

FREEDOM BANK

Dear Shareholders:

August 16, 2016

On behalf of our board of directors and management, we are pleased to present these results. The Freedom Bank of Virginia reached new milestones for profitability, both for the second quarter as well as the first half of the year. Pre tax-net income was \$1,005,925 for the second quarter, the first time the bank has earned over \$1 million for a single quarter on a pre-tax basis. The provision for income taxes was \$342,500 leaving net income of \$663,425. Net income after the provision for taxes for the first half of the year exceeded the \$1 million mark for the first time at \$1,065,875. This was a 78.4% improvement from the \$597,381 earned in the first half of 2015.

Capital

Capital ratios at June 30, 2016 were Leverage 11.37%, Tier 1 Capital 13.10% and Tier 2 Capital 14.04%. These ratios are all considerably above the well capitalized level.

After the bank's private placement in December 2015 raised \$16,000,000 before expenses, capital increased to \$50,392,942 at June 30, 2016, up \$18,229,545 (56.7%) from the \$32,163,397 balance at June 30, 2015. Retained earnings accounted for the balance of the capital increase. Book value per share at June 30, 2016 was \$8.17 per share, up from \$7.52 per share at June 30, 2015.

For the second quarter of 2016 the bank earned a ROA of 0.60% and a 5.26% ROE versus the second quarter of 2015 when the bank earned a ROA of 0.50% and a ROE 5.66%. The decline in ROE was due to additional shares outstanding from the private placement. Earnings per share for the quarter ending June 30, 2016 was \$0.11 per share unchanged from the prior year. For the first half of 2016, earnings per share were \$0.17, up from the \$0.14 earned for the first half of 2015, notwithstanding the increased shares outstanding.

Asset Quality

The bank continues maintaining high quality credit standards. Past due loans were only 0.18% at June 30, 2016 and non-performing assets for the bank were 0.20%. Both of these measures of asset quality are superior to the bank's peer group and are better than national averages.

Asset Growth

Asset growth for the second quarter of 2016 was \$50,696,005 from the prior quarter and \$94,463,761 from the quarter ending December 31, 2015, as the bank actively began deploying the increased capital. Gains occurred across the bank's major earning assets compared with the second quarter of 2015. Marketable securities consisting of bonds increased to \$55,927,128 up (76.8%) from \$32,520,056 a year earlier. The mortgage division increased loans available for sale at June 30, 2016 to \$17,958,377, up from

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\$10,264,722 the prior year. The bank's highest yielding asset, loans receivable, grew to \$366,760,237 at June 30, 2016, up (19.8%) from \$306,080,492 at June 30, 2015.

Deposits and Borrowings

Non-interest bearing checking deposits were \$66,628,612 at June 30, 2016 compared with \$53,421,966 a year earlier, a 24.7% increase. Interest bearing checking deposits were \$103,320,977 up 36.0% from \$75,990,493 the prior year. Certificates of Deposits increased to \$222,870,391 at June 30, 2016 from \$215,697,857 for same period of the prior year.

While core deposit growth was strong, robust loan growth required the bank to supplement it with brokered funds and debt. At June 30, 2016 the bank had \$100,096,000 in brokered certificates of deposit. Additionally, it had \$18,911,000 in reciprocal brokered certificates of deposit. It borrowed \$19,200,000 short term from the Federal Home Loan Bank of Atlanta to provide inexpensive funding for the \$17,958,000 in mortgage loans held for sale that are expected to reduce by year end. The bank further borrowed \$4,857,000 long term from the FHLB Atlanta to match fund long term CRE loans.

Income from Loans

Interest and fees on loans rose \$598,770 (15.2%) to \$4,532,347 in the second quarter of 2016 versus 2015. Investment interest was up \$172,611 (106.0%) to \$335,430. Total interest income for the period of \$4,868,417 was up 18.7% from the prior year. Interest expense on deposits and borrowings were up \$162,471 (22.6%) from the prior year to \$882,691. The provision for loan losses was \$267,000 for the quarter compared to \$170,000 from the provision in 2015. This was not due to asset quality issues (see above), but resulted from very strong loan growth for the quarter. Net interest income after provision was up \$507,838 or 15.8% over the second quarter of 2015.

Non Interest Income

Non interest income increased \$481,827 (63.1%) to \$1,245,879 in the second quarter. The primary driver was gain on the sale of mortgages of \$1,174,243, which was \$479,655 (69.1%) higher than the second quarter of 2015.

Mortgage Operations

For the quarter ending June 30, 2016 interest income net of interest expense for mortgages held was \$168,278. The gain on sale of mortgages was \$1,174,879 and other fees were \$282,059 for total revenue of \$1,625,216. Expenses consisted of salaries and commissions of \$893,525, occupancy of \$62,084 and other non interest expense of \$304,574 for total expenses of \$1,260,183. This produced a pre-tax profit for the quarter of \$365,033 for the mortgage division.

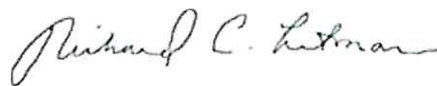
Operating Expenses

Expenses increased \$672,597 or 20.1% to \$3,958,680 in the second quarter versus the same quarter during the prior year. Compensation increased in the second quarter of 2016 by \$519,412 (23.5%) to \$2,733,780. Much of the increase was commissions paid to mortgage originators. Occupancy expense had the next largest increase of \$35,887 (17.8%) to \$237,866 for the second quarter. The bank relocated part of its operations in the building housing its headquarters and had overlapping rent in the first half of the year as the space was being refurbished.

We are pleased with the rising profitability from operating leverage, and thank you for your continued support.



Craig S. Underhill
President & CEO



Richard C. Litman
Chairman