

FREEDOM BANK

Dear Shareholders:

October 31, 2016

On behalf of our board of directors and management, we are pleased to present these results. The Freedom Bank of Virginia continued increasing assets, net income and earnings per share, both for the quarter and the nine month period ending September 30, 2016.

Third Quarter Results

For the quarter ending September 30, 2016, Freedom Bank earned a record net income of \$719,205. This was up \$186,213 (34.9%) from \$532,992 earned for the same period one year earlier. This produced a 0.60% return on average assets for the quarter. Earnings per share were \$0.12, unchanged from the prior year due to additional shares outstanding from a successful stock offering at the end of 2015.

The increase in the bottom line started with improved top line revenue. Interest income from loans and investments increased \$1,048,969 (24.0%). Non interest income, primarily generated through the gain on sale of mortgages, increased \$756,702 (121.0%) from the prior year. Together revenue was up \$1,805,671 over the prior year.

Expenses also increased to fund revenue growth. Interest expense was \$974,753, up \$189,716 (24%) from the prior year. The provision for possible loan losses was \$515,500, an increase from the \$139,000 taken in the same quarter of 2015 primarily due to increased loan volume. The bank has grown loans approximately \$62,000,000 on a net basis in the past six months. The additional provision to the reserve has increased the allowance for possible loan losses to 1.03% versus 0.96% one year earlier.

Compensation and benefits was largest expense at \$2,969,295, up \$837,326 (39%) from the prior year. Much of the increase was in the mortgage division, which was also a strong contributor to pre-tax net income. Occupancy expense of \$250,340 increased \$29,972 (13.6%). The bank moved to larger space in the main office and sustained some double rent during renovations that will be eliminated in the fourth quarter.

Year to Date Results through September 30, 2016

Freedom Bank earned a record net income of \$1,785,080 through September 30, 2016. This exceeded the \$1,130,373 earned through the same period in 2015 by 57.9%. It also exceeded the total net profit for all of 2015, which was \$1,718,570. Earnings per share through the third quarter of 2016 were \$0.29 per share, up from \$0.26 per share in 2015 despite an increase in shares outstanding from the bank's successful capital raise in 2015. Net income increases were driven by increased revenue from loan growth and mortgage banking activities. Interest income from loans and investments increased \$2,559,965 (20.7%) to \$14,900,726 in 2016 versus 2015. Non interest income, primarily generated through the gain on sale of mortgages, increased \$1,653,053 (101.6%) to \$3,280,747 through the third quarter of 2016. Together revenue was up \$4,213,018.00 at September 30, 2016 over the prior year.

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Increased revenue growth required investments in people and technology, which resulted in increased expenses during 2016 compared with the prior year. Interest expense at September 30, 2016 was \$2,624,278, up \$439,426 (20.1%) from in 2015 for the period. The provision for possible loan losses was \$925,500 at September 30, 2016, compared to \$609,000 for the same period in 2015. Organic loan growth was more robust in 2016, which required a higher reserve. The bank grew loans approximately \$76,000,000 on a net basis in the trailing twelve months ending September 30, 2016 and reserved accordingly.

Compensation and benefits was largest expense at \$8,156,757, up \$1,985,798 (32.2%) from the prior year. Much of the increase was in the mortgage division, which contributes to pre-tax net income. Occupancy expense was \$730,523 through September 30, 2016, an \$111,065 increase from the same period in 2015. Equipment and depreciation related to the additional space occupied by the bank increased to \$403,804, a \$66,104 (19.6%) increase over 2015. Additional profitability required a higher franchise tax to the State of Virginia, which was \$278,718, a \$48,151 (20.9%) increase from the prior year. Overall non-interest expenses were \$11,845,765 through September 30, 2016, up \$2,384,789 (25.2%) from 2015.

Mortgage Banking Operations

The Bank's mortgage division increased its contribution in the first nine months of 2016. The division closed 407 loans through September 30, 2016. Pre-tax net income attributed to the mortgage division was \$829,383 at September 30, 2016, up from \$332,197 in pre-tax net income from the mortgage division one year earlier.

Balance Sheet

Total assets increased \$103,934,364 (26.6%) to \$494,027,493 at September 30, 2016 compared to September 30, 2015. The highest yielding asset of Loans Receivable grew organically \$76,097,431 (23.7%) to \$396,819,026 at September 30, 2016. Loans held for sale were \$13,825,894, up from \$6,141,110 the prior year. Investment Securities held for sale were \$46,196,986, up 31.4% from \$35,149,994 a year earlier. Increased borrowing from the Federal Home Loan Bank of Atlanta required the purchase of more stock, which increased to \$2,995,900 from \$1,423,550 the prior year.

Asset quality remains strong with non-performing assets comprising 0.22% of total assets at September 30, 2016. They were 0.09% of total assets at September 30, 2015. Past due loan balances still accruing interest were \$0 at September 30, 2016 compared to \$122,797.96 or 0.04% of total loans the prior year. Both of these metrics are far superior to national peers.

Deposits also increased at September 30, 2016 compared with the same period in 2015. Non interest checking deposits were \$66,056,888, up \$8,197,012 (14.2%) from 2015. Interest checking balances were up \$16,842,806 (19.1%) to \$105,056,440 at September 30, 2016. Balances on certificates of deposit increased \$35,987,120 (17.6%) to \$241,037,751. Of this total \$112,042,000 were brokered. An additional \$18,964,000 was reciprocal deposits through the CDARs program where Freedom Bank arranged

additional FDIC insurance for our clients on large deposits. The bank is working on reducing broker certificates of deposit as a percentage of assets by focusing on increasing core deposits. Initiatives to achieve this goal include offering service charge free checking accounts, more advertising of checking accounts and increasing the rates paid to consumers on certificate of deposit balances under \$99,000.

The bank borrowed more from the Federal Home Loan Bank of Atlanta in 2016 than the prior year to fund the asset growth to maintain earnings per share growth despite the increased share count from the successful capital raise the prior year. Short term advances were \$22,000,000, at September 30, 2016 versus \$0 one year earlier. Long term advances were \$4,714,000 at September 30, 2016 and were \$2,000,000 in 2015.

Capital increased to \$51,158,971 at September 30, 2016, a 55.6% increase over the \$32,881,109 level at September 30, 2015. Book value per share was \$8.30 at September 30, 2016 and \$7.68 at September 30, 2015.

The leverage ratio was 10.70%. CET1 capital was 12.4%. Tier I capital ratio was 12.4% and the total capital ratio was 13.4%. All of these are above well capitalized levels.

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

FREEDOM BANK

The Freedom Bank of Virginia Statements of Financial Condition (UNAUDITED)

	September 30, 2016	September 30, 2015
ASSETS		
Cash and due from banks	\$ 4,905,564	\$ 4,782,417
Federal funds sold	24,107,000	17,053,000
Interest Bearing Balances with Banks	1,031,321	1,027,212
Investment securities available for sale, at fair value	46,196,986	35,149,994
FHLB and Federal Reserve Bank stock	2,995,900	1,423,550
Loans held for sale	13,825,894	6,141,110
Loans receivable	396,819,026	320,721,595
Allowance for possible loan losses	(4,100,459)	(3,069,920)
Net Loans	392,718,567	317,651,675
Premises and equipment, net	713,768	772,910
Accrued interest and other receivables	1,028,948	927,824
Deferred Tax Asset	1,604,000	1,320,000
Other assets	2,632,761	1,636,949
Bank Owned Life Insurance	2,266,784	2,206,488
Total Assets	\$ 494,027,493	\$ 390,093,129
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Demand deposits:		
Non-interest bearing deposits	\$ 66,056,888	\$ 57,859,877
Interest Checking	105,056,440	88,213,634
Savings deposits	2,148,690	2,883,938
Time deposits	241,037,751	205,050,631
Total Deposits	414,299,769	354,008,080
Fed Funds Purchased and FHLB advances	26,714,286	2,000,000
Other accrued expenses	1,685,113	1,097,054
Accrued interest payable	169,354	106,886
Total Liabilities	442,868,522	357,212,020
Stockholders' Equity:		
Common stock of \$0.01 par value with 25,000,000 shares authorized, 6,166,454 shares issued and outstanding at September 30, 2016		
Common stock of \$3.16 par value with 15,000,000 shares authorized, 4,279,349 shares issued and outstanding September 30, 2015		
Voting Common Stock	55,377	13,509,682
5,537,747 and 4,279,349 shares issued and outstanding September 30, 2016 and September 30, 2015		
Non-Voting Common Stock	6,287	-
628,707 shares issued and outstanding September 30, 2016		
Additional paid-in capital	47,774,866	18,643,656
Accumulated other comprehensive income	94,876	(126,518)
Retained earnings (deficit)	3,227,565	854,289
Total Stockholders' Equity	51,158,971	32,881,109
Total Liabilities and Stockholders' Equity	\$ 494,027,493	\$ 390,093,129

The Notes to Financial Statements are an integral part of these statements.

FREEDOM BANK

**The Freedom Bank of Virginia
Statements of Operations
(UNAUDITED)**

	For the three months ended September 30,		For the nine months ended September 30,	
	2016	2015	2016	2015
Interest Income				
Interest and fees on loans	\$ 5,127,745	\$ 4,194,268	\$ 13,984,388	\$ 11,848,047
Interest on investment securities	288,447	168,017	908,254	475,388
Interest on Federal funds sold	362	5,300	8,084	17,326
Total Interest Income	<u>5,416,554</u>	<u>4,367,585</u>	<u>14,900,726</u>	<u>12,340,761</u>
Interest Expense				
Interest on deposits	942,623	784,283	2,624,278	2,184,852
Interest on borrowed funds	32,130	754	81,450	754
Total Interest Expense	<u>974,753</u>	<u>785,037</u>	<u>2,705,728</u>	<u>2,185,606</u>
Net Interest Income	4,441,801	3,582,548	12,194,998	10,155,155
Provision for Possible Loan Losses	<u>515,500</u>	<u>139,000</u>	<u>925,500</u>	<u>609,000</u>
Net Interest Income after Provision for Possible Loan Losses	3,926,301	3,443,548	11,269,498	9,546,155
Other Income				
Gain on sale of mortgage loans	1,333,657	533,145	3,078,286	1,394,950
Service charges and other income	35,188	78,739	157,372	186,823
Increase in cash surrender value of bank-owned life insurance	14,829	15,088	45,089	45,921
Total Other Income	<u>1,383,674</u>	<u>626,972</u>	<u>3,280,747</u>	<u>1,627,694</u>
Operating Expenses				
Officers and employee compensation and benefits	2,969,295	2,131,969	8,156,757	6,170,959
Occupancy expense	250,340	220,368	730,523	619,458
Equipment and depreciation expense	150,177	111,717	403,804	337,700
Insurance expense	78,579	73,235	236,644	211,912
Professional fees	227,682	196,939	693,501	650,337
Data and item processing	221,129	228,043	690,145	686,225
Business development	36,128	50,703	150,809	146,297
Franchise tax	107,070	89,081	278,718	230,567
Other operating expenses	181,270	160,473	504,864	407,521
Total Operating Expenses	<u>4,221,670</u>	<u>3,262,528</u>	<u>11,845,765</u>	<u>9,460,976</u>
Income before Income Taxes	1,088,305	807,992	2,704,480	1,712,873
Provision for Income Taxes	<u>369,100</u>	<u>275,000</u>	<u>919,400</u>	<u>582,500</u>
Net Income	<u>\$ 719,205</u>	<u>\$ 532,992</u>	<u>\$ 1,785,080</u>	<u>\$ 1,130,373</u>

The Notes to Financial Statements are an integral part of these statements.