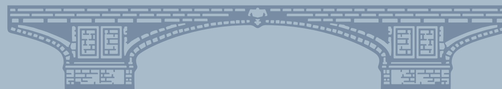
Chain Bridge

BANCORP, INC.

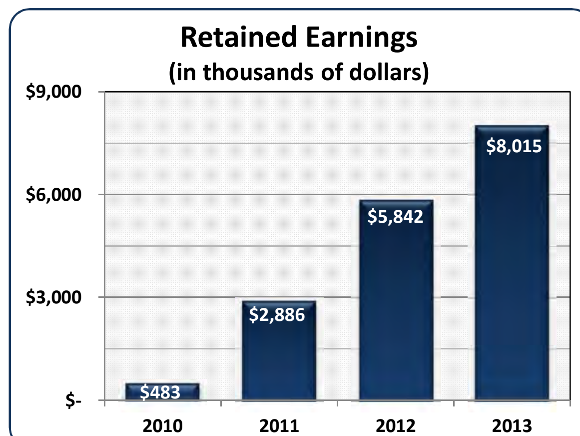
2013 Annual Report



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

For the Periods Ending December 31, 2013 and 2012

	2013	2012
Performance Measures and Yields		
Consolidated net income (in thousands)	$ 2,173	$ 2,956
Return on average assets (ROAA)	0.71 %	0.87 %
Return on average equity (ROAE)	7.29 %	10.04 %
Net interest margin	3.41 %	3.26 %
Asset Quality (%)		
Non-performing assets / assets	0.00 %	0.00 %
Loan loss reserves / gross loans	1.50 %	1.70 %
Net (recoveries) charge-offs / average loans	(0.16) %	0.23 %
Balance Sheet Highlights		
Total assets (in thousands)	$ 321,357	$ 292,494
Percent change in total asset	9.9 %	0.1 %
Total loans (net of loans held for sale)	$ 141,357	$ 115,266
Percent change in total loans (net of loans held for sale)	22.6 %	33.1 %
Total deposits (in thousands)	$ 289,869	$ 254,392
Percent change in total deposits	14.0 %	(3.3) %
Capitalization		
Total equity capital	$ 29,317	$ 30,874
Tangible equity	$ 29,317	$ 30,874
Tier 1 capital	$ 28,482	$ 26,761
Tier 1 risk-based ratio (%)	15.08 %	17.08 %
Total risk-based capital ratio (%)	16.21 %	18.23 %
Chain Bridge Bancorp, Inc. Share Information		
Number of shares outstanding	20,219	20,158
Book value per share (dollars)	$ 1,450	$ 1,532
Net income per share (dollars)	$ 107.68	$ 146.92



We're everywhere your mobile device is ™

March 13, 2014

Dear Fellow Shareholder:

Chain Bridge Bancorp, Inc. (the "Company"), the parent of Chain Bridge Bank, N.A. (the "Bank") (collectively, "Chain Bridge"), earned consolidated net income of $2.17 million or $108 per share in 2013, down from $2.96 million, or $147 per share, in 2012. The Company's return on equity was 7.29% in 2013, down from 10.04% in 2012.

The decline in earnings stems primarily from three factors. First, realized gains and losses on securities sales and distributions swung from a net gain of $535 thousand in 2012 to a net loss of $538 thousand in 2013. Second, non-interest expense rose as the Bank made new investments in technology and personnel. Third, net interest income declined $623 thousand as average earning assets declined $33.7 million and the Bank sold higher yielding, long term assets to reduce interest rate risk. Average earning assets in 2012 were inflated due to seasonal deposit balances.

Balance Sheet Growth

The Bank's assets grew 10%, from $292 million at year-end 2012 to $321 million at year-end 2013. Total loans grew 23%, from $115.3 million to $141.4 million. Most of the loan growth came from closed–end first trust residential mortgages which grew from $51 million in 2012 to $71 million in 2013. Securities declined 21%, from $160 million to $126 million. The Bank sold $47 million of high yielding but long term securities in order to reduce the Bank's interest rate risk.

Deposits grew 14% in 2013, from $254 million at December 31, 2012 to $290 million at December 31, 2013. Non-interest bearing demand deposits constituted 46% of deposits in 2013, which is on par with 2012. Overall, 67% of the Bank's deposits were in transaction accounts in 2013, up from 63% in 2012. The ratio of core deposits to total deposits rose from 84% in 2012 to 93% in 2013.

Net Interest Income and Yields

As loan balances increased, interest and fees from loans rose by $875 thousand, from $5.0 million in 2012 to $5.9 million in 2013. Conversely, as securities balances declined, interest and dividend income from securities declined by $1.4 million, from $5.8 million in 2012 to $4.3 million in 2013. Overall interest income therefore declined $600 thousand to $10.3 million as decreased securities income offset increased loan income.

On a fully taxable equivalent basis, the Bank's net interest margin increased by 15 basis points, to 3.41% in 2013 from 3.26% in 2012. The reason for the increase is that, on average, the Bank held substantially more in low yielding cash during 2012 than in 2013.

The Bank's cost of interest bearing liabilities declined during the year, from 0.59% to 0.45%, but its overall cost of funds rose slightly, from 0.23% in 2012 to 0.27% in 2013.

Non-Interest Income

Non-interest income, excluding realized gains and losses on securities sales and distributions, increased $136 thousand during the year to $804 thousand. A decline in service charge income was offset by a rise in mortgage fee income as the Bank's new residential mortgage division completed its first full year of operations.

Asset Quality and Capital

No loans were past-due at December 31, 2013 and the Bank reported no repossessed assets, no troubled debt restructures, and no non-performing loans. The Bank had net loan recoveries of $203 thousand, or 0.16% of average loans, and incurred no charge offs in 2013.

The Bank's total equity capital declined during the year as the market value of the Bank's securities portfolio declined when long term interest rates rose. At year-end 2012, Chain Bridge had a net, after tax unrealized gain of $4.1 million in its securities portfolio. As interest rates rose, that unrealized gain declined by $3.8 million to $307 thousand at year-end 2013. The decline in the securities portfolio lowered book value by $188 per share. After adding back earnings for the year, the book value per share declined by 5.33%, from $1,532 at December 31, 2012 to $1,450 at December 31, 2013.

At year-end 2013, the Company's tier 1 risk-based capital ratio stood at 15.08% and its equity-to-assets ratio stood at 9.12%. During the first quarter of 2013, the Company repaid a $2.5 million short-term borrowing. The Bank again achieved a Five-Star Rating, the highest available, from BauerFinancial, the nation's leading bank ratings agency.

New Residential Mortgage Division

The Bank opened a new residential mortgage division in late 2012. To fully staff the division, the Bank hired six experienced residential loan specialists. In order to accommodate the new personnel, the Bank also purchased an office condominium. This new division got off to a strong start in 2013. Mortgage loan production was solid throughout the year, though the refinance business declined sharply when interest rates rose. Because the Bank has a relatively low loan-to-deposit ratio, the Bank kept most of the new mortgages on its books rather than selling them. Most of the Bank's net loan growth in 2013 came from residential mortgages.

Technology, Mobile Banking and Mobile Deposits

In late 2012 and early 2013, the Bank began developing mobile banking applications which allow clients to deposit checks from their smart phones. Chain Bridge's apps became available for download from the Apple App Store and the Google Play store in early 2013. After several months of testing, the Bank began advertising the apps to its consumer and business clients. Since that time, a high and increasing percentage of Bank clients have downloaded the apps and begun using them not only to view their account activity, but also to transfer funds, pay bills and make mobile deposits.

In late 2013, the Bank also upgraded its core computer processing system. Thanks to the hard work of the management and staff, the conversion went well. The new system should make it easier for the Bank to serve its clients and to offer them the latest banking products and services.

Outlook for the Year Ahead

The Federal Reserve has now maintained short term interest rates near zero for five full years. At first the decline in interest rates helped banks. That is because banks still had loans and investments on the books which they made or purchased in prior years at higher rates. But now most of those higher yielding assets have matured or have been replaced with lower yielding loans and investments. As a consequence, the net interest margin of almost all U.S. banks has declined.

Many banks are responding to declining net interest margins by "reaching for yield." Some are seeking higher yielding loans by relaxing their underwriting standards, while others are concentrating their lending in riskier segments of the economy. Chain Bridge, in contrast, is maintaining its conservative credit underwriting standards. This strategy may result in continued margin pressure but management believes that it is the safest long term strategy to pursue. If history is any guide, banks that relax their credit standards during economic expansions usually end up regretting it when the next recession occurs.

Sam Schreiber Joins Bank

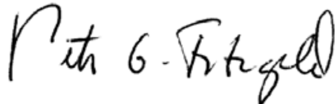
We are pleased to announce that, in January of 2014, Samuel A. Schreiber joined Chain Bridge as President of the Bank and as a director of both the Bank and the Company. Schreiber is a 25 year veteran of Wells Fargo and its predecessor, Wachovia. Most recently, he was a regional Executive Vice President of Wells Fargo and led its business banking team in Virginia, Maryland, and the District of Columbia.

As President, Schreiber is now leading all commercial and consumer business strategy and development activities in addition to the loan, deposit and mortgage divisions. We believe that Schreiber will make a significant contribution to the Bank and Company's future growth. When you have the chance, please stop by the Bank to introduce yourself to Sam.

• • •

We again thank the management and staff for their hard work and commitment. We also thank our shareholders and clients for their confidence in us and for their many referrals. We look forward to working with you in the months and years to come.

Sincerely,

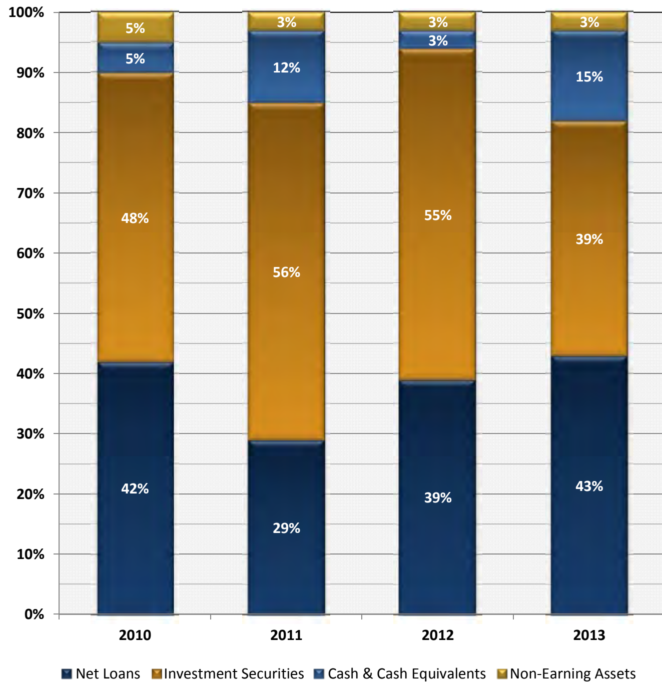


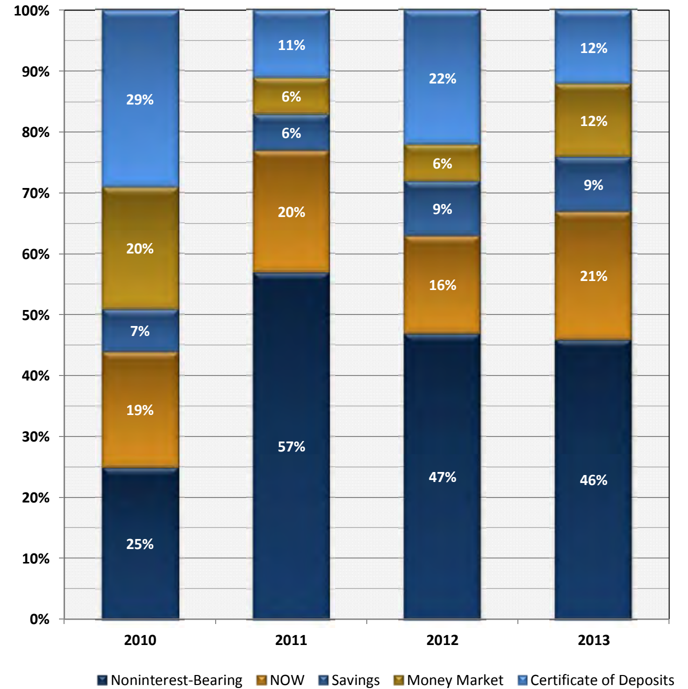
Peter G. Fitzgerald
Chairman of the Board

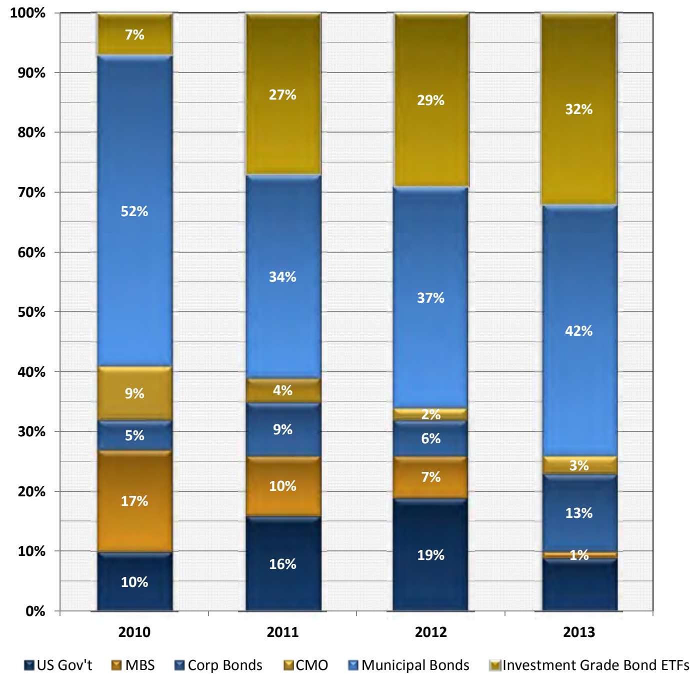
John J. Brough
Chief Executive Officer

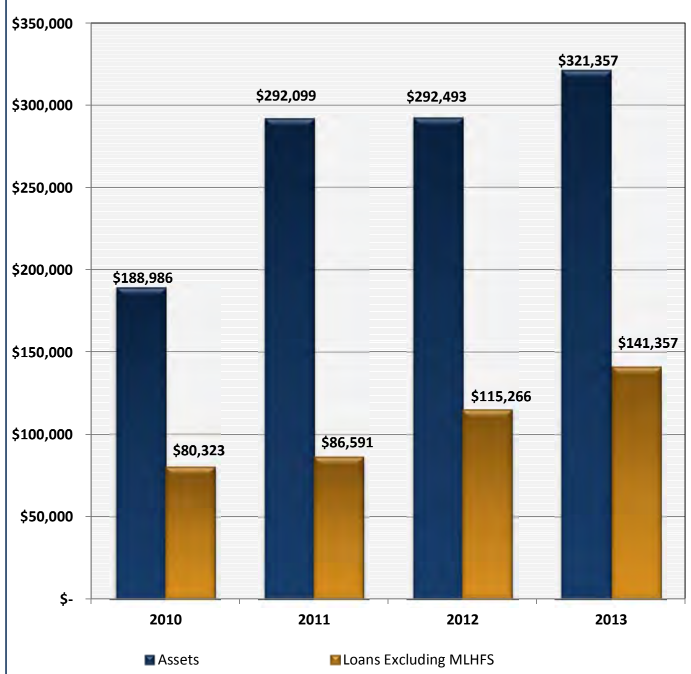
PGF/JJB/hn
Enclosures

Balance Sheet Information

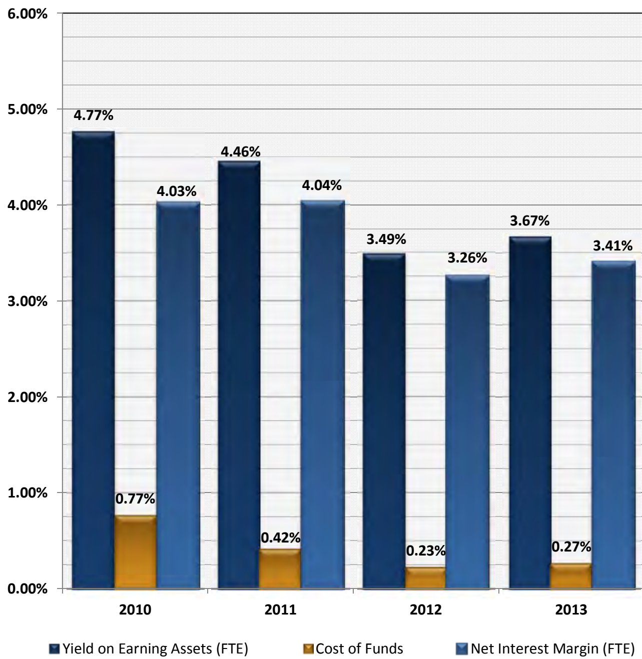


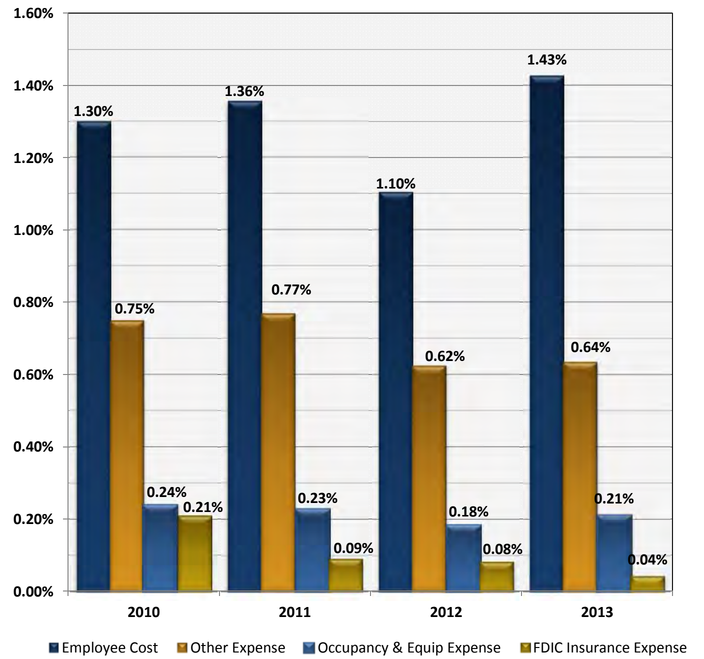


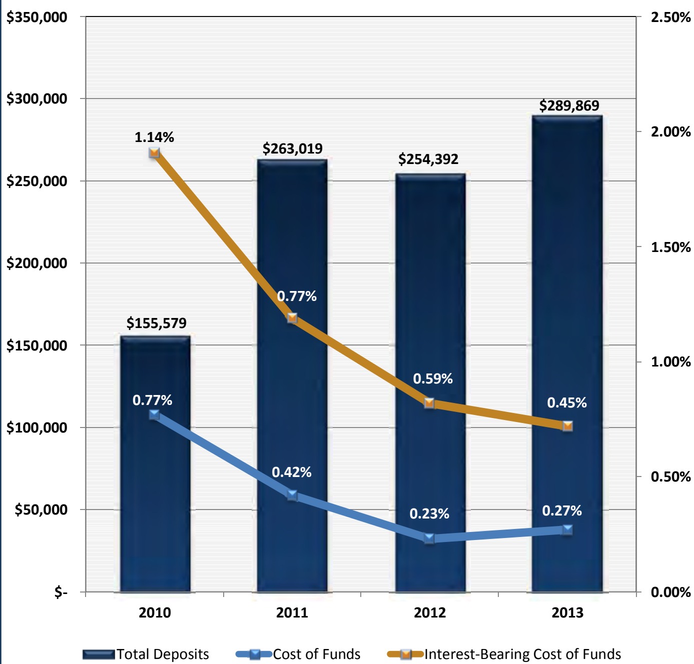


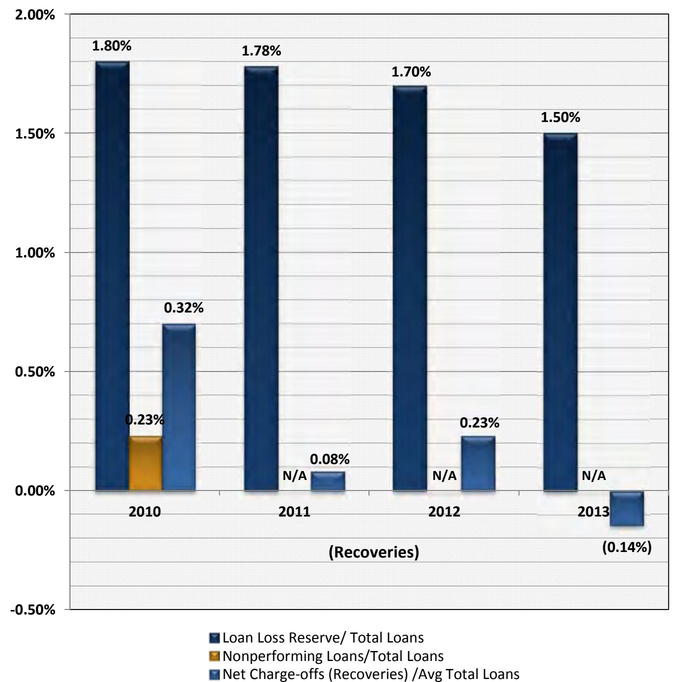


Income Statement and Asset Quality Information

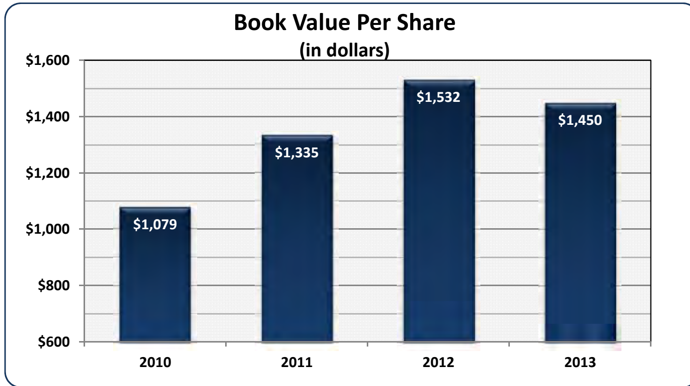


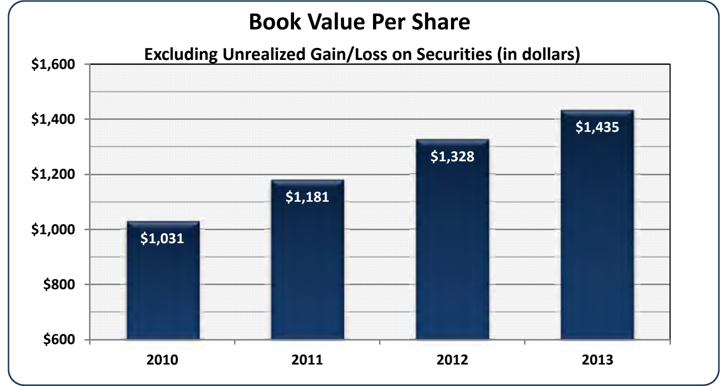


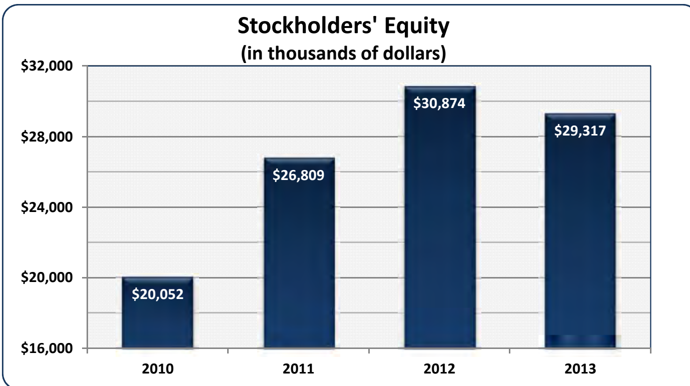


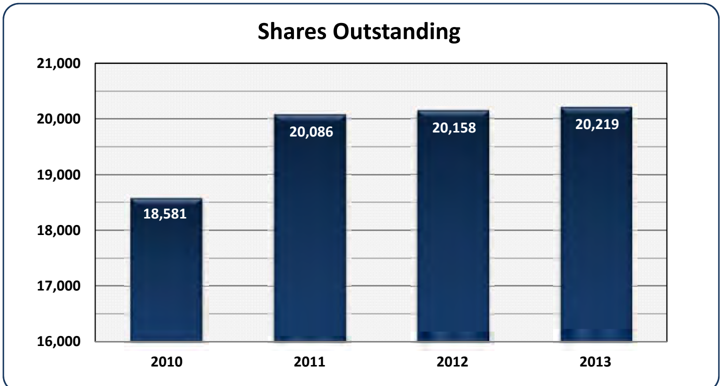


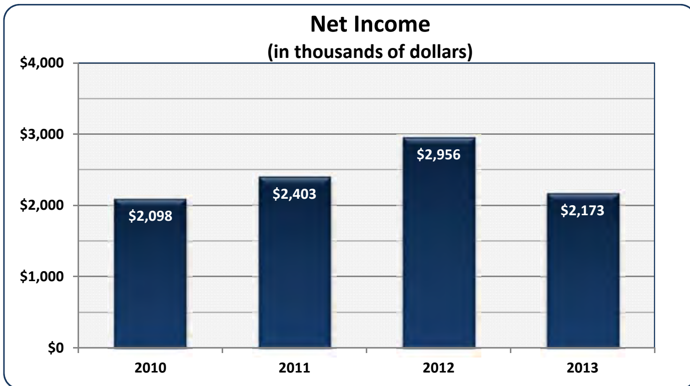
Equity Information and Returns

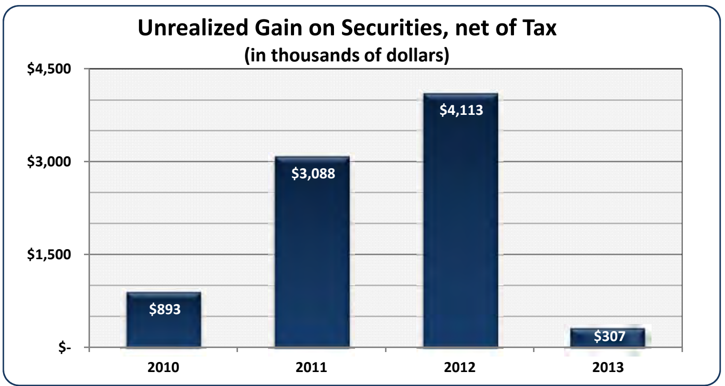


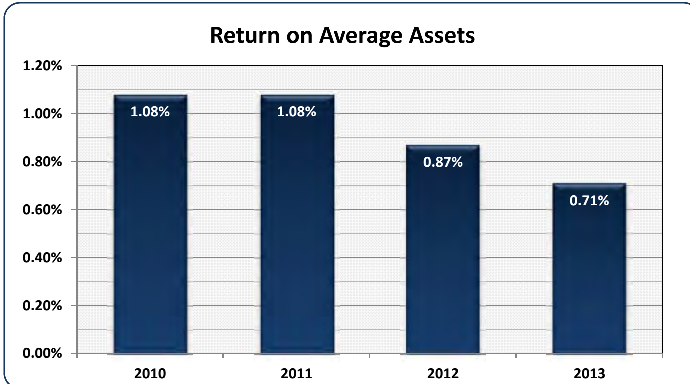


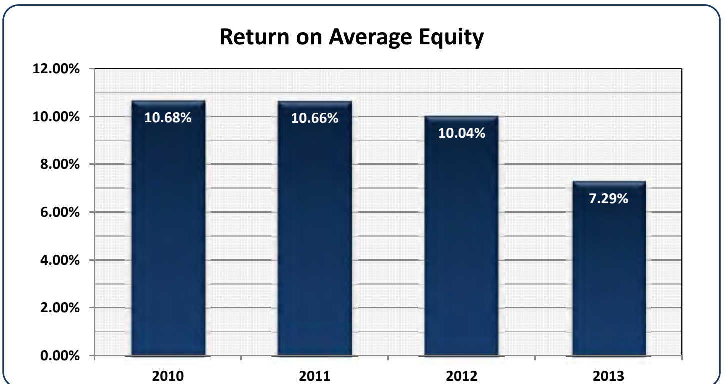












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Chain Bridge Bancorp, Inc.
and Subsidiary

McLean, Virginia

Consolidated Financial Report

December 31, 2013

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Yount
Hyde &
Barbour
Certified Public Accountants
and Consultants

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of Chain Bridge Bancorp, Inc. and Subsidiary which comprise the consolidated balance sheets as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income (loss), changes in stockholders' equity and cash flows for the years then ended and the related notes to the consolidated financial statements.

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

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

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

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

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Offices located in: Winchester, Middleburg, Leesburg, Culpeper, and Richmond, Virginia
Member: American Institute of Certified Public Accountants / Virginia Society of Certified Public Accountants

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Chain Bridge Bancorp, Inc. and Subsidiary as of December 31, 2013 and 2012, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Yount, Hyde & Barbour, P.C.

Winchester, Virginia
March 13, 2014

Chain Bridge Bancorp, Inc. and Subsidiary

Consolidated Balance Sheets

	December 31, 2013	December 31, 2012
Assets		
Cash and due from banks	$ 46,292,232	$ 8,191,682
Federal funds sold	- -	8,000
Securities available for sale, at fair market value	124,438,849	158,527,679
Restricted securities, at cost	1,608,200	1,770,400
Loans held for sale	- -	1,025,546
Loans, net of allowance for loan losses of $2,120,959 in 2013 and $1,959,628 in 2012	139,236,361	113,306,641
Premises and equipment, net of accumulated depreciation of $2,193,851 in 2013 and $1,805,975 in 2012	7,885,729	8,132,604
Accrued interest receivable	1,059,537	1,270,637
Other assets	835,595	260,153
Total assets	$ 321,356,503	$ 292,493,342
Liabilities and Stockholders' Equity		
Liabilities		
Deposits:		
Noninterest bearing	$ 133,416,011	$ 119,138,871
Savings, interest-bearing checking and money market accounts	120,616,297	80,241,382
Time, $100,000 and over	30,078,836	48,060,466
Other time	5,758,352	6,951,375
Total deposits	$ 289,869,496	$ 254,392,095
Securities sold under agreements to repurchase	909,811	797,848
Short term borrowings	- -	2,500,000
Accrued interest payable	92,470	148,087
Accrued expenses and other liabilities	1,168,072	3,781,118
Total liabilities	$ 292,039,849	$ 261,619,148
Stockholders' Equity		
Preferred stock		
$1 par value, authorized 10,000 shares, no shares issued and outstanding	$ - -	$ - -
Common stock		
$1 par value, authorized 50,000 shares, 20,219 and 20,158 shares issued and outstanding	20,219	20,158
Additional paid-in capital	20,974,597	20,899,422
Retained earnings	8,014,654	5,841,852
Accumulated other comprehensive income	307,184	4,112,762
Total stockholders' equity	$ 29,316,654	$ 30,874,194
Total liabilities and stockholders' equity	$ 321,356,503	$ 292,493,342

See Notes to Consolidated Financial Statements.

Chain Bridge Bancorp, Inc. and Subsidiary

Consolidated Statements of Income
For the Years Ended December 31, 2013 and 2012

	2013	2012
Interest and Dividend Income		
Interest and fees on loans	$ 5,859,406	$ 4,984,740
Interest on securities, taxable	3,072,020	4,494,534
Interest on securities, tax-exempt	1,191,726	1,223,633
Dividends	65,374	50,802
Interest on interest bearing deposits in banks	67,551	102,801
Total interest and dividend income	$ 10,256,077	$ 10,856,510
Interest Expense		
Interest on deposits	$ 755,572	$ 709,938
Interest on repurchase agreements	742	692
Interest on FHLB advance	8,803	7,228
Interest on short term borrowings	7,337	31,857
Total interest expense	$ 772,454	$ 749,715
Net Interest Income	$ 9,483,623	$ 10,106,795
(Recovery of) Provision for loan losses	(41,428)	643,240
Net interest income after provision for loan losses	$ 9,525,051	$ 9,463,555
Noninterest Income		
Service charges on deposit accounts	$ 121,313	$ 236,810
Brokered fees on mortgage banking activities	44,134	53,010
Gain on sale of mortgage loans	176,796	4,144
Rent income	245,264	193,147
Other income	216,414	181,099
Securities (losses) gains, net		
(Loss) gain on sale of securities	(749,915)	118,944
Mutual funds distributions	211,738	416,412
Total securities (losses) gains, net	(538,177)	535,356
Total noninterest income	$ 265,744	$ 1,203,566
Noninterest Expenses		
Salaries and employee benefits	$ 4,384,904	$ 3,767,838
Occupancy and equipment expenses	651,121	627,336
Professional services	347,117	573,567
Communication and data processing expenses	635,501	623,744
Virginia bank franchise tax	185,000	240,000
FDIC assessments	130,821	281,636
Other operating expenses	784,453	694,376
Total noninterest expenses	$ 7,118,917	$ 6,808,497
Net income before taxes	$ 2,671,878	$ 3,858,624
Income tax expense	499,076	902,677
Net income	$ 2,172,802	$ 2,955,947
Earnings per common share, basic	$ 107.67	$ 146.92
Earnings per common share, diluted	$ 107.39	$ 146.31

See Notes to Consolidated Financial Statements.

Chain Bridge Bancorp, Inc. and Subsidiary

Consolidated Statements of Comprehensive Income (Loss)

Years Ended December 31, 2013 and 2012

	2013	2012
Net income	$ 2,172,802	$ 2,955,947
Other comprehensive income (loss):		
Unrealized holding (losses) gains on securities available for sale (net of tax of ($2,215,208) and $568,551)	$ (4,300,109)	$ 1,103,655
Reclassification adjustment (net of income taxes of $255,384 and ($40,441))	494,531	(78,503)
Other comprehensive (loss) income, net of tax	$ (3,805,578)	$ 1,025,152
Comprehensive (loss) income	$ (1,632,776)	$ 3,981,099

See Notes to Consolidated Financial Statements.

Chain Bridge Bancorp, Inc. and Subsidiary

Consolidated Statements of Cash Flows

For the Years Ended December 31, 2013 and 2012

	2013	2012
Cash Flows from Operating Activities		
Net income	$ 2,172,802	$ 2,955,947
Reconciliation of net income to net cash provided by operating activities:		
Depreciation and amortization	387,875	370,825
Premium amortization on investment securities	422,616	383,660
(Recovery of) provision for loan losses	(41,428)	643,240
Loss (gain) on sale of securities	749,915	(118,944)
(Gain) on sale of mortgage loans	(176,796)	(4,144)
(Origination) of loans held for sale	(12,464,982)	(1,481,500)
Proceeds from sale of loans	13,667,324	460,098
Equity based compensation	75,236	72,492
Deferred tax expense (benefit)	12,507	(78,411)
Changes in assets and liabilities:		
(Increase) decrease in accrued interest and other assets	(376,849)	287,621
(Decrease) increase in accrued expenses and other liabilities	(708,839)	1,359,655
Net cash provided by operating activities	$ 3,719,381	$ 4,850,539
Cash Flows from Investing Activities		
Purchases of securities available for sale	$ (36,794,704)	$ (97,341,917)
Proceeds from calls and sales of securities available for sale	63,945,601	101,464,647
Redemption (purchase) of restricted securities	162,200	(541,400)
Net (increase) in loans	(25,888,292)	(28,900,032)
Purchases of premises and equipment	(141,000)	(1,845,928)
Net cash provided by (used in) investing activities	$ 1,283,805	$ (27,164,630)
Cash Flows from Financing Activities		
Net increase (decrease) in demand, savings, interest-bearing checking and money market deposits	$ 54,652,054	$ (33,538,394)
Net (decrease) increase in time deposits	(19,174,653)	24,911,639
Net (decrease) increase in short-term borrowings	(2,500,000)	2,500,000
Net increase in securities sold under agreements to repurchase	111,963	646,587
Proceeds from stock issuance	- -	12,000
Net cash provided by (used in) financing activities	$ 33,089,364	$ (5,468,168)
Net increase (decrease) in cash and cash equivalents	$ 38,092,550	$ (27,782,259)
Cash and cash equivalents, beginning of period	8,199,682	35,981,941
Cash and cash equivalents, end of period	$ 46,292,232	$ 8,199,682
Supplemental Disclosures of Cash Flow Information		
Cash payments for interest	$ 828,071	$ 798,186
Cash payments for taxes	$ 495,230	$ 868,395
Supplemental Disclosures of Noncash Investing Activities		
Fair value adjustment for securities	$ (5,765,402)	$ 1,553,262

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, 2013 and 2012

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance at December 31, 2011	$ 20,086	$ 20,815,002	$ 2,885,905	$ 3,087,610	$ 26,808,603
Net income	- -	- -	2,955,947	- -	2,955,947
Other comprehensive income	- -	- -	- -	1,025,152	1,025,152
Vesting of restricted stock	64	(64)	- -	- -	- -
Issuance of common stock	8	11,992	- -	- -	12,000
Equity based compensation	- -	72,492	- -	- -	72,492
Balance at December 31, 2012	$ 20,158	$ 20,899,422	$ 5,841,852	$ 4,112,762	$ 30,874,194
Net income	- -	- -	2,172,802	- -	2,172,802
Other comprehensive (loss)	- -	- -	- -	(3,805,578)	(3,805,578)
Vesting of restricted stock	61	(61)	- -	- -	- -
Equity based compensation	- -	75,236	- -	- -	75,236
Balance at December 31, 2013	$ 20,219	$ 20,974,597	$ 8,014,654	$ 307,184	$ 29,316,654

See Notes to Consolidated Financial Statements.

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Note 1. Organization and Summary of Significant Accounting Policies

Organization and Nature of Operations

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

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

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

Significant Accounting Policies

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

Principles of Consolidation

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

Use of Estimates

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

Reclassification

Certain amounts in the 2012 consolidated financial statements have been reclassified to conform to the 2013 presentation. The reclassifications were immaterial.

Cash and Cash Equivalents

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

Securities

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

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

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

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

Loans Held for Sale

Loans held for sale are carried at the lower cost or market, determined in the aggregate. Market value considers commitment agreements with investors and prevailing market prices. Loans originated by the Bank's mortgage 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's yield.

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

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

Allowance for Loan Losses

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

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

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

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

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

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

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

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

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

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

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

Troubled Debt Restructurings

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

Premises and Equipment

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

Foreclosed Properties

Assets acquired through, or in lieu of, loan foreclosure are held for sale. They are initially recorded at the assets' fair market value at the date of foreclosure less estimated selling costs thus establishing a new cost basis. Subsequent to foreclosure, valuations of the assets are periodically performed by management. Adjustments are made to the lower of the carrying amount or fair market value of the assets less selling costs. Revenue and expenses from operations and valuation changes are included in net expenses from foreclosed assets. The Bank had no foreclosed assets during the periods ended December 31, 2013 and 2012.

Rate Lock Commitments

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

The market value of rate lock commitments and best efforts contracts is not readily ascertainable with precision because rate lock commitments and best efforts contracts are not actively traded in stand-alone markets. The Bank determines the fair value of rate lock commitments and best efforts contracts. No gain or loss occurs on the rate lock commitments. For this reason, there is no recognition of on- or off-balance sheet valuation of rate lock commitments.

Income Taxes

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

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying balance sheets along with any associated interest and penalties that would be payable to the taxing authorities upon examination. Interest and penalties associated with unrecognized tax benefits are classified as additional income taxes in the statements of income. The Bank did not record a liability for unrecognized tax benefits at December 31, 2013 or 2012.

Earnings Per Share

Basic earnings per share represents income available to common stockholders divided by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares relate solely to outstanding restricted stock. For the years ended December 31, 2013 and 2012, the weighted average number of shares outstanding for calculating basic earnings per share was 20,180 and 20,120, respectively. For the years ended December 31, 2013 and 2012, the weighted average number of shares outstanding for calculating diluted earnings per share was 20,233 and 20,204, respectively.

Advertising Costs

The Bank follows the policy of charging the production costs of advertising to expense as incurred. The Bank expensed $25,834 and $34,844 for advertising costs for the years ended December 31, 2013 and 2012, 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, 2013 and 2012 the Bank’s other comprehensive income relates solely to changes in unrealized gains and losses on available for sale securities.

Fair Value Measurements

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

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

Stock-Based Compensation

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

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Recent Accounting Pronouncements

In December 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-11, "Balance Sheet (Topic 210) – Disclosures about Offsetting Assets and Liabilities." This ASU requires entities to disclose both gross information and net information about both instruments and transactions eligible for offset in the balance sheet and instruments and transactions subject to an agreement similar to a master netting arrangement. An entity is required to apply the amendments for annual reporting periods beginning on or after January 1, 2013. An entity should provide the disclosures required by those amendments retrospectively for all comparative periods presented. The adoption of ASU 2011-11 did not have a material impact on the Company's consolidated financial statements.

In January 2013, the FASB issued ASU 2013-01, "Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities." The amendments in this ASU clarify the scope for derivatives accounted for in accordance with Topic 815, Derivatives and

Hedging, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements and securities borrowing and securities lending transactions that are either offset or subject to netting arrangements. An entity is required to apply the amendments for fiscal years beginning on or after January 1, 2013. The adoption of ASU 2013-01 did not have a material impact on the Company's consolidated financial statements.

In February 2013, the FASB issued ASU 2013-02, "Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income." The amendments in this ASU require an entity to present (either on the face of the statement where net income is presented or in the notes) the effects on the line items of net income of significant amounts reclassified out of accumulated other comprehensive income. In addition, the amendments require a cross-reference to other disclosures currently required for other reclassification items to be reclassified directly to net income in their entirety in the same reporting period. Non-public companies should apply these amendments for fiscal years beginning on or after December 15, 2013. The Company is currently assessing the impact that ASU 2011-03 will have on its consolidated financial statements.

In February 2013, the FASB issued ASU 2013-03, "Financial Instruments (Topic 825): Clarifying the Scope and Applicability of a Particular Disclosure to Nonpublic Entities." The amendments in this ASU clarify that requirement to disclose the level of the fair value hierarchy within which the fair value measurements are categorized in their entirety (Level 1, 2 or 3) does not apply to non-public entities for items that are not measured at fair value in the statement of financial position but for which fair value is disclosed. The ASU was effective upon issuance. The Company adopted this guidance effective 2012.

In December 2013, the FASB issued ASU 2013-12, "Definition of a Public Business Entity: An Addition to the Master Glossary." The amendments in this ASU clarified the definition of a public business entity. The ASU aimed to minimize the inconsistency and complexity of having multiple definitions of, or a diversity in practice as to what constitutes, a nonpublic entity and a public entity within U.S. generally accepted accounting principles on a going-forward basis. There is no actual effective date for the amendment in this ASU. The definition of a public business entity will be used in considering the scope of new financial guidance and will identify whether the guidance does or does not apply to public business entities. The adoption of the new guidance did not have a material impact on the Company's consolidated financial statements.

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

Note 2. Securities

Amortized cost and fair value of securities available for sale as of December 31, 2013 and 2012 are as follows:

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

	December 31, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Securities of U.S. government and federal agencies	$ 27,488,135	$ 1,197,450	$ (156,585)	$ 28,529,000
Mortgage backed securities	12,148,895	697,565	- -	12,846,460
Corporate bonds	9,070,605	346,534	(7,170)	9,409,969
Collateralized mortgage obligations	3,169,331	210,723	- -	3,380,054
State and municipal securities	55,665,518	2,637,925	(45,284)	58,258,159
Mutual and exchange-traded funds	44,753,738	1,350,299	- -	46,104,037
Total	$ 152,296,222	$ 6,440,496	$ (209,039)	$ 158,527,679

At December 31, 2013 and 2012, securities with a carrying value of $15,895,285 and $26,577,564 were pledged to secure public deposits, repurchase agreements, and a line of credit with the Federal Reserve Bank and Community Bankers' Bank.

Proceeds from redemptions and sales of securities totaled $63,945,601 and $101,464,647 for 2013 and 2012, respectively. The gross (losses) / gains on securities for 2013 and 2012 totaled ($749,915) and $118,944, respectively.

There were no held to maturity securities at December 31, 2013 or 2012.

The amortized cost and fair value of securities by contractual maturity at December 31, 2013 follows:

	Amortized Cost	Fair Value
Within one year	$ 10,013,635	$ 10,142,881
After one year through five years	32,666,113	33,294,842
After five years through ten years	32,320,616	32,694,752
Over ten years	8,868,432	9,002,070
Mutual and exchange-traded funds	40,103,998	39,304,304
Total	$ 123,972,794	$ 124,438,849

At December 31, 2013 and 2012, investments in an unrealized loss position that were temporarily impaired follows:

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

	December 31, 2012				
	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	$ (156,585)	$ 5,110,940	$ - -	$ - -	$ (156,585)
Mortgage backed securities	- -	- -	- -	- -	- -
Corporate bonds	(7,170)	1,040,718	- -	- -	(7,170)
Collateralized mortgage obligations	- -	- -	- -	- -	- -
State and municipal securities	(25,037)	1,772,565	(20,247)	1,527,691	(45,284)
Mutual and exchange-traded funds	- -	- -	- -	- -	- -
Total	$ (188,792)	$ 7,924,223	$ (20,247)	$ 1,527,691	$ (209,039)

At December 31, 2013 and 2012, 65 and 19 debt and equity securities had unrealized losses with aggregate depreciation of 3.43 and 2.20 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, 2013 and 2012, management determined that the unrealized losses in the investment portfolio were temporary. Management does not expect to be required to sell these securities before such time that they recover in value. Management will continue to monitor the securities in a loss position for future impairment.

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

Note 3. Loans an Allowance for Loan Losses

A summary of the balances of loans follows:

	December 31,	
	2013	2012
Commercial real estate	$ 44,032,104	$ 37,411,526
Commercial	9,725,990	9,623,809
Residential real estate closed-end	71,585,107	52,457,735
Other consumer loans	16,014,119	15,773,199
	$ 141,357,320	$ 115,266,269
Less allowance for loan losses	(2,120,959)	(1,959,628)
Loans, net	$ 139,236,361	$ 113,306,641

Overdrafts totaling $11,445 and $998 at December 31, 2013 and 2012, respectively, were reclassified from deposits to loans.

The following table presents the activity in the allowance for loan losses and the recorded investment in loans and impairment method by portfolio segment as of December 31, 2013 and 2012:

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

	December 31, 2012				
	Commercial Real Estate	Commercial	Residential Real Estate Closed-End	Other Consumer Loans	Total
Allowance for Loan Losses:					
Beginning of Year	$ 530,000	$ 253,000	$ 501,000	$ 257,323	$ 1,541,323
Provision	(8,000)	262,935	333,000	55,305	643,240
Charge-offs	- -	(298,435)	- -	- -	(298,435)
Recoveries	- -	73,500	- -	- -	73,500
End of Year	$ 522,000	$ 291,000	$ 834,000	$ 312,628	$ 1,959,628
Reserves:					
Specific	$ - -	$ - -	$ - -	$ - -	$ - -
General	522,000	291,000	834,000	312,468	1,959,628
	$ 522,000	$ 291,000	$ 834,000	$ 312,468	$ 1,959,628
Evaluated for Impairment:					
Individually	$ - -	$ - -	$ - -	$ 3,201	$ 3,201
Collectively	37,411,526	9,623,809	52,457,735	15,769,998	115,263,068
	$ 37,411,526	$ 9,623,809	$ 52,457,735	$ 15,773,199	$ 115,266,269

Based on the most recent analysis performed, the risk category of loans by class of loans was as follows as of December 31, 2013 and 2012:

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

	December 31, 2012					
	Pass	Special Mention	Substandard	Doubtful	Loss	Total
Commercial real estate	$ 35,259,634	$ 1,231,227	$ 920,665	$ - -	$ - -	$ 37,411,526
Commercial	9,561,731	- -	62,078	- -	- -	9,623,809
Residential real estate closed-end	52,457,735	- -	- -	- -	- -	52,457,735
Other consumer loans	15,473,015	- -	300,184	- -		15,773,199
	$ 112,752,115	$ 1,231,227	$ 1,282,927	$ - -	$ - -	$ 115,266,269

There were no individually impaired loans as of December 31, 2013. There was one impaired loan with ta balance of $3,201 at December 31, 2012:

There were no nonaccrual loans excluded from impaired loan disclosure and no loans 90 days past due and still accruing at December 31, 2013 and 2012. The Bank had no past due loans at December 31, 2013 or 2012.

There was no loan modifications as TDRs during the year ended December 31, 2013 or 2012.

No loan modifications classified as TDRs subsequently defaulted during 2013 or 2012.

Note 4. Premises and Equipment

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

	December 31,	
	2013	2012
Land	$ 1,585,513	$ 1,585,513
Building	6,539,284	6,539,284
Furniture, fixtures and equipment	1,158,031	1,017,030
Leasehold improvements	796,752	796,752
	$ 10,079,580	$ 9,938,579
Less accumulated depreciation	2,193,851	1,805,975
Ending balance	$ 7,885,729	$ 8,132,604

For 2013 and 2012, depreciation expense was $387,875 and $370,825, respectively.

The Company leases additional office space for operations support. The lease has a term of three years and is classified as an operating lease. The lease calls for monthly payments of $5,165 through March 2014, subject to any lease extensions. Rent expense for the year ended December 31, 2013 and 2012 was $61,975 and $67,445, respectively.

Note 5. Related Party Transactions

Officers, directors and their affiliates had credit outstanding of $4,949,060 and $6,317,463 at December 31, 2013 and 2012, respectively, with the Bank. During 2013, total principal additions were $68,504 and total principal payments were $1,436,907. 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 Bank at December 31, 2013 and 2012 amounted to $4,153,896 and $10,033,903, respectively.

Note 6. Deposits

Remaining maturities on certificates of deposit are as follows:

2014	$ 23,799,694
2015	4,560,507
2016	5,463,039
2017	1,019,628
2018	994,320
	$ 35,837,188

Brokered deposits totaled $459,232 and $18,611,189 at December 31, 2013 and 2012, respectively. Brokered deposits are placed through the Certificate of Deposit Account Registry Service or CDARS.

The Bank had three customers with individual deposit balances exceeding five percent of total deposits as of December 31, 2013. The total deposit balances related to these customers as of December 31, 2013 were $89,555,225 or 30.90 percent of total deposits.

Note 7. Borrowings

Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase amounted to $909,811 and $797,848 at December 31, 2013 and 2012, respectively, and mature on a daily basis and are secured by municipal securities with a fair value of $1,551,543 and $1,091,580. The weighted average interest rate on these agreements was 0.15 and 0.20 percent at December 31, 2013 and 2012, respectively.

Federal Home Loan Bank Advance

The Bank has a secured line of credit with the Federal Home Loan Bank totaling $30,610,000. At December 31, 2013, the Bank had no outstanding advances. The line has a variable rate and is secured by 1-4 family residential real estate loans within the Bank’s loan portfolio. The line is renewed annually in September.

Short Term Borrowings

At December 31, 2013, the Company had an unsecured line of credit with a correspondent bank totaling $4,000,000 with $0 outstanding. The line matures December 18, 2014 and contains certain covenants regarding the Company’s return on average assets, risk-based capital and payment of dividends. The Bank has unsecured federal fund purchase lines of credit with Community Bankers’ Bank totaling $5,000,000 maturing May 15, 2014 and Pacific Coast Bankers’ Bank totaling $3,000,000 maturing June 30, 2014. The Bank has a secure federal fund purchase line of credit with Community Bankers’ Bank totaling $2,722,256 with no maturity. There are no outstanding federal fund purchase balances as of December 31, 2013.

Note 8. Income Taxes

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2013 and 2012 are presented below:

	December 31,	
	2013	2012
Deferred Tax Assets		
Allowance for loan losses	$ 599,450	$ 613,535
Organizational and start-up expenses	149,867	167,328
Deferred loan fees	8,045	11,249
Depreciation	58,116	29,986
Restricted stock	5,473	9,708
Other	- -	1,653
	$ 820,951	$ 833,458
Deferred Tax Liabilities		
Securities available for sale	$ (158,871)	$ (2,118,695)
Net deferred tax assets (liabilities)	$ 662,080	$ (1,285,237)

The provision for income taxes charged to operations for the years ended December 31, 2013 and 2012, consists of the following:

	December 31,	
	2013	2012
Current tax expense	$ 486,569	$ 981,088
Deferred tax (benefit) expense	12,507	(78,411)
	$ 499,076	$ 902,677

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

	December 31,	
	2013	2012
Computed tax at applicable rate	$ 908,439	$ 1,311,932
Tax-exempt income	(420,419)	(427,232)
Other	11,056	17,977
	$ 499,076	$ 902,677

The Company files income tax returns in the U.S. federal jurisdiction and the Commonwealth of Virginia. With few exceptions, the Company is no longer subject to federal or state tax examinations for years prior to 2010.

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

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

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

At December 31, 2013 and 2012, the following financial instruments were outstanding whose contract amounts represent credit risk:

	December 31,	
	2013	2012
Commitments to grant loans	$ 5,147,000	$ 10,602,000
Unfunded commitments under lines of credit	25,985,000	27,231,000
Standby letters of credit	97,000	201,000

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

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

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

The Bank maintains its cash accounts in several correspondent banks. The total amount by which cash on deposit in those banks and federal funds sold exceeded the federally insured limits at December 31, 2013 and 2012 was $363,394 and $651,075, respectively.

The Bank is required to maintain average reserves with the Federal Reserve Bank. At December 31, 2013 and 2012, this balance was $10,950,000 and $9,529,000, respectively. Excess reserve balance maintained with the Federal Reserve Bank at December 31, 2013 was $33,126,727.

Note 10. Minimum Regulatory Capital Requirements

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

Quantitative measures established by regulation to ensure capital adequacy require financial institutions to maintain minimum amounts and ratios (set forth in the table below) of Total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2013, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2013, the most recent notification from the Office of the Comptroller of the Currency categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum Total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's category.

The following tables set forth the capital position and analysis for the Company and Bank. Because total assets on a consolidated basis are less than $500 million, the Company is not subject to the consolidated capital requirements imposed by federal regulations. However, the Company elects to include those ratios for this report.

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

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
December 31, 2013	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Amounts in Thousands)			
Total Risk-Based Capital						
Company	$ 30,603	16.21%	N/A	N/A	N/A	N/A
Bank	$ 30,472	16.14%	$ 15,105	8.00%	$ 18,881	10.00%
Tier 1 Risk-Based Capital						
Company	$ 28,482	15.08%	N/A	N/A	N/A	N/A
Bank	$ 28,351	15.02%	$ 7,552	4.00%	$ 11,329	6.00%
Tier 1 Leverage Ratio						
Company	$ 28,482	9.28%	N/A	N/A	N/A	N/A
Bank	$ 28,351	9.24%	$ 12,278	4.00%	$ 15,347	5.00%
December 31, 2012						
Total Risk-Based Capital						
Company	$ 28,721	16.81%	$ 13,671	8.00%	N/A	N/A
Bank	$ 31,159	18.23%	$ 13,671	8.00%	$ 17,089	10.00%
Tier 1 Risk-Based Capital						
Company	$ 26,761	15.66%	$ 6,835	4.00%	N/A	N/A
Bank	$ 29,199	17.09%	$ 6,835	4.00%	$ 10,253	6.00%
Tier 1 Leverage Ratio						
Company	$ 26,761	7.96%	$ 13,447	4.00%	N/A	N/A
Bank	$ 29,199	8.69%	$ 13,447	4.00%	$ 16,809	5.00%

Note 11. Restricted Stock Plan

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

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

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

The 2007 Plan provided for the grant of an aggregate of 750 shares of restricted stock to full-time executive officers or other key employees. The number of shares issuable under the 2007 Plan and outstanding awards was subject to adjustment in the event of any stock split, reverse stock split, stock dividend, split up or combination or shares, reclassification, reorganization, merger, consolidation or similar event which changed the number or kind of outstanding shares, without the receipt of consideration by the Company. Shares subject to awards which are forfeited or not earned may be reissued. Of the 750 shares of restricted stock subject to the Plan, 619 were awarded. The following table presents the activity for the Plan for 2013:

	Shares	**Weighted Average Grant Date Fair Value**
Nonvested, beginning of period	99	$ 1,280
Vested	(61)	1,234
Granted	15	1,138
Forfeited	- -	- -
Nonvested, end of period	53	1,293

Compensation expense attributable to the Plan was $75,236 and $72,492 for 2013 and 2012, respectively. As of December 31, 2013, the total compensation cost related to nonvested awards not yet recognized was $68,549. This compensation cost will be recognized over the remaining vesting period of the awards.

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

Note 12. 401(k) Plan

The Bank has a 401(k) Plan whereby substantially all employees participate in the plan. Employees may contribute portions of their compensation subject to limits based on federal tax laws. The Bank may make discretionary matching contributions to the plan. For 2013 and 2012, expense attributable to the plan amounted to $101,880 and $75,352, respectively.

Note 13. Fair Value Measurements

Fair Value Hierarchy

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

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

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

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

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

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

Securities Available for Sale

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

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

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

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

		Fair Value Measurements Using		
Description	**Balances**	**Level 1**	**Level 2**	**Level 3**
Assets:				
As of December 31, 2013:				
Available for sale securities:				
U.S. government and federal agencies	$ 10,929,206	$ 1,911,094	$ 9,018,112	$ - -
Mortgage backed securities	1,509,089	- -	1,509,089	- -
Corporate bonds	15,518,467		15,518,467	- -
Collateralized mortgage obligations	3,707,185	- -	3,707,185	- -
State and municipal securities	53,470,598	- -	53,470,598	- -
Mutual and exchange-traded funds	39,304,304	39,304,304	- -	- -
Total	$ 124,438,849	$ 41,215,398	$ 83,223,451	$ - -
As of December 31, 2012:				
Available for sale securities:				
U.S. government and federal agencies	$ 28,529,000	$ 10,480,645	$ 18,048,355	$ - -
Mortgage backed securities	12,846,460	- -	12,846,460	- -
Corporate bonds	9,409,969	- -	9,409,969	- -
Collateralized mortgage obligations	3,380,054	- -	3,380,054	- -
State and municipal securities	58,258,159	- -	58,258,159	- -
Mutual and exchange-traded funds	46,104,037	46,104,037	- -	- -
Total	$ 158,527,679	$ 56,584,682	$ 101,942,997	$ - -

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

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

Impaired Loans

Loans are designated as impaired when, in the judgment of management based on current information and events, it is probable that all amounts due according to the contractual terms of the loan agreement will not be collected. The measurement of loss associated with impaired loans can be based on either the observable market price of the loan or the fair value of the collateral. Fair value is measured based on the value of the collateral securing the loans. Collateral may be in the form of real estate or business assets including equipment, inventory, and accounts receivable. The vast majority of the collateral is real estate. The value of real estate collateral is determined utilizing a market valuation approach based on an appraisal conducted by an independent, licensed appraiser outside of the Bank using observable market data (Level 2). However, if the collateral is a house or building in the process of construction or if an appraisal of the real estate property using an income approach or is over two years old, then the fair value is considered Level 3. The value of business equipment is based upon an outside appraisal if deemed significant, or the net book value on the applicable business's financial statements if not considered significant using observable market data. Likewise, values for inventory and accounts receivables collateral are based on financial statement balances or aging reports (Level 3). Impaired loans allocated to the allowance for loan losses are measured at fair value on a nonrecurring basis. Any fair value adjustments are recorded in the period incurred as provision for loan losses on the consolidated statements of income. Impaired loans were immaterial as of December 31, 2013 and 2012.

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

Cash and Cash Equivalents

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

Securities

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

Loans Receivable

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

Deposit Liabilities

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

Borrowings

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

Accrued Interest

The carrying amounts of accrued interest approximate fair value.

Off-Balance Sheet Credit-Related Instruments

Fair values for off-balance-sheet, credit-related financial instrument are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. These fees were not deemed significant at December 31, 2013 and 2012 have not been included in the disclosure.

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

	December 31, 2013		December 31, 2012	
(in thousands)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	$ 46,292	$ 46,292	$ 8,200	$ 8,200
Federal funds sold	- -	- -	8	8
Securities available for sale	124,439	124,439	158,528	158,528
Loans, net	139,236	140,628	114,332	115,723
Accrued interest receivable	1,060	1,060	1,271	1,271
Financial liabilities:				
Deposits	$ 289,870	$ 289,029	$ 254,392	$ 253,737
Repurchase agreements	910	910	798	798
Short term borrowings	- -	- -	2,500	2,500
Accrued interest payable	92	92	148	148

Note 14. Subsequent Events

The Company evaluates subsequent events that have occurred after the balance sheet date but before the financial statements are issued. There are two types of subsequent events: (1) recognized, or those that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements, and (2) non-recognized, or those that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date. The Company evaluated subsequent events through March 13, 2014.

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

Note 15. Condensed Financial Statements of Parent Company

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

	December 31,	
Balance Sheets	**2013**	**2012**
Assets		
Cash	$ 130,315	$ 64,296
Investment in common stock of Chain Bridge Bank	29,186,339	33,311,778
Total assets	$ 29,316,654	$ 33,376,074
Liabilities and Stockholders' Equity		
Short-term borrowings	$ - -	$ 2,500,000
Other liabilities	- -	1,880
Total liabilities	$ - -	$ 2,501,880
Stockholders' equity	29,316,654	30,874,194
Total liabilities and stockholders' equity	$ 29,316,654	$ 33,376,074

	Year Ended December 31,	
Statements of Income	**2013**	**2012**
Operating Expenses		
Interest expense and fees on borrowings	$ 7,337	$ 36,857
Equity based compensation	75,236	72,492
(Loss) before undistributed net income of Chain Bridge Bank	$ (82,573)	$ (109,349)
Undistributed net income of Chain Bridge Bank	2,255,375	3,065,296
Net income	$ 2,172,802	$ 2,955,947

Notes to Consolidated Financial Statements

Statements of Cash Flows	Year Ended December 31, 2013	2012
Cash Flows from Operating Activities		
Net income	$ 2,172,802	$ 2,955,947
Adjustments to reconcile net income to net cash provided by operating activities:		
Undistributed net (income) of Chain Bridge Bank	(2,255,375)	(3,065,296)
Equity based compensation	75,236	72,492
Increase in other liabilities	73,356	74,372
Net cash provided by operating activities	$ 66,019	$ 37,515
Cash Flows from Investing Activities		
Redemption (investment) in Chain Bridge Bank	$ 2,500,000	$ (2,800,000)
Net cash (used in) investing activities	$ 2,500,000	$ (2,800,000)
Cash Flows from Financing Activities		
Net proceeds from common stock issued	$ - -	$ 12,000
(Decrease) increase in short term borrowings	(2,500,000)	2,500,000
Net cash (used in) provided by financing activities	$ (2,500,000)	$ 2,512,000
Net increase (decrease) in cash and cash equivalents	$ 66,019	$ (250,485)
Cash and cash equivalents at beginning of period	64,296	314,781
Cash and cash equivalents at end of period	$ 130,315	$ 64,296

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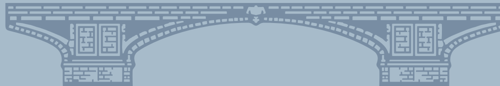

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