 66,019
Cash and cash equivalents at beginning of period	130,315	64,296
Cash and cash equivalents at end of period	$ 230,190	$ 130,315

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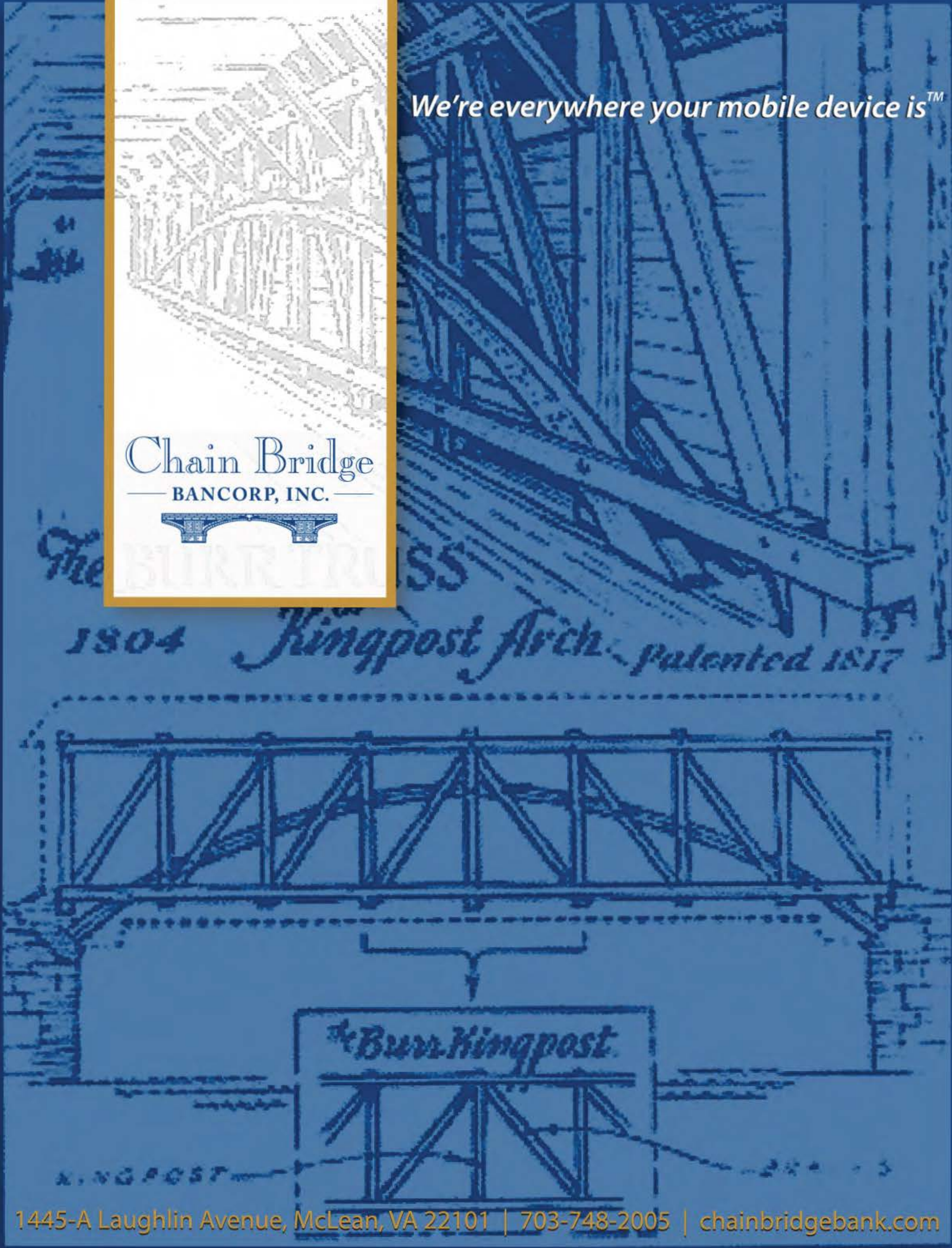

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