Chain Bridge

BANCORP, INC.

2020 ANNUAL REPORT

Attentive Personal Service

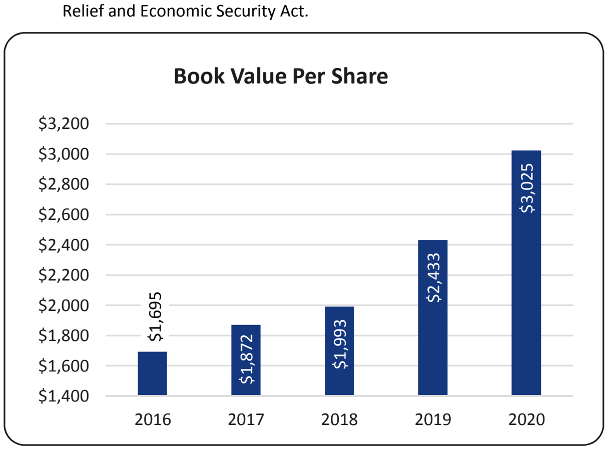
Leading Edge Technology

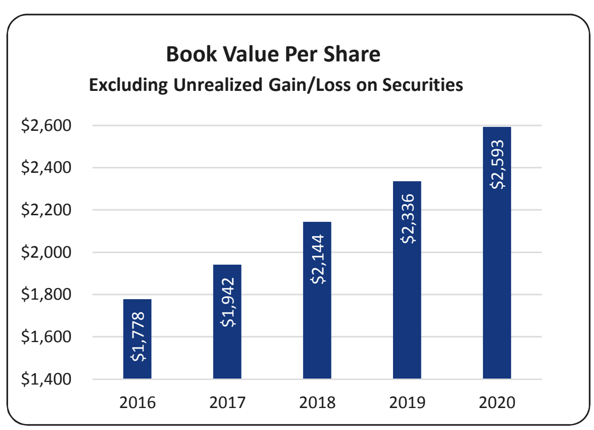
Fortress Balance Sheet

Chain Bridge Bancorp, Inc.
Consolidated Financial Highlights

	Years Ended December 31, 2020	2019	Change
Performance Measures and Yields			
Consolidated net income	$ 6,000,482	$ 4,886,306	22.8%
Return on average assets (ROAA)	0.60%	0.73%	(0.13%)
Return on average risk-weighted assets [1]	1.95%	1.69%	0.26%
Return on average equity (ROAE)	9.02%	9.37%	(0.35%)
Yield on earning assets (%)	2.43%	3.22%	(0.79%)
Cost of funds (%)	0.12%	0.55%	(0.43%)
Net interest margin (Fully Tax Equivalent)	2.32%	2.70%	(0.38%)
Asset Quality (%)			
Non-performing assets / assets	0.00%	0.00%	0.00%
Risk-weighted asset density [2]	36.25%	34.49%	1.76%
Loan loss reserves / gross loans	1.21%	1.40%	(0.19%)
Loan loss reserves / gross loans excluding PPP loans	1.64%	1.40%	0.24%
CARES Act loan modifications / total assets [3]	0.76%	0.00%	0.76%
Balance Sheet Highlights			
Total assets	$ 881,506,900	$ 829,186,298	6.3%
U.S. Treasury securities (fair value)	$ 162,120,970	$ 265,405,002	(38.9%)
Total investment grade securities (fair value)	$ 444,823,168	$ 451,405,768	(1.5%)
Total loans (net of loans held for sale)	$ 342,675,743	$ 265,540,386	29.0%
SBA Paycheck Ptotection Program (PPP) Loans	$ 90,665,870	$ -	100.0%
CARES Act loan modifications, outstanding balance [3]	$ 6,724,623	$ -	100.0%
Total deposits	$ 797,750,197	$ 762,375,956	4.6%
Capitalization			
Total equity capital	$ 70,707,397	$ 56,870,450	24.3%
Total risk-based capital ratio	20.22%	20.38%	(0.16%)
Tier 1 risk-based ratio	18.97%	19.08%	(0.11%)
Chain Bridge Bancorp, Inc. Share Information			
Number of shares outstanding	23,372	23,372	0.0%
Book value per share	$ 3,025.30	$ 2,433.27	24.3%
Book value per share, excluding unrealized gain/loss on securities	$ 2,592.87	$ 2,336.13	11.0%
Net income per share	$ 256.74	$ 209.07	22.8%
Dividend per share	$ -	$ 17.00	(100.0%)

[1] Average is calculated using the last five quarter ends.
[2] Risk-weighted asset density measures the riskiness of the Bank's assets. It is calculated as risk-weighted assets divided by total assets.
[3] Eligible loan modifications under Section 4013, Temporary Relief from Troubled Debt Restructuing, of the 2020 Coronavirus Aid, Relief and Economic Security Act.





March 10, 2021

Dear Fellow Shareholder:

Chain Bridge Bancorp, Inc. (the "Company") parent of Chain Bridge Bank, N.A. ("Chain Bridge" or the "Bank"), earned net income of $6,000,482, or $256.74 per share, in 2020, versus $4,886,306, or $209.07 per share, in 2019. Return on average equity was 9.02% in 2020 versus 9.37% in 2019.

The Company's total equity capital stood at $70.7 million at year-end 2020, up from $56.9 million at year-end 2019. Book value per share was $3,025 on December 31, 2020, an increase of 24.3% over $2,433 as of December 31, 2019. Excluding the unrealized gain on securities, book value per share was $2,593 at year-end 2020 versus $2,336 at year-end 2019.

As of December 31, 2020, Chain Bridge reported zero non-performing assets for the ninth consecutive year.

Opening of the Trust & Wealth Department

In late 2019, Chain Bridge hired two fiduciary officers to begin organizing a Trust & Wealth Department. In February, 2020, Chain Bridge received approval from the Office of the Comptroller of the Currency to exercise full "fiduciary powers." This approval authorized the Bank to serve as trustee, investment adviser, discretionary investment manager, executor, custodian, agent or assignee, administrator, or guardian, among other roles.

In the second and third quarters of 2020, Chain Bridge hired two more fiduciary officers, prepared the new Department's policies and procedures and stood up its technology and back office infrastructure. Toward year-end, the Department began accepting a limited number of fiduciary accounts from existing long-time Bank clients and their families. Now that its processes and systems are more fully established, the Department is gradually opening its doors more broadly.

The addition of the new Trust & Wealth Department will enable the Bank, for the first time, to serve not only the traditional banking needs of its clients but also their wealth management, financial planning and trust and estate needs.

The investment approach of Chain Bridge Trust & Wealth will be to pursue the broadest possible diversification at the lowest possible cost. The Department will generally use broad-based, total market, low cost index funds to maximize diversification and minimize costs. Trust officers will consider a client's goals, time horizon, risk tolerance, liquidity needs, as well as tax consequences, in recommending an asset allocation.

By using broad-based, total market, low cost index funds, the Department will seek to minimize single-stock risk, industry risk, sector risk, geographic risk and even investing "style" (e.g. "growth" versus "value") risk while taking only market risk (which is plenty). The aim of the Department will not be to beat the market (which mountains of un-rebutted academic studies show is nearly impossible over long periods of time) but rather to earn as close to the market's returns as possible.

The Chain Bridge Trust & Wealth Department will encourage long term investing and discourage speculation and trading. It will, in short, counsel clients to seek what Vanguard Founder John C. Bogle called "the miracle of compounding returns" while avoiding what he termed the "tyranny of compounding costs."

In addition to providing investment and wealth management services, the Department will provide traditional fiduciary services and serve as institutional trustee of personal and corporate trusts. While some families assign an individual family member to serve as trustee of a family trust, it is often appropriate for the trust grantor to appoint a professional, institutional trustee or successor trustee. Many individual trustees have no training or experience in investing, some have conflicts when making discretionary decisions and few (indeed almost none) are equipped to perform the kind of detailed accounting and reporting that trustees must perform in order to properly fulfill their fiduciary duties.

In addition to serving as trustee of trusts, Chain Bridge Trust & Wealth will also serve as assignee or "agent for trustee." An agency relationship is appropriate where an individual trustee wishes to remain trustee but would like to delegate the administrative burdens of trusteeship. As "agent for trustee," Chain Bridge Trust & Wealth will custody the trust's assets (including privately held assets and real estate), provide trust accounting and furnish regular statements both to the trustee and, as necessary, to the beneficiaries. Under this arrangement, the trustee retains the investment and discretionary authority but assigns the burdensome trust accounting, trust reporting and asset custody responsibilities to a qualified institution.

Many individuals grant custody of their investments to broker-dealers (i.e. brokerage firms) which offer "free" brokerage accounts. Broker-dealers offer "free" accounts because broker-dealers often enjoy the right to use and profit from the use of the securities in those accounts. Securities placed with a broker-dealer can, under certain circumstances — and particularly if the customer has a "margin account" — go on the broker-dealer's own balance sheet as a liability of the broker-dealer, become commingled with the assets of the broker-dealer, be "rehypothecated" by the broker-dealer and ultimately become subject to the claims of the broker-dealer's own creditors in the event of the broker-dealer's insolvency.

Although most broker-dealers are conservatively run, it is not uncommon for broker-dealers to become over-leveraged and to fail in times of economic distress. When that happens, the broker-dealer's customers often become unsecured creditors waiting in line to get their money back.

In contrast to the broker-dealer arrangement, assets placed in custody with a national bank trust department are separately segregated from the bank's own assets, do not go on the bank's balance sheet, may not be used by the bank, and are not subject to the claims of the bank's own creditors.

Moreover, national bank trust officers are fiduciaries and must always act in their clients' best interest, whereas stock brokers are not fiduciaries and are generally compensated with commissions that can pose conflicts with the interests of their customers. It is for this reason that many discerning investors prefer long term asset custody at a national bank trust department rather than in a brokerage account at a broker-dealer. Custody at the trust department of a national bank is the "gold standard" in asset custody, a sophisticated form of insurance for the risk-averse.

If you or your family have wealth management, financial planning, trust or estate needs, or if you wish to custody your assets (including privately held assets) at a national bank trust department, please contact Chain Bridge Trust & Wealth Department manager, Gregory Smolen, at (703) 748-7395 or at **gsmolen@chainbridgebank.com**.[1] Gregory and his team of fiduciary officers are dedicated to offering the same kind of attentive personal service which you have become accustomed to at Chain Bridge. They will be strong, long-term partners for you, your family, your attorneys and accountants.

SBA Paycheck Protection Program Loans

In late March, 2020, the U.S. Congress created the Small Business Administration Paycheck Protection Program (PPP). The program allowed banks to issue a forgivable loan at a 1% interest rate to eligible businesses negatively impacted by COVID-19. As long as the business used the proceeds to retain or rehire employees, the program further provided that the SBA would guarantee repayment and ultimately pay off the loan.

As soon as the program was launched, Chain Bridge received a flood of PPP loan applications from clients and non-clients alike. Demand was so great that management had to re-assign many associates from outside the Bank's Loan Department, including all newly hired fiduciary officers, to work round the clock for several weeks processing the applications and funding the loans.

[1] Investments are not FDIC-insured, are not guaranteed by the Bank and may lose value.

In total, Bank associates (mostly working remotely from home) processed and funded over 590 PPP loans, with an average size of approximately $160 thousand. Approximately 60% of these loans were to businesses that had not previously banked with Chain Bridge and whose incumbent banks were unable to timely honor their request for a PPP loan. As a result of these new loans, the Bank opened a record number of new commercial deposit accounts and gained a record number of new business clients, from all different sectors of the economy, during the year.

In late 2020, Congress authorized a second round of PPP loans for businesses whose revenues dropped more than 25% in any quarter of 2020 versus the same quarter of 2019. Chain Bridge is participating in this second round of PPP loans and as of this writing, it appears that approximately 35% of clients eligible for a first round PPP loan are eligible for a second round PPP loan.

New Consumer Desktop and Mobile Banking Application

In July, 2020, the Bank unveiled its new consumer online banking portal and accompanying mobile app. The new platform is elegant, user-friendly and customizable and has thus far been well-received. It enables consumers to open new accounts, set alerts, create push notifications, order checks and update email addresses and phone numbers. It also offers enhanced card management controls and enables users to communicate by chat with bankers.

In order to better serve the digital needs of clients, Chain Bridge in 2020 established a new "digital banking" unit within the Bank's Operations Department that now has full time responsibility for fielding help requests initiated by chat or message over the Bank's online commercial or consumer portals. While clients typically reach out to a relationship officer when they need online help, sometimes the relationship officer is tied up with another client. By having a dedicated digital banking team available at all times, Chain Bridge expects to be better able to serve its business and individual clients' online banking needs.

Litigation

On June 12, 2020, Blue Flame Medical LLC ("Blue Flame") sued Chain Bridge Bank, N.A. and its officers, John J. Brough and David M. Evinger, in federal court in the Eastern District of Virginia for accommodating a request by California's bank, JPMorgan Chase Bank, N.A. ("JPMorgan"), to cancel a $456.9 million wire to Chain Bridge, for the benefit of Blue Flame, on March 26, 2020. Blue Flame, which had been formed on March 23rd, and which had opened its account on March 25th, alleges that the wire was originally intended as California's down payment on a $609 million order for 100 million N95 masks. Blue Flame alleges that Chain Bridge's accommodation of JPMorgan's wire cancellation request was impermissible under federal regulations governing wire transfers and asserts lost profits and other alleged damages. Blue Flame also makes state-law claims arising out of the same accommodation and Chain Bridge's officers' due diligence communications with California officials.

According to published news reports, Blue Flame's dealings with California, Maryland and other states have been the subject of a federal investigation, multiple state investigations, and an inquiry by the Oversight and Investigations Subcommittee of the U.S. House Energy and Commerce Committee.

On July 20, 2020, Chain Bridge moved to dismiss all counts of Blue Flame's ten-count Complaint. Following briefs and an oral argument, the Court on September 8, 2020, granted Chain Bridge's motion to dismiss with respect to five of the ten counts.

On October 13, 2020, Chain Bridge filed a third-party complaint against JPMorgan Chase Bank, N.A. for indemnification under Federal Reserve Regulation J which provides that a sending bank which cancels a wire is liable to the receiving bank for "any loss and expense, including reasonable attorney's fees, incurred by the [receiving] bank as a result of the cancellation . . ."

The case is now in the discovery phase. Management is currently unable to predict the outcome or determine the potential impact, if any, that could result from a final resolution of Blue Flame's lawsuit or from Chain Bridge's third party complaint against JPMorgan for indemnification. Chain Bridge therefore has not taken an accrual or recorded a loss contingency for the lawsuit or its related future attorney's fees. Chain Bridge has, however, paid and fully expensed all legal fees and associated costs which it has already incurred.

Outlook for the Year Ahead

The market value of Chain Bridge's bond portfolio soared in 2020 as the Federal Reserve lowered the overnight rate near zero and longer term market interest rates fell to record low levels. The Bank's 2020 net income, together with the increase in value of its securities portfolio, caused the Bank's book value to rise substantially in 2020.

On the other hand, lower interest rates substantially lowered Chain Bridge's anticipated future revenues and net interest margins. Throughout 2020, Chain Bridge continued to reinvest in new bonds, to make new loans, and to refinance existing loans, at extremely low rates which, in the future, will generate far less revenue than bonds purchased and loans made at higher interest rates in prior years.

Much of the outlook for the Bank's core earnings in 2021 depends on the direction of interest rates. If interest rates rise, that will help Chain Bridge (and substantially all banks) generate more revenue and higher net interest margins. If, on the other hand, interest rates remain suppressed at record low levels, bank revenues will decline in 2021 as margins continue to get squeezed.

As of this writing, long term interest rates have begun to rise in anticipation of the population being vaccinated and the economy reopening, but the Federal Reserve has continued to keep short term interest rates pinned near zero. Generally speaking, higher interest rates all across the yield curve, if they develop and are sustained, should help improve Chain Bridge's earnings, but would lower the Bank's book value by reducing the market value of the Bank's bond portfolio.

Ultra low interest rates present a significant challenge, but Chain Bridge does not believe ultra low rates should cause management to change how it manages the Bank. Management will continue to emphasize attentive personal service, leading-edge technology and the maintenance of a strong balance sheet. Only if interest rates actually go negative does management believe that it might be necessary to make changes in how it manages the Bank.

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Thank you to all the Chain Bridge associates who worked so hard in 2020 to serve clients in the midst of the COVID-19 pandemic. Thanks, as well, to all the shareholders, directors and clients for their ongoing loyalty and support.

Remember to be in touch if our new Trust & Wealth Department can help you or your family.

Sincerely,

Peter G. Fitzgerald

Peter G. Fitzgerald,
Chairman of the Board

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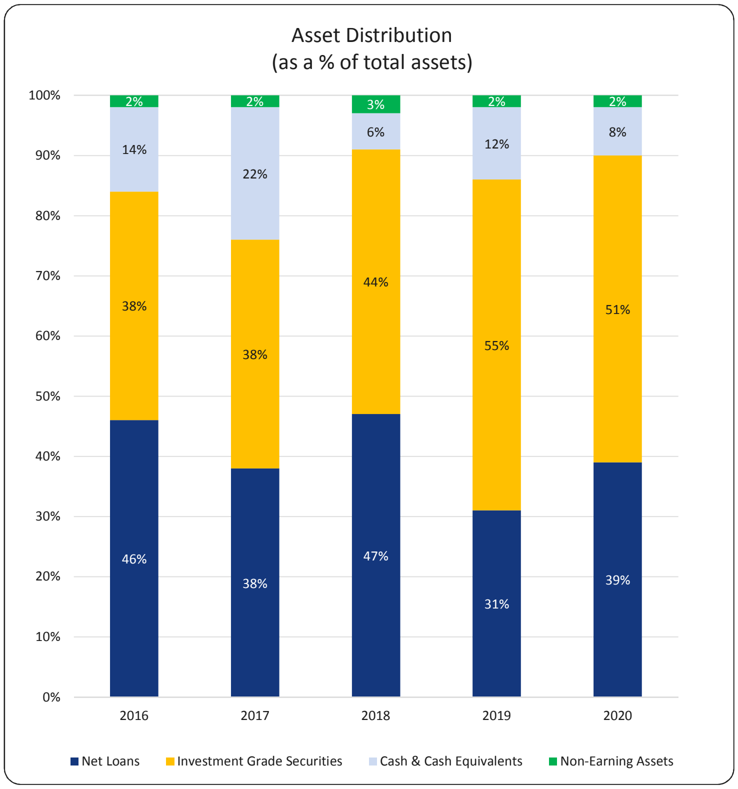
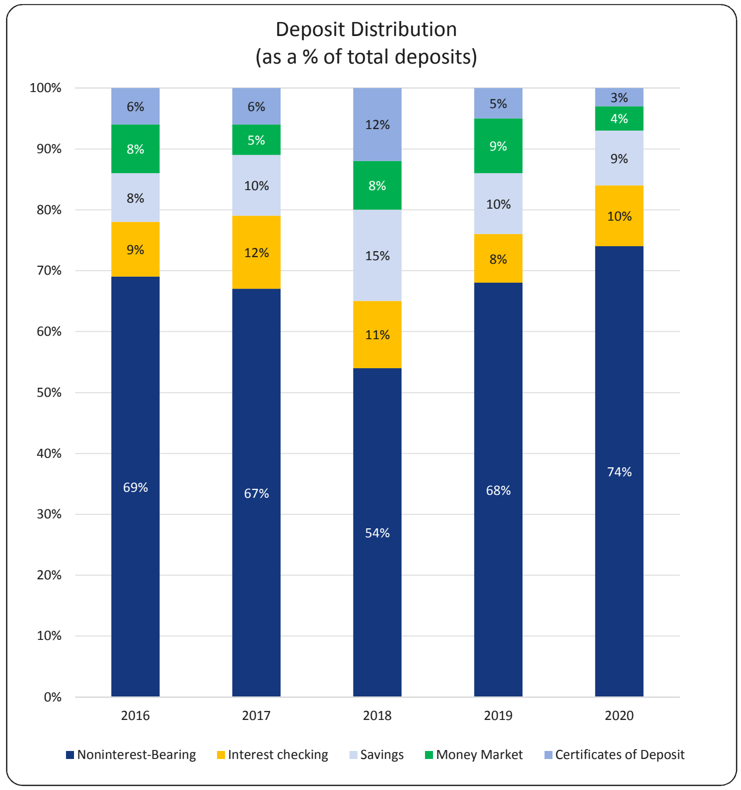
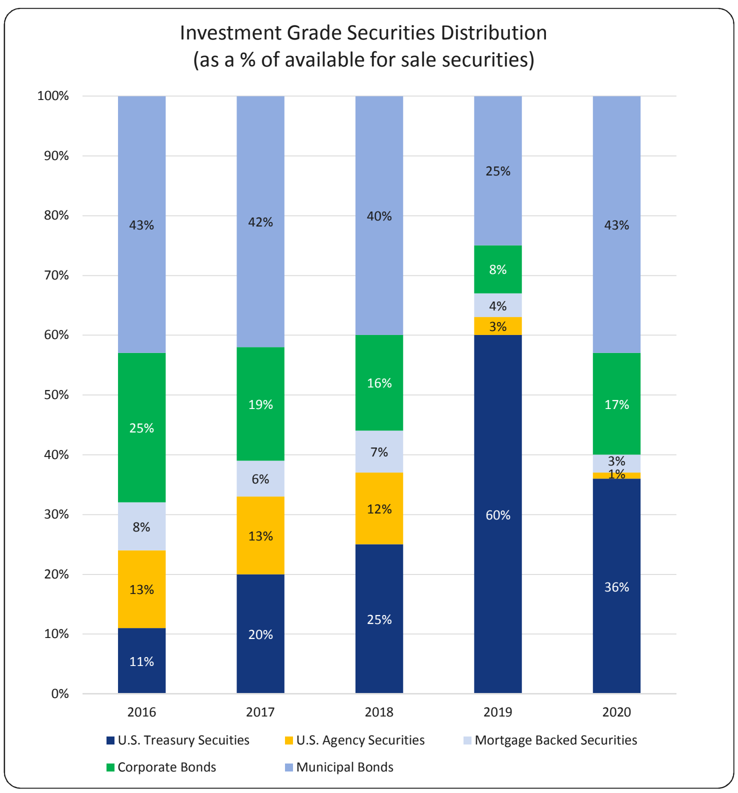
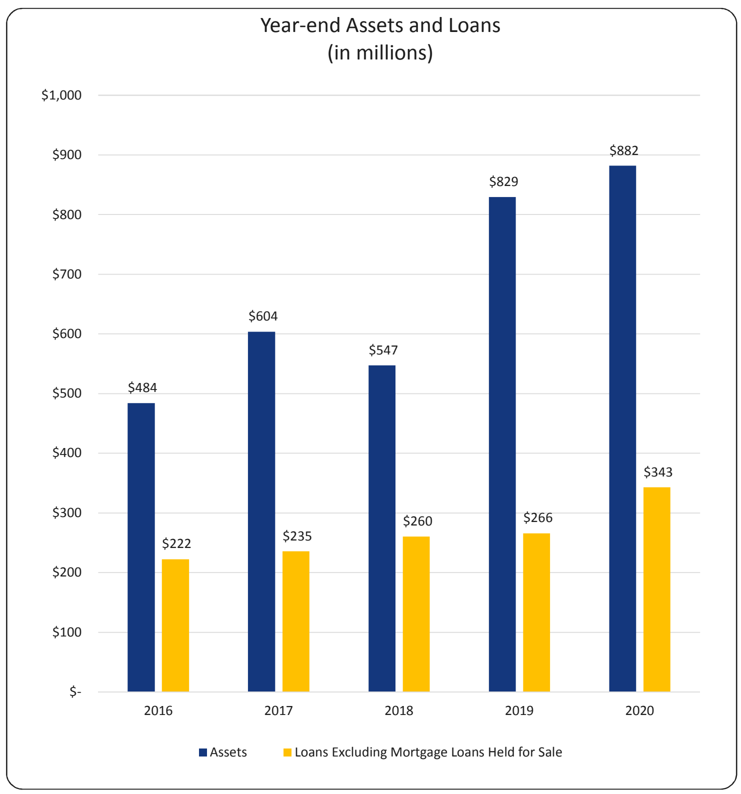
Balance Sheet Information

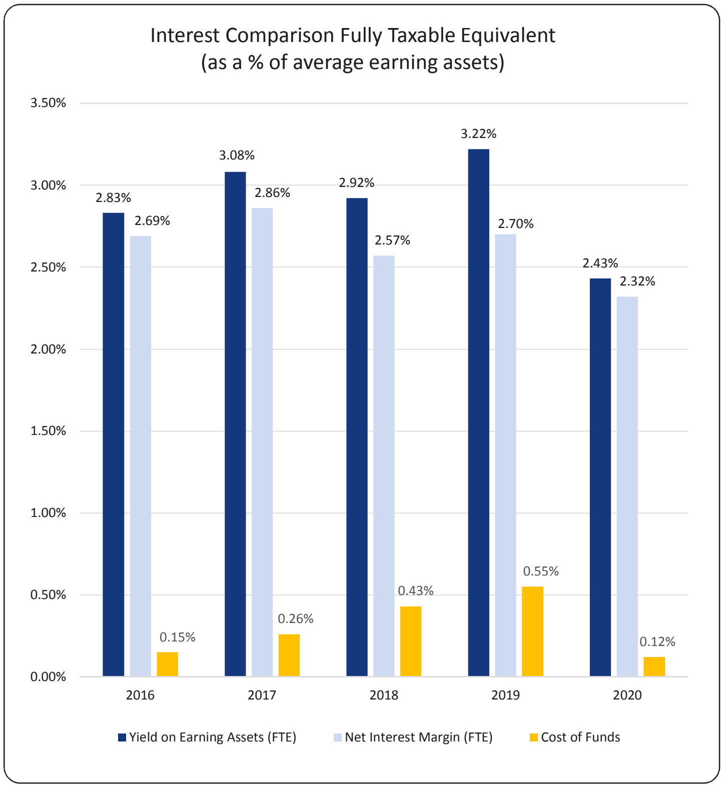


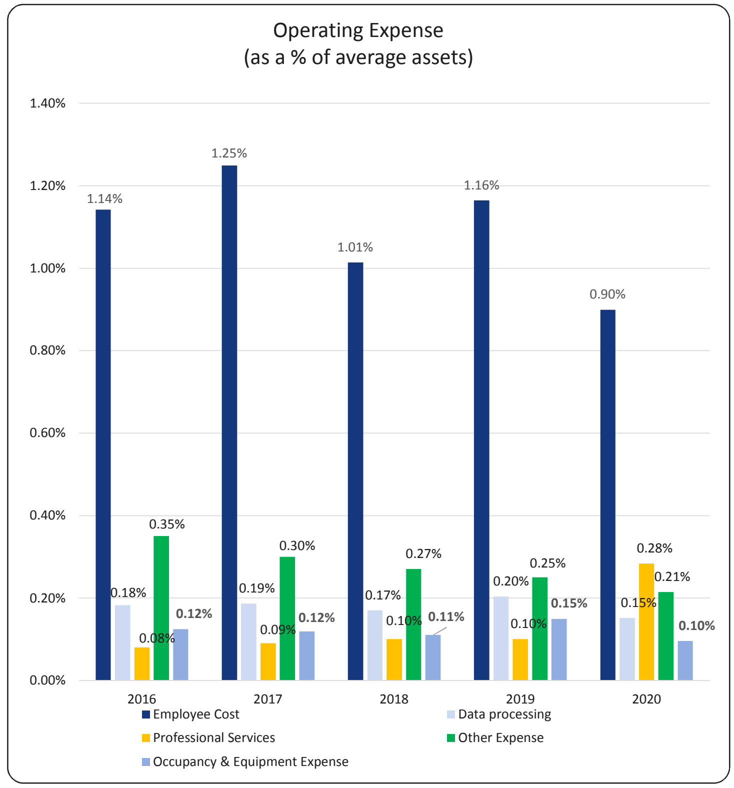


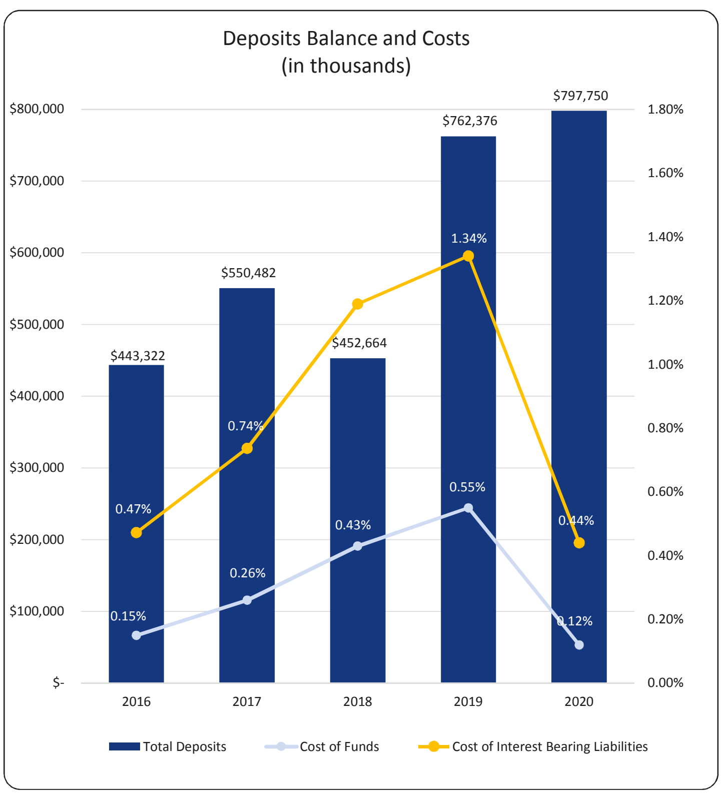


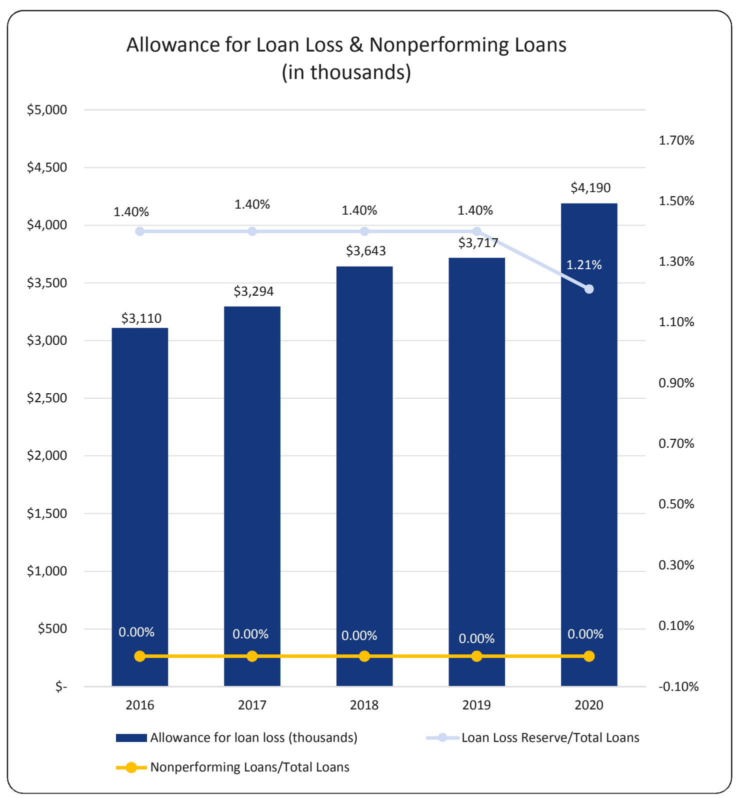


Income Statement and Asset Quality Information

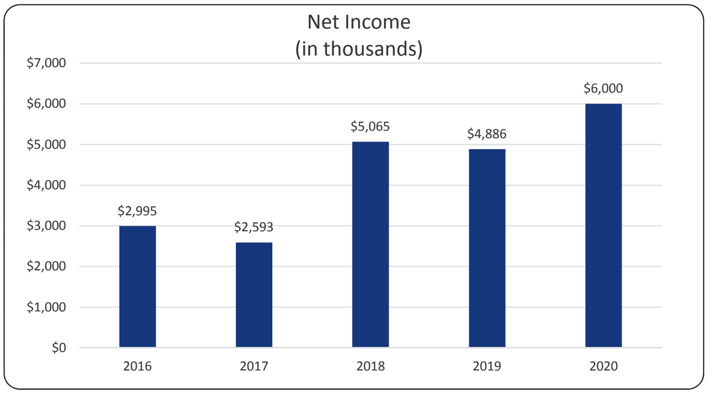


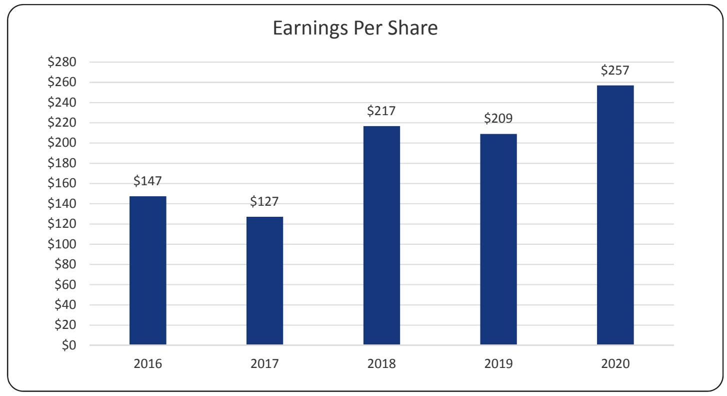


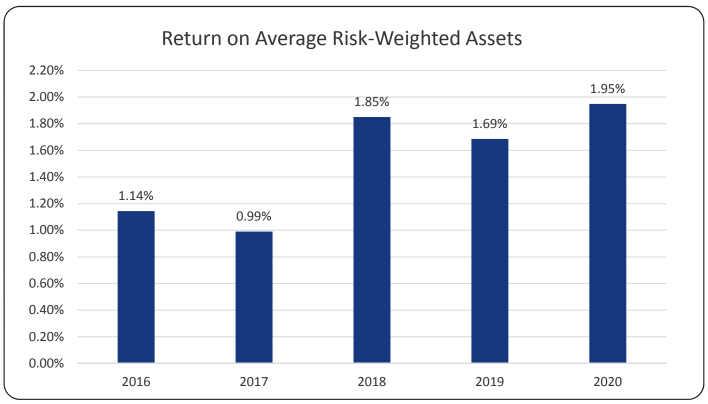


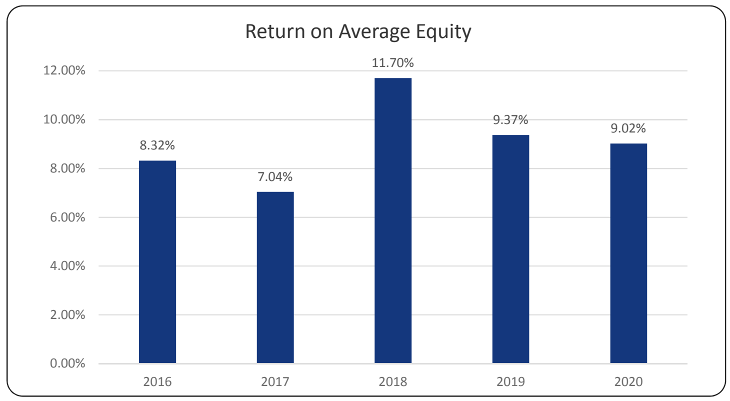


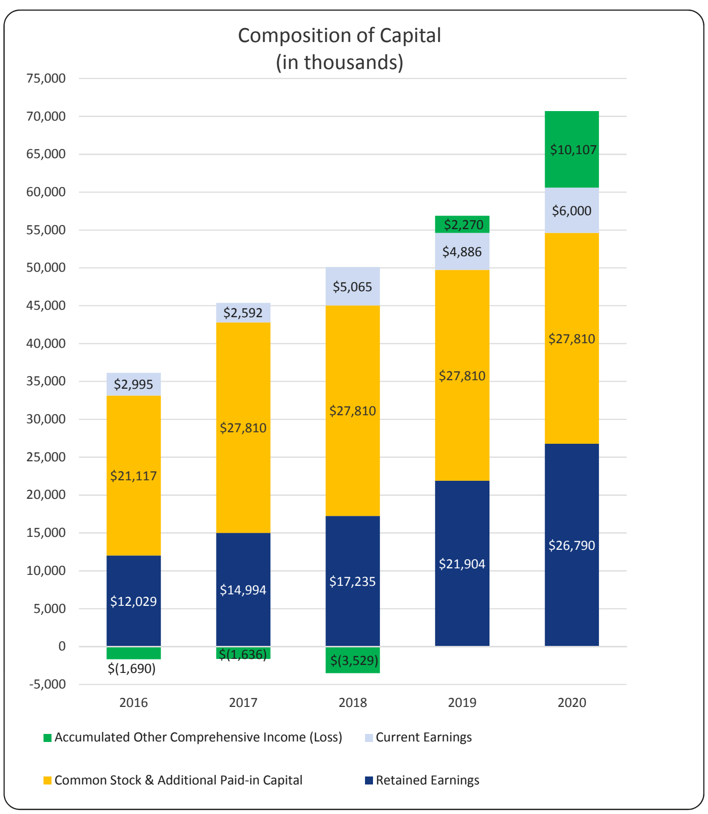
Equity Information and Returns

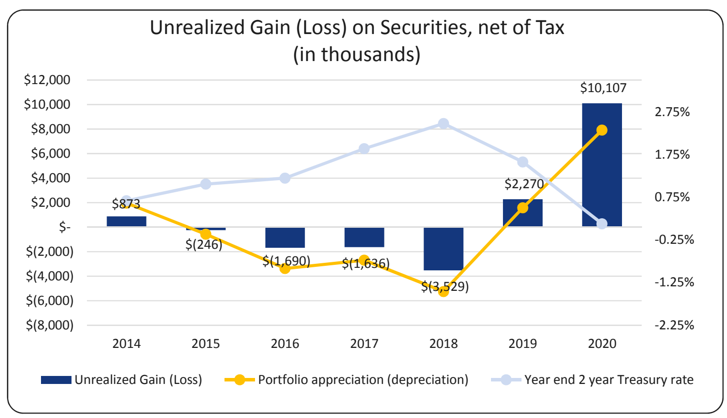


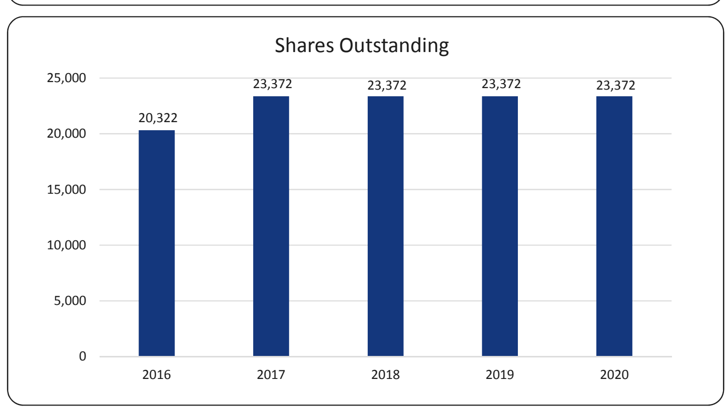




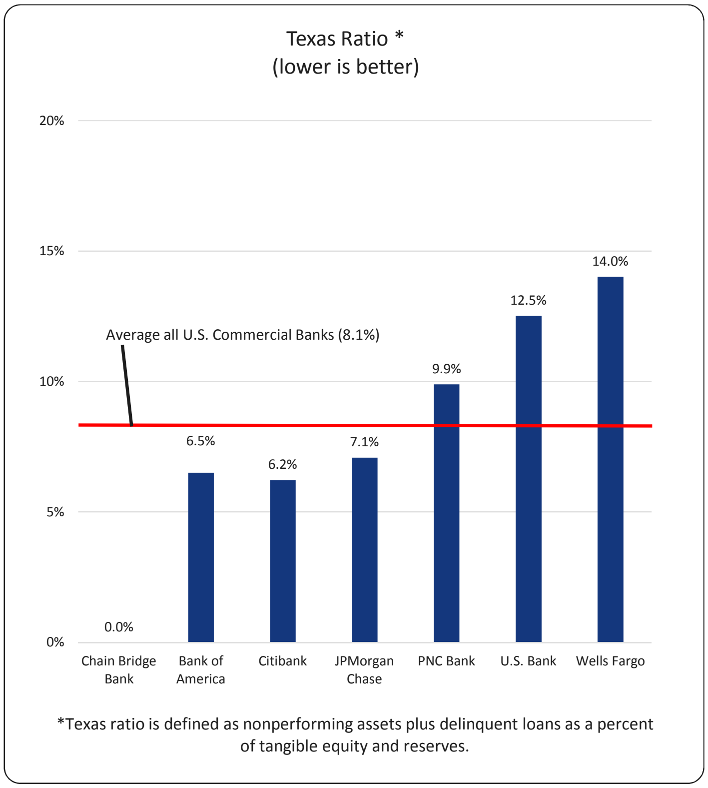


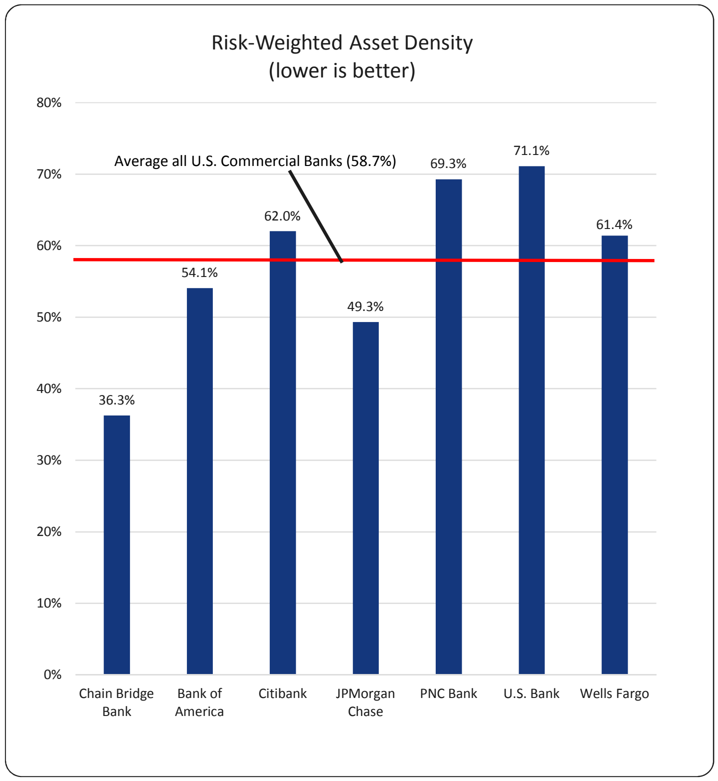


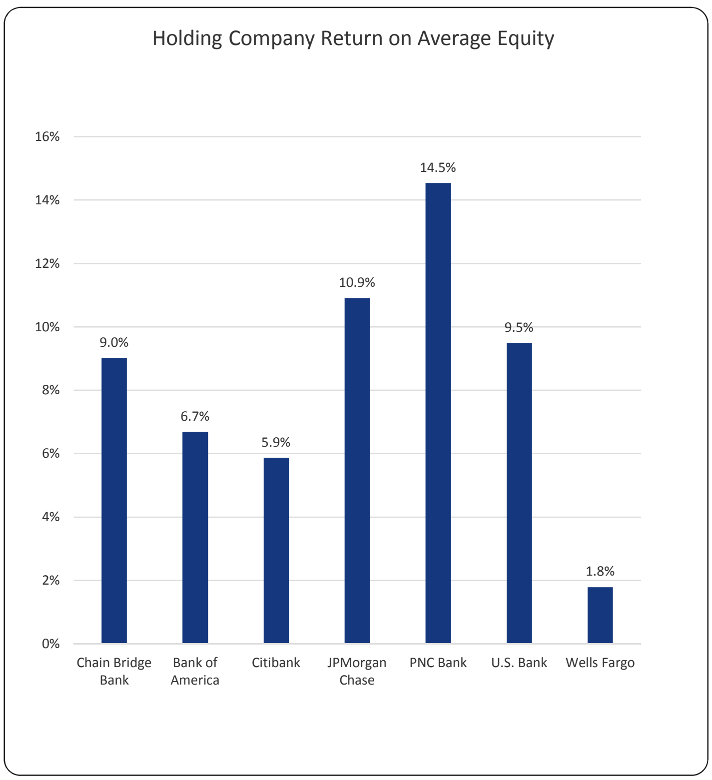


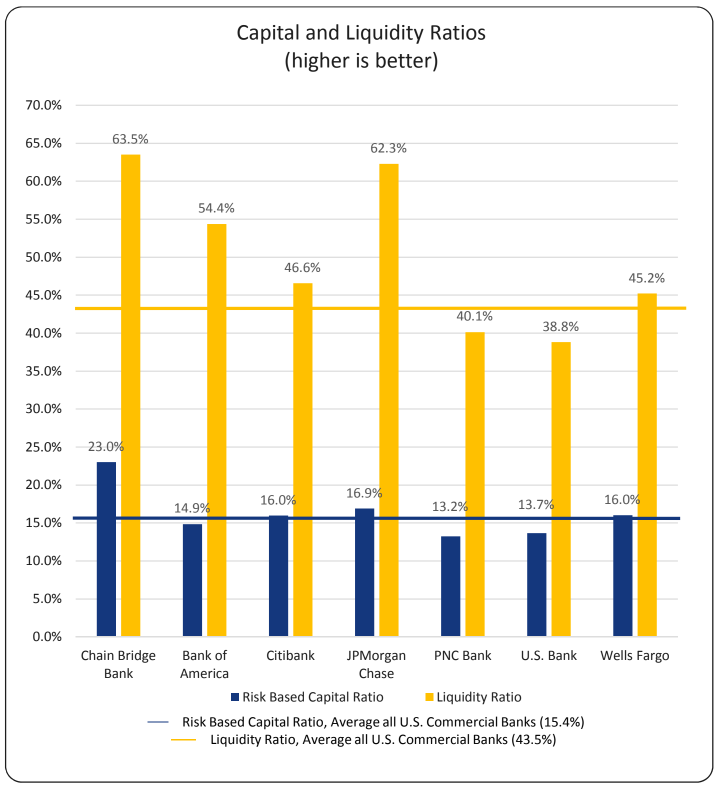


Industry Comparison









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Chain Bridge Bancorp, Inc.
and Subsidiary

McLean, Virginia

Consolidated Financial Report

December 31, 2020

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C O N T E N T S

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Chain Bridge Bancorp, Inc. and its subsidiary (the Company), which comprise the consolidated balance sheets as of December 31, 2020 and 2019, the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Chain Bridge Bancorp, Inc. and its subsidiary as of December 31, 2020 and 2019, 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 10, 2021

Chain Bridge Bancorp, Inc. and Subsidiary

Consolidated Balance Sheets

	December 31, 2020	December 31, 2019
Assets		
Cash and cash equivalents	$ 76,221,311	$ 99,059,029
Securities available for sale, at fair value	444,273,576	450,877,606
Equity securities, at fair value	549,592	528,162
Restricted securities, at cost	2,458,700	1,985,100
Loans held for sale	3,779,554	- -
Loans, net of allowance for loan losses of $4,190,000 in 2020 and $3,717,000 in 2019	338,485,743	261,823,386
Premises and equipment, net of accumulated depreciation of $5,275,993 in 2020 and $4,722,362 in 2019	11,171,452	11,257,881
Accrued interest receivable	3,614,253	3,204,323
Other assets	952,719	450,811
Total assets	$ 881,506,900	$ 829,186,298
Liabilities and Stockholders' Equity		
Liabilities		
Deposits:		
Noninterest bearing	$ 588,270,108	$ 515,220,461
Savings, interest-bearing checking and money market accounts	190,289,031	204,730,992
Time, $250,000 and over	9,896,820	20,876,783
Other time	9,294,238	21,547,720
Total deposits	$ 797,750,197	$ 762,375,956
Securities sold under agreements to repurchase	-	433,436
Short term borrowings	9,000,000	7,300,000
Accrued interest payable	21,764	164,527
Accrued expenses and other liabilities	4,027,542	2,041,929
Total liabilities	$ 810,799,503	$ 772,315,848
Stockholders' Equity		
Preferred stock		
$1 par value, authorized 10,000 shares, no shares issued and outstanding	$ - -	$ - -
Common stock		
$1 par value, authorized 50,000 shares, 23,372 shares issued and outstanding	23,372	23,372
Additional paid-in capital	27,786,595	27,786,595
Retained earnings	32,790,617	26,790,135
Accumulated other comprehensive income	10,106,813	2,270,348
Total stockholders' equity	$ 70,707,397	$ 56,870,450
Total liabilities and stockholders' equity	$ 881,506,900	$ 829,186,298

See Notes to Consolidated Financial Statements.

Chain Bridge Bancorp, Inc. and Subsidiary

Consolidated Statements of Income
For the Years Ended December 31, 2020 and 2019

	2020	2019
Interest and Dividend Income		
Interest and fees on loans	$ 12,022,850	$ 11,582,183
Interest and dividends on securities, taxable	9,323,069	6,766,883
Interest on securities, tax-exempt	1,247,378	906,858
Interest on interest bearing deposits in banks	532,261	1,284,013
Total interest and dividend income	$ 23,125,558	$ 20,539,937
Interest Expense		
Interest on deposits	$ 830,822	$ 3,248,643
Interest on short-term borrowings	247,145	100,215
Total interest expense	$ 1,077,967	$ 3,348,858
Net Interest Income	$ 22,047,591	$ 17,191,079
Provision for Loan Losses	473,000	74,000
Net interest income after provision for loan losses	$ 21,574,591	$ 17,117,079
Noninterest Income		
Service charges on deposit accounts	$ 888,589	$ 299,581
Gain on sale of mortgage loans	316,066	101,298
Gain on sale of securities, net	112,763	7,430
Rent income	97,608	115,900
Other income	620,838	745,583
Total noninterest income	$ 2,035,864	$ 1,269,792
Noninterest Expenses		
Salaries and employee benefits	$ 8,961,901	$ 7,742,930
Professional services	2,825,395	697,477
Data processing and communication expenses	1,507,442	1,352,504
Occupancy and equipment expenses	955,344	993,896
FDIC and regulatory assessments	537,500	171,368
Virginia bank franchise tax	402,764	366,329
Directors fees	322,976	205,425
Other operating expenses	812,112	889,822
Total noninterest expenses	$ 16,325,434	$ 12,419,751
Net income before taxes	$ 7,285,021	$ 5,967,120
Income Tax Expense	1,284,539	1,080,814
Net income	$ 6,000,482	$ 4,886,306
Earnings per common share, basic and diluted	$ 256.74	$ 209.07

See Notes to Consolidated Financial Statements.

Chain Bridge Bancorp, Inc. and Subsidiary

Consolidated Statements of Comprehensive Income
For the Years Ended December 31, 2020 and 2019

	2020	2019
Net income	$ 6,000,482	$ 4,886,306
Other comprehensive income:		
Unrealized holding gains on securities available for sale, net of tax of $2,106,790 in 2020 and $1,543,268 in 2019	$ 7,925,548	$ 5,805,626
Reclassification adjustment for gains included in net income, net of taxes of ($23,680) in 2020 and ($1,560) 2019	(89,083)	(5,870)
Other comprehensive income, net of tax	$ 7,836,465	$ 5,799,756
Comprehensive income	$ 13,836,947	$ 10,686,062

See Notes to Consolidated Financial Statements.

Chain Bridge Bancorp, Inc. and Subsidiary

Consolidated Statements of Cash Flows

For the Years Ended December 31, 2020 and 2019

	2020	2019
Cash Flows from Operating Activities		
Net income	$ 6,000,482	$ 4,886,306
Reconciliation of net income to net cash provided by operating activities:		
Depreciation and amortization of premises and equipment	553,631	542,880
Premium amortization and discount accretion on investment securities, net	2,144,478	493,041
Impairment loss on securities recognized in earnings	56,866	38,826
Fair value adjustment on equity securities	(11,465)	(15,172)
Provision for loan losses	473,000	74,000
Gain on sale of securities	(112,763)	(7,430)
Gain on sale of mortgage loans	(316,066)	(101,298)
Origination of loans held for sale	(23,600,688)	(9,639,872)
Proceeds from sale of loans	20,137,200	9,741,170
Deferred income tax benefit	(468,837)	(45,757)
Changes in assets and liabilities:		
Increase in accrued interest receivable and other assets	(1,183,245)	(877,357)
Increase in accrued interest payable and other liabilities	499,984	138,443
Net cash provided by operating activities	$ 4,172,577	$ 5,227,780
Cash Flows from Investing Activities		
Purchases of securities available for sale	$ (618,570,412)	$ (329,404,606)
Proceeds from calls, maturities, paydowns and sales of securities available for sale	633,005,436	123,882,854
(Purchase) redemption of restricted securities	(473,600)	1,859,200
Reinvestment of dividends on equity securities	(9,965)	(12,146)
Net increase in loans	(77,135,357)	(5,320,385)
Purchases of premises and equipment, net	(467,202)	(445,940)
Net cash used in investing activities	$ (63,651,100)	$ (209,441,023)
Cash Flows from Financing Activities		
Net increase in non-interest bearing, savings, interest-bearing checking and money market deposits	$ 58,607,686	$ 319,170,046
Net (decrease) increase in time deposits	(23,233,445)	3,938,364
Net decrease in CDARS brokered deposits	-	(13,396,440)
Net increase (decrease) in short-term borrowings	1,700,000	(38,000,000)
Net decrease in securities sold under agreements to repurchase	(433,436)	(40,277)
Cash dividend	-	(397,324)
Net cash provided by financing activities	$ 36,640,805	$ 271,274,369
Net (decrease) increase in cash and cash equivalents	$ (22,837,718)	$ 67,061,126
Cash and cash equivalents, beginning of period	99,059,029	31,997,903
Cash and cash equivalents, end of period	$ 76,221,311	$ 99,059,029
Supplemental Disclosures of Cash Flow Information		
Cash payments for interest	$ 1,220,730	$ 3,337,951
Cash payments for taxes	$ 2,538,837	$ 939,669
Supplemental Disclosures of Noncash Investing Activities		
Fair value adjustment for available for sale securities	$ 9,919,575	$ 7,341,464

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, 2020 and 2019

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total
Balance at December 31, 2018	$ 23,372	$ 27,786,595	$ 22,301,153	$ (3,529,408)	$ 46,581,712
Net income	- -	- -	4,886,306	- -	4,886,306
Other comprehensive income	- -	- -	- -	5,799,756	5,799,756
Cash dividend ($17.00 per share)	- -	- -	(397,324)	- -	(397,324)
Balance at December 31, 2019	$ 23,372	$ 27,786,595	$ 26,790,135	$ 2,270,348	$ 56,870,450
Net income	- -	- -	6,000,482	- -	6,000,482
Other comprehensive income	- -	- -	- -	7,836,465	7,836,465
Balance at December 31, 2020	$ 23,372	$ 27,786,595	$ 32,790,617	$ 10,106,813	$ 70,707,397

See Notes to Consolidated Financial Statements.

Chain Bridge Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 1. Organization and Summary of Significant Accounting Policies

Organization and Nature of Operations

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

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

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

Significant Accounting Policies

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

Principles of Consolidation

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

Use of Estimates

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

Possible Impact of COVID-19 on Significant Estimates

The outbreak of COVID-19 has adversely impacted a broad range of industries in which the Company's clients operate and could impair their ability to fulfill their financial obligations to the Company. The World Health Organization declared COVID-19 to be a global pandemic and almost all public commerce and related business activities have been, to varying degrees, curtailed in order to reduce the rate of new infections. The pandemic and efforts to reduce its spread have caused significant uncertainty, volatility and disruptions in the U.S. economy and negatively impacted financial activity in the Company's market. If economic disruptions are prolonged, the Company could experience a material adverse effect on its significant estimates, particularly the allowance for loan loss and other than temporary impairment.

The Company is working with borrowers directly affected by COVID-19, providing short-term assistance in accordance with regulatory guidance. The Company recognizes that further economic decline may affect its borrowers' ability to repay in future periods triggering increases in the Bank's required allowance for loan loss and related loan loss expense. It is possible that the Company's asset quality measures could worsen at future measurement periods if effects of the COVID-19 pandemic are prolonged. Continued economic disruption may also result in credit deterioration within the Bank's bond portfolio, and require additional other than temporary impairment charges.

Reclassification

Certain amounts reported in prior years may be reclassified to conform to the current year's presentation. None of those reclassifications were significant to stockholders' equity or net income.

Cash and Cash Equivalents

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

Securities

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

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

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

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

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

Loans Held for Sale

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

Loans

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

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

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

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

Allowance for Loan Losses

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

During these reviews, particular risk characteristics associated with a segment of the loan portfolio are also considered. These characteristics are detailed below:

- Commercial real estate and commercial loans that are not secured by real estate carry risks associated with the successful operation of a business and the repayment of these loans may depend on the profitability and cash flows of the business. Additional risk relates to the value of collateral other than real estate where depreciation occurs and the appraisal is less precise.
- Residential real estate closed-end loans carry risks associated with the continued credit-worthiness of the borrower and changes in the value of the collateral.
- Other consumer loans carry risks associated with the continued credit-worthiness of the borrower and the value of the collateral, such as home equity lines of credit and automobiles which may depreciate more rapidly than other assets. In addition, these loans may be unsecured. Consumer loans are more likely than real estate loans to be immediately affected in an adverse manner by job loss, divorce, illness or personal bankruptcy.

The primary tool used in managing and controlling problem loans is a watch list report. The report is a listing of all loans or commitments that are considered problem loans. The report is controlled by the Chief Credit Officer and the Chief Executive Officer. It is a primary responsibility of the loan officer to manage the credit risk within their loan portfolio. As such, they are proactive rather than reactive when considering the need to add a loan to the watch list report. Occurrence of any of the following criteria is a basis for adding a loan (other than consumer and residential mortgage loans) to the watch list report.

- Loans classified as substandard, doubtful or loss by bank examiners, external loan review, Chief Credit Officer or Chief Executive Officer based upon financial trends of the business.
- Loans on nonaccrual status.
- Loans more than 30 days delinquent.
- Loans renewed or extended without the capacity to repay the principal.
- Loans judgmentally selected by executive management or the Board of Directors due to unexpected changes or events which could have a potentially adverse effect on the borrower’s ability to repay.

The following guidance has been given as an aid to loan officers in detecting problem loans.

- Financial Statement Analysis – As customer financial statements are received, they are immediately analyzed for any significant changes in the financial position or operating results.
- Delayed Financial Statements – If the Bank is having problems getting financial statements from a customer, a problem may be developing.
- Delinquent Principal or Interest – Delinquencies are often the first indication of a problem. The Bank carefully reviews each loan as soon as it becomes past due.
- Lack of Cooperation – It is in the borrower's best interest to cooperate with the Bank. We suspect a problem if the customer becomes uncooperative.
- Other – The following are additional warning signs which could mean a problem loan situation is developing: illness or death of a principal or key employee, overdrafts, family difficulties, unexpected renewals or unanticipated new borrowing, a too high or too low inventory level in comparison to industry standards, irresponsible behavior on the part of a borrower, trade payables begin to increase abnormally and cancellation of insurance.

The allowance consists of specific, general and unallocated components. The specific component relates to loans (other than consumer and residential mortgage loans) that are classified as doubtful or substandard. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows, fair value of collateral less estimated selling costs, or observable market price of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified and special mention loans and is based on historical loss experience adjusted for qualitative factors including the national and local economic environment, concentration growth trends in the nature and volume of the loan portfolio, levels and trends in delinquencies, impaired loans, charge-off/recovery activity, changes in underwriting standards and lending policies, experience and depth of lending management and staff, analysis of peer banks, and industry conditions. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

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

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

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

Troubled Debt Restructurings

In situations where, for economic or legal reasons related to a borrower’s financial condition, management may grant a concession to the borrower that it would not otherwise consider, the related loan is classified as a troubled debt restructuring (TDR). Management strives to identify borrowers in financial difficulty early and work with them to modify their loan to more affordable terms before their loan reaches nonaccrual status. These modified terms may include rate reductions, principal forgiveness, payment forbearance and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. In cases where borrowers are granted new terms that provide for a reduction of either interest or principal, management measures any impairment on the restructuring as noted above for impaired loans. The Bank had no TDRs as of December 31, 2020 and 2019.

Premises and Equipment

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

Foreclosed Properties

Assets acquired through, or in lieu of, loan foreclosure are held for sale. They are initially recorded at the assets' fair market value at the date of foreclosure less estimated selling costs thus establishing a new cost basis. Subsequent to foreclosure, valuations of the assets are periodically performed by management. Adjustments are made to the lower of the carrying amount or fair market value of the assets less selling costs. Revenue and expenses from operations and valuation changes are included in non-interest expense. The Bank had no foreclosed assets during the years ending December 31, 2020 and 2019.

Rate Lock Commitments

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

The fair value of rate lock commitments and best efforts contracts is not readily ascertainable with precision because rate lock commitments and best efforts contracts are not actively traded in stand-alone markets. Any gain or loss associated with rate lock commitments is considered immaterial.

Income Taxes

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

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying balance sheets along with any associated interest and penalties that would be payable to the taxing authorities upon examination. Interest and penalties associated with unrecognized tax benefits are classified as additional income taxes in the statements of income. The Company did not record a liability for unrecognized tax benefits at December 31, 2020 or 2019.

Transfers of Financial Assets

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

Earnings Per Share

Basic earnings per share represents income available to common stockholders divided by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. For the years ended December 31, 2020 and 2019, the weighted average number of shares outstanding for calculating basic and diluted earnings per share was 23,372.

Advertising Costs

The Bank follows the policy of charging the production costs of advertising to expense as incurred. The Bank expensed $20,818 and $43,098 for advertising costs for the years ended December 31, 2020 and 2019, 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, 2020 and 2019, the Bank's other comprehensive income relates to changes in realized and unrealized gains and losses on available for sale securities, net of tax. Any reclassification out of accumulated other comprehensive income is a result of realized securities gains or losses and is included in the "Gain on sale of securities, net" line item on the Consolidated Statements of Income.

Fair Value Measurements

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

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

Loss Contingencies

Certain conditions may exist as of the date the financial statements are issued, which may result in a loss to the Company but which will only be resolved when one or more future events occur or fail to occur. The Company's management and its legal counsel assess such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against the Company or unasserted claims that may result in such proceedings, the Company's legal counsel evaluates the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability would be accrued in the Company's financial statements. If the assessment indicates that a potentially material loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, would be disclosed.

Loss contingencies considered remote are generally not disclosed unless they involve guarantees, in which case the nature of the guarantee would be disclosed.

On June 12, 2020, Blue Flame Medical LLC ("Blue Flame") sued Chain Bridge Bank, N.A. in federal court in the Eastern District of Virginia for accommodating a request by California's bank, JPMorgan Chase Bank, N.A. ("JPMorgan"), to cancel a $457 million wire to Chain Bridge, for the benefit of Blue Flame, on March 26, 2020. Blue Flame, which had been formed on March 23, 2020 and which had opened its account at Chain Bridge on March 25, 2020, alleges that the wire was originally intended as California's down payment on a $609 million order for 100 million N95 masks. Blue Flame alleges that Chain Bridge's accommodation of JPMorgan's wire-cancellation request was impermissible under federal regulations governing wire transfers, and asserts lost profits and other alleged damages. Blue Flame also asserts state-law claims arising out of the same accommodation and Chain Bridge's diligence communications with California officials. The Company believes that Blue Flame's claims are without merit and intends to vigorously defend its position. Management is currently unable to predict the outcome or determine the potential impact, if any, that could result from a final resolution of Blue Flame's lawsuit or from Chain Bridge's assertion of its potential indemnification rights against other parties. Chain Bridge therefore has not taken an accrual or recorded a loss contingency for the lawsuit. However, the Bank has paid and fully expensed all associated legal fees and costs which it has already incurred.

Dividend Restriction

Banking regulations require maintaining certain capital levels and may limit the dividends paid by the Bank to the Holding Company or by the Holding Company to shareholders.

Revenue Recognition

Accounting Standards Codification Topic 606 ("ASC 606"), "Revenue from Contracts with Customers," creates a single framework for recognizing revenue from contracts with customers that fall within its scope and revises when it is appropriate to recognize gains or losses from the transfer of nonfinancial assets such as other real estate. The majority of the Company's revenues come from interest income and other sources, including loans and securities, that are outside the scope of ASC 606. The Company's services that fall within the scope of ASC 606 are presented in non-interest income in the consolidated statements of income and are recognized as revenue when the Company satisfies its obligation to the customer.

Topic 606 is applicable to noninterest revenue streams such as service charges on deposit accounts, other service charges and fees, and credit and debit card fees. Noninterest revenue streams within the scope of Topic 606 are discussed below.

Service Charges on Deposit Accounts

Service charges on deposit accounts consist primarily of account analysis income, monthly service charges, and income from overdraft, nonsufficient funds and other deposit account related services. The Company's performance obligation for account analysis and monthly service charges is generally satisfied, and the related revenue recognized, over the period in which the service is provided. Payment for account analysis and service charges on deposit accounts is primarily received immediately or in the following month through a direct charge to customers' accounts. Nonsufficient funds and other deposit account related service charges are transaction based, and therefore, the Company's performance obligation is satisfied, and related revenue recognized, at a point in time.

Other Service Charges

Other service charges include charges for wire transfers, safety deposit box rentals, lockbox, and other services. Safe deposit box rentals are charged to the customer on an annual basis and income is recognized upon receipt of payment. The Company determined that since rentals and renewals occur fairly consistently over time, revenue is recognized on a basis consistent with the duration of the performance obligation. The Company's performance obligations for wire transfer and other service charges are largely satisfied, and the related revenue recognized, upon completion of the service. Payment is typically received immediately or in the following month. Other service charges are reported as other income on the income statement.

Debit and Credit Card Income

Debit card income is primarily comprised of interchange fee income. Interchange fees are earned whenever debit cards issued by the Company are processed through card payment networks such as Mastercard. The Company's performance obligation for interchange fee income is largely satisfied, and related revenue recognized, when the services are rendered or upon completion. Payment is received immediately or in the following month. Credit card income arises from the Bank's agency agreement with the First National Bank of Omaha. The Bank refers clients to this credit card provider and in return, receives a percentage of the profits earned on the referred accounts. Income is recorded on a quarterly basis as payments are received. Income from debit and credit cards is reported as other income on the income statement.

Trust and Wealth Management

Trust and wealth management income represents monthly service charges due from clients in consideration for managing and administrating the customers' assets. Wealth management and trust services include investment management and advisory, custody of assets, trust services and similar fiduciary activities, and financial planning services. Revenue is recognized when the performance obligation is completed each month, which is generally the time that payment is received. Income for financial planning services is recorded when payment is received, usually in stages throughout the contract. Income from trust and wealth management activities is reported as other income on the income statement.

Recent Accounting Pronouncement

During June 2016, the FASB issued ASU 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." The amendments in this ASU, among other things, require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. In addition, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The ASU is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. Early application is permitted. The Company is currently assessing the impact that ASU 2016-13 will have on its consolidated financial statements.

Recently Adopted Accounting Development

On March 13, 2020, the United States President declared a national emergency in the face of a growing public health and economic crisis due to the COVID-19 global pandemic. The Coronavirus Aid, Relief, and Economic Security ("CARES") Act was signed into law on March 27, 2020 to help support individuals and businesses through loans, grants, tax changes and other types of relief. The most significant impacts of the Act related to accounting for loan modifications and establishment of the Paycheck Protection Program ("PPP"). On March 22, 2020, the five federal bank regulatory agencies ("the agencies") issued an interagency statement (subsequently revised on April 7, 2020) with respect to loan modifications and reporting for financial institutions working with clients affected by the coronavirus. The CARES Act, and the March 22, 2020 interagency guidance provide enhanced guidelines and accounting for COVID-19 related loan modifications.

Under Accounting Standards Codification 310-40, "Receivables – Troubled Debt Restructurings by Creditors," ("ASC 310-40"), a restructuring of debt constitutes a troubled debt restructuring ("TDR") if the creditor, for economic or legal reasons related to the debtor's financial difficulties, grants a concession to the debtor that it would not otherwise consider. The agencies confirmed with the staff of the FASB that short-term modifications made on a good faith basis in response to COVID-19 to borrowers who were current prior to any relief, are not to be considered TDRs. This includes short-term (e.g., six months) modifications such as payment deferrals, fee waivers, extensions of repayment terms, or other delays in payment that are insignificant. Borrowers considered current are those that are less than 30 days past due on their contractual payments at the time a modification program is implemented.

On August 3, 2020, the agencies released a joint statement on additional loan accommodations related to COVID-19. The agencies acknowledged that while some borrowers will be able to resume contractual payments at the end of an accommodation, others may be unable to meet their obligations due to continuing financial challenges. Among other things, the Interagency Statement addresses accounting and regulatory reporting considerations for additional loan modifications, including those accounted for under Section 4013 of the CARES Act. On December 21, 2020, the Consolidated Appropriations Act of 2021 ("CAA") was passed. The CAA extended or modified many of the relief programs first created by the CARES Act. It provided additional funding for the PPP and extended treatment of certain loan modifications related to the COVID-19 pandemic to the earlier of 60 days after the termination of the national emergency or January 1, 2022. Refer to Note 3 for details regarding the Bank's participation in the PPP and treatment of loan modifications arising from the COVID-19 pandemic.

Note 2. Securities

Amortized cost and fair value of securities available for sale as of December 31, 2020 and 2019 are as follows:

	December 31, 2020			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Securities of U.S. government and federal agencies	$ 162,872,467	$ 2,468,979	$ (17,731)	165,323,715
Mortgage backed securities	11,833,338	649,637	(1,558)	12,481,417
Corporate bonds	72,347,350	2,738,286	(29,865)	75,055,771
State and municipal securities	184,426,987	7,078,917	(93,231)	191,412,673
Total	$ 431,480,142	$ 12,935,819	$ (142,385)	$ 444,273,576

	December 31, 2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Securities of U.S. government and federal agencies	$ 281,569,788	$ 1,029,028	$ (113,540)	282,485,276
Mortgage backed securities	16,220,725	184,009	(34,996)	16,369,738
Corporate bonds	38,122,593	527,457	(11,496)	38,638,554
Collateralized mortgage obligations	32,918	- -	(459)	32,459
State and municipal securities	112,057,723	1,484,437	(190,581)	113,351,579
Total	$ 448,003,747	$ 3,224,931	$ (351,072)	$ 450,877,606

The Company reported a fair value gain of $11,465 and $15,172 in its equity security holding during 2020 and 2019, respectively. The gains and losses were recorded on the income statement.

At December 31, 2020, securities with a carrying value of $11,154,159 were pledged to secure a line of credit with the Federal Reserve Bank. At December 31, 2019, securities with a carrying value of $7,799,491 were pledged to secure public deposits, repurchase agreements, and lines of credit with the Federal Reserve Bank and Community Bankers' Bank.

Proceeds from redemptions, paydowns and sales of securities totaled $633,005,436 and $123,882,854 for 2020 and 2019, respectively. The gross realized gains on securities for 2020 and 2019 totaled $124,807 and $10,850, respectively. The gross realized losses on securities for 2020 and 2019 totaled $12,044 and $3,420, respectively.

There were no held to maturity securities at December 31, 2020 or 2019.

The amortized cost and fair value of debt securities by contractual maturity at December 31, 2020 follows:

	Amortized Cost	Fair Value
Within one year	$ 136,508,337	$ 136,710,379
After one year through five years	137,712,699	143,939,244
After five years through ten years	126,179,734	131,410,027
Over ten years	31,079,372	32,213,926
Total	$ 431,480,142	$ 444,273,576

Expected maturities may differ from contractual maturities if borrowers have the right to call or repay obligations with or without prepayment penalties. Mutual funds with a fair value of $549,592 have no stated maturites and are excluded from the table above.

At December 31, 2020 and 2019, investments in an unrealized loss position that were temporarily impaired follows:

	December 31, 2020				
	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	$ (17,731)	$ 12,614,453	$ - -	$ - -	$ (17,731)
Mortgage backed securities	- -	- -	(1,558)	74,063	(1,558)
Corporate bonds	(29,865)	8,381,346	- -	249,183	(29,865)
State and municipal securities	(92,413)	10,524,349	(818)	- -	(93,231)
Total	$ (140,009)	$ 31,520,148	$ (2,376)	$ 323,246	$ (142,385)

	December 31, 2019				
	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	$ (75,481)	$ 126,738,906	$ (38,059)	$ 11,006,367	$ (113,540)
Mortgage backed securities	(31,970)	7,506,673	(3,026)	351,320	(34,996)
Corporate bonds	(7,814)	3,755,791	(3,682)	2,676,812	(11,496)
Collateralized mortgage obligations	- -	- -	(459)	32,546	(459)
State and municipal securities	(186,575)	17,397,870	(4,006)	1,278,836	(190,581)
Total	$ (301,840)	$ 155,399,240	$ (49,232)	$ 15,345,881	$ (351,072)

At December 31, 2020 and 2019, 40 and 98 debt and equity securities had unrealized losses with aggregate depreciation of 0.03 and 0.08 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, 2020 and 2019, management determined that the unrealized losses in the investment portfolio were temporary. All of the securities are investment grade and management does not expect to be required to sell these securities before such time that they recover in value. Management will continue to monitor the securities in a loss position for future impairment.

The Bank completes reviews for other-than-temporary impairment (OTTI) at least quarterly. The methodology and significant inputs used to measure the amount of impairment include: securities with unrealized losses (the differences between fair values and the amortized book values) that are greater than 10% and longer than 12 months, securities that are not rated as investment grade by a national rating agency that have problematic credit profiles and securities on non-accrual or deferred status. The Bank recorded OTTI, net of recoveries, totaling $56,866 in 2020 and $38,826 in 2019.

Note 3. Loans

A summary of the balances of loans follows:

	December 31,	
	2020	**2019**
Commercial real estate	$ 51,895,319	$ 60,319,804
Commercial	102,968,405	12,496,961
Residential real estate closed-end	168,548,484	169,712,315
Other consumer loans	19,263,535	23,011,306
	$ 342,675,743	$ 265,540,386
Less allowance for loan losses	(4,190,000)	(3,717,000)
Loans, net	$ 338,485,743	$ 261,823,386

Overdrafts totaling $12,666 and $80,987 at December 31, 2020 and 2019, respectively, were reclassified from deposits to loans.

The totals above include deferred fees (net of deferred costs) of $1,309,913 and $6,043 at December 31, 2020 and 2019, respectively.

The Bank participated as a lender in in the U.S. Small Business Administrations (SBA) Paycheck Protection Program (PPP) to support local small businesses and non-profit organizations. PPP loans have a two or five year term and earn interest at 1.0%. During 2020, the Bank originated $95,065,543 of PPP loans, received $3,281,035 of loan fees, and incurred $1,231,105 of loan origination costs. The loan fees accrete to earnings evenly over the life of the loans, net of the loan costs, through interest and fees on loans. At December 31, 2020, PPP loan balances totaled $92,016,217 million with 96.65 percent of the loan balances maturing in the second quarter of 2022 and 3.35 percent of loan balances maturing in the second and third quarters of 2025. PPP loans are classified as commercial loans in the tables included in this footnote. Loans funded through the PPP are fully guaranteed by the SBA, and loans that meet certain regulatory criteria may be forgiven by the SBA. As of December 31, 2020, clients with PPP loan balances totaling $1,477,719 had been granted forgiveness by the SBA, and balances totaling $1,571,607 had been repaid. The Bank has established a 0.25% loan loss reserve rate for outstanding PPP loans to allow for possible operational errors or disputes, or the very unlikely event that the SBA guarantee is not honored.

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, 2020 and 2019:

	December 31, 2020				
	Commercial Real Estate	Commercial	Residential Real Estate Closed-End	Other Consumer Loans	Total
Allowance for loan losses:					
Beginning of year	$ 798,195	$ 241,079	$ 2,306,879	$ 370,847	$ 3,717,000
Provision	185,524	247,068	96,692	(56,284)	473,000
Charge-offs	- -	- -	- -	- -	- -
Recoveries	- -	- -	- -	- -	- -
End of year	$ 983,719	$ 488,147	$ 2,403,571	$ 314,563	$ 4,190,000
Reserves:					
Specific	$ - -	$ - -	$ - -	$ - -	$ - -
General	983,719	488,147	2,403,571	314,563	4,190,000
Total reserves	$ 983,719	$ 488,147	$ 2,403,571	$ 314,563	$ 4,190,000
Loans evaluated for impairment:					
Individually	$ - -	$ - -	$ - -	$ - -	$ - -
Collectively	51,895,319	102,968,405	168,548,484	19,263,535	342,675,743
Total Loans	$ 51,895,319	$ 102,968,405	$ 168,548,484	$ 19,263,535	$ 342,675,743

	December 31, 2019				
	Commercial Real Estate	Commercial	Residential Real Estate Closed-End	Other Consumer Loans	Total
Allowance for loan losses:					
Beginning of year	$ 820,144	$ 488,779	$ 1,950,287	$ 383,790	$ 3,643,000
Provision	(21,949)	(247,700)	356,592	(12,943)	74,000
Charge-offs	- -	- -	- -	- -	- -
Recoveries	- -	- -	- -	- -	- -
End of year	$ 798,195	$ 241,079	$ 2,306,879	$ 370,847	$ 3,717,000
Reserves:					
Specific	$ - -	$ - -	$ - -	$ - -	$ - -
General	798,195	241,079	2,306,879	370,847	3,717,000
Total reserves	$ 798,195	$ 241,079	$ 2,306,879	$ 370,847	$ 3,717,000
Loans evaluated for impairment:					
Individually	$ - -	$ - -	$ - -	$ - -	$ - -
Collectively	60,319,804	12,496,961	169,712,315	23,011,306	265,540,386
Total Loans	$ 60,319,804	$ 12,496,961	$ 169,712,315	$ 23,011,306	$ 265,540,386

Based on the most recent analysis performed, the risk category of loans by class of loans was as follows as of December 31, 2020 and 2019:

	December 31, 2020					
	Pass	Special Mention	Substandard	Doubtful	Loss	Total
Commercial real estate	$ 51,895,319	$ - -	$ - -	$ - -	$ - -	$ 51,895,319
Commercial	102,399,624	99,951	468,830	- -	- -	102,968,405
Residential real estate closed-end	162,800,196	1,087,497	4,660,791	- -	- -	168,548,484
Other consumer loans	19,263,535	- -	- -	- -	- -	19,263,535
Total Loans	$ 336,358,674	$ 1,187,448	$ 5,129,621	$ - -	$ - -	$ 342,675,743

	December 31, 2019					
	Pass	Special Mention	Substandard	Doubtful	Loss	Total
Commercial real estate	$ 60,319,804	$ - -	$ - -	$ - -	$ - -	$ 60,319,804
Commercial	12,496,961	- -	- -	- -	- -	12,496,961
Residential real estate closed-end	169,712,315	- -	- -	- -	- -	169,712,315
Other consumer loans	22,878,570	132,736	- -	- -	- -	23,011,306
Total Loans	$ 265,407,650	$ 132,736	$ - -	$ - -	$ - -	$ 265,540,386

There were no impaired loans as of December 31, 2020 or 2019.

There were no nonaccrual loans, loans 90 days past due and still accruing, or past due for 30 or more days at December 31, 2020 and 2019.

There were no loan modifications classified as TDRs during the years ended December 31, 2020 and 2019. No loan modifications classified as a TDR in a prior year subsequently defaulted during 2020 or 2019.

In response to the COVID-19 pandemic, the Company offered a payment deferral program for its individual and business customers adversely affected by the pandemic. As of December 31, 2020, loans participating in the program totaled $6,724,623, or 1.97% of the Bank's loan balances. All modifications existing at December 31, 2020 involved deferment of principal, and there were no interest deferments. These loans were not considered TDRs because they were modified in accordance with the relief provisions of the CARES Act and recent interagency regulatory guidance.

Note 4. Premises and Equipment

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

	December 31, 2020	December 31, 2019
Land	$ 2,257,915	$ 2,257,915
Building	9,230,692	9,230,692
Furniture, fixtures and equipment	1,933,834	1,846,376
Building improvements	2,349,688	2,336,788
Construction in process	675,316	308,472
	$ 16,447,445	$ 15,980,243
Less accumulated depreciation	5,275,993	4,722,362
Ending balance	$ 11,171,452	$ 11,257,881

For 2020 and 2019, depreciation expense was $553,631 and $542,880, respectively.

Note 5. Related Party Transactions

Officers, directors and their affiliates had credit outstanding of $9,848,994 and $9,050,405 at December 31, 2020 and 2019, respectively, with the Bank. During 2020, total principal additions were $2,686,781 and total principal payments were $1,888,192. 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, 2020 and 2019 amounted to $14,530,116 and $11,745,075 respectively.

Note 6. Deposits

Remaining maturities on certificates of deposit are as follows:

2021	$ 17,243,437
2022	1,410,564
2023	196,762
2024	171,255
2025	169,040
	$ 19,191,058

The Bank held no deposits classified as brokered at December 31, 2020 or 2019. The Bank held no reciprocal deposits through Insured Cash Sweep services on its balance sheet at December 31, 2020 or 2019.

There was one customer with an individual deposit balance exceeding five percent of total deposits as of December 31, 2020. The total deposit balances related to this customer as of December 31, 2020 was $57,339,044 or 7.19 percent of total deposits.

There was one customer with an individual deposit balance exceeding five percent of total deposits as of December 31, 2019. The total deposit balances related to this customer as of December 31, 2019 was $76,247,735 or 10.00 percent of total deposits.

Note 7. Borrowings

Securities Sold Under Agreements to Repurchase

There were no securities sold under agreements to repurchase at December 31, 2020. Securities sold under agreements to repurchase amounted to $ 433,436 at December 31, 2019, and matured on a daily basis. They were secured by municipal securities with a fair value of $1,007,125, and the weighted average interest rate on these agreements was 0.16 percent at December 31, 2019.

Federal Home Loan Bank Advance

At December 31, 2020, the Bank had a secured line of credit with the Federal Home Loan Bank with an available balance of $1,537,115 and no outstanding balance. At December 31, 2019, the same line of credit had no available or outstanding balance. The Bank may pledge collateral at a future time to increase the availability of credit. The line is secured by 1-4 family residential real estate loans within the Bank’s loan portfolio, and is renewed annually in December.

Short Term Borrowings

At December 31, 2020, the Company had a fully drawn unsecured line of credit with a correspondent bank totaling $9,000,000. At December 31, 2019, the same line totaled $9,000,000 with $7,300,000 outstanding. The line matures December 08, 2021 and contains certain covenants regarding the Company's return on average assets, risk-based capital and payment of dividends. The interest rate on the line of credit was 2.40 percent and 3.95 percent at December 31, 2020 and 2019, respectively.

The Bank has unsecured federal fund purchase lines of credit with Community Bankers' Bank totaling $8,000,000 maturing March 2, 2021 and Pacific Coast Bankers' Bank totaling $5,000,000 maturing June 30, 2021. There were no outstanding federal funds purchased balances as of December 31, 2020 or 2019.

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, 2020 and 2019 are presented below:

	December 31, 2020	December 31, 2019
Deferred Tax Assets		
Allowance for loan losses	$ 879,900	$ 744,731
Deferred loan fees	275,082	1,269
Deferred compensation	132,552	93,528
Depreciation	31,304	372
Organizational and start-up expenses	17,075	27,859
Other	7,842	7,159
	$ 1,343,755	$ 874,918
Deferred Tax Liabilities		
Securities available for sale	$ (2,686,621)	$ (603,510)
Net deferred tax assets (liabilities)	$ (1,342,866)	$ 271,408

The provision for income taxes charged to operations for the years ended December 31, 2020 and 2019, consists of the following:

	December 31, 2020	December 31, 2019
Current tax expense	$ 1,753,376	$ 1,126,571
Deferred tax benefit	(468,837)	(45,757)
Net provision for income taxes	$ 1,284,539	$ 1,080,814

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

	December 31, 2020	December 31, 2019
Computed tax at applicable rate	$ 1,529,854	$ 1,253,095
Tax-exempt income	(261,819)	(193,132)
Other	(16,504)	(20,851)
Net provision for income taxes	$ 1,284,539	$ 1,080,814

The Company files an income tax return in the U.S. federal jurisdiction and is subject to the bank franchise tax in the Commonwealth of Virginia. With few exceptions, the Company is no longer subject to federal or state tax examinations for years prior to 2017.

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

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

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

At December 31, 2020 and 2019, the following financial instruments whose contract amounts represent credit risk were outstanding:

	December 31,	
	2020	2019
Commitments to grant loans	$ 16,901,922	$ 11,487,000
Unfunded commitments under lines of credit	60,828,974	56,193,621
Standby letters of credit	1,874,997	1,414,049

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

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

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

The Bank maintains its cash accounts in several correspondent banks. The total amount by which cash on deposit in those banks and federal funds sold exceeded the federally insured limits at December 31, 2020 and 2019 was $1,117,115 and $2,856,404, respectively.

The Bank may be required to maintain average balances with the Federal Reserve Bank. On March 26, 2020, The Federal Reserve reduced the reserve requirement to zero for thousands of depository institutions to support lending to households and businesses. Accordingly, the Bank had no minimum reserve requirement at December 31, 2020. At December 31, 2019, the minimum requirement was $35,726,000, and the Bank’s excess reserve balance was $56,971,859.

Note 10. Minimum Regulatory Capital Requirements

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

The final rules implementing Basel Committee on Banking Supervision’s Capital guidelines for U.S. banks (Basel III rules) became effective on January 1, 2015, with full compliance with all of the new requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. Under the Basel III rules, the Company must hold a capital conservation buffer above the adequately capitalized risk-based capital ratios. The capital conservation buffer was implemented in a phased approach from 0.0% for 2015 to 2.50% by 2019. Although capital conservation buffer is not part of regulatory minimum risk-based capital requirements, it does determine the minimums that must be met to avoid limitation on paying dividends, engaging in share repurchases, and paying discretionary bonuses if capital level fall below the buffer amount. The net unrealized gain or loss is not included in computing regulatory capital.

Quantitative measures established by regulation to ensure capital adequacy require financial institutions to maintain minimum amounts and ratios (set forth in the table below) of Total, Tier 1, and common equity Tier 1 (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2020, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2020, the most recent notification from the Office of the Comptroller of the Currency categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum Total risk-based, Tier 1 risk-based, common equity Tier 1 and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's category.

The following tables set forth the capital position and analysis for the Company and Bank. Because total assets on a consolidated basis are less than $3 billion, the Company is not subject to the consolidated capital requirements imposed by federal regulations. However, the Company elects to include those ratios for this report. Minimum capital ratios below include phase-in of capital conservation buffer. The Company has a borrowing from a correspondent bank which it uses to downstream capital to the Bank. At December 31, 2020 and 2019, the outstanding balance was $9,000,000 and $7,300,000, respectively.

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
December 31, 2020	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Amounts in Thousands)			
Total Risk-Based Capital						
Company	$ 64,597	20.217%	N/A	N/A	N/A	N/A
Bank	$ 73,509	23.006%	$ 33,549	10.500%	$ 31,952	10.000%
Tier 1 Risk-Based Capital						
Company	$ 60,601	18.966%	N/A	N/A	N/A	N/A
Bank	$ 69,513	21.756%	$ 27,159	8.500%	$ 25,561	8.000%
Common Equity Tier 1 Capital						
Company	$ 60,601	18.966%	N/A	N/A	N/A	N/A
Bank	$ 69,513	21.756%	$ 22,366	7.000%	$ 20,769	6.500%
Tier 1 Leverage Ratio						
Company	$ 60,601	6.364%	N/A	N/A	N/A	N/A
Bank	$ 69,513	7.300%	$ 38,090	4.000%	$ 47,612	5.000%

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
December 31, 2019	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Amounts in Thousands)			
Total Risk-Based Capital						
Company	$ 58,179	20.328%	N/A	N/A	N/A	N/A
Bank	$ 65,396	22.850%	$ 30,051	10.500%	$ 28,620	10.000%
Tier 1 Risk-Based Capital						
Company	$ 54,600	19.077%	N/A	N/A	N/A	N/A
Bank	$ 61,817	21.599%	$ 24,327	8.500%	$ 22,896	8.000%
Common Equity Tier 1 Capital						
Company	$ 54,600	19.077%	N/A	N/A	N/A	N/A
Bank	$ 61,817	21.599%	$ 20,034	7.000%	$ 18,603	6.500%
Tier 1 Leverage Ratio						
Company	$ 54,600	7.086%	N/A	N/A	N/A	N/A
Bank	$ 61,817	8.023%	$ 30,821	4.000%	$ 38,526	5.000%

Note 11. Employee Benefit Plans

401(k) Plan

The Bank has a 401(k) Plan whereby substantially all employees participate in the plan. Employees may contribute portions of their compensation subject to limits based on federal tax laws. The Bank may make discretionary matching contributions to the plan. For 2020 and 2019, expense attributable to the plan amounted to $315,988 and $245,419, respectively.

Note 12. Fair Value Measurements

Fair Value Hierarchy

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

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

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

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

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

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

Securities Available for Sale

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

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

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

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

Description	Balances	Fair Value Measurements Using Level 1	Level 2	Level 3
Assets:				
As of December 31, 2020:				
Available for sale securities:				
U.S. government and federal agencies	$ 165,323,715	$ 162,120,970	$ 3,202,745	$ - -
Mortgage backed securities	12,481,417	- -	12,481,417	- -
Corporate bonds	75,055,771	521,073	74,534,698	- -
State and municipal securities	191,412,673	- -	191,412,673	- -
Total available for sale securities	$ 444,273,576	$ 162,642,043	$ 281,631,533	$ - -
Mutual and exchange-traded funds	549,592	549,592	- -	- -
Total	$ 444,823,168	$ 163,191,635	$ 281,631,533	$ - -
Assets:				
As of December 31, 2019:				
Available for sale securities:				
U.S. government and federal agencies	$ 282,485,276	$ 255,428,693	$ 27,056,583	$ - -
Mortgage backed securities	16,369,738	- -	16,369,738	- -
Corporate bonds	38,638,554	503,685	38,134,869	- -
Collateralized mortgage obligations	32,459	- -	32,459	- -
State and municipal securities	113,351,579	- -	113,351,579	- -
Total available for sale securities	$ 450,877,606	$ 255,932,378	$ 194,945,228	$ - -
Mutual and exchange-traded funds	528,162	528,162	- -	- -
Total	$ 451,405,768	$ 256,460,540	$ 194,945,228	$ - -

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.

Impaired Loans

Loans are designated as impaired when, in the judgment of management based on current information and events, it is probable that all amounts due according to the contractual terms of the loan agreement will not be collected. The measurement of loss associated with impaired loans can be based on either the observable market price of the loan, fair value of the collateral or present value of cash flows. Fair value is measured based on the value of the collateral securing the loans. Collateral may be in the form of real estate or business assets including equipment, inventory, and accounts receivable. The vast majority of the collateral is real estate. The value of real estate collateral is determined utilizing a market valuation approach based on an appraisal conducted by an independent, licensed appraiser outside of the Bank using observable market data (Level 2). However, if the collateral is a house or building in the process of construction or if an appraisal of the real estate property using an income approach or is over two years old, then the fair value is considered Level 3. The value of business equipment is based upon an outside appraisal if deemed significant, or the net book value on the applicable business's financial statements if not considered significant using observable market data. Likewise, values for inventory and accounts receivables collateral are based on financial statement balances or aging reports (Level 3). Impaired loans allocated to the allowance for loan losses are measured at fair value on a nonrecurring basis. Any fair value adjustments are recorded in the period incurred as provision for loan losses on the consolidated statements of income. There were no impaired loans to be measured at fair value as of December 31, 2020 and 2019.

Note 13. Condensed Financial Statements of Parent Company

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

	December 31,	
Balance Sheets	**2020**	**2019**
Assets		
Cash	$ 87,439	$ 82,812
Investment in common stock of Chain Bridge Bank	79,619,958	64,087,639
Total assets	$ 79,707,397	$ 64,170,451
Liabilities and Shockholders' Equity		
Short-term borrowings	$ 9,000,000	$ 7,300,000
Total liabilities	$ 9,000,000	$ 7,300,000
Stockholders' equity	70,707,397	56,870,451
Total liabilities and stockholders' equity	$ 79,707,397	$ 64,170,451

Statements of Income	**2020**	**2019**
Dividend from Chain Bridge Bank, N.A.	$ - -	$ 500,000
Operating Expenses		
Interest expense and fees on borrowings	$ 260,373	$ 58,651
Marketing expenses	35,000	30,000
	$ 295,373	$ 88,651
Income (loss) before undistributed net income of Chain Bridge Bank	$ (295,373)	$ 411,349
Undistributed net income of Chain Bridge Bank	6,295,855	4,474,957
Net income	$ 6,000,482	$ 4,886,306

Statements of Cash Flows	**2020**	**2019**
Cash Flows from Operating Activities		
Net income	$ 6,000,482	$ 4,886,306
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Undistributed net income of Chain Bridge Bank	(6,295,855)	(4,474,957)
(Decrease) in accrued interest payable	- -	(11,872)
Net cash provided by (used in) operating activities	$ (295,373)	$ 399,477
Cash Flows from Investing Activities		
Investment in Chain Bridge Bank	$ (1,400,000)	$ (1,300,000)
Net cash used in investing activities	$ (1,400,000)	$ (1,300,000)
Cash Flows from Financing Activities		
Cash dividend to shareholders	$ - -	$ (397,324)
Increase in short term borrowings	1,700,000	1,300,000
Net cash provided by financing activities	$ 1,700,000	$ 902,676
Net increase in cash and cash equivalents	$ 4,627	$ 2,153
Cash and cash equivalents at beginning of period	82,812	80,659
Cash and cash equivalents at end of period	$ 87,439	$ 82,812

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 10, 2021.

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

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