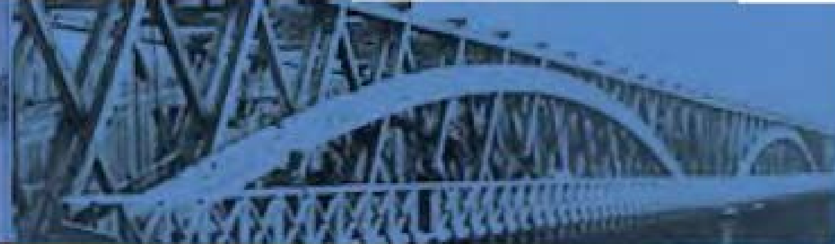
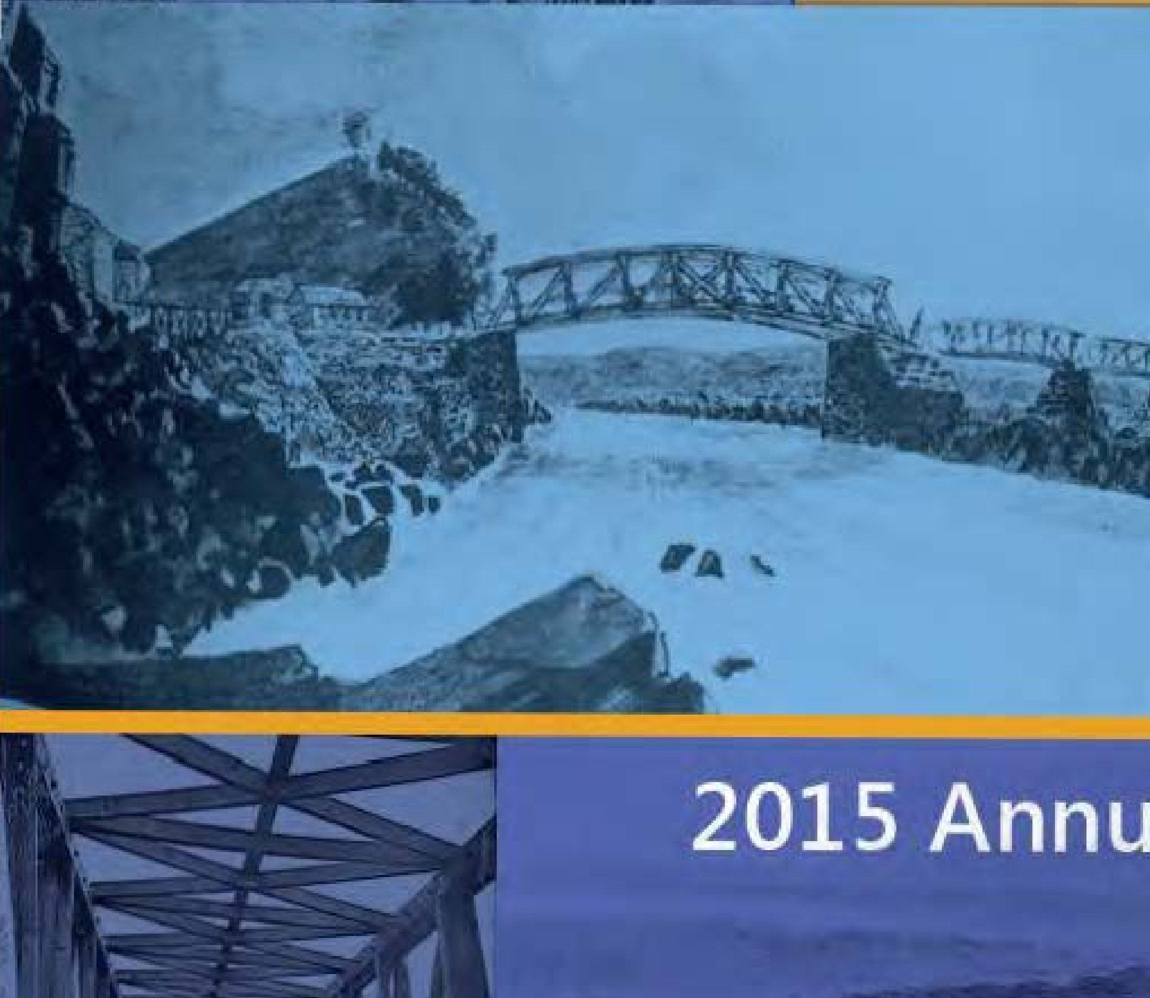
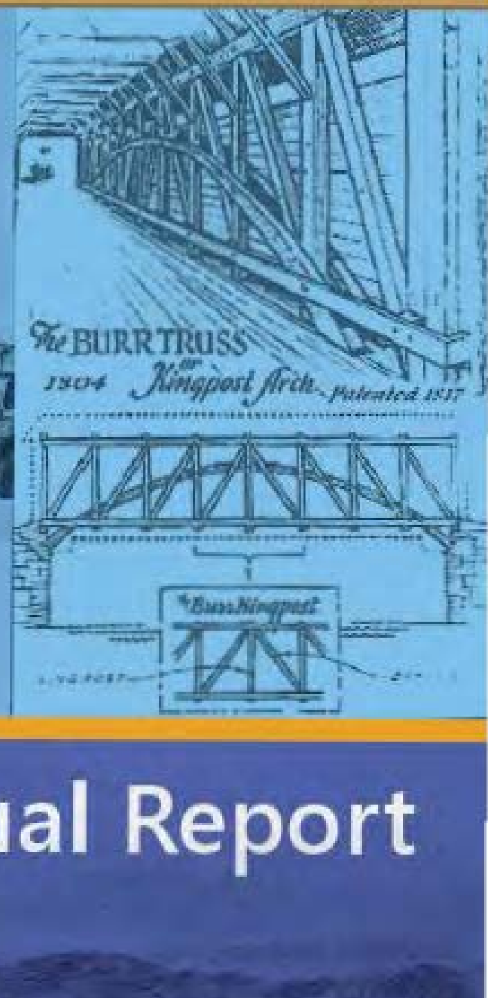


Chain Bridge

BANCORP, INC.





2015 Annual Report

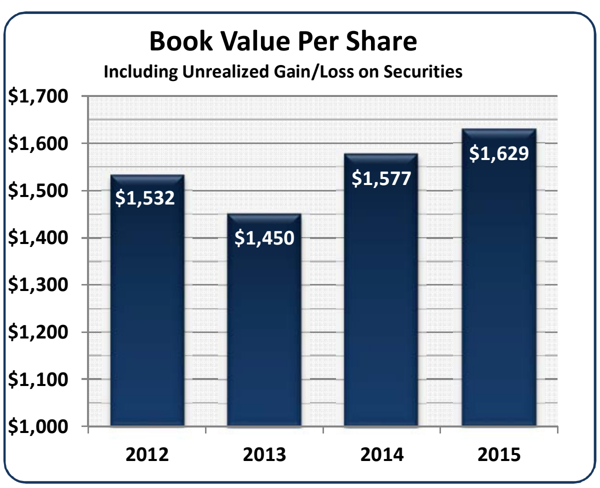
Chain Bridge Bancorp, Inc.

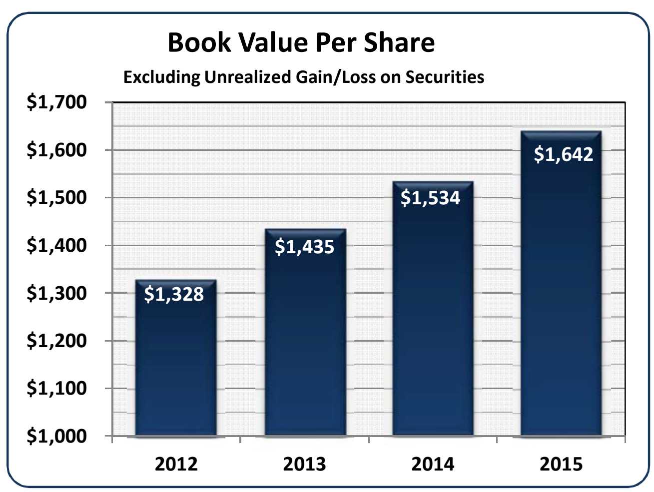
and

Chain Bridge Bank, National Association
Consolidated Financial Highlights

For the Periods Ending December 31, 2015 and 2014

	2015	2014	Change
Performance Measures and Yields			
Consolidated net income	$ 2,428,424	$ 2,012,960	20.6%
Return on average assets (ROAA)	0.57%	0.57%	0.00%
Return on average equity (ROAE)	7.38%	6.47%	0.91%
Net interest margin	2.74%	2.99%	(0.25%)
Asset Quality (%)			
Non-performing assets / assets	0.00%	0.00%	0.00%
Loan loss reserves / gross loans	1.40%	1.40%	0.00%
Net (recoveries) charge-offs / average loans	0.00%	(0.03%)	0.03%
Balance Sheet Highlights			
Total assets	$ 420,704,630	$ 337,329,589	24.7%
Total loans (net of loans held for sale)	$ 182,702,800	$ 167,563,814	9.0%
Total deposits	$ 381,577,002	$ 291,668,750	30.8%
Capitalization			
Total capital, including unrealized gain/loss on securities	$ 33,113,774	$ 31,995,795	3.5%
Total capital, excluding unrealized gain/loss on securities	$ 33,360,032	$ 31,122,306	7.2%
Tier 1 capital	$ 32,987,004	$ 31,122,305	6.0%
Tier 1 risk-based ratio (%)	12.60%	13.98%	(1.38%)
Total risk-based capital ratio (%)	13.58%	15.04%	(1.46%)
Chain Bridge Bancorp, Inc. Share Information			
Number of shares outstanding	20,322	20,292	0.1%
Book value per share	$ 1,629	$ 1,577	3.3%
Book value per share, excluding unrealized gain/loss on securities	$ 1,642	$ 1,534	7.0%
Net income per share	$ 119.60	$ 99.36	20.4%





Chain Bridge Bank.

Your bridge to better banking.

March 15, 2016

Dear Fellow Shareholder:

Chain Bridge Bancorp, Inc. (the “Company”), parent of Chain Bridge Bank, N.A. (“Chain Bridge Bank” or the “Bank”), earned net income of $2,428,424 in 2015, up 20.6% from $2,012,960 in 2014. Earnings per share were $119.60 in 2015, up 20.4% from $99.36 in 2014.

The Company’s return on average equity (ROAE) was 7.38% in 2015, up from 6.47% in 2014. The Company’s return on average assets (ROAA) was .57% in both 2014 and 2015.

Book value per share, including unrealized gain or loss on securities, increased from $1,576.77 at year end 2014 to $1,629.45 at year end 2015. Book value per share, excluding unrealized gain or loss on securities, increased from $1,534 at year end 2014 to $1,642 at year end 2015.

Since its founding in 2006 through year-end 2015, the Company has earned total net income of $12.5 million, set aside a loan loss reserve totaling $2.6 million, accrued federal income taxes of $3.2 million and paid state franchise taxes of $1.6 million. Pre-tax, pre-provision earnings since the Company’s founding have totaled $19.8 million.

The Company paid its first annual dividend of $10 per share in February of 2015. In January of this year, the Board of Directors increased the annual dividend by 10%, to $11 per share, and paid it to shareholders of record in February, 2016. Future dividends will be dependent on the level and direction of the Bank’s earnings, capital, and assets.

Business Growth

In 2015, total loans grew 8.5%, from $169 million to $184 million. The bulk of the loan growth was in residential mortgages. Marketable securities grew from $143 million at year end 2014 to $216 million at year end 2015. Most of the growth in securities was in U.S. Treasuries and agencies, taxable municipal bonds, and in investment grade corporate bonds.

Total deposits grew 30.8%, from $292 million at year end 2014 to $382 million at year end 2015. Deposit growth was concentrated in seasonal, non-interest bearing accounts the balances of which “surge” and then decline. Management anticipates that the growth in seasonal accounts will largely reverse toward the end of the current year.

Efficiency & Returns

The Bank’s net interest income (after provision for loan losses) increased by $1.08 million, or 11.4%, from $9.45 million in 2014 to $10.53 million in 2015. The increase in net interest income was attributable to volume growth coupled with a decline in the Bank’s cost of funds from .21% to .17%. Notwithstanding the greater than $1 million increase in net interest income, however, the Bank’s fully tax equivalent (FTE) Net Interest Margin (NIM) declined from 2.99% in 2014 to 2.74% in 2015. Continued low interest rates combined with short duration “surge” deposits (which the Bank invests primarily in ultra-short term, highly liquid but low yielding assets) accounted for most of the compression in NIM.

Higher business volumes necessitated increased staffing and caused the Bank to absorb both higher FDIC insurance assessments and higher bank franchise taxes. As a result, noninterest expenses increased by $640 thousand, or 8.2%, from $7.77 million in 2014 to $8.41 million in 2015. Although noninterest expenses increased in dollar terms, they nonetheless declined as a percentage of average assets, dropping from 2.13% in 2014 to 1.93% in 2015. The Bank's Efficiency Ratio (defined as noninterest expense, divided by FTE net interest income and noninterest income) improved to 67.85% in 2015 from 70.58% in 2014 (a lower Efficiency Ratio is better).

Safety & Soundness

For the fourth year in a row, Chain Bridge had no non-performing loans or other assets. The Bank's "Texas Ratio" (defined as nonperforming assets plus loans 90 or more days past due as a percent of tangible equity and reserves) was zero. Chain Bridge was one of only two banks in Virginia with a Texas Ratio of zero in 2015. Of the 5,538 FDIC-insured deposit institutions with loans over $10 million, Chain Bridge was one of only 87 to have had a Texas Ratio of zero for the past three consecutive years.

Chain Bridge ended 2015 with a liquidity ratio (defined as cash + unpledged securities / total liabilities) of 55.12%. That is a higher and better ratio than all of its local peers and significantly higher than the national average of 34.37%.

In 2015, Chain Bridge again earned a 5-Star rating, the highest available, from BauerFinancial, Inc. and a Green/3-Star Safety rating, the highest available, from VERIBANC.

Risk-Adjusted Returns

It is relatively easy for a bank to earn high returns, at least temporarily, by taking high levels of credit, interest rate or liquidity risk. The problem with taking high levels of risk is that it is often difficult, if not impossible, to unwind the risk before market conditions change. Booking high risk loans usually only works until the next recession. Booking long duration assets usually only works until interest rates rise. Working a bank into an illiquid condition by loaning out an excessive percentage of deposits can work when times are good but can lead to failure in times of financial panic.

When comparing the performance of banks, investors should consider how much risk is embedded in each bank's balance sheet. All else being equal, a bank that takes little risk in order to achieve an ROAE of *X* should be worth more than a bank that takes a lot of risk in order to achieve the same ROAE of *X*.

Some of the risks inherent in banks' balance sheets can be determined by using the "Canary Report" system developed by the Office of the Comptroller of the Currency ("OCC"). The Canary Report system quantitatively measures and identifies early indicators of increased credit, interest rate and liquidity risk. The OCC has established benchmarks for specific financial ratios at levels "typical" for the average bank. Banks which have a high number of Canary risk factors are taking abnormally high credit, interest rate or liquidity risk. The best possible Canary Report score, indicating the fewest early indicators of increased risk, is 0. The worst possible score is 10. The average bank in the Washington, D.C. metropolitan area ended 2015 with between 6 and 7 Canary risk factors. Chain Bridge Bank was the only bank in the Metropolitan Washington, D.C. area to end the year with 0 Canary risk factors, the best possible score, indicating the fewest early indicators of increased credit, interest rate or liquidity risk.

Chain Bridge's strategy is to earn not the highest possible returns, but rather, the highest possible risk-adjusted returns. On an absolute basis, the Bank's 2015 ROAE (7.38%) is slightly lower than its peer group average. But given the Bank's lower level of risk, as quantitatively measured using the Canary report system, the Bank's ROAE stands out as strong. Those of its peers which are earning higher returns are generally taking many times the level of credit and liquidity risk that Chain Bridge is taking. Some of Chain Bridge's peers are taking significantly greater risk than Chain Bridge but actually earning lower returns. After several years of zero interest rates and compressed bank margins, many banks are now taking risks that are asymmetrical with the returns they are achieving or which are even possible to achieve.

Strategic Initiatives

The Bank engaged Intellix Consulting, a bank consulting firm, to help increase operating efficiency and productivity. The engagement lasted several months and resulted in many sound suggestions for automating manual processes, streamlining workflow and reducing operating risks, costs and errors. Intellix recently produced a series of reports. Bank personnel have already implemented some of the recommendations and will be busy throughout 2016 implementing the remainder.

The Mortgage Division upgraded its mortgage origination system to improve efficiency and ensure compliance with the new TILA-RESPA Integrated Disclosure rule commonly known as the TRID Rule. The Mortgage Division also received approval to participate in the Federal Home Loan Bank First Time Homebuyers program which will enable the Bank to provide down payment assistance to qualified first time homebuyers.

Chain Bridge augmented its technology staff in 2015 and began work on a number of important initiatives, including a migration to a new network service provider, a complete revamp of the Bank's website and the development of platforms which will enable clients to open deposit accounts and apply for loans online. Management is targeting a 2016 rollout of those platforms.

During the year, management carefully analyzed several prospective sites for new branches but ending up not going forward with any of them. Given both the low interest rate environment which has compressed bank margins, and the speed with which banking clients have adapted to mobile and online banking, management has been reluctant to commit to building a branch network. While it is anticipated that the Bank will eventually establish a few strategic branch locations around the Washington, D.C. metro area, it is nonetheless likely that management will be choosy and hold out for only the best possible locations. Because most banking is now done electronically, branches are mainly important for marketing and business development, not for transactions.

A Retirement

At the end of 2015, Nancy Kelly, the Bank's Executive Vice President and Director of Operations, retired. Nancy had over 30 years' experience in banking. It is hard to overstate her importance to the founding and subsequent success of Chain Bridge Bank. Nancy came aboard just a few weeks before we opened the Bank on August 6, 2007. It was relatively easy for us to find qualified loan officers, tellers and other personnel. It was very difficult, however, to find a bank operations expert who had sufficient experience to set up the Bank's entire core processing system from scratch. We were very lucky to have found Nancy. She worked tirelessly throughout her career at Chain Bridge and was a joy to work with, both for clients and for her colleagues.

While Nancy will be dearly missed, before she left she did what every great manager should do: she identified and trained an able successor – in this case, Jenni Wheat Kiefhaber. The board is confident that Jenni and her team will continue to maintain the high operational standards established by Nancy.

***

On behalf of the Board of Directors, I again thank management, staff and shareholders for their continued loyal support. Please continue to refer your neighbors, friends and colleagues to us.

Very truly yours,

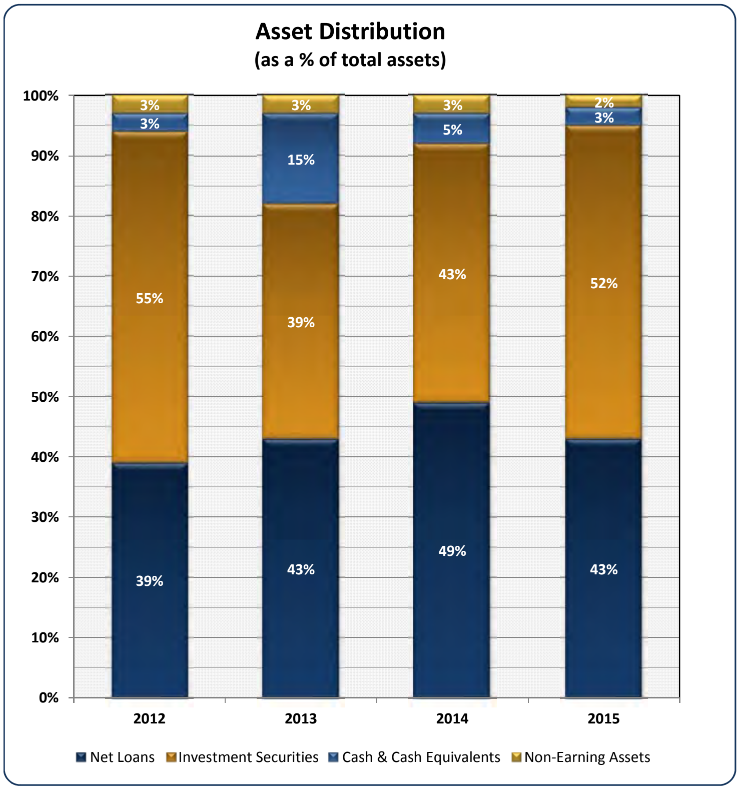
Peter G. Fitzgerald

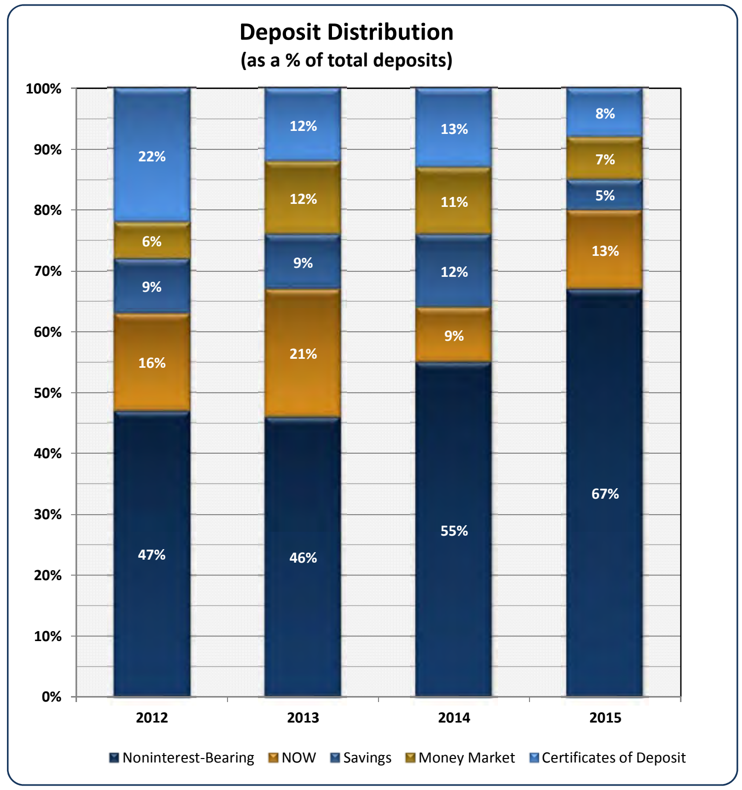
Peter G. Fitzgerald,
Chairman of the Board

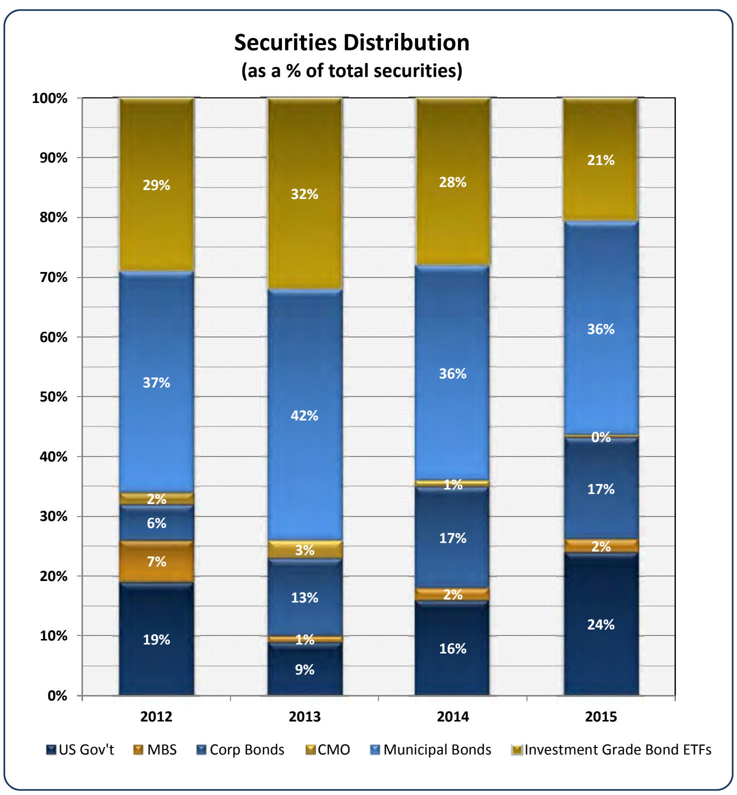
PGF/hn

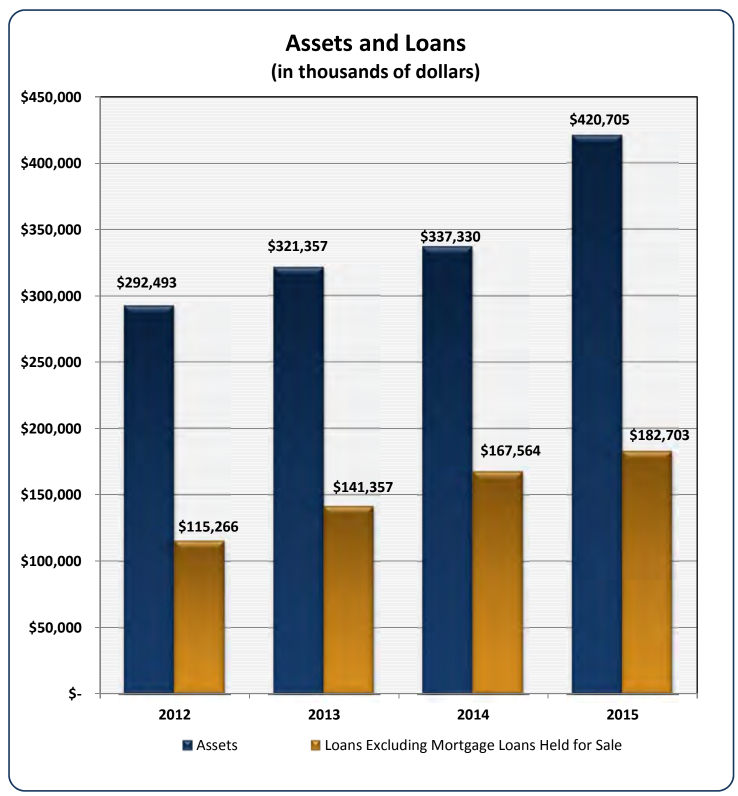
Enclosures

Balance Sheet Information

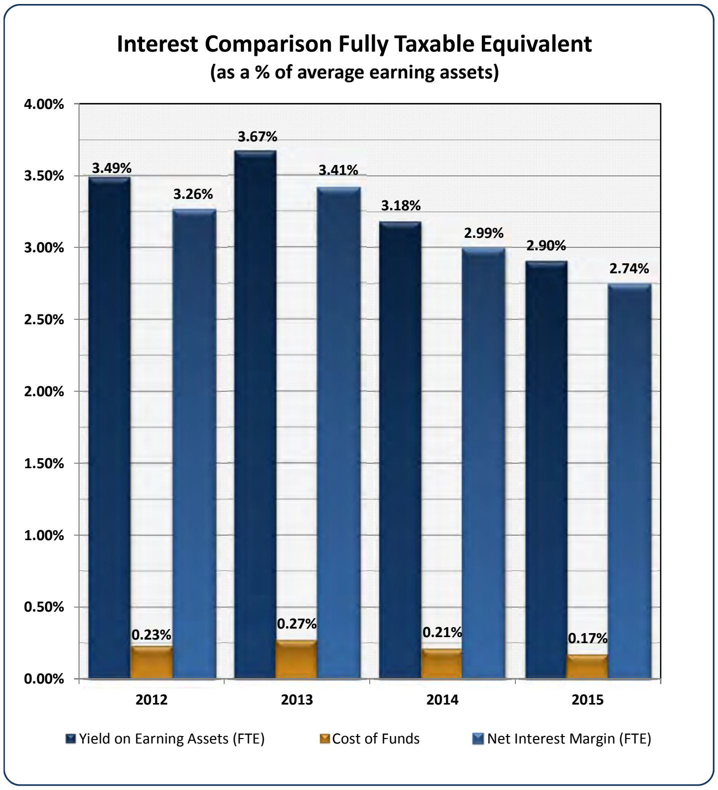


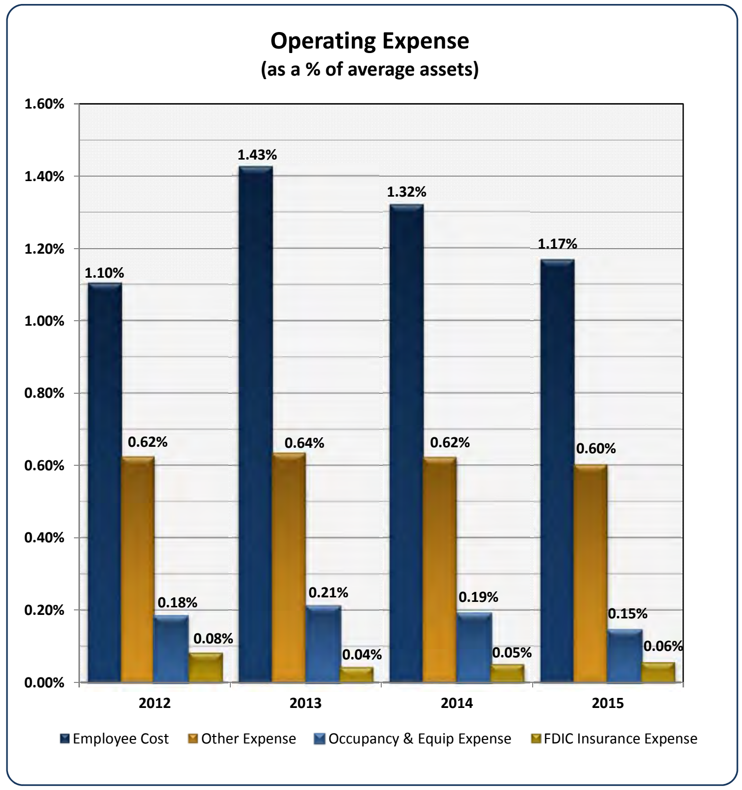


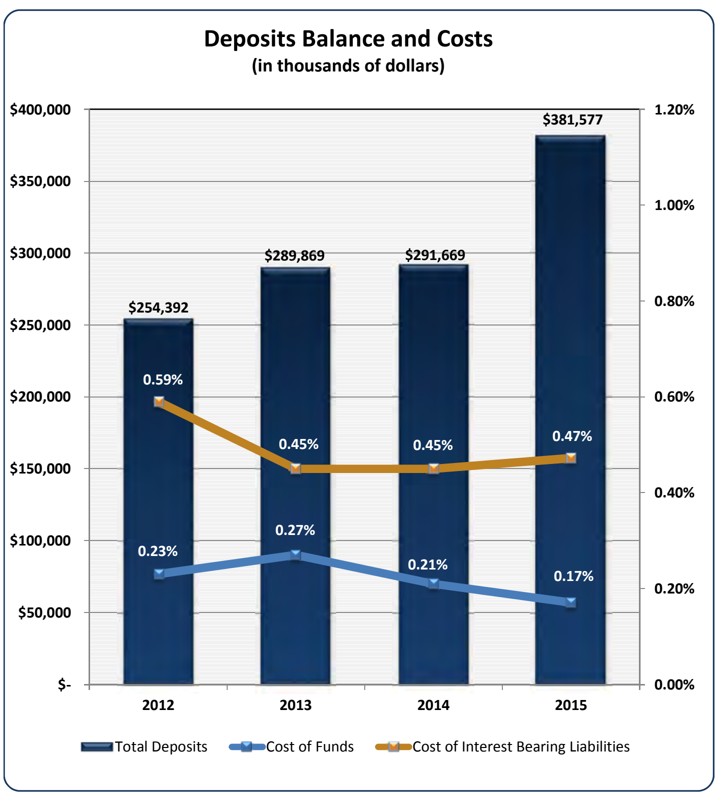


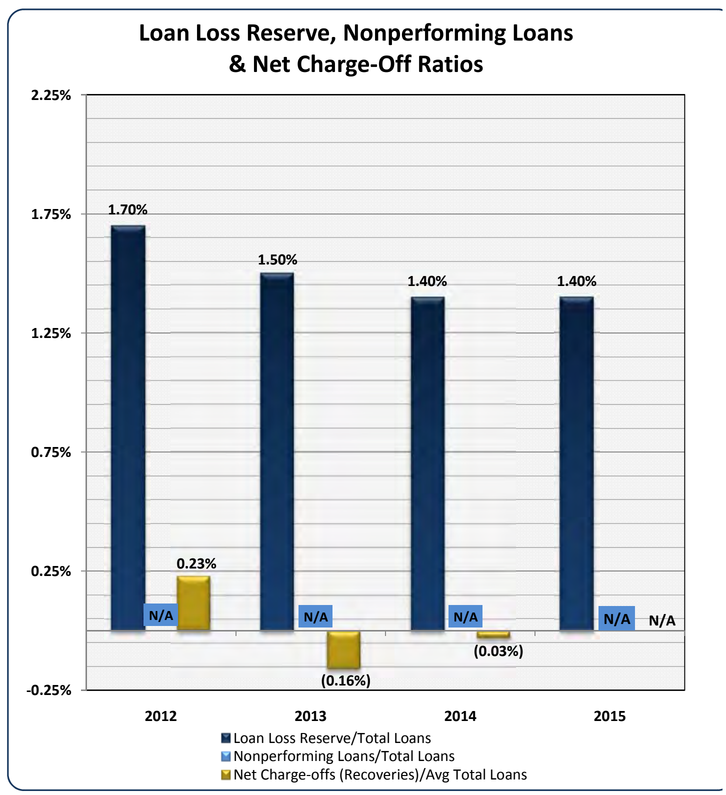


Income Statement and Asset Quality Information



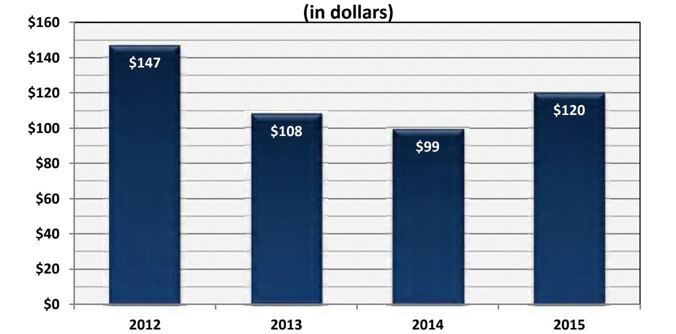




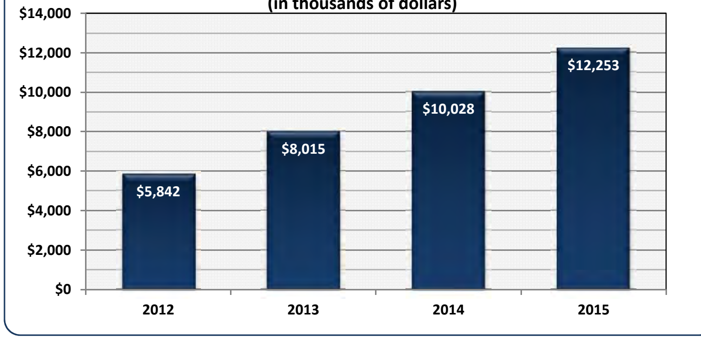


Equity Information and Returns

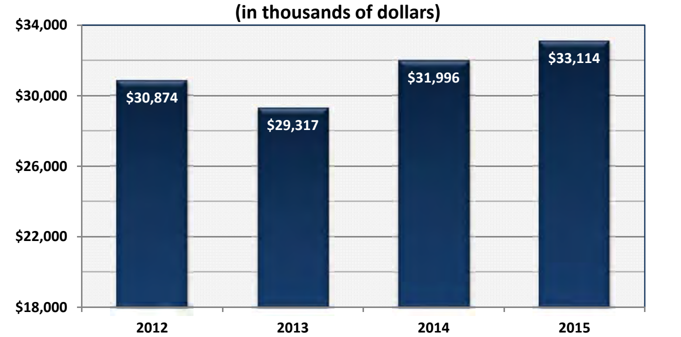
Earnings Per Share
(in dollars)



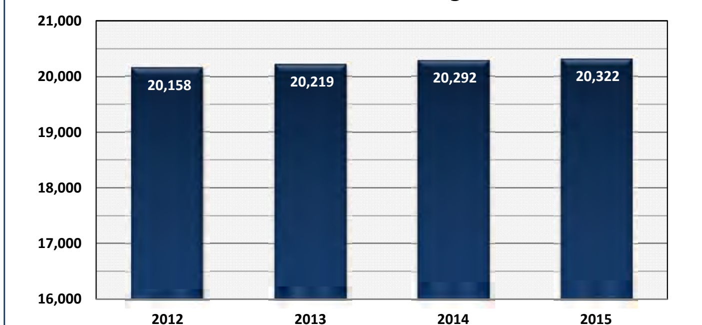
Retained Earnings
(in thousands of dollars)



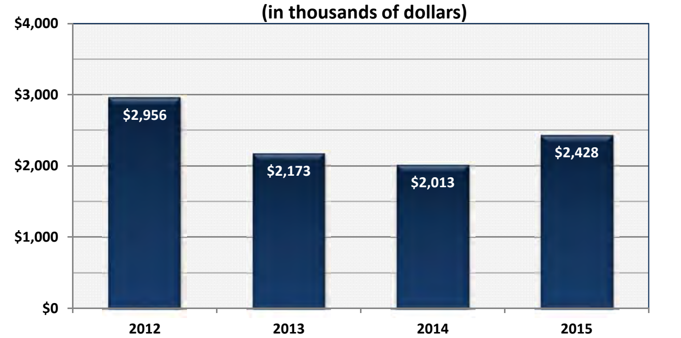
Stockholders' Equity
(in thousands of dollars)



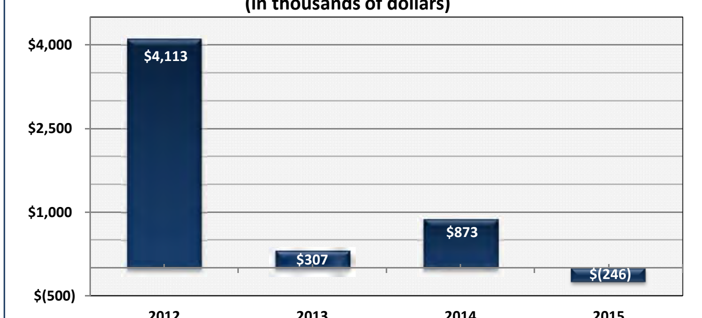
Shares Outstanding



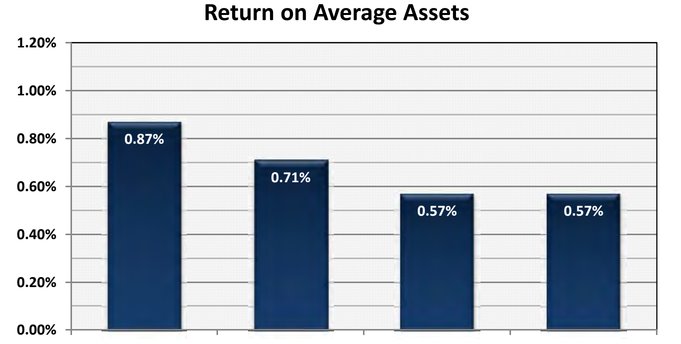
Net Income
(in thousands of dollars)



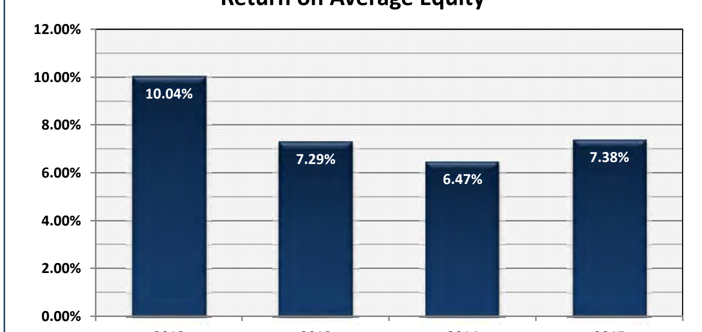
Unrealized Gain on Securities, net of Tax
(in thousands of dollars)



Return on Average Assets



Return on Average Equity



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Chain Bridge Bancorp, Inc.
and Subsidiary

McLean, Virginia

Consolidated Financial Report

December 31, 2015

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C O N T E N T S

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Yount Hyde & Barbour
Certified Public Accountants and Consultants

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of Chain Bridge Bancorp, Inc. and Subsidiary, which comprise the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for the years then ended and the related notes to the consolidated financial statements, (collectively, financial statements).

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

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

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

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

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Chain Bridge Bancorp, Inc. and Subsidiary as of December 31, 2015 and 2014, and the results of its operations and its 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 7, 2016

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

Chain Bridge Bancorp, Inc. and Subsidiary

Consolidated Balance Sheets

	December 31, 2015	December 31, 2014
Assets		
Cash and due from banks	$ 11,485,117	$ 15,347,448
Securities available for sale, at fair market value	216,058,961	143,072,031
Restricted securities, at cost	1,765,800	2,086,500
Loans held for sale	1,037,264	1,839,119
Loans, net of allowance for loan losses of $2,558,000 in 2015 and $2,346,000 in 2014	180,144,800	165,217,814
Premises and equipment, net of accumulated depreciation of $2,997,928 in 2015 and $2,600,175 in 2014	7,691,441	7,965,487
Accrued interest receivable	1,322,017	1,029,253
Other assets	1,199,230	771,937
Total assets	$ 420,704,630	$ 337,329,589
Liabilities and Stockholders' Equity		
Liabilities		
Deposits:		
Noninterest bearing	$ 254,218,149	$ 159,352,320
Savings, interest-bearing checking and money market accounts	96,770,939	95,402,528
Time, $250,000 and over	16,829,581	16,688,056
Other time	13,758,333	20,225,846
Total deposits	$ 381,577,002	$ 291,668,750
Securities sold under agreements to repurchase	527,210	482,625
FHLB advances	- -	12,000,000
Short term borrowings	4,000,000	- -
Accrued interest payable	93,923	97,626
Accrued expenses and other liabilities	1,392,721	1,084,793
Total liabilities	$ 387,590,856	$ 305,333,794
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, 20,322 and 20,292 shares issued and outstanding	20,322	20,292
Additional paid-in capital	21,086,592	21,074,399
Retained earnings	12,253,118	10,027,614
Accumulated other comprehensive (loss) income	(246,258)	873,490
Total stockholders' equity	$ 33,113,774	$ 31,995,795
Total liabilities and stockholders' equity	$ 420,704,630	$ 337,329,589

See Notes to Consolidated Financial Statements.

Chain Bridge Bancorp, Inc. and Subsidiary

Consolidated Statements of Income

For the Years Ended December 31, 2015 and 2014

	2015	2014
Interest and Dividend Income		
Interest and fees on loans	$ 7,358,478	$ 6,516,283
Interest on securities, taxable	2,801,912	2,508,923
Interest on securities, tax-exempt	1,044,998	1,112,245
Dividends	69,039	61,014
Interest on interest bearing deposits in banks	140,530	109,369
Total interest and dividend income	$ 11,414,957	$ 10,307,834
Interest Expense		
Interest on deposits	$ 611,464	$ 671,834
Interest on repurchase agreements	498	948
Interest on FHLB advances	6,395	3,786
Interest on short-term borrowings	51,149	- -
Total interest expense	$ 669,506	$ 676,568
Net Interest Income	$ 10,745,451	$ 9,631,266
Provision for Loan Losses	212,000	178,219
Net interest income after provision for loan losses	$ 10,533,451	$ 9,453,047
Noninterest Income		
Service charges on deposit accounts	$ 188,532	$ 152,889
Brokered fees on mortgage banking activities	- -	2,250
Gain on sale of mortgage loans	335,048	166,029
Rent income	197,717	193,383
Other income	224,156	186,664
Securities gains, net		
Gain (loss) on sale of securities	29,929	(4,690)
Mutual funds income	39,352	99,486
Total securities gains, net	69,281	94,796
Total noninterest income	$ 1,014,734	$ 796,011
Noninterest Expenses		
Salaries and employee benefits	$ 4,985,671	$ 4,697,735
Occupancy and equipment expenses	619,863	681,123
Professional services	380,124	364,544
Communication and data processing expenses	792,505	714,296
Virginia bank franchise tax	281,597	227,500
FDIC assessments	240,200	180,000
Other operating expenses	1,114,880	909,657
Total noninterest expenses	$ 8,414,840	$ 7,774,855
Net income before taxes	$ 3,133,345	$ 2,474,203
Income Tax Expense	704,921	461,243
Net income	$ 2,428,424	$ 2,012,960
Earnings per common share, basic	$ 119.60	$ 99.36
Earnings per common share, diluted	$ 119.60	$ 99.21

See Notes to Consolidated Financial Statements.

Chain Bridge Bancorp, Inc. and Subsidiary

Consolidated Statements of Comprehensive Income
Years Ended December 31, 2015 and 2014

	2015	2014
Net income	$ 2,428,424	$ 2,012,960
Other comprehensive (loss) income:		
Unrealized holding (losses) gains on securities available for sale (net of tax of ($566,662) and $289,513)	$ (1,099,995)	$ 563,211
Reclassification adjustment for (gains) losses included in net income (net of income taxes of ($10,176) and $1,595)	(19,753)	3,095
Other comprehensive (loss) income, net of tax	$ (1,119,748)	$ 566,306
Comprehensive income	$ 1,308,676	$ 2,579,266

See Notes to Consolidated Financial Statements.

Chain Bridge Bancorp, Inc. and Subsidiary

Consolidated Statements of Cash Flows
For the Years Ended December 31, 2015 and 2014

	2015	2014
Cash Flows from Operating Activities		
Net income	$ 2,428,424	$ 2,012,960
Reconciliation of net income to net cash provided by operating activities:		
Depreciation and amortization	397,753	406,324
Premium amortization and discount accretion on investment securities, net	1,112,065	1,011,368
Provision for loan losses	212,000	178,219
(Gain) loss on sale of securities	(29,929)	4,690
(Gain) on sale of mortgage loans	(335,048)	(166,029)
(Origination) of loans held for sale	(25,204,720)	(13,863,165)
Proceeds from sale of loans	26,341,623	12,190,075
Equity based compensation	12,223	26,352
Deferred tax (benefit) expense	(107,676)	70,630
Changes in assets and liabilities:		
Increase in accrued interest and other assets	(35,541)	(267,796)
Increase (decrease) in accrued expenses and other liabilities	304,225	(78,123)
Net cash provided by operating activities	$ 5,095,399	$ 1,525,505
Cash Flows from Investing Activities		
Purchases of securities available for sale	$(221,028,257)	$ (90,860,951)
Proceeds from calls, maturities and sales of securities available for sale	145,262,603	72,069,125
Redemption (purchases) of restricted securities	320,700	(478,300)
Net (increase) in loans	(15,138,986)	(26,159,672)
Purchases of premises and equipment	(123,707)	(486,082)
Net cash (used in) investing activities	$ (90,707,647)	$ (45,915,880)
Cash Flows from Financing Activities		
Net increase in demand, savings, interest-bearing checking and money market deposits	$ 96,234,240	$ 722,540
Net (decrease) increase in time deposits	(6,325,988)	1,076,714
Net (decrease) increase in short-term borrowings and FHLB advances	(8,000,000)	12,000,000
Net increase (decrease) in securities sold under agreements to repurchase	44,585	(427,186)
Cash dividend	(202,920)	- -
Proceeds from stock issuance	- -	73,523
Net cash provided by financing activities	$ 81,749,917	$ 13,445,591
Net decrease in cash and cash equivalents	$ (3,862,331)	$ (30,944,784)
Cash and cash equivalents, beginning of period	15,347,448	46,292,232
Cash and cash equivalents, end of period	$ 11,485,117	$ 15,347,448
Supplemental Disclosures of Cash Flow Information		
Cash payments for interest	$ 673,209	$ 671,412
Cash payments for taxes	$ 664,133	$ 379,953
Supplemental Disclosures of Noncash Investing Activities		
Fair value adjustment for securities	$ (1,696,588)	$ 857,414

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, 2015 and 2014

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (loss)	Total
Balance at December 31, 2013	$ 20,219	$ 20,974,597	$ 8,014,654	$ 307,184	$ 29,316,654
Net income	- -	- -	2,012,960	- -	2,012,960
Other comprehensive income	- -	- -	- -	566,306	566,306
Vesting of restricted stock	23	(23)	- -	- -	- -
Issuance of common stock	50	73,473	- -	- -	73,523
Equity based compensation	- -	26,352	- -	- -	26,352
Balance at December 31, 2014	$ 20,292	$ 21,074,399	$ 10,027,614	$ 873,490	$ 31,995,795
Net income	- -	- -	2,428,424	- -	2,428,424
Other comprehensive loss	- -	- -	- -	(1,119,748)	(1,119,748)
Vesting of restricted stock	30	(30)	- -	- -	- -
Equity based compensation	- -	12,223	- -	- -	12,223
Cash dividend	- -	- -	(202,920)	- -	(202,920)
Balance at December 31, 2015	$ 20,322	$ 21,086,592	$ 12,253,118	$ (246,258)	$ 33,113,774

See Notes to Consolidated Financial Statements.

Note 1. Organization and Summary of Significant Accounting Policies

Organization and Nature of Operations

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

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

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

Significant Accounting Policies

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

Principles of Consolidation

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

Use of Estimates

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

Reclassification

Certain amounts in the 2014 consolidated financial statements have been reclassified to conform to the 2015 presentation. None of those reclassifications were significant.

Cash and Cash Equivalents

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

Securities

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

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

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

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

Loans Held for Sale

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

Loans

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

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

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

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

Allowance for Loan Losses

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

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

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

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

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

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

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

The allowance consists of specific, general and unallocated components. The specific component relates to loans (other than consumer and residential mortgage loans) that are classified as doubtful or substandard. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows, fair value of collateral, or observable market price of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified and special mention loans and is based on historical loss experience adjusted for qualitative factors including the national and local economic environment, concentration growth trends in the nature and volume of the loan portfolio, levels and trends in delinquencies, impaired loans, 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, fair value of collateral or the observable market price of the loan. Loans that are collateral dependent (loans where repayment is expected to be provided solely by the underlying collateral) and for which management has determined foreclosure is probable are measured for impairment based on the fair value of the collateral. Large groups of smaller balance, homogeneous loans are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual consumer and residential loans for impairment disclosures.

Troubled Debt Restructurings

In situations where, for economic or legal reasons related to a borrower's financial condition, management may grant a concession to the borrower that it would not otherwise consider, the related loan is classified as a troubled debt restructuring (TDR). Management strives to identify borrowers in financial difficulty early and work with them to modify their loan to more affordable terms before their loan reaches nonaccrual status. These modified terms may include rate reductions, principal forgiveness, payment forbearance and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. In cases where borrowers are granted new terms that provide for a reduction of either interest or principal, management measures any impairment on the restructuring as noted above for impaired loans. The Bank had no TDRs as of December 31, 2015 and 2014.

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 years ending December 31, 2015 and 2014.

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. Any gain or loss associated with rate lock commitments would be immaterial. For this reason, there is no recognition of on or off-balance-sheet valuation of rate lock commitments.

Income Taxes

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

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying balance sheets along with any associated interest and penalties that would be payable to the taxing authorities upon examination. Interest and penalties associated with unrecognized tax benefits are classified as additional income taxes in the statements of income. The Company did not record a liability for unrecognized tax benefits at December 31, 2015 or 2014.

Transfers of Financial Asset

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

Earnings Per Share

Basic earnings per share represents income available to common stockholders divided by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares relate solely to outstanding restricted stock. For the years ended December 31, 2015 and 2014, the weighted average number of shares outstanding for calculating basic earnings per share was 20,305 and 20,260, respectively. For the years ended December 31, 2015 and 2014, the weighted average number of shares outstanding for calculating diluted earnings per share was 20,305 and 20,290, respectively.

Advertising Costs

The Bank follows the policy of charging the production costs of advertising to expense as incurred. The Bank expensed $61,015 and $80,221 for advertising costs for the years ended December 31, 2015 and 2014, 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, 2015 and 2014, the Bank's other comprehensive income relates to changes in realized and unrealized gains and losses on available for sale securities, net of tax. Any reclassification out of accumulated other comprehensive income is a result of realized securities gains or losses and is included in the "gain (loss) on sale of securities" line item on the Consolidated Statements of Income.

Fair Value Measurements

The Bank uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with the Fair Value Measurements and Disclosures Topic of the Financial Accounting Standards Board's Accounting Standards Codification, the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability 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.

Loss Contingencies

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

Dividend Restriction

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

Recent Accounting Pronouncements

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 were effective for annual periods beginning after December 15, 2014, and interim periods within annual periods beginning after December 15, 2015. The adoption of the new guidance did not have a material impact on our consolidated financial statements.

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

In June 2014, the FASB issued ASU No. 2014-12, "Compensation – Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period." The new guidance applies to reporting entities that grant employees share-based payments in which the terms of the award allow a performance target to be achieved after the requisite service period. The amendments in the ASU require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. Existing guidance in "Compensation – Stock Compensation (Topic 718)," should be applied to account for these types of awards. The amendments in this ASU are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Early adoption is permitted and reporting entities may choose to apply the amendments in the ASU either on a prospective or retrospective basis. The adoption of the new guidance did not have a material impact on our consolidated financial statements.

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

In August 2014, the FASB issued ASU No. 2014-15, "Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern." This update is intended to provide guidance about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. Management is required under the new guidance to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date the financial statements are issued when preparing financial statements for each interim and annual reporting period. If conditions or events are identified, the ASU specifies the process that must be followed by management and also clarifies the timing and content of going concern footnote disclosures in order to reduce diversity in practice. The amendments in this ASU are effective for annual periods and interim periods within those annual periods beginning after December 15, 2016. Early adoption is permitted. The Company does not expect the adoption of ASU 2014-15 to have a material impact on its consolidated financial statements.

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

In August 2015, the FASB issued ASU No. 2015-14, "Revenue from Contracts with Customers (Topic 606): Deferral of Effective Date." The amendments in ASU 2015-14 defer the effective date of ASU 2014-09 for all entities by one year. Entities should apply the guidance in ASU 2014-09 to annual reporting periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019. Entities may apply the guidance in ASU 2014-09 earlier as of an annual reporting period beginning after December 15, 2016, including interim reporting periods within that reporting period. Entities also may apply the guidance in ASU 2014-09 earlier as of an annual reporting period beginning after December 15, 2016, and interim reporting periods within annual reporting periods beginning one year after the annual reporting period in which the entity first applies the guidance in ASU 2014-09. The Company does not expect the adoption of ASU 2015-14 (or ASU 2014-09) to have a material impact on its consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities." The amendments in ASU 2016-01, among other things: 1) Requires equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. 2) Requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e., securities or loans and receivables). 3) Eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost. The amendments within this ASU are effective for fiscal years beginning after December 15, 2018, and for interim periods within fiscal years beginning after December 15, 2019. The new guidance permits early adoption of the provision that exempts private companies and not-for-profit organizations from having to disclose fair value information about financial instruments measured at amortized cost. The Company is currently assessing the impact that ASU 2016-01 will have on its consolidated financial statements. The Company adopted the provision that exempts the Company from disclosing fair value information about financial instruments measured at amortized cost.

In February 2016, the FASB issued ASU No. 2016-01, "Leases (Topic 842)." Among other things, in the amendments in ASU 2016-02, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date: (1) A lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) A right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. Certain targeted improvements were made to align, where necessary, lessor accounting with the lessee accounting model and Topic 606, Revenue from Contracts with Customers. The amendments in this ASU are effective fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early application is permitted upon issuance. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition app roach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach. The Company is currently assessing the impact that ASU 2016-02 will have on its consolidated financial statements.

Note 2. Securities

Amortized cost and fair value of securities available for sale as of December 31, 2015 and 2014 are as follows:

	December 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Securities of U.S. government and federal agencies	$ 52,123,858	$ 13,262	$ (225,743)	$ 51,911,377
Mortgage backed securities	4,683,816	66,018	(50,794)	4,699,040
Corporate bonds	37,189,416	46,560	(470,178)	36,765,798
Collateralized mortgage obligations	845,657	19,566	(2,662)	862,561
State and municipal securities	76,485,333	1,244,864	(448,817)	77,281,380
Mutual and exchange-traded funds	45,103,998	- -	(565,193)	44,538,805
Total	$ 216,432,078	$ 1,390,270	$ (1,763,387)	$ 216,058,961

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

At December 31, 2015 and 2014, securities with a carrying value of $16,010,985 and $21,303,100 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 $145,262,603 and $72,069,125 for 2015 and 2014, respectively. The gross realized gains on securities for 2015 totaled $85,307. The gross realized losses on securities for 2015 and 2014 totaled $55,378 and $4,690, respectively.

There were no held to maturity securities at December 31, 2015 or 2014.

The amortized cost and fair value of securities by contractual maturity at December 31, 2015 follows:

	Amortized Cost	Fair Value
Within one year	$ 65,227,751	$ 65,212,843
After one year through five years	58,320,263	58,247,073
After five years through ten years	37,594,964	38,021,629
Over ten years	10,185,102	10,080,980
Mutual and exchange-traded funds	45,103,998	44,496,436
Total	$ 216,432,078	$ 216,058,961

At December 31, 2015 and 2014, investments in an unrealized loss position that were temporarily impaired follows:

December 31, 2015	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	$ (143,219)	$ 46,780,688	$ (82,524)	$ 3,076,904	$ (225,743)
Mortgage backed securities	(48,572)	2,489,861	(2,222)	156,827	(50,794)
Corporate bonds	(291,957)	26,524,394	(178,221)	7,365,029	(470,178)
Collateralized mortgage obligations	(2,662)	394,781	- -	- -	(2,662)
State and municipal securities	(426,348)	29,223,315	(22,469)	2,237,338	(448,817)
Mutual and exchange-traded funds	(523,270)	44,075,296	(41,923)	463,508	(565,193)
Total	$ (1,436,028)	$ 149,488,335	$ (327,359)	$ 13,299,606	$ (1,763,387)

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

At December 31, 2015 and 2014, 189 and 85 debt and equity securities had unrealized losses with aggregate depreciation of 0.81 and 1.28 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, 2015 and 2014, all of the management determined that the unrealized losses in the investment portfolio were temporary. All of the securities are investment grade and Management does not expect to be required to sell these securities before such time that they recover in value. Management will continue to monitor the securities in a loss position for future impairment.

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

Note 3. Loans

A summary of the balances of loans follows:

	December 31, 2015	December 31, 2014
Commercial real estate	$ 47,087,958	$ 43,497,107
Commercial	9,693,337	15,806,665
Residential real estate closed-end	105,339,650	89,972,446
Other consumer loans	20,581,855	18,287,596
	$ 182,702,800	$ 167,563,814
Less allowance for loan losses	(2,558,000)	(2,346,000)
Loans, net	$ 180,144,800	$ 165,217,814

Overdrafts totaling $26,997 and $17,678 at December 31, 2015 and 2014, 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, 2015 and 2014:

December 31, 2015	Commercial Real Estate	Commercial	Residential Real Estate Closed-End	Other Consumer Loans	Total
Allowance for Loan Losses:					
Beginning of Year	$ 550,325	$ 315,839	$ 1,195,843	$ 283,993	$ 2,346,000
(Recovery) provision	69,196	(107,200)	211,394	38,610	212,000
Charge-offs	- -	38,531	- -	- -	38,531
Recoveries	- -	(38,531)	- -	- -	(38,531)
End of Year	$ 619,521	$ 208,639	$ 1,407,237	$ 322,603	$ 2,558,000
Reserves:					
Specific	$ - -	$ - -	$ - -	$ - -	$ - -
General	619,521	208,639	1,407,237	322,603	2,558,000
	$ 619,521	$ 208,639	$ 1,407,237	$ 322,603	$ 2,558,000
Evaluated for Impairment:					
Individually	$ - -	$ - -	$ - -	$ - -	$ - -
Collectively	47,087,958	9,693,337	105,339,650	20,581,855	182,702,800
	$ 47,087,958	$ 9,693,337	$ 105,339,650	$ 20,581,855	$ 182,702,800

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

Based on the most recent analysis performed, the risk category of loans by class of loans was as follows as of December 31, 2015 and 2014:

	December 31, 2015					
	Pass	Special Mention	Substandard	Doubtful	Loss	Total
Commercial real estate	$ 47,087,958	$ --	$ --	$ --	$ --	$ 47,087,958
Commercial	9,693,337	--	--	--	--	9,693,337
Residential real estate closed-end	105,339,650	--	--	--	--	105,339,650
Other consumer loans	20,581,855	--	--	--	--	20,581,855
	$ 182,702,800	$ --	$ --	$ --	$ --	$ 182,702,800

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

There were no individually impaired loans as of December 31, 2015, and one individually impaired commercial loan as of December 31, 2014 with a balance of $897,020 and no specific reserve.

There were no nonaccrual loans, no loans 90 days past due and still accruing at December 31, 2015 and 2014. As of December 31, 2015, no loans were past due for 30 or more days. On December 31, 2014, the Bank had one commercial loan past due 30 days for $42,423 that subsequently paid current on January 5, 2015.

There were no loan modifications classified as TDRs during the years ended December 31, 2015 and 2014.

No loan modifications classified as TDRs subsequently defaulted during 2015 or 2014.

Note 4. Premises and Equipment

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

	December 31, 2015	December 31, 2014
Land	$ 1,585,513	$ 1,585,513
Building	6,539,284	6,539,284
Furniture, fixtures and equipment	1,314,574	1,301,629
Building improvements	1,249,998	1,139,236
	$ 10,689,369	$ 10,565,662
Less accumulated depreciation	2,997,928	2,600,175
Ending balance	$ 7,691,441	$ 7,965,487

For 2015 and 2014, depreciation expense was $397,753 and $406,324, respectively.

In prior years, the Company leased additional office space for operations support. The lease had a term of three years and was classified as an operating lease. The lease called for annual payments of $60,036 through May 2014, subject to annual adjustments. The lease was terminated as of May 2014. Rent expense for the year ended December 31, 2014 was $29,761. No rent expense was incurred during 2015.

Note 5. Related Party Transactions

Officers, directors and their affiliates had credit outstanding of $4,906,243 and $2,439,032 at December 31, 2015 and 2014, respectively, with the Bank. During 2015, total principal additions were $2,657,278 and total principal payments were $190,067. These transactions occurred in the ordinary course of business on substantially the same terms as those prevailing at the time for comparable transactions with unrelated persons.

Deposits from related parties held by the Company at December 31, 2015 and 2014 amounted to $4,324,703 and $4,889,347, respectively.

Note 6. Deposits

Remaining maturities on certificates of deposit are as follows:

2016	$ 18,675,762
2017	6,799,441
2018	1,696,414
2019	3,106,204
2020	310,093
	$ 30,587,914

Brokered deposits totaled $601,084 and $4,747,982 at December 31, 2015 and 2014, 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, 2015. The total deposit balances related to these customers as of December 31, 2015 were $71,178,062 or 18.7 percent of total deposits.

Note 7. Borrowings

Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase amounted to $527,210 and $482,625 at December 31, 2015 and 2014, respectively, and mature on a daily basis and are secured by municipal securities with a fair value of $999,704 and $3,216,941. The weighted average interest rate on these agreements was 0.15 percent at December 31, 2015 and 2014.

Federal Home Loan Bank Advance

The Bank has a secured line of credit with the Federal Home Loan Bank totaling $44,014,300. At December 31, 2015, the Bank had no outstanding balance on this line of credit. The line is secured by 1-4 family residential real estate loans within the Company's loan portfolio. The line is renewed annually in September.

Short Term Borrowings

At December 31, 2015, the Company had an unsecured line of credit with a correspondent bank totaling $4,000,000 with $4,000,000 outstanding. The line matures December 16, 2016 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 27, 2016 and Pacific Coast Bankers' Bank totaling $3,000,000 maturing June 30, 2016. The Bank has a secured federal funds purchase line of credit with Community Bankers' Bank totaling $5,048,000 with no maturity. There were no outstanding federal funds purchased balances as of December 31, 2015 or 2014.

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, 2015 and 2014 are presented below:

	December 31,	
	2015	**2014**
Deferred Tax Assets		
Allowance for loan losses	$ 732,123	$ 660,044
Organizational and start-up expenses	114,947	132,407
Deferred loan costs	- -	6,665
Depreciation	11,918	- -
Securities available for sale	126,860	- -
Restricted stock	- -	4,008
	$ 985,848	$ 803,124
Deferred Tax Liabilities		
Securities available for sale	$ - -	$ (449,979)
Depreciation	- -	(52,803)
Deferred loan fees	(991)	- -
	$ (991)	$ (502,782)
Net deferred tax assets	$ 984,857	$ 300,342

The provision for income taxes charged to operations for the years ended December 31, 2015 and 2014, consists of the following:

	2015	**2014**
Current tax expense	$ 812,597	$ 390,613
Deferred tax (benefit) expense	(107,676)	70,630
	$ 704,921	$ 461,243

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, 2015	December 31, 2014
Computed tax at applicable rate	$ 1,065,337	$ 841,229
Tax-exempt income	(370,601)	(409,025)
Other	10,185	29,039
	$ 704,921	$ 461,243

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 2012.

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

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

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

At December 31, 2015 and 2014, the following financial instruments whose contract amounts represent credit risk were outstanding:

	2015	2014
Commitments to grant loans	$ 32,648,444	$ 3,948,950
Unfunded commitments under lines of credit	38,932,339	35,395,000
Standby letters of credit	3,450,492	97,000

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

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

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

The Bank maintains its cash accounts in several correspondent banks. The total amount by which cash on deposit in those banks and federal funds sold exceeded the federally insured limits at December 31, 2015 and 2014 was $515,354 and $2,204,420, respectively.

The Bank is required to maintain average balances with the Federal Reserve Bank. At December 31, 2015 and 2014, this balance was $20,514,000 and $11,291,000, respectively. The Bank held no excess reserve balance with the Federal Reserve Bank at December 31, 2015 and 2014.

Note 10. Minimum Regulatory Capital Requirements

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

The final rules implementing Basel Committee on Banking Supervision’s Capital guidelines for U.S. banks (Basel III rules) became effective on January 1, 2015, with full compliance with all of the new requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. As part of the new requirements, the Common Equity Tier 1 ratio is calculated and utilized in the assessment of capital for all institutions. Capital amounts and ratios for December 31, 2014 were calculated using the Basel 1 rules, which were effective until January 1, 2015.

Quantitative measures established by regulation to ensure capital adequacy require financial institutions to maintain minimum amounts and ratios (set forth in the table below) of Total, Tier I capital, and common equity Tier 1 (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2015, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2015, the most recent notification from the Office of the Comptroller of the Currency categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum Total risk-based, Tier I risk-based, common equity Tier 1 and Tier I leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's category.

The following tables set forth the capital position and analysis for the Company and Bank. Because total assets on a consolidated basis are less than $1 billion, the Company is not subject to the consolidated capital requirements imposed by federal regulations. However, the Company elects to include those ratios for this report. In June 2015, the Company borrowed $4 million from PNC Bank and downstream the capital to the Bank.

December 31, 2015	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Amounts in Thousands)			
Total Risk-Based Capital						
Company	$ 35,545	13.58%	N/A	N/A	N/A	N/A
Bank	$ 39,357	15.04%	$ 20,940	8.00%	$ 26,174	10.00%
Tier 1 Risk-Based Capital						
Company	$ 32,987	12.60%	N/A	N/A	N/A	N/A
Bank	$ 36,799	14.06%	$ 15,705	6.00%	$ 20,940	8.00%
Common Equity Tier 1 Capital						
Company	$ 32,987	12.60%	N/A	N/A	N/A	N/A
Bank	$ 36,799	14.06%	$ 11,778	4.50%	$ 17,013	6.50%
Tier 1 Leverage Ratio						
Company	$ 32,987	7.63%	N/A	N/A	N/A	N/A
Bank	$ 36,799	8.52%	$ 17,282	4.00%	$ 21,603	5.00%

December 31, 2014	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Amounts in Thousands)			
Total Risk-Based Capital						
Company	$ 33,469	15.04%	N/A	N/A	N/A	N/A
Bank	$ 33,239	14.93%	$ 17,806	8.00%	$ 22,258	10.00%
Tier 1 Risk-Based Capital						
Company	$ 31,123	13.98%	N/A	N/A	N/A	N/A
Bank	$ 30,893	13.88%	$ 8,903	4.00%	$ 13,355	6.00%
Tier 1 Leverage Ratio						
Company	$ 31,123	9.01%	N/A	N/A	N/A	N/A
Bank	$ 30,893	8.94%	$ 13,816	4.00%	$ 17,269	5.00%

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 made 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 2015:

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

Compensation expense attributable to the Plan was $12,223 and $26,352 for 2015 and 2014, respectively. As of December 31, 2015, the total compensation cost related to non-vested awards not yet recognized was $0.

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

Note 12. 401(k) Plan

The Bank has a 401(k) Plan whereby substantially all employees participate in the plan. Employees may contribute portions of their compensation subject to limits based on federal tax laws. The Bank may make discretionary matching contributions to the plan. For 2015 and 2014, expense attributable to the plan amounted to $118,792 and $104,422, 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, 2015:				
Available for sale securities:				
U.S. government and federal agencies	$ 51,911,377	$ 21,952,317	$ 29,959,060	$ - -
Mortgage backed securities	4,699,040	- -	4,699,040	- -
Corporate bonds	36,765,798	- -	36,765,798	- -
Collateralized mortgage obligations	862,561	- -	862,561	- -
State and municipal securities	77,281,380	- -	77,281,380	- -
Mutual and exchange-traded funds	44,538,805	44,538,805	- -	- -
Total	$ 216,058,961	$ 66,491,122	$ 149,567,839	$ - -
Assets:				
As of December 31, 2014:				
Available for sale securities:				
U.S. government and federal agencies	$ 22,078,272	$ 1,996,406	$ 20,081,866	$ - -
Mortgage backed securities	2,817,481	- -	2,817,481	- -
Corporate bonds	23,510,256	- -	23,510,256	- -
Collateralized mortgage obligations	1,382,378	- -	1,382,378	- -
State and municipal securities	53,096,344	- -	53,096,344	- -
Mutual and exchange-traded funds	40,187,300	40,187,300	- -	- -
Total	$ 143,072,031	$ 42,183,706	$ 100,888,325	$ - -

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

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

Impaired Loans

Loans are designated as impaired when, in the judgment of management based on current information and events, it is probable that all amounts due according to the contractual terms of the loan agreement will not be collected. The measurement of loss associated with impaired loans can be based on either the observable market price of the loan, fair value of the collateral or present value of cash flows. Fair value is measured based on the value of the collateral securing the loans. Collateral may be in the form of real estate or business assets including equipment, inventory, and accounts receivable. The vast majority of the collateral is real estate. The value of real estate collateral is determined utilizing a market valuation approach based on an appraisal conducted by an independent, licensed appraiser outside of the Bank using observable market data (Level 2). However, if the collateral is a house or building in the process of construction or if an appraisal of the real estate property using an income approach or is over two years old, then the fair value is considered Level 3. The value of business equipment is based upon an outside appraisal if deemed significant, or the net book value on the applicable business's financial statements if not considered significant using observable market data. Likewise, values for inventory and accounts receivables collateral are based on financial statement balances or aging reports (Level 3). Impaired loans allocated to the allowance for loan losses are measured at fair value on a nonrecurring basis. Any fair value adjustments are recorded in the period incurred as provision for loan losses on the consolidated statements of income. There were no impaired loans to be measured at fair value as of December 31, 2015 and 2014.

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 7, 2016.

Based on the evaluation, the Holding Company approved a cash dividend of $11 per share to shareholders of record on January 29, 2016 with the dividend payable on February 16, 2016.

The Company did not identify any other 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	**2015**	**2014**
Assets		
Cash	$ 188,467	$ 230,190
Investment in common stock of Chain Bridge Bank	36,925,307	31,765,605
Total assets	$ 37,113,774	$ 31,995,795
Liabilities and Shockholders' Equity		
Short-term borrowings	$ 4,000,000	$ - -
Total liabilities	$ 4,000,000	$ - -
Stockholders' equity	33,113,774	31,995,795
Total liabilities and stockholders' equity	$ 37,113,774	$ 31,995,795

	December 31,	
Statements of Income	**2015**	**2014**
Dividend from Chain Bridge Bank	$ 200,000	$ - -
Operating Expenses		
Interest expense and fees on borrowings	$ 51,026	$ - -
Equity based compensation	12,223	26,352
	$ 63,249	$ 26,352
Income (loss) before undistributed net income of Chain Bridge Bank	$ 136,751	$ (26,352)
Undistributed net income of Chain Bridge Bank	2,291,673	2,039,312
Net income	$ 2,428,424	$ 2,012,960

	December 31,	
Statements of Cash Flows	**2015**	**2014**
Cash Flows from Operating Activities		
Net income	$ 2,428,424	$ 2,012,960
Adjustments to reconcile net income to net cash provided by operating activities:		
Undistributed net (income) of Chain Bridge Bank	(2,291,673)	(2,039,312)
Equity based compensation	12,223	26,352
Increase in other liabilities	12,223	26,352
Net cash provided by operating activities	$ 161,197	$ 26,352
Cash Flows from Investing Activities		
Investment in Chain Bridge Bank	$ (4,000,000)	$ - -
Net cash used in investing activities	$ (4,000,000)	$ - -
Cash Flows from Financing Activities		
Net proceeds from common stock issued	$ - -	$ 73,523
Cash dividend to shareholders	(202,920)	- -
Increase in short term borrowings	4,000,000	- -
Net cash provided by financing activities	$ 3,797,080	$ 73,523
Net (decrease) increase in cash and cash equivalents	$ (41,723)	$ 99,875
Cash and cash equivalents at beginning of period	230,190	130,315
Cash and cash equivalents at end of period	$ 188,467	$ 230,190

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Your bridge to better banking.