Chain Bridge

BANCORP, INC.

2023 Annual Report

Strength Service Solutions

Your Bridge To Better Banking Nationwide

Chain Bridge
BANCORP, INC.

The Chain Bridge: A Symbol of Strength and Service

The cover of Chain Bridge Bancorp, Inc.'s 2023 Annual Report features the iconic Chain Bridge in Budapest. It symbolizes our dedication to financial strength, personalized service, and comprehensive banking, trust, and investment solutions.

Our mission is to deliver exceptional banking and trust services nationwide. By blending financial strength, personalized service, and advanced technology, we provide tailored solutions to businesses, non-profits, political organizations, individuals, and families.

Our vision is to grow responsibly, adapting our personalized service and advanced technology solutions to our clients' evolving needs, while emphasizing strong liquidity, asset quality, and financial strength.

The Chain Bridge, celebrated for its endurance, strength, and beauty, embodies our core values and underscores our dedication to being "Your Bridge to Better Banking Nationwide." Just as the Chain Bridge connects Buda and Pest across the Danube River, we aim to connect our comprehensive solutions to your financial journey.

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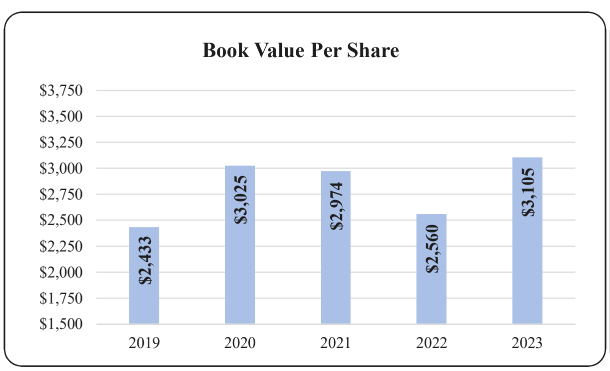
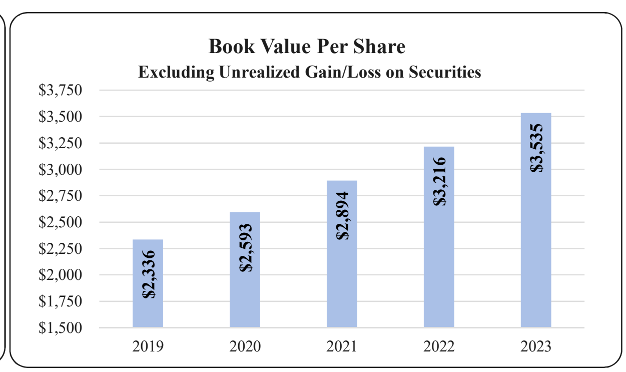
Chain Bridge Bancorp, Inc.
Consolidated Financial Highlights
(Dollars in thousands, except share and per share data)

	Years Ended December 31, 2023	2022	Change
Key Performance Indicators			
Consolidated net income	$ 8,831	$ 8,281	6.64%
Return on average assets (ROAA)	0.86%	0.65%	0.21%
Return on average risk-weighted assets [1]	2.06%	2.02%	0.04%
Return on average equity (ROAE)	11.90%	12.79%	(0.89%)
Yield on average earning assets	3.10%	2.15%	0.95%
Cost of funds	0.42%	0.11%	0.31%
Net interest margin	2.70%	2.05%	0.65%
Balance Sheet and Other Highlights			
Total assets	$ 1,205,202	$ 1,030,684	16.93%
Cash balances held at the Federal Reserve Bank	309,826	91,054	240.27%
U.S. Treasury securities [2]	195,364	200,078	(2.36%)
Total investment grade securities [2]	566,677	592,649	(4.38%)
Total loans	304,144	320,193	(5.01%)
Total deposits	1,112,025	952,954	16.69%
Trust Department: Total custody and managed assets	240,782	141,824	69.78%
Liquidity and Asset Quality Metrics			
Liquidity ratio [3]	78.75%	71.11%	7.64%
Loan-to-deposit ratio	27.35%	33.60%	(6.25%)
Risk-weighted asset density [4]	34.09%	43.33%	(9.24%)
Non-performing assets / assets	0.00%	0.00%	0.00%
Texas ratio [5]	0.00%	0.00%	0.00%
Net charge offs (recoveries) / average loans	0.00%	0.00%	0.00%
Allowance for credit losses on loans / gross loans	1.42%	1.40%	0.02%
Allowance for credit losses on held to maturity securities / gross held to maturity securities [6]	0.11%	N/A	N/A
Regulatory Capital Information (Chain Bridge Bank, N.A.)			
Tier 1 capital	$ 99,856	$ 91,374	9.28%
Tier 1 risk-based capital ratio	24.30%	20.46%	3.84%
Total regulatory capital	$ 104,523	$ 95,856	9.04%
Total regulatory capital ratio	25.44%	21.46%	3.98%
Regulatory Capital Information (Chain Bridge Bancorp, Inc.)			
Tier 1 capital	$ 95,002	$ 86,430	9.92%
Tier 1 risk-based capital ratio	23.12%	19.35%	3.77%
Total regulatory capital	$ 99,669	$ 90,912	9.63%
Total regulatory capital ratio	24.26%	20.36%	3.90%
Chain Bridge Bancorp, Inc. Share Information			
Number of shares outstanding	26,872	26,872	0.00%
Book value per share	$ 3,104.98	$ 2,559.65	21.30%
Book value per share, excluding unrealized gain/loss on securities (non-GAAP)	$ 3,535.35	$ 3,216.38	9.92%
Earnings per share, basic and diluted	$ 328.64	$ 324.26	1.35%

[1] Average is calculated using the last five quarter ends.
[2] Available for sale securities are reported at fair value, and held to maturity securities are reported at carrying value.
[3] Liquidity measures the Bank's ability to meet its obligations when they become due. The liquidity ratio is calculated as the sum of cash and cash equivalents and unpledged investment grade securities, expressed as a percentage of total liabilities.
[4] Risk-weighted asset density measures the riskiness of the Bank's assets. It is calculated as risk-weighted assets divided by total assets.
[5] Texas ratio is defined as nonperforming assets plus delinquent loans, expressed as a percent of tangible equity and the allowance for credit losses on loans.
[6] On January 1, 2023, the Bank adopted ASU 2016-13, "Financial Instruments - Credit Losses (Topic 326)," which shifts credit loss accounting to an expected loss model, requiring the upfront estimation of expected credit losses, for all in-scope instruments including the held to maturity securities portfolio.





Chain Bridge Bancorp, Inc.
1445-A Laughlin Avenue
McLean, VA 22101
703-748-2005
chainbridgebank.com

March 20, 2024

Dear Fellow Stockholder:

I am pleased to present a review of the governance enhancements, financial performance, and strategic initiatives of Chain Bridge Bancorp, Inc. (the "Company") for the year ended December 31, 2023. The Company is the parent and registered bank holding company of Chain Bridge Bank, National Association ("the Bank"), and together with the Company, "Chain Bridge."

GOVERNANCE ENHANCEMENTS

Effective September 30, 2022, the Company converted to a Delaware corporation and immediately began developing a governance structure inspired by practices commonly adopted by public companies. This reorganization elevated the Audit, Risk, and Compensation Committees from the subsidiary Bank to the Company level and led to the creation of a new Governance and Nominating Committee, replacing the previous Nominating Committee.

The Board of Directors of the Company (the "Board" or "Company Board") adopted entirely new charters for these committees, which began operations in 2023. Throughout 2023, the Governance and Nominating Committee assessed the performance and effectiveness of both the Company Board and the Board of Directors of the Bank (the "Bank Board"). Using a skills matrix to evaluate director competencies, identify overlapping skills, and pinpoint any gaps in the collective skillsets of the directors, the Committee recommended adjustments to Board size and composition as well as the alignment of the Company Board and Bank Board.

After analysis, the Board endorsed the Governance and Nominating Committee's recommendations to optimize Board composition in the best interests of the Company and its stockholders. Proposed changes included a reduction in Board size and the introduction of new members.

In 2024, the Company welcomed four new directors with expertise in auditing, cybersecurity, bank risk management, and trusts and estates. Each assumed leadership of a respective committee at the Company or Bank level.

Late 2023 marked the conclusion of service for eight directors, including several whose guidance had been instrumental since Chain Bridge's inception. We express our deep gratitude for their years of dedicated service and the vital role they played in building a solid foundation for the evolution of our corporate governance.

FINANCIAL PERFORMANCE

In 2023, Chain Bridge earned a consolidated net income of $8.8 million, compared to $8.3 million in 2022. The return on average equity for 2023 was 11.90%, compared to 12.79% in 2022. The earnings per share (EPS) for 2023 was $328.64, compared to $324.26 in 2022.

At year-end 2023, the book value per share was $3,104.98 compared to $2,559.65 in 2022. When adjusted for unrealized gains or losses on securities (a non-GAAP measure), the book value per share was $3,535.35, compared to $3,216.38 in 2022.

Chain Bridge reported no non-performing assets at year-end 2023, marking the twelfth consecutive year of reporting no non-performing assets at year-end.

INCOME STATEMENT ANALYSIS

Chain Bridge's net interest income, before accounting for provisions for loan and securities credit losses, increased to $27.7 million in 2023 from $26.1 million in 2022. The rise in interest rates led to an increase in the net interest margin (NIM) from 2.05% in 2022 to 2.70% in 2023. Non-interest income was $3.3 million in 2023 versus $3.1 million in 2022. Operating expenses grew from $18.2 million in 2022 to $19.5 million in 2023, primarily due to an increase in employee compensation and data processing costs.

In 2023, Chain Bridge's total credit loss provisions were $641 thousand compared to $822 thousand in 2022. The 2023 credit loss provisions included a loan credit reversal of $163 thousand and a loss from a Signature Bank bond, which was partially offset by liquidating half of the bond position in March 2023. Chain Bridge also incurred a $389 thousand loss, primarily from selling various other securities and reinvesting the proceeds at higher rates. The occurrence of securities losses in 2023 contrasts with the absence of securities gains or losses in 2022.

In 2023, Chain Bridge reported a pre-tax net income of $10.9 million, compared to $10.2 million in 2022. The income tax expense for the year rose by 10.3%, from $1.9 million in 2022 to $2.1 million in 2023. As a result, Chain Bridge recorded a net income of $8.8 million in 2023, an increase of 6.6% compared to $8.3 million recorded in 2022.

BALANCE SHEET HIGHLIGHTS

As of the end of 2023, Chain Bridge reported total assets of $1.2 billion, compared to $1.0 billion at the end of 2022. Total deposits stood at $1.1 billion at the end of 2023, compared to $953.0 million at the end of 2022.

At the end of 2023, the Bank's cash balances at the Federal Reserve totaled $309.8 million, compared to $91.1 million at the end of 2022. Total securities amounted to $566.7 million at the end of 2023, compared to $592.6 million at the end of 2022. The Bank reported loan balances of $304.1 million at the end of 2023, versus $320.2 million at the end of 2022.

As of December 31, 2023, the Bank's investment portfolio was diversified across several fixed income segments. U.S. Treasury securities made up 34%, while taxable and tax-exempt municipal bonds accounted for 40%. Investment-grade corporate bonds and U.S. government agency bonds constituted 20% and 4%, respectively. Mortgage-backed securities, collateralized mortgage obligations, and asset-backed securities each represented less than 2% of the total portfolio. The adjusted duration of the bond portfolio, a measure of its sensitivity to interest rate changes, was 3.2 as of December 31, 2023.

As of December 31, 2023, accumulated other comprehensive loss, a component of equity, stood at $11.6 million. This figure included an unrealized loss of $4.6 million on securities previously transferred from available for sale to held to maturity and an unrealized loss of $10.0 million on “available for sale” bonds, offset by a tax benefit of $3.1 million. In comparison, the cumulative unrealized loss, net of taxes, was $17.6 million as of December 31, 2022. Earnings and the lower unrealized loss lifted the GAAP book value of total stockholders' equity 21.2%, to $83.4 million at year-end 2023 from $68.8 million at year-end 2022.

BANK REGULATORY CAPITAL AND LIQUIDITY

As of December 31, 2023, the Bank's tier 1 risk-based capital ratio was 24.30%, compared to 20.46% at the end of the previous year. The Bank's total regulatory capital ratio stood at 25.44% as of December 31, 2023, versus 21.46% at the end of the previous year. The Bank's tier 1 capital as of December 31, 2023 was $99.9 million, compared to $91.4 million as of December 31, 2022. The Bank's total regulatory capital was $104.5 million as of December 31, 2023, compared to $95.9 million as of December 31, 2022.

The Bank's loan-to-deposit ratio, measuring total loans as a percentage of total deposits, was 27.35% on December 31, 2023, versus 33.60% at year-end 2022. The risk-weighted asset density, calculated as risk-weighted assets divided by total assets, equaled 34.09% on December 31, 2023, contrasting with 43.33% at December 31, 2022. The liquidity ratio, representing total cash and unpledged securities as a percentage of total liabilities, stood at 78.75% on December 31, 2023, compared to 71.11% at year-end 2022.

TRUST & WEALTH DEPARTMENT

The Bank's Trust & Wealth Department oversaw custody and managed assets totaling $240.8 million as of the end of 2023, compared to $141.8 million at the end of 2022. The Trust & Wealth Department generated revenue of $565 thousand in 2023, versus $335 thousand in 2022. The Trust & Wealth Department's revenue is included as part of the Bank's total noninterest income.

2023 FINANCIAL REVIEW AND MARKET RESPONSE

Chain Bridge, a full-service financial institution serving businesses, individuals, non-profits, political organizations, and other segments, performed well in 2023. The Bank's net interest margin (NIM) expanded by 32 basis points from 2.64% in Q4 2022 to 2.96% in Q4 2023. In comparison, according to S&P Capital IQ Pro (2024), the industry average NIM for U.S. commercial banks decreased by 25 basis points, from 3.38% to 3.13%, during the same period.[1]

As of December 31, 2023, the Bank's commercial real estate loans, as defined for regulatory purposes, represented 45.38% of its total risk-based capital, compared to an industry average of 109.32% for all U.S. commercial banks in 2023.[2] Loans secured by nonfarm, nonresidential properties comprised 3.86% of the Bank's total assets, compared to the industry average of 7.56% for all U.S. commercial banks in 2023.[3] The Bank's loan-to-deposit ratio of 27.35% on December 31, 2023 compared to the industry average of 65.44% for all U.S. commercial banks in 2023.[4] The Bank's Liquidity Ratio of 78.75% at year-end 2023 compared to the industry average of 34.30%.[5]

The above comparisons, based on the Bank's financial statements and industry averages for the respective periods, indicate that Chain Bridge maintained a more conservative lending approach and a more liquid balance sheet compared to the industry as a whole. These factors contributed to Chain Bridge's ability to navigate the challenging banking environment in 2023.

TERMINATION OF THE 2015 DIVIDEND POLICY

Following the implementation of its 2015 Dividend Policy, the Company experienced accelerated deposit growth that led to the Company raising additional capital twice to support its expanding balance sheet: $6.7 million in 2017 and $10.5 million in 2022. These capital raises, recommended by the Board, accommodated the Bank's deposit growth and highlighted the challenge of balancing dividend distributions with the need for external funding to sustain balance sheet expansion.

In January 2024, the Board reviewed the 2015 Dividend Policy, which had the objective of distributing between 10% and 25% of net earnings as dividends to stockholders, contingent upon the availability of sufficient capital for planned initiatives and depositor support. Following an assessment of the Company's financial and operational performance, the Board discontinued the 2015 Dividend Policy.

[1]SOURCE: S&P CAPITAL IQ PRO (2024): CONTAINS COPYRIGHTED AND TRADE SECRET MATERIAL DISTRIBUTED UNDER LICENSE FROM S&P GLOBAL. FOR RECIPIENT'S INTERNAL USE ONLY.
[2] Ibid.
[3] Ibid.
[4] Ibid.
[5] Ibid.

From 2018-2023, the Bank's deposits have experienced a compound annual growth rate of 19.69%, calculated based on year-end figures. Deposits grew from $452.7 million at year-end 2018 to $1.1 billion by year-end 2023. The Board concluded that allocating 100% of earnings to support continued growth aligns more closely with the long-term interests of the stockholders compared to raising additional capital or restricting deposit growth to facilitate dividend payments while still maintaining high capital levels.

Discontinuing the 2015 Dividend Policy represents a thought-out adjustment, reflecting the Company's emphasis on earnings retention for sustained growth. Notably, since 2019, the Board has opted to retain all earnings, foregoing dividends.

The decision to end the 2015 Dividend Policy supports the Bank's present continued deposit expansion. The Board may consider reintroducing dividends in the future if it determines that doing so would be in the best interests of the Company and its stockholders.

RESOLUTION OF LITIGATION

On June 12, 2020, Blue Flame Medical LLC ("Blue Flame") filed a lawsuit against the Bank, its Chief Executive Officer John J. Brough, and its President David M. Evinger in the United States District Court for the Eastern District of Virginia. The lawsuit alleged that the Bank improperly returned a wire transfer in the amount of $456.9 million and remained obligated to pay that sum to Blue Flame. The wire transfer, sent by the State of California on March 26, 2020, was intended as a down payment for the purchase of 100 million N95 masks. The Bank returned the wire transfer in response to a cancellation request received from JPMorgan Chase Bank, N.A. ("JPMorgan"), the bank acting on behalf of the State of California.

On September 23, 2021, after having previously dismissed other claims, the United States District Court for the Eastern District of Virginia entered judgements in favor of the Bank both on the remaining claims asserted by Blue Flame and on the Bank's third-party indemnification complaint against JPMorgan. Blue Flame and JPMorgan appealed the District Court's judgements to the United States Court of Appeals for the Fourth Circuit, which subsequently affirmed the District Court's rulings on March 20, 2023. While JPMorgan elected not to pursue further appeals, Blue Flame filed a petition for a writ of *certiorari* with the United States Supreme Court. On October 2, 2023, the Supreme Court denied Blue Flame's petition for a writ of *certiorari*, leaving undisturbed the decisions of the lower courts in favor of the Bank.

Following the exhaustion of all appellate review, the Bank and JPMorgan executed a settlement agreement dated November 29, 2023, resolving their outstanding indemnification disputes. As of the date of this letter, neither the Company nor the Bank is aware of any pending legal proceedings to which either is a party.

STRATEGIC INITIATIVES IN 2023

Each year, Chain Bridge updates its three-year Strategic Plan to incorporate operational enhancements aligned with its strategy. In 2023, areas of focus included expanding the accounting and deposit operations teams, launching a proprietary business credit card program, and updating our digital presence.

To support the Company's growth and enhance its financial reporting capabilities, the Company added two new Certified Public Accountants to the accounting team. Furthermore, the Company expanded its deposit operations team to maintain a high level of client service amidst growing transaction volumes.

In 2023, we launched our proprietary business credit card program, representing a strategic move towards reducing our reliance on third-party product providers. This initiative was a collaborative effort across several departments and was designed to meet the specific needs of our commercial clientele. We introduced the program in the fourth quarter of 2023, with plans for a more extensive rollout in 2024.

We also enhanced our online presence by updating the Bank's website, including the addition of new sections for Investor Relations and Financial Reports and Statements.

Within the Trust & Wealth Department, we initiated a pilot of the Black Diamond Wealth Platform. Black Diamond is designed to enhance client experiences by providing a user-friendly dashboard that integrates information from our trust accounting system and financial planning software. The platform allows clients to access detailed information about their financial status, such as asset allocation, account activity, portfolio performance, and projected income, for both individual accounts and consolidated portfolios. The Trust & Wealth Department began integrating new clients into Black Diamond in 2023, with plans to incorporate existing clients in phases throughout 2024.

EMERGING OPPORTUNITIES

By the end of 2023, the Bank was serving deposit clients located in 46 states, the District of Columbia, and the U.S. Virgin Islands, as well as some international deposit clients. In response to this growing national reach, management intends to continue its focus on enhancing the Bank's digital interfaces and strengthening both its deposit relationship and operations teams. The Bank's strategy for deposit expansion is designed to further develop its commercial transaction account deposit base, with a targeted approach towards commercial markets where its customized service model may offer advantages. This approach is grounded in an analysis of market opportunities and a commitment to responsible growth.

We are expanding our Trust & Wealth Department by adding a third trust officer, who is also an attorney like the two others, and a new trust operations support person. These additions aim to maintain exceptional client service and capitalize on potential synergies between the department and other areas of the Bank. We believe that our specialized expertise in administering complex trust structures and managing assets is a unique strength, as many other banks lack fiduciary powers.

Building a trust and wealth management department is a long-term endeavor that requires dedicated effort and investment. Management recognizes the potential importance of developing this department to deepen relationships and meet the diverse financial needs of current clients.

ACKNOWLEDGMENT

Thank you for your continued support as a stockholder of Chain Bridge Bancorp, Inc. We also extend our gratitude to all our dedicated team members, whose enthusiasm and hard work are Chain Bridge's greatest strength.

Very truly yours,

Peter G. Fitzgerald
Chairman of the Board
PGF/hn
Enclosures

CAUTION ABOUT FORWARD-LOOKING STATEMENTS

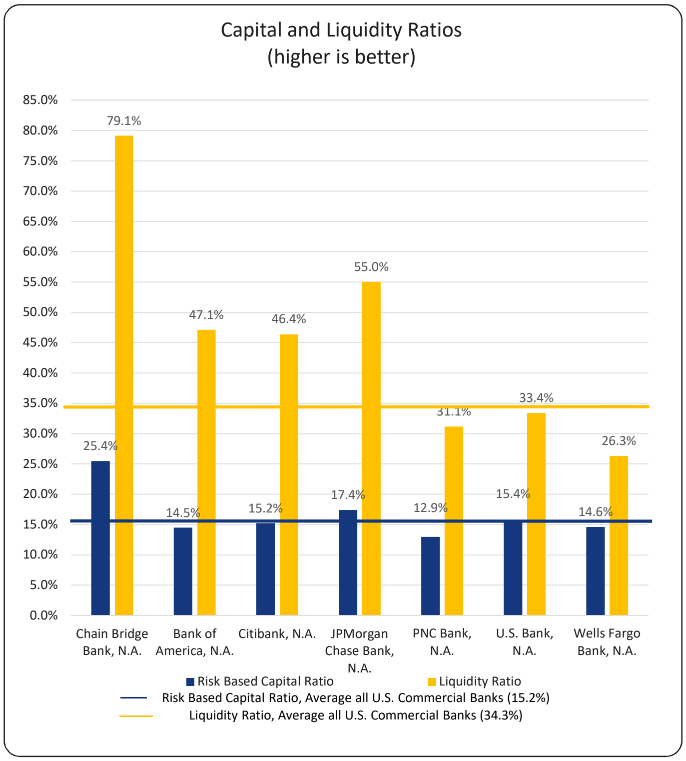
The foregoing letter and the accompanying 2023 Annual Report may contain statements that predict or forecast future events—a practice that is known as making "forward-looking statements," under the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These statements about the future goals, intentions, and expectations of Chain Bridge Bancorp, Inc. and its subsidiary, Chain Bridge Bank, National Association (collectively referred to as "Chain Bridge"); trends, plans, events; financing options for growth; and operational and policy outcomes, along with general economic conditions, are not based on historical facts or current situations. Instead, they represent Chain Bridge's projections about future scenarios, which are inherently uncertain and beyond our control. Words such as "believe," "expect," "anticipate," "intend," "estimate," "may," "would," "could," "target," and their negatives signal such forward-looking statements.

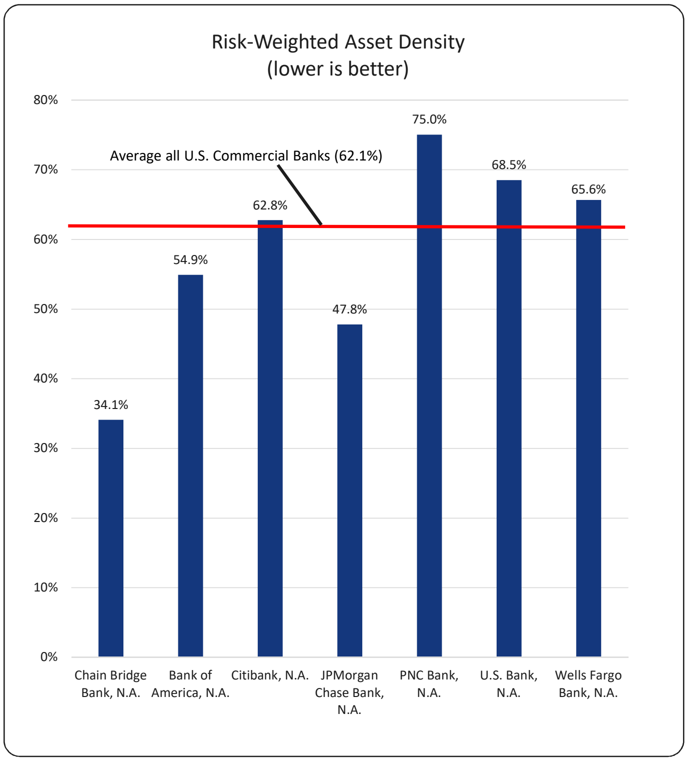
The uncertainty and assumptions underlying these projections mean actual future results or operations could significantly differ from what is discussed. Factors that could cause such differences include fluctuations in market interest rates and inflation; disruptions in financial markets; overall economic conditions; changes in laws, regulations, and their enforcement that affect Chain Bridge's business operations, including capital and liquidity requirements; government actions affecting the financial sector; the company’s ability to effectively execute its plans or intentions; the company's ability to uphold its reputation; challenges in obtaining sufficient funding and liquidity; cybersecurity threats and breaches; the capability to retain essential personnel; legal or regulatory disputes; competition from banks, non-bank financial institutions, and financial technology firms; shifts in consumer behavior; and variations in the performance and creditworthiness of customers, suppliers, and other business partners.

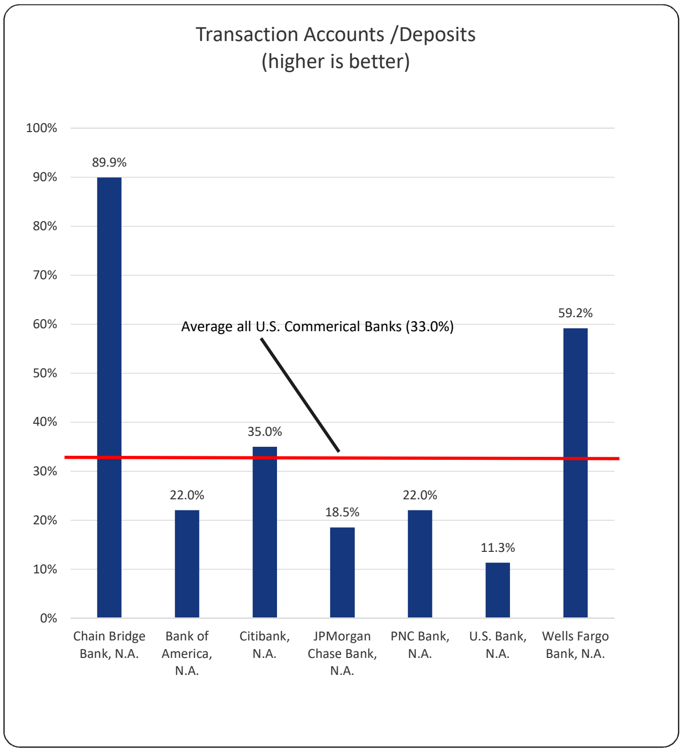
This caution about forward-looking statements is provided to inform readers about the limitations of such statements. Readers should not place undue reliance on forward-looking statements, which reflect our views only as of the date they were made. Chain Bridge assumes no obligation to publicly update any forward-looking statements. Past performance of the Company and the Bank does not guarantee future results.

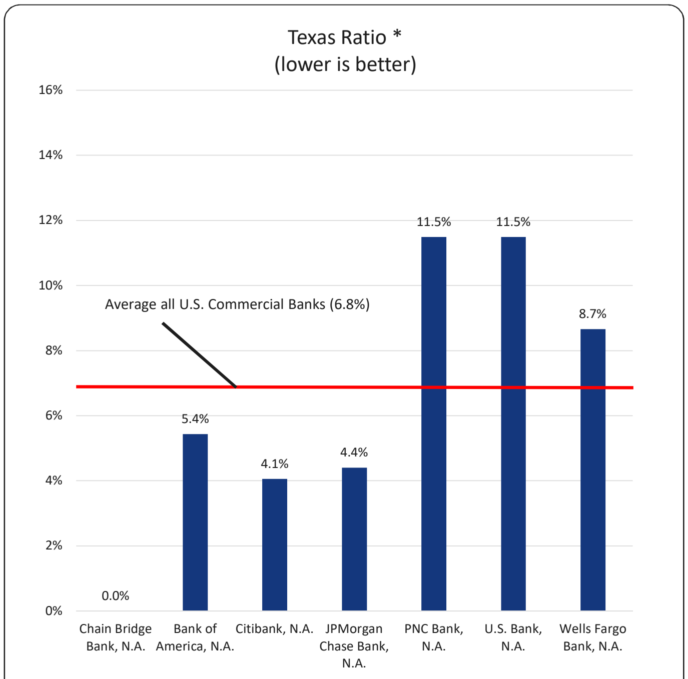
Industry Comparison

(Bank-Level Information at December 31, 2023)[1]





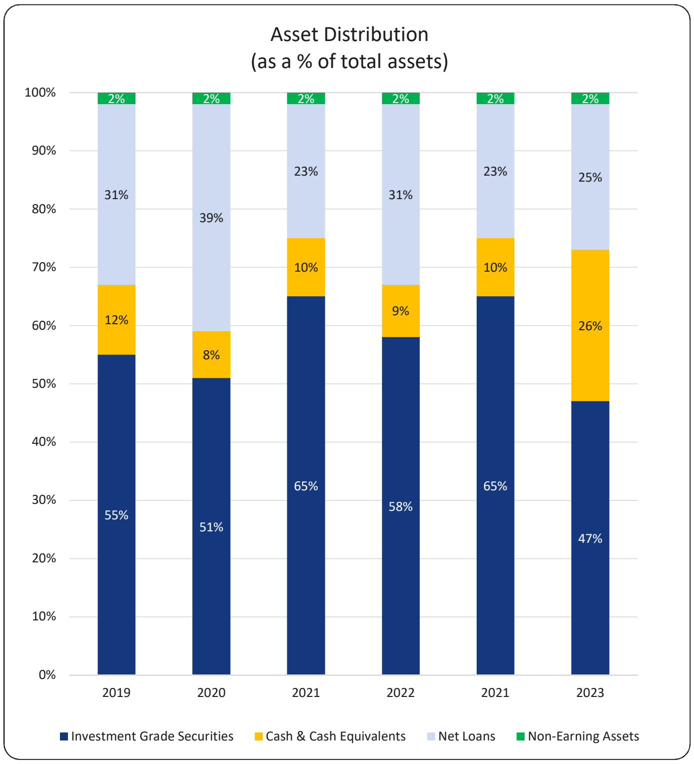


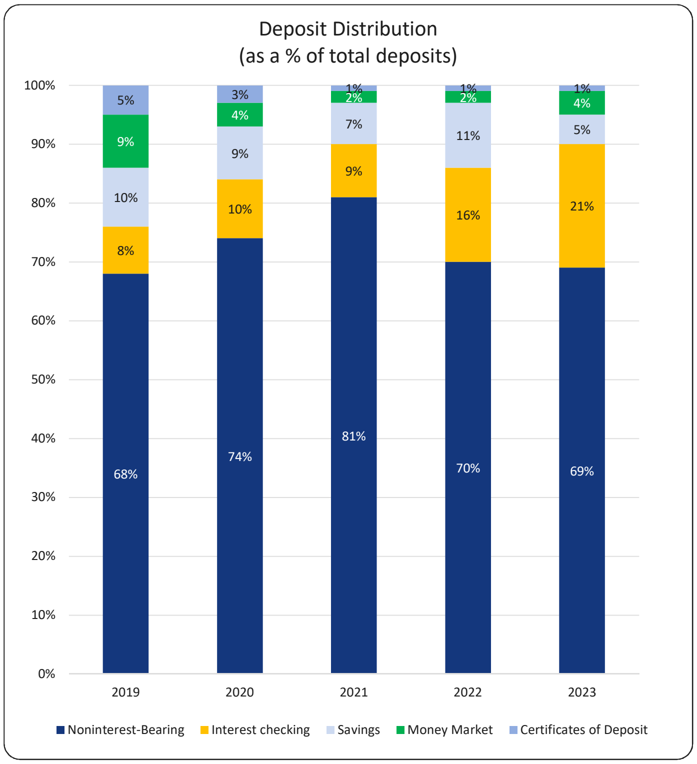


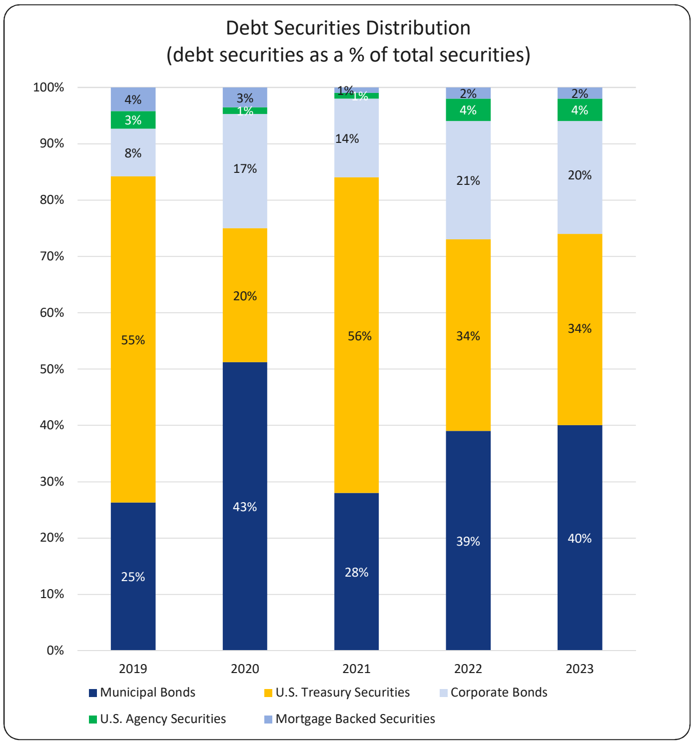
*Texas ratio is defined as non-performing assets plus delinquent loans, expressed as a percentage of tangible equity and the allowance for credit losses on loans.

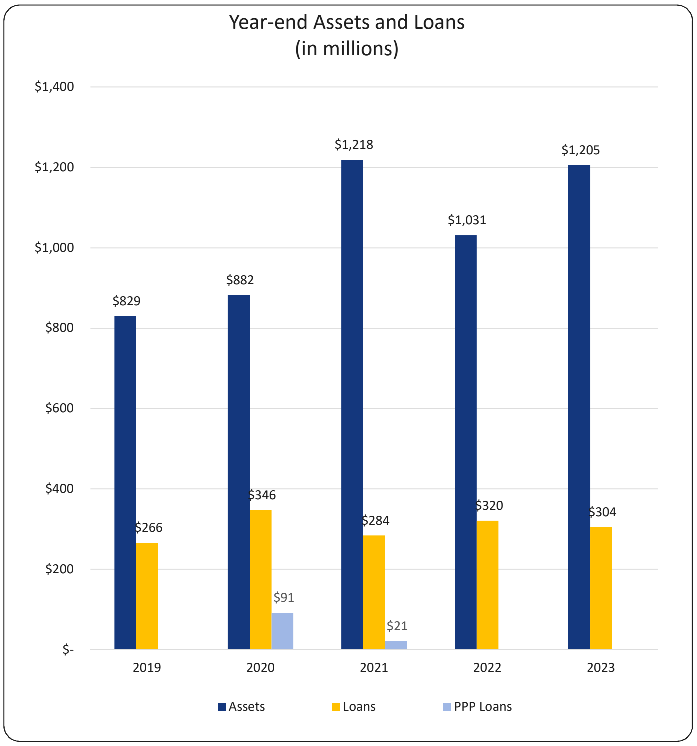
[1] INDUSTRY DATA SOURCE: S&P CAPITAL IQ PRO (2024): CONTAINS COPYRIGHTED AND TRADE SECRET MATERIAL DISTRIBUTED UNDER LICENSE FROM S&P GLOBAL. FOR RECIPIENT'S INTERNAL USE ONLY.

Balance Sheet Information

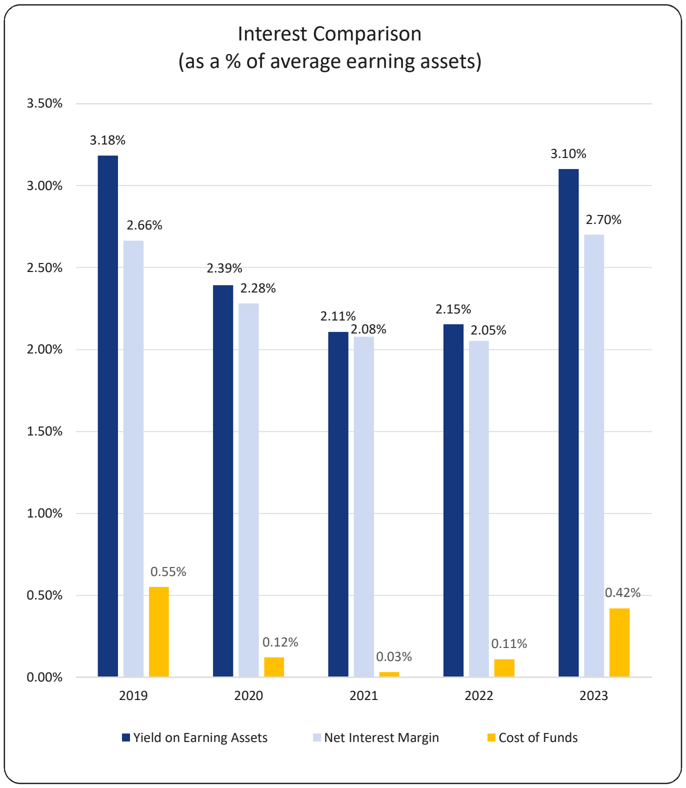


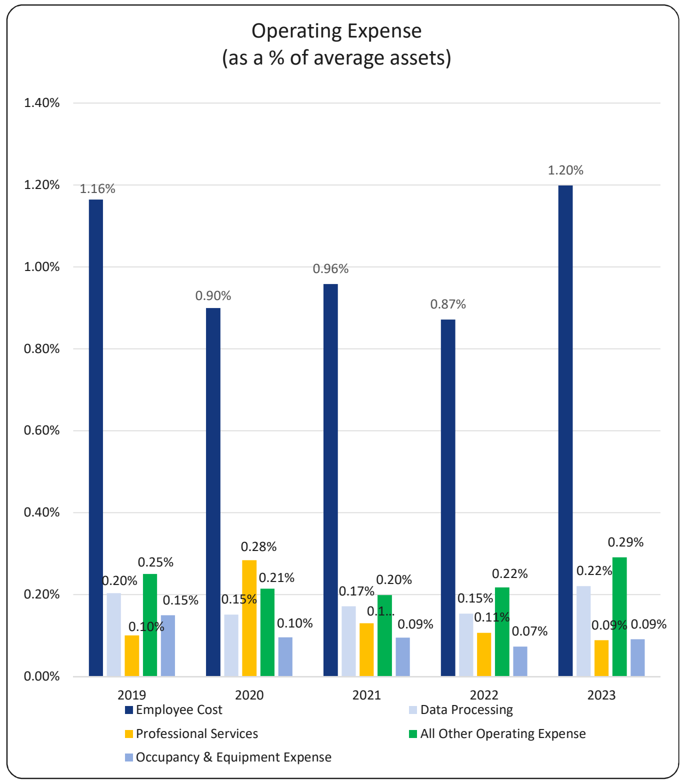


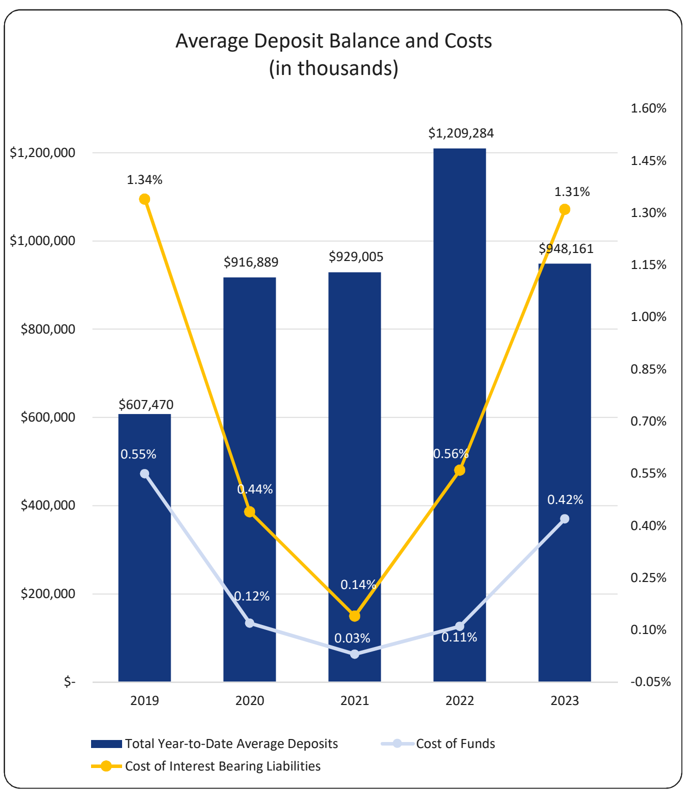


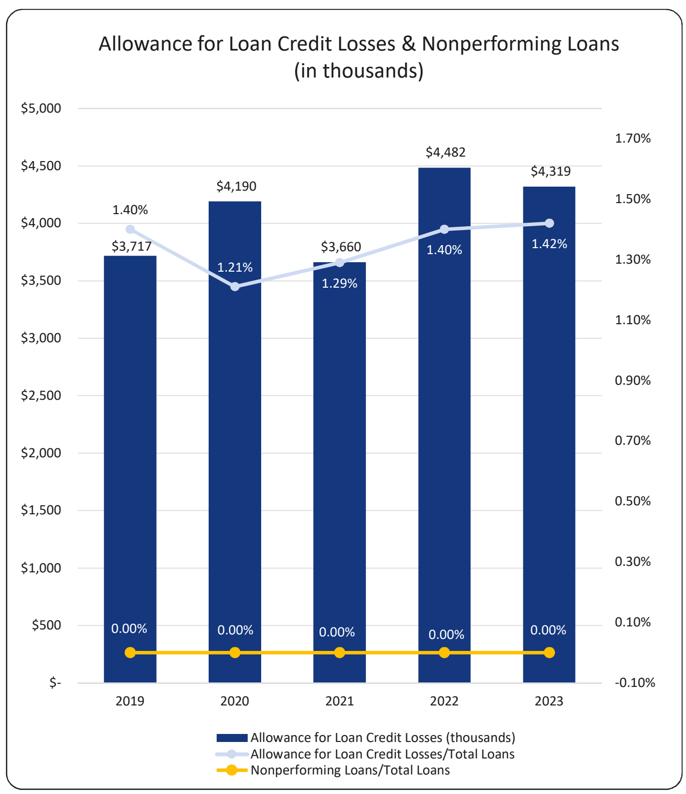


Income Statement and Asset Quality Information

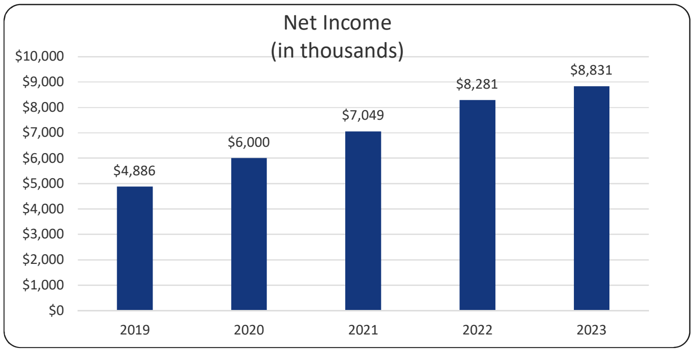


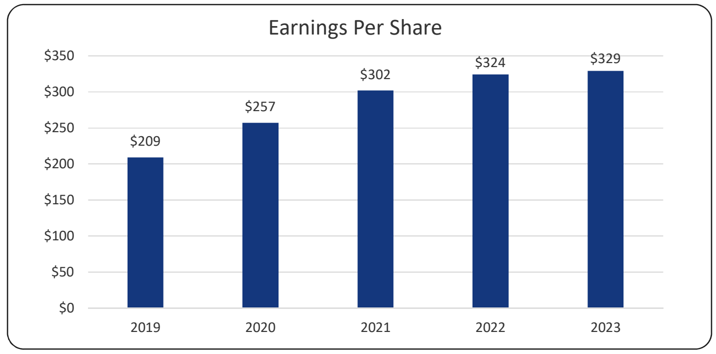


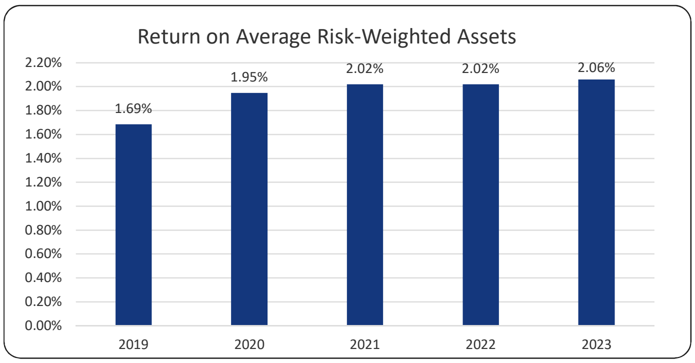


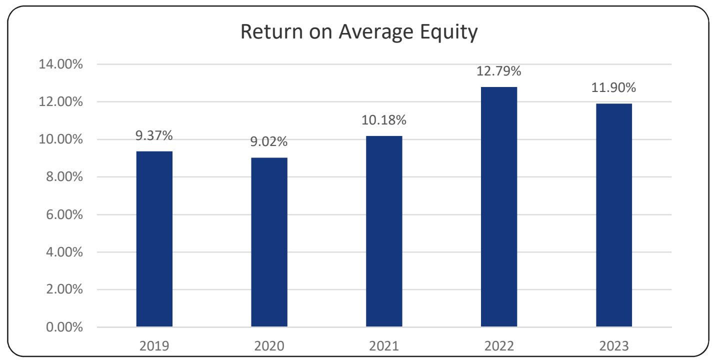


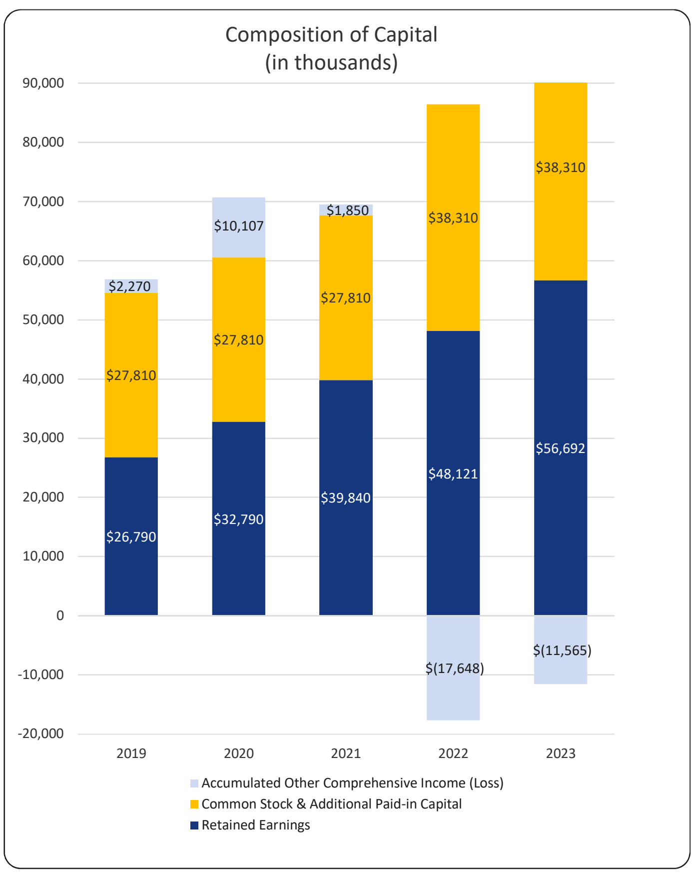
Equity Information and Returns

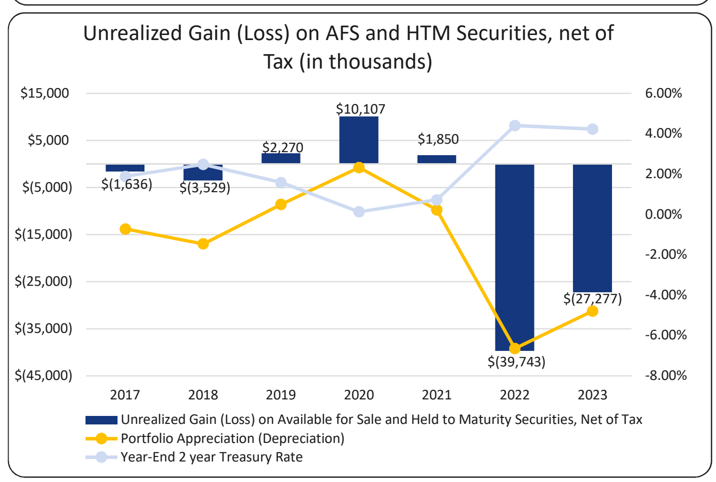


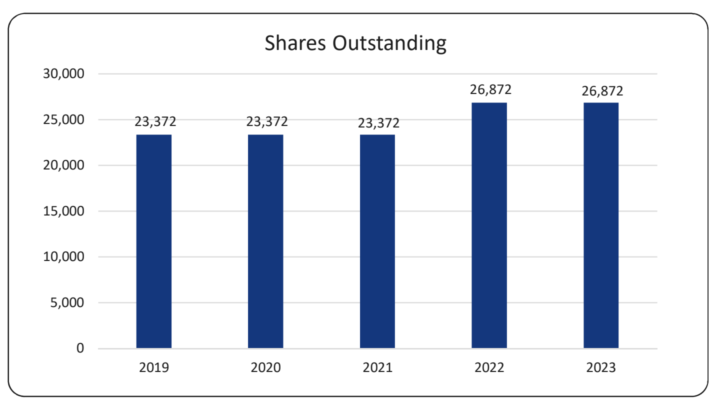












Chain Bridge Bancorp, Inc.
and Subsidiary

McLean, Virginia

Consolidated Financial Report

December 31, 2023

Report of Independent Registered Public Accounting Firm

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Chain Bridge Bancorp, Inc. and its subsidiary (the Company) as of December 31, 2023 and 2022, the related consolidated statements of income, comprehensive income (loss), changes in stockholders' equity, and cash flows for each of the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with auditing standards generally accepted in the United States of America, the Company's internal control over financial reporting as of December 31, 2023, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in 2013, and our report dated March 22, 2024 expressed an unmodified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Yount, Hyde & Barbour, P.C.

We have served as the Company's auditor since 2007.

Winchester, Virginia
March 22, 2024

Independent Auditor's Report

Board of Directors
Chain Bridge Bancorp, Inc.

Opinion on Internal Control Over Financial Reporting

We have audited Chain Bridge Bancorp, Inc. and its subsidiary's (the Company) internal control over financial reporting as of December 31, 2023, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in 2013. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2023, based on the criteria established in *Internal Control—Integrated Framework* issued by COSO in 2013.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) and auditing standards generally accepted in the United States of America (GAAS), the consolidated balance sheet as of December 31, 2023 and 2022, the related consolidated statements of income, comprehensive income (loss), changes in stockholders' equity and cash flow for the years then ended, and the related notes to the consolidated financial statements of the Company and our report dated March 22, 2024, expressed unqualified opinion.

Basis for Opinion

We conducted our audit in accordance with GAAS. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of Internal Control Over Financial Reporting" section of our audit report. We are required to be independent of the Company and to meet our ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for Internal Control Over Financial Reporting

The Company's management is responsible for designing, implementing, and maintaining effective internal control over financial reporting, and for its assessment about the effectiveness of internal control over financial reporting, included in the accompanying Management's Report of Responsibilities and Assessment of FDICIA Requirements.

Auditor's Responsibilities for the Audit of Internal Control Over Financial Reporting

Our objectives are to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects and to issue an auditor's report that includes our opinion on internal control over financial reporting. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit of internal control over financial reporting conducted in accordance with GAAS will always detect a material weakness when it exists.

In performing an audit of internal control over financial reporting in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Obtain an understanding of internal control over financial reporting, assess the risks that a material weakness exists, and test and evaluate the design and operating effectiveness of internal control over financial reporting based on the assessed risk.

Definition and Inherent Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process affected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America. Because management's assessment and our audit were conducted to meet the reporting requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA), our audit of the Company's internal control over financial reporting included controls over the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and with the instructions to the Consolidated Financial Statements for Bank Holding Companies (Form FR Y-9SP). A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that the receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate

Yount, Hyde & Barbour, P.C.

We have served as the Company's auditor since 2007.

Winchester, Virginia
March 22, 2024

Chain Bridge Bancorp, Inc. and Subsidiary

Consolidated Balance Sheets

(Dollars in thousands, except share and per share data)

	December 31, 2023	December 31, 2022
Assets		
Cash and due from banks	$ 6,035	$ 6,773
Interest-bearing deposits in other banks	310,732	91,890
Total cash and cash equivalents	316,767	98,663
Securities available for sale, at fair value	258,114	279,596
Securities held to maturity, at carrying value, net of allowance for credit losses of $348 in 2023 and $0 in 2022 (fair value of $283,916 in 2023 and $278,884 in 2022)	308,058	312,567
Equity securities, at fair value	505	486
Restricted securities, at cost	2,613	2,501
Loans, net of allowance for credit losses of $4,319 in 2023 and $4,482 in 2022	299,825	315,711
Premises and equipment, net of accumulated depreciation of $6,791 in 2023 and $6,300 in 2022	9,858	10,080
Accrued interest receivable	4,354	4,313
Other assets	5,108	6,767
Total assets	$ 1,205,202	$ 1,030,684
Liabilities and Stockholders' Equity		
Liabilities		
Deposits:		
Noninterest-bearing	$ 766,933	$ 666,493
Savings, interest-bearing checking and money market accounts	328,350	273,888
Time, $250 and over	9,385	5,374
Other time	7,357	7,199
Total deposits	1,112,025	952,954
Short-term borrowings	5,000	5,000
Accrued interest payable	61	20
Accrued expenses and other liabilities	4,679	3,927
Total liabilities	1,121,765	961,901
Stockholders' Equity		
Preferred stock		
No par value, 100,000 shares authorized, no shares issued and outstanding	- -	- -
Common stock		
$1.00 par value, 200,000 shares authorized, 26,872 shares issued and outstanding	27	27
Additional paid-in capital	38,283	38,283
Retained earnings	56,692	48,121
Accumulated other comprehensive loss	(11,565)	(17,648)
Total stockholders' equity	83,437	68,783
Total liabilities and stockholders' equity	$ 1,205,202	$ 1,030,684

See Notes to Consolidated Financial Statements.

Chain Bridge Bancorp, Inc. and Subsidiary

Consolidated Statements of Income
For the Years Ended December 31, 2023 and 2022
(Dollars in thousands, except per share data)

	2023	2022
Interest and Dividend Income		
Interest and fees on loans	$ 13,402	$ 11,311
Interest and dividends on securities, taxable	11,112	9,190
Interest on securities, tax-exempt	1,219	1,294
Interest on interest-bearing deposits in banks	6,056	5,589
Total interest and dividend income	31,789	27,384
Interest Expense		
Interest on deposits	3,664	1,082
Interest on short-term borrowings	382	201
Total interest expense	4,046	1,283
Net Interest Income	27,743	26,101
(Recapture of) Provision for Credit Losses		
(Recapture of) provision for loan credit losses	(163)	822
Provision for securities credit losses	804	- -
Total provision for credit losses	641	822
Net interest income after provision for credit losses	27,102	25,279
Noninterest Income		
Deposit placement services income	1,974	1,543
Service charges on accounts	918	1,154
Trust and wealth management income	565	335
Gain on sale of mortgage loans	12	18
Loss on sale of securities	(389)	- -
Other income	201	60
Total noninterest income	3,281	3,110
Noninterest Expenses		
Salaries and employee benefits	12,359	11,173
Data processing and communication expenses	2,276	1,965
Occupancy and equipment expenses	936	932
Professional services	909	1,367
Virginia bank franchise tax	739	627
FDIC and regulatory assessments	585	848
Directors fees	367	371
Marketing and business development costs	239	189
Insurance expenses	225	126
Other operating expenses	842	628
Total noninterest expenses	19,477	18,226
Net income before taxes	10,906	10,163
Income Tax Expense	2,075	1,882
Net Income	$ 8,831	$ 8,281
Earnings per common share, basic and diluted	$ 328.64	$ 324.26

See Notes to Consolidated Financial Statements.

Chain Bridge Bancorp, Inc. and Subsidiary

Consolidated Statements of Comprehensive Income (Loss)
For the Years Ended December 31, 2023 and 2022
(Dollars in thousands)

	2023	2022
Net income	$ 8,831	$ 8,281
Other comprehensive income (loss):		
Unrealized holding gains (losses) on securities available for sale, net of tax of $1,302 in 2023 and ($3,983) in 2022	4,897	(14,985)
Unrealized holding losses on securities available for sale transferred to held to maturity, net of tax of ($1,398) in 2022	- -	(5,257)
Amortization of unrealized holding losses on securities available for sale transferred to held to maturity, net of tax of $234 in 2023 and $198 in 2022	879	744
Reclassification adjustment for losses included in net income, net of taxes of $82 in 2023	307	- -
Other comprehensive income (loss), net of tax	6,083	(19,498)
Comprehensive income (loss)	$ 14,914	$ (11,217)

See Notes to Consolidated Financial Statements.

Chain Bridge Bancorp, Inc. and Subsidiary

Consolidated Statements of Cash Flows

For the Years Ended December 31, 2023 and 2022

(Dollars in thousands)

	2023	2022
Cash Flows from Operating Activities		
Net income	$ 8,831	$ 8,281
Reconciliation of net income to net cash provided by operating activities:		
Depreciation and amortization of premises and equipment	491	501
Premium amortization and discount accretion on investment securities, net	1,616	2,708
Recapture of impairment loss on securities previously recognized in earnings	(13)	(7)
Fair value adjustment on equity security	(7)	63
(Recapture of) provision for loan credit losses	(163)	822
Provision for securities credit losses	804	- -
Loss on sale of securities	389	- -
Gain on sale of mortgage loans	(12)	(18)
Origination of loans held for sale	(1,305)	(1,577)
Proceeds from sale of loans	1,317	1,595
Deferred income tax benefit	(99)	(169)
Changes in assets and liabilities:		
Decrease in accrued interest receivable and other asset	170	3,977
Increase in accrued interest payable, accrued expenses and other liabilities	793	1,166
Net cash provided by operating activities	12,812	17,342
Cash Flows from Investing Activities		
Securities available for sale:		
Purchases of securities	(23,138)	(471,544)
Proceeds from calls, maturities, paydowns and sales	50,750	674,773
Securities held to maturity:		
Purchases of securities	(263)	(32,033)
Proceeds from calls, maturities, paydowns and sales	3,216	504
Purchase of restricted securities, net	(112)	(468)
Reinvestment of dividends on equity security	(12)	(8)
Net decrease (increase) in loans	16,049	(36,273)
Purchases of premises and equipment	(269)	(88)
Net cash provided by investing activities	46,221	134,863
Cash Flows from Financing Activities		
Net increase (decrease) in non-interest bearing, savings, interest-bearing checking and money market deposits	154,902	(187,623)
Net increase (decrease) in time deposits	4,169	(296)
Proceeds from stock issuance	- -	10,500
Net cash provided by (used in) financing activities	159,071	(177,419)
Net increase (decrease) in cash and cash equivalents	218,104	(25,214)
Cash and cash equivalents, beginning of period	98,663	123,877
Cash and cash equivalents, end of period	$ 316,767	$ 98,663
Supplemental Disclosures of Cash Flow Information		
Cash payments for interest	$ 4,005	$ 1,269
Cash payments for taxes	2,047	1,670
Supplemental Disclosures of Noncash Investing Activities		
Fair value adjustment for available for sale securities	$ 6,587	$ (18,967)
Fair value adjustment for available for sale securities transferred to held to maturity	- -	(6,655)
Transfer of available for sale securities to held to maturity, at fair value	- -	281,502

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, 2023 and 2022
(Dollars in thousands)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 31, 2021	$ 23	$ 27,787	$ 39,840	$ 1,850	69,500
Net income	- -	- -	8,281	- -	8,281
Other comprehensive loss	- -	- -	- -	(19,498)	(19,498)
Issuance of common stock	4	10,496	- -	- -	10,500
Balance at December 31, 2022	$ 27	$ 38,283	$ 48,121	$ (17,648)	$ 68,783
Cumulative change in accounting principle (Note 1)	- -	- -	(260)	- -	(260)
Net income	- -	- -	8,831	- -	8,831
Other comprehensive income	- -	- -	- -	6,083	6,083
Balance at December 31, 2023	$ 27	$ 38,283	$ 56,692	$ (11,565)	$ 83,437

See Notes to Consolidated Financial Statements.

Chain Bridge Bancorp, Inc. and Subsidiary

Notes to Consolidated Financial Statements

Note 1. Organization and Summary of Significant Accounting Policies

Organization and Nature of Operations

Chain Bridge Bancorp, Inc. (the "Company") was incorporated on May 26, 2006, in the Commonwealth of Virginia. On September 30, 2022, the Company underwent a statutory conversion to a Delaware corporation, pursuant to Section 265 of the Delaware General Corporation Law. This conversion effected a change in the Company's state of incorporation while maintaining its continuous existence as a legal entity. The Company is the registered bank holding company for Chain Bridge Bank, National Association (the "Bank"). The Company falls under the comprehensive supervision and regulatory oversight of the Board of Governors of the Federal Reserve System (the "FRB"), as mandated by the Bank Holding Company Act of 1956 (12 U.S.C. § 1841 et seq.). Both the Company and Bank have their headquarters and sole executive office in McLean, Virginia

The Bank, a national banking association, was chartered under the National Bank Act (12 U.S.C. §§ 21-216d) and commenced its operations on August 6, 2007, after receiving its charter from the Office of the Comptroller of the Currency (the "OCC"). The Bank is authorized to engage in the full range of traditional banking activities permissible for national banks under federal law. On March 5, 2020, the OCC granted the Bank separate authorization to perform fiduciary activities, pursuant to 12 U.S.C. § 92a and 12 CFR Part 9, under Charter No. 24755 and OCC Control No. 2020-NE-Fiduciary-313106. The Bank initiated these activities on September 18, 2020. These fiduciary activities include, but are not limited to, acting as trustee, executor, administrator, registrar of stocks and bonds, and guardian of estates.

The primary regulator of the Bank is the OCC, which oversees the Bank's operational, risk management, and compliance functions, as well as its fiduciary activities. This oversight includes evaluating the Bank's adherence to capital adequacy standards, asset quality, liquidity management, internal controls, and compliance with federal banking statutes and consumer protection laws. The OCC also evaluates the Bank's governance practices against the Comptroller's Handbook and relevant laws and regulations.

Additionally, the Federal Deposit Insurance Corporation (the "FDIC") provides secondary regulatory oversight of the Bank, an FDIC-insured institution under 12 U.S.C. § 1811 et seq., focusing on insurance standards, risk management practices, and regulatory compliance.

The Bank operates a model that combines electronic banking channels with its physical banking headquarters in McLean, Virginia, allowing it to serve clients nationally.

The Bank provides a wide range of commercial and personal banking services, including deposit accounts, mortgage financing, various loan products, trust administration, wealth management, and asset custody. The core deposit products offered by the Bank include non-interest-bearing and interest-bearing checking accounts, along with savings accounts. The Bank's deposit base is largely comprised of funds from commercial entities, specifically federal political organizations, trade associations, non-profit organizations, and business enterprises. Notably, deposits received from federal political committees exhibit significant seasonality, aligning with the cycle of federal election campaigns. The Bank's lending portfolio is comprised primarily of mortgage-related loans, with consumer residential mortgages within the Washington, D.C. metropolitan area forming the majority of these.

As of December 31, 2023, the Company has authorized capital stock consisting of 100,000 preferred shares with no par value, none of which have been issued, and 200,000 common shares with a par value of $1.00 per share, of which 26,872 shares have been issued. The Company's common stock remains privately held, with 269 stockholders of record as of the same date.

Adoption of New Accounting Standards

On January 1, 2023, the Company adopted ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ("ASC 326"), as amended, which replaced the incurred loss allowance methodology with an expected loss methodology that is referred to as the current expected credit loss ("CECL") methodology. The CECL methodology requires an estimate of credit losses for the remaining estimated life of the financial asset using historical experience, current conditions, and reasonable and supportable forecasts. CECL generally applies to financial assets measured at amortized cost, including loan receivables and held to maturity debt securities, as well as some off-balance sheet credit exposures, such as unfunded commitments to extend credit. Financial assets measured at amortized cost are presented as the net amount expected to be collected.

In addition, CECL made changes to the accounting for available for sale debt securities. One such change is to require credit losses to be presented as an allowance rather than as a write-down on available for sale debt securities if management does not intend to sell, and does not believe that it is more likely than not they will be required to sell, the debt securities.

The Company adopted ASC 326 and all related subsequent amendments thereto effective January 1, 2023, using the modified retrospective approach for all financial assets measured at amortized cost and off-balance sheet credit exposures. The adoption of the CECL standard did not require a material cumulative-effect adjustment to the existing allowance for credit losses for loans or unfunded commitments, and no initial retained earnings adjustment was recorded. As a result of the adoption, the Company recorded an allowance for credit losses for held to maturity securities of $329 thousand, which is presented as a reduction to held to maturity securities outstanding. The adjustment, net of deferred taxes, decreased retained earnings in the amount of $260 thousand. Results for reporting periods beginning after January 1, 2023, are presented under ASU 2016-13, while prior period amounts continue to be reported in accordance with the incurred loss model under the previously applicable Generally Accepted Accounting Principles ("GAAP").

The Company adopted ASC 326 using the prospective transition approach for debt securities for which other-than-temporary impairment had been recognized prior to January 1, 2023. As of December 31, 2022, the Company did not have any other-than-temporarily impaired investment securities. The Company did not record an allowance for credit loss for available for sale securities upon adoption.

The Company elected not to measure an allowance for credit losses for accrued interest receivable and instead elected to reverse interest income on loans or securities that are placed on non-accrual status, which generally occurs when the instrument is 90 days past due, or earlier if the Company believes the collection of interest is doubtful. The Company has concluded that this policy results in the timely reversal of uncollectible interest.

On January 1, 2023, the Company adopted ASU 2022-02, Financial Instruments - Credit Losses (Topic 326), Troubled Debt Restructurings and Vintage Disclosures. ASU 2022-02 addresses areas identified by the Financial Accounting Standards Board ("FASB") as part of its post-implementation review of the ASU 2016-13. The amendments eliminate the accounting guidance for troubled debt restructurings ("TDRs") by creditors that have adopted the CECL model and enhance the disclosure requirements for certain loan refinancings and restructurings by creditors when a borrower is experiencing financial difficulty. In addition, the amendments require that the Company disclose current-period gross write-offs for financing receivables and net investment in leases by year of origination in the vintage disclosures. The Company adopted the standard prospectively, and it did not have a material impact on the financial statements.

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 credit losses on loans and held to maturity securities.

Reclassification

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

Cash and Cash Equivalents

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

Cash Concentrations and Restrictions

The Bank maintains 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, 2023 and 2022 was $657 thousand and $546 thousand, respectively.

The Bank may be required to maintain average balances with the Federal Reserve Bank. On March 26, 2020, The Federal Reserve reduced the reserve requirement to zero for thousands of depository institutions to support lending to households and businesses. Accordingly, the Bank had no minimum reserve requirement at December 31, 2023 and 2022.

Securities

The Bank invests in debt securities issued by entities across various sectors. Under 12 CFR Part 1, banks are required to invest only in securities that are considered "investment grade." A security is deemed "investment grade" when the issuer has an adequate capacity to meet its financial commitments under the security for the projected life of the asset or exposure. An issuer is considered to have an adequate capacity to meet financial commitments if the risk of default by the obligor is low and the full and timely repayment of principal and interest is expected. The Bank has policies and procedures that are designed to promote compliance with these requirements, which include conducting pre-purchase and ongoing credit monitoring activities for its investments in debt securities.

To determine whether a prospective or currently held obligation meets investment grade criteria, the Bank obtains financial statements of the issuer, analyzes the issuer's ability to repay, and, when available, considers current ratings opinions of outside sources. The extent of the assessment of a security's qualification as "investment grade" will depend on the security itself, and the Bank maintains a structured policy setting forth the requirements for pre-purchase and ongoing assessments by security type and rating status. All new municipal, corporate and non-agency structured bond purchases undergo a customized analysis by the investment department prior to purchase. Thereafter, corporate bonds, non-agency structured assets, and non-rated municipal bonds undergo an annual assessment by the investment department to assess the issuer's ability to meet current and prospective debt payment obligations. Rated municipal securities are reviewed by external parties on an ongoing basis. The results of such reviews will contain data to enable the Bank to assess the issuer's credit quality without sole reliance upon third-party credit ratings and may include data related to the issuer's financial condition, debt obligations, and other factors. Further diligence is performed by the investment department when the external review identifies problematic issuers. By these practices, the Bank incorporates third-party credit ratings within broader security reviews. It utilizes several approaches to its security assessments and avoids sole reliance on third-party credit ratings.

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

Transfers of debt securities into the held to maturity classification from the available for sale classification are made at fair value on the date of transfer. The unrealized holding gain or loss on the date of the transfer is reported in accumulated other comprehensive income (loss) and in the carrying value of the held to maturity securities. Such amounts are amortized over the remaining contractual lives of the securities. The net impact to income from the amortization and accretion of the unrealized loss at date of transfer is zero.

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

The Bank maintains an investment in the capital stock of two correspondent banks: CBB Financial Corp. 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.

Allowance for Credit Losses – Held to Maturity Securities

Management measures expected credit losses on held to maturity ("HTM") debt securities on a collective basis by major security type. Accrued interest receivable on HTM debt securities totaled $1.6 million at December 31, 2023 and is excluded from the estimate of credit losses.

The estimate of expected credit losses considers the Company's historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts.

Management classifies the HTM portfolio into the following major security types: U.S. government and federal agencies, agency mortgage backed securities, corporate bonds, and state and municipal securities. Securities issued by the U.S. Treasury or government agencies are not considered to be credit sensitive as they are explicitly or implicitly guaranteed by the U.S. government, and result in expectations of zero credit loss. Accordingly, management's analysis of credit loss considers only the corporate and municipal segments.

In addition to performing an analysis over the Company's own historical bond credit losses, the Company utilizes a methodology involving a probability of default and loss given default calculation to establish the expected credit loss for credit sensitive HTM debt securities. This methodology uses historical loss data from the investment rating agencies sourced from the public domain to produce cumulative default and recovery rates over time. The cumulative default rates applied to the municipal and corporate bond portfolios are stratified by time remaining to maturity and credit rating. This quantitative analysis may be adjusted as needed, based on documented qualitative factors and reasonable and supportable forecasts.

Upon initial adoption of ASC 326 on January 1, 2023, the Company recognized the cumulative-effect adjustment for the changes in the allowance for credit losses ("ACL") relating to the HTM debt securities portfolio in retained earnings. The adjustment, net of tax, decreased retained earnings in the amount of $260 thousand.

Allowance for Credit Losses – Available for Sale Securities

For available for sale ("AFS") debt securities in an unrealized loss position, the Company first assesses whether it intends to sell, or it is more likely than not that it will be required to sell, the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized costs basis is written down to fair value through income. For AFS debt securities that do not meet the aforementioned criteria, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized costs basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists, and an ACL is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an ACL is recognized in other comprehensive income (loss).

Changes in the ACL are recorded as credit loss provision (or reversal). Losses are charged against the allowance when management believes the uncollectibility of an AFS security is confirmed or when either of the criteria regarding intent or requirement to sell is met. At December 31, 2023, there was no allowance related to the AFS security portfolio.

Accrued interest receivable on AFS debt securities totaled $1.6 million at December 31, 2023 and is excluded from the estimate of credit losses.

Loans Held for Sale

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

Loans

The Bank grants mortgage, commercial, and consumer loans to clients. A substantial portion of the loan portfolio is primarily 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 the Company 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 credit 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. Management may place loans on non-accrual status prior to 90 days of delinquency if management believes interest is uncollectible. Non-performing or uncollectible 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.

Risk grading and ongoing credit monitoring of the loan portfolio

During management's review of the adequacy of the allowance for credit losses, particular risk characteristics associated with a segment of the loan portfolio are also considered. These characteristics are detailed below:

- Commercial and industrial loans that are not secured by real estate or other marketable collateral carry risks associated with the continued and successful operation of a business. The repayment of these loans heavily depends on the profitability and cash flows from the business. Additional risks related to an industry or key person may impact the ability for the business to operate profitably or continue operations.
- Commercial real estate mortgages carry risks associated with the tenancy of the property, and the repayment of these loans depends on the net operating income from the property. Additional risk relates to the value of collateral where depreciation occurs, and the appraisal lacks precision.
- Residential real estate mortgage loans carry risks associated with the income and continued creditworthiness of the borrower and changes in the value of the collateral.
- Other consumer loans carry risks associated with the continued income and creditworthiness of the borrower and the value of the collateral, 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.

All loans, regardless of type, are assigned a loan risk classification grade during the underwriting process. The Company categorizes commercial loans into risk categories based on relevant information about the ability of the borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information and current economic trends, among other factors. Consumer loans are provided a risk rating based on the type of loan. This risk classification grade is an important component that triggers the addition of a loan to the watch list report. The primary tool used in managing and controlling problem loans is a watch list report, which is a listing of all loans or commitments that are considered problem loans. The report is controlled by the Chief Credit Officer and presented to the Board monthly. It is a primary responsibility of each loan officer to manage the credit risk within their loan portfolio. As such, they are expected to be 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, the Chief Credit Officer or the 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 selected by management, in its judgement, due to unexpected changes or events which could have a potentially adverse effect on the borrower's ability to repay.

The following guidance is generally used by loan officers in detecting problem loans. The existence of one or more of these scenarios might also cause a loan officer to evaluate whether the loan risk classification grade assigned at origination should be modified:

- Financial Statement Analysis – As client financial statements are received, they are 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 client, a problem may be developing.
- Delinquent Principal or Interest – Delinquencies are often the first indication of a problem. The Bank's policy is to carefully review each loan as soon as it becomes past due.
- Delinquent Real Estate Taxes – Delinquent property taxes are often a sign a borrower is experiencing cash flow issues. The Bank monitors real estate property tax payments using third-party services. The Bank's policy is to carefully review delinquent tax notices as they are made available.
- Overdrafts – If a borrower's deposit account is overdrawn on a consistent basis this is an indication of an income or cash flow problem.
- Lack of Cooperation – It is in the borrower's best interest to cooperate with the Bank. We suspect a problem if the client 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; 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; or trade payables begin to increase abnormally and cancellation of insurance.

In addition to a loan officer identifying the need to re-evaluate a loan's current risk classification grade based upon the detection of potential issues with the loan or the borrower, the Bank performs both internal and external loan reviews for a large portion of the portfolio. The external loan review function independently evaluates the Bank's underwriting and ongoing portfolio monitoring, which includes the confirmation of the grade or alternatively the recommendation to change the risk classification grade. The Bank's internal loan review process monitors the performance of commercial borrowers using a risk-based approach and includes the confirmation of the grade or alternatively the recommendation to change the risk classification grade. 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. The 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.

Allowance for Credit Losses - Loans

The allowance for credit losses ("ACL") represents an amount which, in management's judgment, is adequate to absorb the lifetime expected credit losses that may be sustained on outstanding loans at the balance sheet date. The estimate for expected credit losses is based on an evaluation of the size and current risk characteristics of the loan portfolio, past events, current conditions, reasonable and supportable forecasts of future economic conditions, and prepayment experience as related to credit contractual term information. The ACL is measured and recorded upon the initial recognition of a financial asset. The ACL is reduced by charge-offs, net of recoveries of previous losses, and is increased (or decreased) by a provision for (or recovery of) credit losses, which is recorded in the consolidated statements of income. Management estimates the allowance balance using information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the estimation of expected credit losses. Adjustments to historical loss information are made for differences in current loan-specific risk characteristics such as differences in underwriting standards, portfolio mix, delinquency level, or term, as well as for changes in environmental conditions, such as changes in unemployment rates, property values, or other relevant factors. Expected credit losses are estimated over the contractual term of the loans, adjusted for expected prepayments when appropriate. The contractual term excludes expected extensions, renewals, and modifications.

The ACL is measured on a collective (pool) basis when similar risk characteristics exist. Under the CECL methodology, management uses the weighted average remaining maturity ("WARM") method to calculate quantitative allowances for all collectively evaluated loan categories. Management generally segments loans based on their federal call codes in order to aggregate loans with similar risk characteristics.

To adjust the Bank's loss rates over a reasonable and supportable forecast period of one year, management collects and analyzes one or a combination of loss drivers which may include unemployment rates, home price indices, interest rates, gross domestic product, or other macroeconomic indicators as appropriate. Following the one year reasonable and supportable forecast period, expected losses immediately revert to rates that are based on the historical information baseline, plus or minus qualitative adjustments.

To further adjust the allowance for credit losses for expected losses not already included within the quantitative component of the calculation, the Bank may consider the following qualitative adjustment factors: levels of and trends in delinquencies and individually evaluated loans; level of and trends in charge-off and recovery activity; trends in volume and terms of loans; effect of changes in risk selection and underwriting standards, and other changes in lending policies, procedures and practices; effect of changes in experience, ability and depth of lending management and other staff; national and local economic trends and conditions; industry conditions and other external factors; effects of changes in credit concentrations; and changes in the quality of the Bank's loan review system and loan grading.

If a loan does not share risk characteristics with a pool of other loans, expected credit losses are then measured on the individual loan basis. When a loan's expected credit loss is measured individually, it is excluded from any collective assessment. Management will individually evaluate the expected credit loss for any loans that are collateral dependent, are graded substandard or doubtful, or are otherwise determined to have risk characteristics that are dissimilar to the established loan pools. The individual evaluation will consider collateral value, an observable market price, or the present value of future cash flows. If the measured value of the loan using one of these methods is less than the carrying value of the loan, a specific reserve is applied to the loan in the amount of the difference.

When management determines that foreclosure is probable, or when the borrower is experiencing financial difficulty at the reporting date, and repayment is expected to be provided substantially through the operation or sale of the collateral, the loan is considered collateral-dependent. These loans do not share common risk characteristics with other loans and are not included in any collective evaluation for determining an ACL. Under CECL, the Company has adopted the practical expedient to the ACL for collateral-dependent loans, which allows the Bank to record an ACL based on the fair value of the collateral rather than by estimating expected losses over the life of the loan. Under the practical expedient, the ACL is calculated on an individual loan basis based on the shortfall between the value of the loan's collateral, which is adjusted for liquidation costs and discounts, and its amortized cost. If the fair value of the collateral exceeds the amortized cost, no allowance is required.

Allowance for Credit Losses - Off-Balance Sheet Credit

The Company estimates expected credit losses over the contractual period in which the Company is exposed to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancellable by the Company. The allowance for credit losses on off-balance sheet credit exposures is included in accrued expenses and other liabilities on the consolidated balance sheets and adjusted through credit loss provision (or recovery). The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over their estimated lives. The Company applies the loan segmentation practices and CECL methodology utilized for the loan portfolio to its unfunded commitments.

Modifications to Borrowers Experiencing Financial Difficulty

On January 1, 2023, the Company adopted ASU 2022-02, Financial Instruments - Credit Losses (Topic 326), Troubled Debt Restructurings and Vintage Disclosures. Prior to the adoption of ASU 2022-02, in situations where a borrower is experiencing financial difficulty, management grants a concession that it would not otherwise consider and the modification results in a more than insignificant change in contractual cash flows, the related loan would be classified as a TDR. With the adoption of ASU 2022-02 on January 1, 2023, the TDR accounting model was eliminated.

Beginning in 2023, in situations where a borrower is experiencing financial difficulty, management grants a concession to the borrower that it would not otherwise consider, and the modification results in a more than insignificant change in contractual cash flows, the related loan is subject to specific disclosure requirements. Management strives to identify borrowers in financial difficulty early and work with them to modify their loans to more affordable terms before their loans reach 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. The Bank did not extend any modifications to borrowers experiencing financial difficulty that had a more than insignificant change in the contractual cash flows of a loan during the period ending December 31, 2023. The Bank had no TDRs as of December 31, 2022.

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. Foreclosed assets are initially recorded at fair market value at the date of foreclosure less estimated selling costs, thus establishing a new cost basis. Subsequent to foreclosure, valuations of the assets are periodically performed by management. Adjustments are made to the lower of the carrying amount or fair market value of the assets less selling costs. Revenue and expenses from operations and valuation changes are included in non-interest expense. The Bank had no foreclosed assets during the years ending December 31, 2023 and 2022.

Rate Lock Commitments

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

The fair value of rate lock commitments and best-efforts contracts is not readily ascertainable with precision because rate lock commitments and best-efforts contracts are not actively traded in stand-alone markets. Management considers any gain or loss associated with rate lock commitments during the years ending December 31, 2023 or 2022 to be immaterial.

Income Taxes

Deferred income tax assets and liabilities are determined using the asset and liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based upon the tax effects of the temporary differences between the book and tax bases of the various balance sheet assets and liabilities and give current recognition to changes in tax rates and laws. 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 consolidated statements of income. The Company did not record a liability for unrecognized tax benefits at December 31, 2023 or 2022.

Transfers of Financial Assets

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

Private Placement

In the first quarter of 2022, the Company's Board of Directors authorized a private placement offering, under Rule 506(b) of the Securities and Exchange Commission's Regulation D, to raise additional common equity capital. The Offering included an option to accept subscriptions up to 3,500 shares at a price of $3,000.00 per share. The 3,500 shares sold for a total of $10.5 million by the subscription deadline of April 27, 2022.

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. There were no potentially dilutive shares as of December 31, 2023 and 2022. For the years ended December 31, 2023 and 2022, respectively, the weighted average number of shares outstanding for calculating both basic and diluted earnings per share was 26,872 and 25,539, respectively.

Advertising Costs

The Company's policy is to charge the production costs of advertising to expense as incurred. The Bank expensed $33 thousand and $30 thousand for advertising costs for the years ended December 31, 2023 and 2022, respectively.

Comprehensive Loss

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 stockholders' equity section of the consolidated balance sheets, such items, along with net income, are components of comprehensive income (loss). For the years ended December 31, 2023 and 2022, the Company's other comprehensive income (loss) relates to changes in unrealized gains and losses on available for sale securities and the unrealized losses on securities transferred from available for sale to held to maturity, net of tax. Items reclassified out of accumulated other comprehensive income (loss) to net income relate to the amortization on securities transferred from available for sale to held to maturity as well the sale of securities in 2023.

Fair Value Measurements

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with the Fair Value Measurements and Disclosures Topic of the Financial Accounting Standards Board's Accounting Standards Codification, the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are not quoted market prices for the Company's various financial instruments.

In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

If there has been a significant decrease in volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

Loss Contingencies

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

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

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

Litigation

On June 12, 2020, Blue Flame Medical LLC ("Blue Flame") filed a lawsuit against the Bank, its Chief Executive Officer John J. Brough, and its President David M. Evinger in the United States District Court for the Eastern District of Virginia. The lawsuit alleged that the Bank improperly returned a wire transfer in the amount of $456.9 million and remained obligated to pay that sum to Blue Flame. The wire transfer, sent by the State of California on March 26, 2020, was intended as a down payment for the purchase of 100 million N95 masks. The Bank returned the wire transfer in response to a cancellation request received from JPMorgan Chase Bank, N.A. ("JPMorgan"), the bank acting on behalf of the State of California.

On September 23, 2021, after having previously dismissed other claims, the United States District Court for the Eastern District of Virginia entered judgements in favor of the Bank both on the remaining claims asserted by Blue Flame and on the Bank's third-party indemnification complaint against JPMorgan. Blue Flame and JPMorgan appealed the District Court's judgements to the United States Court of Appeals for the Fourth Circuit, which subsequently affirmed the District Court's rulings on March 20, 2023. While JPMorgan elected not to pursue further appeals, Blue Flame filed a petition for a writ of *certiorari* with the United States Supreme Court. On October 2, 2023, the Supreme Court denied Blue Flame's petition for a writ of *certiorari,* leaving undisturbed the decisions of the lower courts in favor of the Bank.

Following the exhaustion of all appellate review, the Bank and JPMorgan executed a settlement agreement dated November 29, 2023, resolving their outstanding indemnification disputes.

Management is not aware of any other litigation, claims or legal actions during 2023, and does not believe there are now any such matters that will have a material effect on the financial statements.

Revenue Recognition

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

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

Service Charges on Accounts
Service charges on accounts consist primarily of income from three areas. The Company earns income from account analysis, monthly service charges, and from overdraft, nonsufficient funds, and other deposit account related services as well as income from transaction-based services such as wire transfers and debit card fee income.

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

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

Debit card income is primarily comprised of interchange fee income. Interchange fees are earned whenever debit cards issued by the Company are processed through card payment networks. The Company's performance obligation for interchange fee income is largely satisfied, and related revenue recognized, when the services are rendered or upon completion. Payment is received immediately or in the following month. During the year ending December 31, 2023 and 2022, credit card income arose from the Bank's agency agreement with the First National Bank of Omaha. The Bank terminated this agreement as of September 30, 2023. Prior to the termination of this agreement, the Bank referred clients to this credit card provider and, in return, received a percentage of the profits earned on the referred accounts. Income was recorded on a quarterly basis as payments were received.

Trust and Wealth Management Income
Trust and wealth management income represents monthly service charges due from clients for managing and administering the clients' assets. Wealth management and trust services include investment management and advisory services, custody of assets, trust services and similar fiduciary activities, and financial planning services. Revenue is recognized when the performance obligation is completed each month. Income for financial planning services is recorded when payment is received, usually in stages throughout the contract.

Note 2. Securities & Allowance for Securities Credit Losses

The Company invests in a variety of debt securities, principally obligations of the U.S. government and federal agencies, mortgage backed securities, state and municipal agencies, and corporations. As of December 31, 2023 and 2022, all debt securities were classified as held to maturity or available for sale.

Management considers the appropriateness of the accounting treatment applied to the Company's securities portfolio on an ongoing basis. During 2022, given the rapid increase in interest rates, the resulting effects of unrealized bond losses on stockholders' equity, and to better reflect management's intention to hold certain securities until maturity, the Company transferred AFS securities with a book value of $288.2 million and an associated unrealized loss of $6.7 million to the HTM classification at the fair value of $281.5 million. The securities selected for transfer included U.S. government and federal agencies, corporate bonds, and state and municipal bonds. The unrealized loss is being amortized monthly over the remaining lives of the securities with an increase to the carrying value of the securities and a decrease to the related accumulated other comprehensive loss, which is included in the stockholders' equity section of the consolidated balance sheets.

The following table summarizes the amortized cost, gross unrealized gains and losses, fair value and allowance for credit losses of securities available for sale and securities held to maturity at December 31, 2023 (dollars in thousands):

	December 31, 2023				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value	Allowance for Credit Losses
Securities available for sale:					
U.S. government and federal agencies	$ 95,129	$ 32	$ (2,864)	$ 92,297	$ - -
Mortgage backed securities	9,247	11	(609)	8,649	- -
Corporate bonds	57,304	5	(1,837)	55,472	- -
State and municipal securities	106,472	34	(4,810)	101,696	- -
Total securities available for sale	$ 268,152	$ 82	$ (10,120)	$ 258,114	$ - -
Securities held to maturity:					
U.S. government and federal agencies	$ 123,938	$ - -	$ (10,069)	$ 113,869	$ - -
Mortgage backed securities	1,190	- -	(17)	1,173	- -
Corporate bonds	59,629	59	(3,027)	56,661	(322)
State and municipal securities	123,649	6	(11,442)	112,213	(26)
Total securities held to maturity	$ 308,406	$ 65	$ (24,555)	$ 283,916	$ (348)
Total securities	$ 576,558	$ 147	$ (34,675)	$ 542,030	$ (348)

The following tables summarizes the amortized cost, gross unrealized gains and losses, and fair value of securities available for sale and securities held to maturity at December 31, 2022 (dollars in thousands):

	December 31, 2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
Securities available for sale:				
U.S. government and federal agencies	$ 104,414	$ - -	$ (5,012)	$ 99,402
Mortgage backed securities	11,489	1	(859)	10,631
Corporate bonds	65,856	2	(3,226)	62,632
State and municipal securities	114,462	52	(7,583)	106,931
Total securities available for sale	$ 296,221	$ 55	$ (16,680)	$ 279,596
Securities held to maturity:				
U.S. government and federal agencies	$ 125,427	$ - -	$ (12,696)	$ 112,731
Mortgage backed securities	1,220	- -	(26)	1,194
Corporate bonds	62,440	25	(4,787)	57,678
State and municipal securities	123,480	- -	(16,199)	107,281
Total securities held to maturity	$ 312,567	$ 25	$ (33,708)	$ 278,884
Total securities	$ 608,788	$ 80	$ (50,388)	$ 558,480

There were no holdings of municipal or corporate debt that equaled or exceeded 10.0% of stockholders' equity at December 31, 2023 and 2022.

The Company reported a fair value gain of $7 thousand and a fair value loss of $63 thousand in its equity security holding during 2023 and 2022, respectively. The gain and loss were reflected in the other income component of noninterest income on the consolidated statements of income.

Securities with a carrying value of $10.9 million were pledged to secure a line of credit with the Federal Reserve Bank of Richmond, Virginia at December 31, 2022. There were no securities pledged at December 31, 2023.

Proceeds from calls, maturities, paydowns and sales of securities available for sale totaled $50.8 million and $674.8 million for 2023 and 2022, respectively. Proceeds from calls, maturities, paydowns and sales of securities held to maturity totaled $3.2 million and $504 thousand for 2023 and 2022, respectively.

The proceeds, gross realized gains and losses from sales of securities during 2023 were as follows (dollars in thousands):

	Available for Sale	Held to Maturity
Proceeds from sales of securities	$ 3,041	$ 512
Gross gains	$ - -	$ - -
Gross losses	(340)	(49)
Net losses on sale of a securities	$ (340)	$ (49)
Income tax benefit attributable to realized net losses on sale of securities	$ 71	$ 10

Management classifies bonds as HTM only when the Company has the ability and intent to hold the bond to maturity, and certain sales or transfers of HTM bonds could call into question management's ability or intent to hold the remaining HTM bond portfolio to maturity, thereby "tainting" the entire portfolio. However, there are limited situations, including evidence of deterioration in the issuer's creditworthiness, in which the Company could sell an HTM bond without tainting the remaining HTM portfolio. During 2023, the Company sold one HTM bond due to significant documented deterioration of the issuer's creditworthiness evidenced by the downgrading of the issuer's public credit rating, mass litigation and increased regulatory concerns. Under these circumstances, the sale did not taint the HTM portfolio.

There were no sales of securities in 2022.

The amortized cost and fair value of debt securities by contractual maturity at December 31, 2023 is as follows (dollars in thousands):

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Within one year	$ 98,751	$ 97,304	$ 3,896	$ 3,802
After one year through five years	125,038	120,120	182,100	171,691
After five years through ten years	38,668	35,442	118,043	104,677
Over ten years	5,695	5,248	4,367	3,746
Total	$ 268,152	$ 258,114	$ 308,406	$ 283,916

Expected maturities may differ from contractual maturities if borrowers have the right to call or repay obligations with or without prepayment penalties.

The following table shows the gross unrealized losses and fair value of the Company's AFS securities with unrealized losses aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2023 (dollars in thousands):

	December 31, 2023					
	Less Than Twelve Months		Over Twelve Months		Total	
	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss	Fair Value
Securities available for sale:						
U.S. government and federal agencies	$ (16)	$ 5,860	$ (2,848)	$ 70,906	$ (2,864)	$ 76,766
Mortgage backed securities	- -	- -	(609)	8,604	(609)	8,604
Corporate bonds	(3)	2,482	(1,834)	51,987	(1,837)	54,469
State and municipal securities	(31)	3,675	(4,779)	89,828	(4,810)	93,503
Total securities available for sale	$ (50)	$ 12,017	$ (10,070)	$ 221,325	$ (10,120)	$ 233,342

The following table shows the gross unrealized losses and fair value of the Company's securities with unrealized losses aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2022 (dollars in thousands):

	December 31, 2022					
	Less Than Twelve Months		Over Twelve Months		Total	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Loss	Fair Value
Securities available for sale:						
U.S. government and federal agencies	$ (1,213)	$ 55,004	$ (3,799)	$ 44,398	$ (5,012)	$ 99,402
Mortgage backed securities	(858)	10,528	(1)	66	(859)	10,594
Corporate bonds	(1,249)	41,303	(1,977)	19,849	(3,226)	61,152
State and municipal securities	(4,280)	83,288	(3,303)	22,127	(7,583)	105,415
Total securities available for sale	$ (7,600)	$ 190,123	$ (9,080)	$ 86,440	$ (16,680)	$ 276,563
Securities held to maturity:						
U.S. government and federal agencies	$ (2,276)	$ 27,780	$ (10,420)	$ 84,951	$ (12,696)	$ 112,731
Mortgage backed securities	(26)	1,194	- -	- -	(26)	1,194
Corporate bonds	(1,142)	15,390	(3,645)	39,876	(4,787)	55,266
State and municipal securities	(4,407)	43,778	(11,792)	63,503	(16,199)	107,281
Total securities held to maturity	$ (7,851)	$ 88,142	$ (25,857)	$ 188,330	$ (33,708)	$ 276,472
Total securities	$ (15,451)	$ 278,265	$ (34,937)	$ 274,770	$ (50,388)	$ 553,035

In the AFS portfolio, at December 31, 2023, 71 out of 79 securities of the U.S. government and federal agencies, 17 out of 21 mortgage backed securities, 119 out of 120 corporate bonds, and 284 out of 304 state and municipal securities were in an unrealized loss position. All of the Company's investment portfolio was evaluated under the monitoring process described in Note 1, and all investments were deemed investment grade. All of the unrealized losses are attributed to changes in market interest rates, and are not a result of deterioration of creditworthiness among any of the issuers.

Of the total portfolio, at December 31, 2023 and 2022, 880 and 963 debt securities had unrealized losses with aggregate impairment of 6.0% and 8.3%, respectively, of the Bank's amortized cost basis. These unrealized losses related principally to interest rate movements and not the creditworthiness 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. Credit loss allowances for the AFS and HTM portfolios are described in the following sections.

Allowance for Credit Losses - AFS Securities

Management evaluates securities to determine whether the unrealized loss is due to credit-related factors or non-credit-related factors. This analysis occurs on at least a quarterly basis, and more frequently when economic or market concerns warrant such an evaluation. Consideration is given to the extent to which fair value is less than cost, the financial condition and near-term prospects of the issuer, and the intent and ability of the Company to retain its investment in the security for a period of time sufficient to allow for full recovery of its amortized cost. If the assessment reveals that a credit loss exists, the present value of the expected cash flows of the security is compared to the amortized cost basis of the security. If the present value of future cash flows expected to be collected is less than the amortized cost, an allowance for the credit loss is recorded. The loss is limited by the amount that the amortized cost exceeds fair value. Prior to implementation of the CECL standard, unrealized losses caused by a credit event required the direct write-down of the security through the other-than-temporary impairment approach.

As of the reporting date, the Company did not intend to sell any of the AFS securities, did not expect to be required to sell these securities, and expected to recover the entire amortized cost basis of all of the securities.

The Company did not record an ACL on the AFS securities at December 31, 2023. The Company has evaluated these securities for credit-related impairment at the reporting date and concluded that no impairment existed. 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, industry analysts' reports, and correlations between fair value changes and interest rate changes among instruments that are not credit sensitive. The Company considers the unrealized losses on the securities as of December 31, 2023 to be related to fluctuations in market conditions, primarily interest rates, and is not reflective of deterioration in credit.

The table below presents a rollforward by major security type for the year ended December 31, 2023 of the allowance for credit losses on AFS debt securities held at period end (dollars in thousands):

	December 31, 2023				
	U.S. government and federal agency	Agency mortgage backed securities	Corporate bonds	State and municipal securities	Total AFS securities
Allowance for credit losses:					
Beginning balance, December 31, 2022	$ - -	$ - -	$ - -	$ - -	$ - -
Impact of adopting ASC 326	- -	- -	- -	- -	- -
Additions for securities for which no previous expected credit losses were recognized	- -	- -	785	- -	785
Write offs charged against the allowance	- -	- -	(785)	- -	(785)
Recoveries of amounts previously written off	- -	- -	- -	- -	- -
Ending balance, December 31, 2023	$ - -	$ - -	$ - -	$ - -	$ - -

The ACL recorded for the AFS portfolio during 2023 pertained to a holding from a single corporate issuer whose business was ultimately closed by a regulatory authority. The bond, initially classified as HTM, was transferred to the AFS portfolio based on the unlikely collectability of the unsecured bond and significant documented credit deterioration. A portion of the bond was subsequently sold at a loss, and the remaining unsold portion was written off entirely.

In years prior to the adoption of the CECL allowance methodology on January 1, 2023, the Bank recognized other than temporary impairment ("OTTI") from bonds classified as available for sale. The Bank recorded subsequent OTTI recoveries totaling $13 thousand and $7 thousand, in 2023 and 2022, respectively, as other income on the consolidated statements of income.

Credit Quality Indicators and Allowance for Credit Losses - HTM Securities

The Company evaluates the credit risk of its HTM securities on at least a quarterly basis. The Company estimates expected credit losses on HTM debt securities using an instrument-level process described in Note 1. The primary indicators of credit quality for the Company's HTM portfolio are security type, time remaining to maturity, and credit rating. Credit ratings may be influenced by a number of factors included obligor cash flows, geography, seniority and others. The HTM portfolio includes bonds issued by the U.S. Treasury and agencies of the federal government, and mortgage-backed securities issued by government agencies. These types of investments carry implicit or explicit backing of the U.S. Treasury, and therefore are deemed to carry no credit risk for purposes of the ACL evaluation.

The following table presents the amortized cost of HTM securities as of December 31, 2023 by security type and credit rating (dollars in thousands):

	December 31, 2023				
	U.S. government and federal agency	Agency mortgage backed securities	Corporate bonds	State and municipal securities	Total HTM securities
AAA / AA / A	$ 123,938	$ 1,190	$ 20,091	$ 123,168	$ 268,387
BBB / BB / B	- -	- -	39,538	481	40,019
Not rated - Agency	- -	- -	- -	- -	- -
Not rated - Non-Agency	- -	- -	- -	- -	- -
Total	$ 123,938	$ 1,190	$ 59,629	$ 123,649	$ 308,406

The following table summarizes the change in the allowance for credit losses on held to maturity securities during 2023 (dollars in thousands):

	December 31, 2023				
	U.S. government and federal agency	Agency mortgage backed securities	Corporate bonds	State and municipal securities	Total HTM securities
Allowance for credit losses:					
Beginning balance, December 31, 2022	$ --	$ --	$ --	$ --	$ --
Impact of adopting ASC 326	--	--	303	26	329
Credit loss provision	--	--	19	--	19
Securities charged-off	--	--	--	--	--
Recoveries of amounts previously written off	--	--	--	--	--
Ending balance, December 31, 2023	$ --	$ --	$ 322	$ 26	$ 348

At December 31, 2023, the Company had no HTM securities that were 30 days or more past due as to principal and interest payments. The Company had no securities held to maturity classified as non-accrual as of December 31, 2023.

Note 3. Loans and Allowance for Loan Credit Losses

A summary of the balances of loans are as follows (dollars in thousands):

	December 31,	
	2023	2022
Commercial real estate	$ 60,138	$ 62,258
Commercial	12,438	31,814
Residential real estate closed-end	210,358	202,972
Other consumer loans	21,210	23,149
	$ 304,144	$ 320,193
Less allowance for credit losses	(4,319)	(4,482)
Loans, net	$ 299,825	$ 315,711

Overdrafts totaling $10 thousand and $9 thousand at December 31, 2023 and 2022, respectively, were reclassified from deposits to loans.

The totals above include deferred costs (net of deferred fees) of $466 thousand at December 31, 2023 and $334 thousand at December 31, 2022.

The Bank participated as a lender in the U.S. Small Business Administration's ("SBA") Paycheck Protection Program ("PPP") to support local small businesses and non-profit organizations. The Bank's remaining PPP loan portfolio closed during 2022 as a result of pay downs or SBA foregiveness granted in the amount of $21.3 million. The Bank recorded the remaining loan origination fee income (net of origination costs) of $457 thousand during 2022. With the payoff of the PPP loan portfolio, the loan loss reserve attributable to the PPP program was no longer recorded at December 31, 2022.

On January 1, 2023, the Company adopted the Current Expected Credit Loss methodology as required under FASB ASC Topic 326. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables. For further discussion about the Company's accounting policies, refer to Note 1 – Organization and Summary of Significant Accounting Policies. All information presented as of December 31, 2023 is in accordance with ASC 326, and prior periods are in accordance with the previously applicable standard.

Under the CECL methodology, management uses the weighted average remaining maturity method to calculate quantitative allowances for all collectively evaluated loan categories. Management generally segments loans based on their federal call codes in order to aggregate loans with similar risk characteristics.

If a loan does not share risk characteristics with a pool of other loans, expected credit losses are then measured on the individual loan basis. When a loan's expected credit loss is measured individually, it is excluded from any collective assessment. Management will individually evaluate the expected credit loss for any loans that are collateral dependent, are graded substandard or doubtful, or are otherwise determined to have risk characteristics that are dissimilar to the established loan pools. The individual evaluation will consider collateral value, an observable market price, or the present value of future cash flows. If the measured value of the loan using one of these methods is less than the carrying value of the loan, a specific reserve is applied to the loan in the amount of the difference.

Management then considers whether further adjustments to historical loss information are needed to reflect the extent to which current conditions and reasonable and supportable forecasts differ from the conditions that existed during the historical loss period. Adjustments to historical loss information may be quantitative or qualitative in nature and reflect changes to relevant data such as changes in unemployment rates, delinquency, or other factors associated with the financial assets. The qualitative risk factor adjustments applied by management are substantially similar to those contemplated under the legacy framework and are described in Note 1.

The following table presents the activity in the allowance for credit losses, including the adoption of CECL, by portfolio segment for the year ended December 31, 2023 (dollars in thousands):

	December 31, 2023				
	Commercial Real Estate	Commercial	Residential Real Estate Closed-End	Other Consumer Loans	Total
Allowance for credit losses:					
Beginning balance	$ 905	$ 573	$ 2,650	$ 354	$ 4,482
Impact of adopting ASC 326	130	19	(16)	(133)	- -
Credit loss provision (recapture)	198	(403)	34	8	(163)
Loans charged-off	- -	- -	- -	- -	- -
Recoveries collected	- -	- -	- -	- -	- -
Ending allowance balance	$ 1,233	$ 189	$ 2,668	$ 229	$ 4,319

The information in the table below is not required for periods after the adoption of CECL. It summarizes the activity in the allowance for loan losses and the recorded investment in loans and impairment method by portfolio segment as of December 31, 2022 (dollars in thousands):

	December 31, 2022				
	Commercial Real Estate	Commercial	Residential Real Estate Closed-End	Other Consumer Loans	Total
Allowance for loan losses:					
Beginning of year	$ 875	$ 208	$ 2,284	$ 293	$ 3,660
Provision	30	365	366	61	822
Charge-offs	- -	- -	- -	- -	- -
Recoveries of charge-offs	- -	- -	- -	- -	- -
End of year	$ 905	$ 573	$ 2,650	$ 354	$ 4,482
Reserves:					
Specific	$ - -	$ - -	$ - -	$ - -	$ - -
General	905	573	2,650	354	4,482
Total reserves	$ 905	$ 573	$ 2,650	$ 354	$ 4,482
Loans evaluated for impairment:					
Individually	$ - -	$ - -	$ - -	$ - -	$ - -
Collectively	62,258	31,814	202,972	23,149	320,193
Total Loans	$ 62,258	$ 31,814	$ 202,972	$ 23,149	$ 320,193

Prior to the adoption of CECL, loans were considered impaired when, based on current information and events as of the measurement date, it was probable that the Company would be unable to collect all amounts due in accordance with the contractual terms of the loan agreements. There were no impaired loans as of December 31, 2022.

There were no nonaccrual loans, loans 90 days past due and still accruing, or past due for 30 or more days at December 31, 2023 and 2022.

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information and current economic trends, among other factors. The Company's loan risk grading system and ongoing monitoring process is discussed in Note 1. The following table presents the outstanding balance of the loan portfolio, by year of origination, loan classification, and credit quality, as of December 31, 2023 (dollars in thousands):

	Term Loans by Year of Origination						Revolving	Revolving to	
	2023	2022	2021	2020	2019	Prior	Loans	Term Loans	Total
Commercial real estate									
Pass	$ 849	$ 5,521	$ 9,327	$ 3,713	$ 8,015	$ 21,875	$ - -	$ 8,895	$ 58,195
Special Mention	- -	- -	- -	- -	- -	1,570	- -	- -	1,570
Substandard	- -	- -	- -	- -	- -	373	- -	- -	373
Doubtful	- -	- -	- -	- -	- -	- -	- -	- -	- -
Loss	- -	- -	- -	- -	- -	- -	- -	- -	- -
Total	$ 849	$ 5,521	$ 9,327	$ 3,713	$ 8,015	$ 23,818	$ - -	$ 8,895	$ 60,138
Current period gross charge-offs	$ - -	$ - -	$ - -	$ - -	$ - -	$ - -	$ - -	$ - -	$ - -
Commercial									
Pass	$ - -	$ 573	$ 14	$ 42	$ 1,352	$ 309	$ 10,148	$ - -	$ 12,438
Special Mention	- -	- -	- -	- -	- -	- -	- -	- -	- -
Substandard	- -	- -	- -	- -	- -	- -	- -	- -	- -
Doubtful	- -	- -	- -	- -	- -	- -	- -	- -	- -
Loss	- -	- -	- -	- -	- -	- -	- -	- -	- -
Total	$ - -	$ 573	$ 14	$ 42	$ 1,352	$ 309	$ 10,148	$ - -	$ 12,438
Current period gross charge-offs	$ - -	$ - -	$ - -	$ - -	$ - -	$ - -	$ - -	$ - -	$ - -
Residential real estate closed end									
Pass	$ 20,230	$ 45,920	$ 45,528	$ 25,150	$ 18,035	$ 55,253	$ - -	$ - -	$ 210,116
Special Mention	- -	- -	- -	- -	- -	- -	- -	- -	- -
Substandard	- -	- -	- -	- -	- -	242	- -	- -	242
Doubtful	- -	- -	- -	- -	- -	- -	- -	- -	- -
Loss	- -	- -	- -	- -	- -	- -	- -	- -	- -
Total	$ 20,230	$ 45,920	$ 45,528	$ 25,150	$ 18,035	$ 55,495	$ - -	$ - -	$ 210,358
Current period gross charge-offs	$ - -	$ - -	$ - -	$ - -	$ - -	$ - -	$ - -	$ - -	$ - -
Other consumer loans									
Pass	$ - -	$ - -	$ 32	$ - -	$ - -	$ - -	$ 17,703	$ 3,475	$ 21,210
Special Mention	- -	- -	- -	- -	- -	- -	- -	- -	- -
Substandard	- -	- -	- -	- -	- -	- -	- -	- -	- -
Doubtful	- -	- -	- -	- -	- -	- -	- -	- -	- -
Loss	- -	- -	- -	- -	- -	- -	- -	- -	- -
Total	$ - -	$ - -	$ 32	$ - -	$ - -	$ - -	$ 17,703	$ 3,475	$ 21,210
Current period gross charge-offs	$ - -	$ - -	$ - -	$ - -	$ - -	$ - -	$ - -	$ - -	$ - -

The amortized cost of outstanding loans by credit quality indicators as of December 31, 2022 (dollars in thousands):

	December 31, 2022					
	Pass	Special Mention	Substandard	Doubtful	Loss	Total
Commercial real estate	$ 60,221	$ 1,627	$ 410	$ - -	$ - -	$ 62,258
Commercial	31,814	- -	- -	- -	- -	31,814
Residential real estate closed-end	202,972	- -	- -	- -	- -	202,972
Other consumer loans	23,149	- -	- -	- -	- -	23,149
Total Loans	$ 318,156	$ 1,627	$ 410	$ - -	$ - -	$ 320,193

Collateral Dependent Loans

FASB ASC Topic 326 describes a collateral-dependent asset as a financial asset for which the repayment is expected to be provided substantially through the operation or sale of the collateral when the borrower, based on management's assessment, is experiencing financial difficulty as of the reporting date. Whether the underlying collateral is expected to be a substantial source of repayment for an asset depends on the availability, reliability, and capacity of sources other than the collateral to repay the debt. Collateral-dependent loans are individually evaluated for expected credit losses as of the reporting date, and they are removed from their respective pools of collectively evaluated assets. Expected credit losses for these types of assets are based on the fair value of the collateral at the measurement date, adjusted for estimated selling costs. There were no collateral-dependent loans that were individually evaluated for purposes of determining the allowance for credit loss under FASB ASC Topic 326 as of December 31, 2023.

Occasionally, the Company modifies loans to borrowers in financial distress by providing principal forgiveness, term extension, and other-than-insignificant payment delay or interest rate reduction. When principal forgiveness is provided, the amount of forgiveness is charged-off against the allowance for credit losses. During 2023, there were no loan modifications provided to borrowers exhibiting financial distress. During 2023 and 2022, there were no payment defaults from loans which had been modified due to borrower financial difficulty during the twelve months preceding the default.

Note 4. Premises and Equipment

A summary of the cost and accumulated depreciation of premises and equipment follows (dollars in thousands):

	December 31,	
	2023	2022
Land	$ 2,258	$ 2,258
Building	9,231	9,231
Furniture, fixtures and equipment	2,280	2,095
Building improvements	2,416	2,402
Construction in process	464	394
	$ 16,649	$ 16,380
Less accumulated depreciation	6,791	6,300
Ending balance	$ 9,858	$ 10,080

For 2023 and 2022, depreciation expense was $491 thousand and $501 thousand, respectively.

Note 5. Related Party Transactions

Officers, directors and their affiliates had credit outstanding of $6.9 million and $12.6 million at December 31, 2023 and 2022, respectively, with the Company. During 2023, total principal payments were $185 thousand. The remaining decrease in the credit outstanding of $5.4 million relates to the cumulative effect of changes in the composition of related parties. 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, 2023 and 2022 amounted to $2.0 million and $15.2 million, respectively.

Note 6. Deposits

Remaining maturities on certificates of deposit are as follows (dollars in thousands):

2024	$ 15,617
2025	1,008
2026	117
2027 and thereafter	- -
	$ 16,742

The Bank held no deposits classified as brokered at December 31, 2023 or 2022. To achieve full FDIC insurance, some of the Bank's depositors have enrolled in the Insured Cash Sweep program offered by the Bank through the Intrafi network. When accounts are enrolled in this service, the Bank must elect, for each account, whether it will receive a reciprocal deposit balance or sell the deposit balance. At December 31, 2023 and 2022, the Bank held $177.3 million and $78.2 million of reciprocal deposits through Insured Cash Sweep services on its consolidated balance sheets. Accounts that are sold to the network are excluded from the Company's consolidated balance sheets. The Company receives fee income for sold accounts, which is included in deposit placement services income on the consolidated statements of income.

FDIC deposit insurance covers $250 thousand per depositor, per FDIC-insured bank, for each account ownership category. The Company estimates uninsured deposits held at the Bank as of December 31, 2023 are $648.0 million, which is 58.3% of total deposits.

There were no clients whose individual deposit balances exceeded 5.0% of total deposits as of December 31, 2023. There was one client with an individual deposit balance exceeding 5.0% of total deposits as of December 31, 2022. The total deposit balance related to this client as of December 31, 2022 was $54.1 million or 5.7% of total deposits.

Note 7. Borrowings

Federal Home Loan Bank Advance

The Bank has a secured line of credit with the Federal Home Loan Bank, which is renewed annually in December. The Bank pledges 1-4 family residential real estate loans within the Bank's loan portfolio to establish credit availability. At December 31, 2023, the secured line of credit had no collateral pledged and therefore no available or outstanding balance. At December 31, 2022, for the same secured line, the Bank had pledged collateral to provide credit availability of $1.5 million with no outstanding balance.

Short Term Borrowings

At December 31, 2023 and 2022, the Company had an unsecured line of credit from a correspondent bank totaling $10.0 million with an outstanding balance of $5.0 million. The line matures December 5, 2024 and contains certain covenants regarding the Company's return on average assets, risk-based capital, and level of non-performing assets. The interest rate on the line of credit was 7.95% and 6.44% at December 31, 2023 and 2022, respectively. As of December 6, 2023, the agreement was amended to require payment of a quarterly unused commitment fee at the rate of 1.00% per annum on the undisbursed and uncanceled daily balance during the preceding quarter.

The Bank has unsecured federal fund purchase lines of credit with Community Bankers' Bank totaling $8.0 million maturing March 20, 2024, First National Bankers' Bank totaling $10.0 million maturing on June 30, 2024 and Pacific Coast Bankers' Bank totaling $50.0 million maturing June 30, 2024. There were no outstanding federal funds purchased balances as of December 31, 2023 or 2022.

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, 2023 and 2022 are presented below (dollars in thousands):

	December 31, 2023	December 31, 2022
Deferred Tax Assets		
Securities available for sale	$ 3,074	$ 4,691
Allowance for loan credit losses	907	941
Deferred compensation	331	262
Loss on devalued bond	95	- -
Depreciation	83	85
Allowance for securities credit losses	73	- -
Other	16	20
	$ 4,579	$ 5,999
Deferred Tax Liabilities		
Deferred loan costs	$ (98)	$ (70)
	$ (98)	$ (70)
Net deferred tax assets	$ 4,481	$ 5,929

Deferred tax assets are reported as other assets on the consolidated balance sheets.

The provision for income taxes charged to operations for the years ended December 31, 2023 and 2022, consists of the following (dollars in thousands):

	December 31, 2023	December 31, 2022
Current tax expense	$ 2,174	$ 2,051
Deferred tax benefit	(99)	(169)
Net provision for income taxes	$ 2,075	$ 1,882

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

	December 31, 2023	December 31, 2022
Computed tax at applicable rate	$ 2,290	$ 2,134
Tax-exempt income	(254)	(269)
Other	39	17
Net provision for income taxes	$ 2,075	$ 1,882

The Company files an income tax return in the U.S. federal jurisdiction and is subject to the bank franchise tax in the Commonwealth of Virginia. With few exceptions, the Company is no longer subject to federal or state tax examinations for years prior to 2020.

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

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

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

At December 31, 2023 and 2022, the contractual amounts of financial instruments with off-balance commitments are as follows (dollars in thousands):

	December 31,	
	2023	**2022**
Commitments to grant loans	$ - -	$ 7,738
Unfunded commitments under lines of credit	22,947	29,159
Standby letters of credit	3,598	3,274

Commitments to grant loans are agreements to extend loans to clients provided the clients are in compliance with terms and conditions outlined in the respective loan documents. These commitments often come with specific expiration dates or other termination conditions, such as maturity dates, and may necessitate the payment of fees. Notably, lines of credit commitments might expire without being utilized, implying that the total commitment amounts do not accurately forecast future cash outflows. For collateral requirements, the Bank determines the necessity and amount based on an analysis of the borrower.

Unfunded commitments under lines of credit represent potential future credit extensions to current clients. Commercial lines of credit typically feature maturity dates within one year and do not automatically renew. Conversely, consumer revolving lines of credit and home equity lines, offer draw periods ranging from three to ten years, respectively, also without automatic renewal. These lines of credit are discretionary, with actual funding potentially falling short of the full commitment amount.

Standby letters of credit are conditional commitments by the Bank, serving as guarantees of a client's performance to a third party. These instruments are typically utilized to facilitate both public and private borrowing arrangements. Almost all letters of credit issued are set to expire within one year, subject to automatic renewal unless terminated by the Bank in accordance with the terms of the agreement. The credit risk associated with issuing letters of credit mirrors that of extending traditional loan facilities to clients, with collateral being secured as deemed necessary by the Bank.

Note 10. Minimum Regulatory Capital Requirements

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

The final rules implementing Basel Committee on Banking Supervision's Capital guidelines for U.S. banks (Basel III rules) became effective on January 1, 2015, with full compliance with all of the new requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. Under the Basel III rules, the Bank must hold a capital conservation buffer above the adequately capitalized risk-based capital ratios. The capital conservation buffer was implemented in a phased approach from 0.0% for 2015 to 2.5% by 2019. Although the capital conservation buffer is not part of regulatory minimum risk-based capital requirements, it does determine the minimums that must be met to avoid limitation on paying dividends, engaging in share repurchases, and paying discretionary bonuses if capital levels fall below the buffer amount. The net unrealized gain or loss on securities available for sale is not included in computing regulatory capital.

Quantitative measures established by regulation to ensure capital adequacy require financial institutions to maintain minimum amounts and ratios (set forth in the table below) of Total, Tier 1, and common equity Tier 1 (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2023, that the Bank meets all capital adequacy requirements to which it is subject.

To be categorized as well capitalized under the OCC's regulatory framework for prompt corrective action, the Bank must maintain minimum Total risk-based, Tier 1 risk-based, common equity Tier 1 and Tier 1 leverage ratios as set forth in the table. The Bank currently satisfies the requirement under the OCC's capital regulation to be "well capitalized."

The following tables set forth the capital position and analysis for the Company and Bank (dollars in thousands). Because total assets on a consolidated basis are less than $3.0 billion, the Company is not subject to the consolidated capital requirements imposed by federal regulations. However, the Company elects to include those ratios for this report. Minimum capital ratios below include phase-in of the capital conservation buffer. The Company has a borrowing from a correspondent bank which it uses to downstream capital to the Bank. At December 31, 2023 and 2022, the outstanding balance was $5.0 million.

	Actual		**Minimum Capital Requirement**		**Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions**	
December 31, 2023	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
Total Risk-Based Capital						
Company	$ 99,669	24.26%	N/A	N/A	N/A	N/A
Bank	$ 104,523	25.44%	$ 43,140	10.50%	$41,086	10.00%
Tier 1 Risk-Based Capital						
Company	$ 95,002	23.12%	N/A	N/A	N/A	N/A
Bank	$ 99,856	24.30%	$ 34,923	8.50%	$32,869	8.00%
Common Equity Tier 1 Capital						
Company	$ 95,002	23.12%	N/A	N/A	N/A	N/A
Bank	$ 99,856	24.30%	$ 28,760	7.00%	$26,706	6.50%
Tier 1 Leverage Ratio						
Company	$ 95,002	8.77%	N/A	N/A	N/A	N/A
Bank	$ 99,856	9.21%	$ 43,347	4.00%	$54,183	5.00%

	Actual		**Minimum Capital Requirement**		**Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions**	
December 31, 2022	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
Total Risk-Based Capital						
Company	$ 90,912	20.36%	N/A	N/A	N/A	N/A
Bank	$ 95,856	21.46%	$ 46,894	10.50%	$44,661	10.00%
Tier 1 Risk-Based Capital						
Company	$ 86,430	19.35%	N/A	N/A	N/A	N/A
Bank	$ 91,374	20.46%	$ 37,962	8.50%	$35,729	8.00%
Common Equity Tier 1 Capital						
Company	$ 86,430	19.35%	N/A	N/A	N/A	N/A
Bank	$ 91,374	20.46%	$ 31,263	7.00%	$29,030	6.50%
Tier 1 Leverage Ratio						
Company	$ 86,430	7.64%	N/A	N/A	N/A	N/A
Bank	$ 91,374	8.08%	$ 45,251	4.00%	$56,564	5.00%

The Company's principal source of funds for dividend payments is dividends received from the Bank. Banking regulations limit the amount of dividends that may be paid without prior approval of regulatory agencies. As of December 31, 2023 approximately $24.6 million of retained earnings was available for dividend declaration without regulatory approval.

Note 11. Employee Benefit Plans

401(k) Plan

The Company has a 401(k) Plan whereby substantially all employees participate in the plan. Employees may contribute portions of their compensation subject to limits based on federal tax laws. The Company may make discretionary matching contributions to the plan. For 2023 and 2022, expense attributable to the plan amounted to $401 thousand and $373 thousand, respectively. The 401(k) expense is reported as salaries and employee benefits on the consolidated statements of income.

Deferred Compensation Plan

The Company has a deferred compensation plan whereby awarded participants are entitled to receive an amount in cash that is equivalent to the increase in retained earnings per share under the provisions of the plan, with a vesting period extending over seven years. At December 31, 2023 and 2022, an accrued liability for the plan obligation was $1.9 million and $1.4 million, respectively. For 2023 and 2022, the expense attributable to the plan amounted to $631 thousand and $545 thousand, respectively. The liability is reflected in accrued expenses and other liabilities on the consolidated balance sheet and the expense is reported as salaries and employee benefits on the consolidated statements of income.

Note 12. Fair Value Measurements

Determination of Fair Value

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The fair value measurements and disclosure topic specifies a hierarchy of valuation techniques based on whether the inputs to these valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. U.S. GAAP requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs.

Fair Value Hierarchy
U.S. GAAP establishes a fair value hierarchy which categorizes the valuation inputs into three broad levels. Based on the underlying inputs, each fair value measurement in its entirety is reported in one of the three levels. These levels are:

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

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

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

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

Assets and Liabilities Measured at Fair Value on a Recurring Basis

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 & Equity Securities
Debt securities available for sale and equity securities are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted market prices, when available (Level 1). If quoted market prices are not available, fair values are measured utilizing independent valuation techniques of identical or similar securities for which significant assumptions are derived primarily from or corroborated by observable market data (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 Company's investment portfolio is valued using fair value measurements that are considered to be Level 1 or Level 2, but may also use Level 3 measurements if required by the composition of the portfolio. The Bank has contracted with a securities portfolio accounting service provider for valuation of its securities portfolio. Most security types are priced using the securities accounting provider's internally developed pricing software which appraises securities from an online real-time database. Subscription pricing services such as ICE Data Services and Bloomberg Valuation Services may be used to supplement the internal pricing system for security types where the underlying collateral, cash flow projections or trade data is not readily available. If Level 1 or Level 2 inputs are not available, the software may rely upon a discounted cash flow analysis based on the net present value of a security's projected cash flow to arrive at fair market value. Valuations for direct obligations of the U.S. Treasury, exchange listed stock and preferred stock are obtained from on-line real-time databases.

The securities accounting service provider 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 (dollars in thousands):

		Fair Value Measurements Using		
Financial Assets	**Balances**	**Level 1**	**Level 2**	**Level 3**
As of December 31, 2023:				
Available for sale securities:				
U.S. government and federal agencies	$ 92,298	$ 78,817	$ 13,481	$ - -
Mortgage backed securities	8,649	- -	8,649	- -
Corporate bonds	55,471	475	54,996	- -
State and municipal securities	101,696	- -	101,696	- -
Total available for sale securities	$ 258,114	$ 79,292	$ 178,822	$ - -
Mutual and exchange-traded funds	505	505	- -	- -
Total	$ 258,619	$ 79,797	$ 178,822	$ - -
As of December 31, 2022:				
Available for sale securities:				
U.S. government and federal agencies	$ 99,402	$ 83,506	$ 15,896	$ - -
Mortgage backed securities	10,631	- -	10,631	- -
Corporate bonds	62,632	468	62,164	- -
State and municipal securities	106,931	- -	106,931	- -
Total available for sale securities	$ 279,596	$ 83,974	$ 195,622	$ - -
Mutual and exchange-traded funds	486	486	- -	- -
Total	$ 280,082	$ 84,460	$ 195,622	$ - -

Assets Measured at Fair Value on a Non-recurring Basis

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.

Collateral Dependent Loans
Upon the adoption of CECL, individually evaluated loans are analyzed to determine whether they are collateral dependent. Any individually evaluated loans, which are deemed to be collateral dependent, with an allocation to the ACL are measured at fair value on a non-recurring basis. Any fair value adjustments are recorded in the period incurred as provision for credit losses on the consolidated statements of income. Prior to adoption of CECL and ASU 2022-02, which eliminated the TDR accounting model, loans were designated as impaired when, in the judgment of management and based on current information and events, it was probable that all amounts due, according to the contractual terms of the loan agreement, would not be collected.

The measurement of loss associated with collateral dependent loans can be based on either the observable market price of the loan or fair value of the collateral. Fair value is measured based on the value of the collateral securing the loans. Collateral may be in the form of real estate or business assets including equipment, inventory, and accounts receivable. The vast majority of the collateral is real estate. The value of real estate collateral is determined utilizing a market valuation approach based on an appraisal conducted by an independent, licensed appraiser outside of the Company using observable market data (Level 2). However, if the collateral is a house or building in the process of construction or if an appraisal of the real estate property 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). Any fair value adjustments are recorded in the period incurred as a provision for loan credit losses on the consolidated statements of income. There were no collateral dependent loans with a recorded reserve as of December 31, 2023 and 2022.

Other Real Estate Owned
Other real estate owned ("OREO") is measured at fair value less costs to sell. Valuation of OREO is determined using current appraisals from independent parties, a Level 2 input. If current appraisals cannot be obtained, or if declines in value are identified after a recent appraisal is received, appraisal values may be discounted, resulting in a Level 3 estimate. If the Company markets the property with a realtor, estimated selling costs reduce the fair value, resulting in a valuation based on Level 3 inputs. Fair value adjustments are recorded in the period incurred and expensed against current earnings. The Bank held no OREO at December 31, 2023 or 2022.

There were no assets measured at fair value on a nonrecurring basis at December 31, 2023 or 2022.

Fair Value of Financial Instruments

The following tables present the carrying value and estimated fair value including the level within the fair value hierarchy of the Company's financial instruments as of December 31, 2023 and 2022 (dollars in thousands):

	Carrying	Fair Value Measurements Using			Total
	Amount	Level 1	Level 2	Level 3	Fair Value
As of December 31, 2023:					
Financial assets:					
Cash and due from banks	$ 316,767	$ 316,767	$ - -	$ - -	$ 316,767
Securities available for sale	258,114	79,292	178,822	- -	258,114
Securities held to maturity	308,058	106,837	177,079	- -	283,916
Equity securities	505	505	- -	- -	505
Restricted securities	2,613	- -	2,613	- -	2,613
Loans, net	299,825	- -	- -	280,352	280,352
Accrued Interest Receivable	4,354	- -	4,354	- -	4,354
Financial liabilities:					
Demand and savings deposits	$ 1,095,283	$ - -	$ 766,933	$ 299,765	$ 1,066,698
Time deposits	16,742	- -	- -	16,600	16,600
Short term borrowings	5,000	- -	5,000	- -	5,000
Accrued interest payable	61	- -	61	- -	61
As of December 31, 2022:					
Financial assets:					
Cash and due from banks	$ 98,663	$ 98,663	$ - -	$ - -	$ 98,663
Securities available for sale	279,596	83,974	195,622	- -	279,596
Securities held to maturity	312,567	104,415	174,469	- -	278,884
Equity securities	486	486	- -	- -	486
Restricted securities	2,501	- -	2,501	- -	2,501
Loans, net	315,711	- -	- -	295,516	295,516
Accrued Interest Receivable	4,313	- -	4,313	- -	4,313
Financial liabilities:					
Demand and savings deposits	$ 940,381	$ - -	$ 666,493	$ 240,803	$ 907,296
Time deposits	12,573	- -	- -	12,110	12,110
Short term borrowings	5,000	- -	5,000	- -	5,000
Accrued interest payable	20	- -	20	- -	20

Note 13. Accumulated Other Comprehensive Income (Loss)

The following table presents the changes in each component in accumulated other comprehensive income (loss), net of tax for the years ended December 31, 2023 and 2022 (dollars in thousands):

	Unrealized Gain (Loss) on Available for Sale Securities	Unrealized Gain (Loss) on Securities Transferred from Available for Sale to Held to Maturity	Accumulated Other Comprehensive Income (Loss)
Balance at December 31, 2021	$ 1,850	$ - -	$ 1,850
Unrealized holding losses, net of tax of ($5,381)	(14,985)	(5,257)	(20,242)
Amortization of unrealized holding losses, net of tax of $198	- -	744	744
Balance at December 31, 2022	$ (13,135)	$ (4,513)	$ (17,648)
Unrealized holding gains, net of tax of $1,302	4,897	- -	4,897
Amortization of unrealized holding losses, net of tax of $234	- -	879	879
Reclassification adjustment, net of tax of $82	307	- -	307
Balance at December 31, 2023	$ (7,931)	$ (3,634)	$ (11,565)

The following table presents the amounts reclassified out of accumulated other comprehensive income (loss), net of tax for the years ended December 31, 2023 and 2022 (dollars in thousands):

	December 31, 2023	Line Item in the Consolidated Statements of Income
Securities available for sale		
Net securities loss reclassified into earnings	$ (389)	Net losses on sales of available for sale securities
Related income tax benefit expense	82	Income tax expense
Total reclassifications into net income	$ (307)	Net of tax

Note 14. Condensed Financial Statements of Parent Company

Financial information pertaining only to Chain Bridge Bancorp, Inc. is as follows (dollars in thousands):

	December 31,	
Balance Sheets	**2023**	**2022**
Assets		
Cash	$ 43	$ 97
Receivable from subsidiary	103	- -
Investment in common stock of Chain Bridge Bank, N.A.	88,291	73,727
Total assets	$ 88,437	$ 73,824
Liabilities and Shockholders' Equity		
Short-term borrowings	$ 5,000	$ 5,000
Accrued expenses	- -	41
Total liabilities	5,000	5,041
Stockholders' equity	83,437	68,783
Total liabilities and stockholders' equity	$ 88,437	$ 73,824

Statements of Income	**2023**	**2022**
Dividend from Chain Bridge Bank, N.A.	$ 480	$ 115
Operating Expenses		
Interest expense and fees on short-term borrowings	423	221
Professional services	30	300
Marketing expenses	40	40
Other expenses	1	- -
Total operating expenses	494	561
Loss before allocated tax expense and undistributed net income of Chain Bridge Bank, N.A.	(14)	(446)
Income tax benefit	(104)	- -
Undistributed net income of Chain Bridge Bank, N.A.	8,741	8,727
Net income	$ 8,831	$ 8,281

Statements of Cash Flows	**2023**	**2022**
Cash Flows from Operating Activities		
Net income	$ 8,831	$ 8,281
Adjustments to reconcile net income to net cash used in operating activities:		
Undistributed net income of Chain Bridge Bank, N.A.	(8,741)	(8,727)
Increase in receivable from subsidiary	(103)	- -
(Decrease) Increase in accrued expenses	(41)	41
Net cash used in operating activities	(54)	(405)
Cash Flows from Investing Activities		
Investment in Chain Bridge Bank, N.A.	- -	(10,000)
Net cash used in investing activities	- -	(10,000)
Cash Flows from Financing Activities		
Net proceeds from common stock issued	- -	10,500
Net cash provided by financing activities	- -	10,500
Net (decrease) increase in cash and cash equivalents	(54)	95
Cash and cash equivalents at beginning of period	97	2
Cash and cash equivalents at end of period	$ 43	$ 97

Note 15. 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 22, 2024.

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

Chain Bridge
BANCORP, INC.

Board of Directors: Governance and Expertise

Peter G. Fitzgerald, J.D. — Chairman of the Board

Mr. Peter G. Fitzgerald is the Chairman of the Board of both Chain Bridge Bancorp, Inc. (the "Company") and Chain Bridge Bank, N.A. (the "Bank"). His professional background is in banking, law, and public service.

With a family history in banking dating back to 1940, Mr. Fitzgerald has a strong foundation in the industry. His approach to banking emphasizes maintaining liquidity, asset quality, and financial strength.

Mr. Fitzgerald began his legal career as an associate at Chicago's Isham, Lincoln & Beale and then practiced banking law at Riordan, Larson, Bruckert & Moore. Subsequently, he served as General Counsel for Suburban Bancorp, Inc., overseeing legal affairs for thirteen banks and various non-bank subsidiaries. Following the merger of Suburban Bancorp with the Bank of Montreal (BMO) in 1994, Mr. Fitzgerald continued in this capacity until the end of 1996. Between 1988 and 1998, he held board positions at three nationally-chartered commercial banks and one state-chartered commercial bank.

In 1998, Mr. Fitzgerald was elected to the United States Senate. He represented Illinois for twelve years as both a U.S. Senator (1999-2005) and State Senator (1993-1998).

Mr. Fitzgerald completed his secondary education at Portsmouth Abbey School. He earned his A.B. degree, *cum laude,* with highest distinction in Classics, from Dartmouth College, and was a co-recipient of the Perkins Literature Prize. As a Rotary scholar, he spent one year studying Modern Greek at the Aristotelian University of Thessaloniki in Greece. Mr. Fitzgerald earned his J.D. degree from the University of Michigan Law School.

As the Chairman of the Board for the Company since its incorporation in 2006 and the Bank since its chartering in 2007, Mr. Fitzgerald has implemented a conservative banking strategy for the organization.

Mark Martinelli, CPA, CGMA, CAMS — Chair of the Audit Committee of Chain Bridge Bancorp, Inc.

Mr. Mark Martinelli's professional background is in bank auditing and accounting. Throughout his career, he has held numerous leadership positions, including CEO, CFO, and Chief Audit Executive.

From 2014, following its spinoff from General Electric Company and initial public offering, until his retirement in 2022, Mr. Martinelli served as the Executive Vice President and Chief Audit Executive at Synchrony Financial, the largest issuer of private label credit cards in the U.S. Prior to that, he was a senior audit executive at HSBC North America Holdings and its predecessor, Republic New York Corporation, where he was Senior Executive Vice President and Chief Auditor from 2010 to 2014. Mr. Martinelli began his career as a Senior Manager in the Financial Services practice at KPMG, LLP.

In addition to his professional achievements, Mr. Martinelli actively participates in academia and industry discussions. He is a member of the Stan Ross Accountancy Board at Zicklin School of Business, Baruch College, and serves on the Department of Accounting & Taxation Executive Advisory Board at St. John's University. Mr. Martinelli serves as the Vice Chair of the Baruch College Fund Audit Committee. He holds a Bachelor of Science in Accounting from St. John's University and contributes to *The CPA Journal* as a member of the Editorial Review Board.

Mr. Martinelli is a Certified Public Accountant (CPA), Chartered Global Management Accountant (CGMA), and Certified Anti-Money Laundering Specialist (CAMS). He chairs the Company Board’s Audit Committee.

Dr. Yonesy F. Núñez, CISSP, CISM, CISA, CGEIT — Chair of the Information Technology Committee of Chain Bridge Bank, N.A.

Dr. Yonesy F. Núñez since July 2023 is Managing Director and Chief Information Security Officer at The Depository Trust & Clearing Corporation (DTCC). He possesses an extensive background in information security and technology and his previous roles include Chief Information Security Officer at Jack Henry & Associates, a leading provider of core processing software and services to U.S. banks, and various senior information security positions at Wells Fargo and Citi.

Dr. Núñez serves on the advisory boards of Forgepoint Capital and Glilot Capital Partners. His academic credentials include a Doctor of Professional Studies in Computing Information Assurance and Security from Pace University, a Master of Science in Information Systems Engineering from New York University Tandon School of Engineering, and a Bachelor of Science in Finance and Computer Information Systems, with a minor in Economics, from Manhattan College.

Biilingual in English and Spanish with limited working proficiency in Italian and Japanese, Dr. Núñez’s contributions to the field of financial information security include his co-invention of two patents, “Risk Detection of False Customer Information,” U.S. Patent No. 11132697 B2, issued September 28, 2021, and “System and Methods for Assessing Risk of Fraud in an Electronic Transaction,” U.S. Patent No. 11416863 B2, issued August 16, 2022.

Dr. Núñez is a Certified Information Systems Security Professional (CISSP), Certified Information Security Manager (CISM), Certified Information Systems Auditor (CISA), and Certified in the Governance of Enterprise IT (CGEIT). He chairs the Bank Board’s Information Technology Committee.

Michael J. Conover — Chair of the Risk Committee of Chain Bridge Bancorp, Inc.

Mr. Michael J. Conover was a financial services industry Partner at KPMG LLP (U.S.) for more than 20 years until his retirement in 2020, but continues working on a specific assignment with KPMG LLP (Canada) as a Senior Advisor.

During his tenure at KPMG, Mr. Conover established the Financial Risk Management (FRM) practice in the U.S., led the Global Capital Markets sector for Audit, Tax and Advisory, and engaged in numerous financial advisory and risk management assignments around the world. He served as KPMG's Global Lead Partner for several of the world's largest banks and financial services companies.

Before joining KPMG, Mr. Conover was a Managing Director at The Secura Group, focusing on financial consulting and risk management. He also held positions at Ryan, Beck & Co., and Drexel Burnham Lambert, where he was involved in bank mergers, acquisitions, and capital-raising assignments. Mr. Conover began his banking career at First Bank & Trust of Ithaca as Acting Controller.

In addition to his professional work, Mr. Conover is actively involved in governance and education. He has been a member of the Ithaca College Board of Trustees since 2014 and served on the Newport Music Festival Board of Trustees from 2019 to 2021. He holds a Bachelor of Science in Finance from Ithaca College and participated in the IMD Global Lead Partner Leadership Program in Lausanne, Switzerland.

Earlier in his career, Mr. Conover received recognition as one of the Top 25 Consultants by *Consulting Magazine* and was listed among the Leading Financial Services Consultants of the World by *Euromoney*. He chairs the Company Board's Risk Committee.

Leigh-Alexandra Basha, J.D., L.L.M. — Chair of the Trust Oversight Committee of Chain Bridge Bank, N.A.

Ms. Leigh-Alexandra Basha is a partner at McDermott Will & Emery LLP, where she leads the firm's Private Client Practice Group in Washington, D.C. Her practice focuses on international estate and tax planning, including estate and trust administration, family wealth preservation, tax compliance, business succession planning, and pre-immigration planning.

Prior to her current position at McDermott Will & Emery LLP, which she assumed in 2015, Ms. Basha was a partner at Holland & Knight LLP for a decade, during which time she chaired its International Private Wealth Services practice. Her career in law began at Peterson & Basha, PLC (and its predecessor firm), where she worked from 1985 until 2005, initially as an associate and later as a partner. She received her A.B. degree from Georgetown University, her J.D. from American University Washington College of Law and her Master of Laws from Georgetown University Law Center.

Ms. Basha has served as an adjunct professor at American University Washington College of Law, teaching wills, trusts, and estates. She has authored or edited various publications on international tax and estate planning, including “A Guide to International Estate Planning: Drafting, Compliance, and Administration Strategies,” Second Edition.

Her professional recognitions include inclusion in “The Best Lawyers in America” for Tax Law and Trusts and Estates, a Band 1 ranking in Chambers High Net Worth for Private Wealth Law, recognition in “Who’s Who Legal 100” for Private Client, a Top Rated Attorney by Washington DC Super Lawyers magazine, and induction into *Washingtonian* magazine's Top Wealth Advisers Hall of Fame in 2023.

Ms. Basha is a member of the American Bar Association, the American College of Trust and Estate Counsel, the International Bar Association, the International Academy of Estate and Trust Law, and the Society of Trust and Estate Practitioners. She is admitted to practice in the District of Columbia, Virginia, and Maryland, and before the Supreme Court of the United States and the US Tax Court. Ms. Basha is fluent in French. She chairs the Bank Board’s Trust Oversight Committee.

In her capacity as a director of the Company and the Bank, Ms. Basha's contributions are independent of her professional obligations at McDermott Will & Emery LLP.

John J. Brough, M.B.A.

Mr. John J. Brough joined the Company as an Organizer, Chief Executive Officer and Director in July 2006. He became a Director and the founding Chief Executive Officer of the Bank on August 6, 2007, the day it commenced operations and received its charter from the Office of the Comptroller of the Currency (OCC).

Prior to joining the Company, Mr. Brough was Executive Vice President and Chief Financial Officer of James Monroe Bancorp, Inc. Earlier in his career, he was Senior Vice President, Regional Controller, and Cashier at First Virginia Banks, Inc.

Mr. Brough earned his bachelor’s degree and M.B.A. from Georgetown University. He also participated in the Georgetown International Management Graduate Business Program at Oxford University, England. He maintained his CPA license from 1999 to 2017.

Mr. Brough is actively involved in the Virginia Bankers Association (VBA), where he serves on the Board of Directors and the Audit Committee. Additionally, he is a member of the board of VBA Management Services, Inc. and a Trustee of the Virginia Bankers School of Bank Management. From 2015 to 2018, he chaired the Board of Governors of Bishop Denis J. O'Connell High School, a Roman Catholic college preparatory school located in Arlington, Virginia.

David M. Evinger, M.B.A.

Mr. David M. Evinger, with over 30 years of experience in commercial banking and risk management, holds key management roles at both the Company and the Bank. He serves as Director, President, and Chief Credit Officer of the Bank as well as Director and President of the Company.

Mr. Evinger joined the Company in July 2006 as an Organizer and became Executive Vice President and Chief Credit Officer of the Bank on August 6, 2007, the day it commenced operations and received its charter from the Office of the Comptroller of the Currency (OCC). In 2018, the Bank Board promoted him to President of Risk Management, and in 2020, to President of the Bank. The Company Board promoted him to President of the Company in 2013, and he was elected to the Company Board in 2016 and the Bank Board in 2018.

Mr. Evinger previously served as Senior Vice President and Chief Credit Officer at James Monroe Bank. He has also held positions in credit and risk management at United Bank, Cardinal Bank, and Freddie Mac. He began his banking career as a credit analyst at Franklin National Bank.

Mr. Evinger holds a B.A. and an M.B.A. from Marymount University and is a graduate of the Virginia Bankers (VBA) School of Bank Management. He serves as the Chairman of the VBA Lending Executives Committee and on the Advisory Board of the College of Business, Innovation, Leadership, and Technology at Marymount University. Since 2015, Mr. Evinger has been a faculty member at the Carolinas-Virginia Commercial Lending School of the Risk Management Association (RMA).

Thomas G. Fitzgerald, Jr., CFA — Chair of the Asset-Liability Committee of Chain Bridge Bank, N.A.

Mr. Thomas G. Fitzgerald, Jr.'s professional experience is in investment management and banking, with expertise in fixed-income analysis, financial statement analysis, and corporate finance.

Since September 2018, Mr. Fitzgerald has served as the CEO of Fitzgerald Investment Management Company LLC, where he oversees a single-family office that prioritizes asset allocation and cost-effective investment strategies for individuals and limited partnerships. In this role, Mr. Fitzgerald manages both public and private investments.

In addition to his CEO position, Mr. Fitzgerald has been a Manager of TF Management LLC, the General Partner of TGF Investments, L.P., since 2018. In this capacity, he manages private investments, including the partnership's investments in the Company.

Prior to his current roles, Mr. Fitzgerald held various positions at First Bancorp of Durango, Inc. between 2012 and 2018. He served as a Director and later as President from September 2017 to September 2018. During his tenure, he managed the company's merger with Triumph Bancorp, Inc. and served as a Director at the First National Bank of Durango and Bank of New Mexico.

From 2008 to 2017, Mr. Fitzgerald worked as a Managing Director at Perry Capital, a New York City-based investment management firm specializing in cross-asset and event-driven strategies. He managed the firm's largest investments in financial institutions in the U.S. and globally and focused on distressed debt across various industries.

Mr. Fitzgerald began his professional career as an Analyst in the Financial Institutions Group at Lehman Brothers, where he served on teams advising regional banks during the Global Financial Crisis. He is a Chartered Financial Analyst (CFA) and holds a B.A. in Economics from Stanford University, with minors in Classics and Management Science & Engineering. He chairs the Bank Board's Asset-Liability Committee (ALCO) and serves on the Company Board's Governance and Nominating Committee.

Andrew J. Fitzgerald, J.D., M.B.A.

Mr. Andrew J. Fitzgerald's professional experience is in banking, investment banking, investment management, and bank and securities regulatory matters.

Since January 2018, Mr. Fitzgerald has served as the Chief Investment Officer and, since January 2022, the Managing General Partner, of Otis Road Investments, L.P. This single-family office focuses on family wealth preservation, capital appreciation, and diversification, actively investing in the banking and financial services sectors and a variety of other industries. His role involves managing both public and private investments, including commercial banks, and leveraging financial and capital allocation expertise to foster business growth across diverse sectors.

From 2011 to 2017, Mr. Fitzgerald was a Managing Director and Associate General Counsel at Hovde Group, an investment bank specializing in financial institutions. His career began with a summer associate position at Ropes & Gray LLP, followed by a tenure at Lazard focusing on M&A advisory and corporate restructuring.

In addition to his banking and investment management work, Mr. Fitzgerald is co-founder of Trippers & Askers, a winery based in Santa Barbara, California.

Mr. Fitzgerald has been a director of Southern Wisconsin Bancshares Corporation and Farmers Savings Bank since 2013. He also served as a director of Southern Colorado Corporation from 2014 to 2018, and he held directorships at Citizens Bank of Pagosa Springs (2017-2018) and First Bancorp of Durango, Inc. (2012-2014).

Mr. Fitzgerald earned his B.A., M.B.A., and J.D. degrees from Northwestern University. He serves on the Company Board's Governance and Nominating.

Joseph M. Fitzgerald — Chair of the Loan Committee of Chain Bridge Bank, N.A. (no relation to Peter G. Fitzgerald)

Mr. Joseph M. Fitzgerald has been a member of the Bank Board since its founding in 2007 and joined the Company Board in October 2022. His professional expertise is in bank examination and credit risk consulting.

Since January 2005, Mr. Fitzgerald has been the president of Fitzgerald Financial LLC, providing risk management and regulatory consulting services to financial institutions worldwide. He previously spent over 18 years at the Secura Group, where he was the Managing Director of its global credit services practice. His career commenced as a National Bank Examiner with the Multinational Banking Division of the Office of the Comptroller of the Currency, the regulator of nationally-chartered banks.

Mr. Fitzgerald graduated from the University of Notre Dame and completed further studies at the Darden School of International Banking at the University of Virginia. He passed the Certified Public Accountant exam but did not pursue licensure. Mr. Fitzgerald chairs the Bank Board's Loan Committee.

Michelle L. Korsmo — Chair of the Governance and Nominating Committee of Chain Bridge Bancorp, Inc.

Ms. Michelle L. Korsmo is President and Chief Executive Officer of the National Restaurant Association, the leading business association for the restaurant industry, which comprises approximately one million restaurant and foodservice outlets and a workforce of 14.5 million employees. She is also the Chief Executive Officer of the National Restaurant Association Educational Foundation. Ms. Korsmo's professional experience is in leading trade associations, government affairs, and corporate governance.

From September 2018 to May 2022, Ms. Korsmo was president and chief executive officer of the Wine & Spirits Wholesalers of America, the national trade association representing the wholesale tier of the wine and spirits industry. She also served seven years as head of the American Land Title Association, the national trade association for real estate settlement services and the land title industry. Prior to ALTA, Ms. Korsmo served as executive vice president of the Americans for Prosperity Foundation. She was previously deputy chief of staff at the U.S. Department of Labor.

Ms. Korsmo has been serving as a Trustee and Chair of the Governance and Nominating Committee at Sterling Multifamily Trust since 2017.

After completing her education at North Dakota State University, Ms. Korsmo started her career as a business owner in her home state of North Dakota, where she built a public advocacy and political consulting firm representing a consortium of organizations before the North Dakota Legislature.

Ms. Korsmo chairs the Company Board's Governance and Nominating Committee.

Benita Thompson-Byas — Chair of the Compensation Committee of Chain Bridge Bancorp, Inc.

Ms. Benita Thompson-Byas has been a member of the Bank Board since its founding in 2007 and joined the Company Board in October 2022. Her areas of expertise include marketing, communications, business operations, and human resources.

In her position as Senior Vice President and Vice Chair of Thompson Hospitality, L.P. since January 2008, Ms. Thompson-Byas has been instrumental in steering the company to its status as the largest minority-owned food service company in the United States. She oversees all aspects of marketing, including the development and execution of comprehensive marketing plans, firm research, promotional activities, and collaboration with food committees. Additionally, Ms. Thompson-Byas serves as the Director of Community Relations at Thompson Hospitality, orchestrating the company's philanthropic efforts. Her tenure with Thompson Hospitality began in November 1992.

Ms. Thompson-Byas is also responsible for overseeing the partnership between Thompson Hospitality and Compass Group, which involves operations at over 600 dining centers in 46 states and six countries. The partnership focuses on supporting diverse suppliers and fostering educational and career opportunities, notably through collaborations with Historically Black Colleges and Universities.

Ms. Thompson-Byas earned her Bachelor of Arts in English from the University of Virginia's College of Arts and Sciences. She chairs the Company Board's Compensation Committee.

Paul W. Leavitt

Mr. Paul W. Leavitt joined the Company Board as a director in December 2016 and was elected a director of the Bank in January 2018. His professional background is in journalism and communications.

Since September 2001, Mr. Leavitt has served on the Board of Trustees of Drake University. He has also been on the Board of Directors for Mill Reef Properties, Inc. since March 2018, previously holding this position from March 2006 to March 2012.

Mr. Leavitt had a 21-year career with *USA Today* in various editorial capacities, including as the Washington News Editor. Prior to joining *USA Today*, he spent 11 years as an editor and reporter for the *Des Moines Register*. He received his undergraduate degree in journalism from Drake University and then studied Russian at Moscow State University. Mr. Leavitt serves on the Company Board's Audit and Compensation committees.

Chain Bridge

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