

FREEDOM BANK

Dear Shareholders:

On behalf of our Board of Directors and Management, we are pleased to present our second quarter results. Freedom Bank earned second quarter net income of \$1,075,512, up 62.1% from \$663,424 for the second quarter of 2016, and mid-year net income of \$1,724,136, up 61.7% from \$1,065,875 earned through June 30, 2016. Earnings per share for the second quarter were \$0.17 versus \$0.11 the prior year. For the first half of the year, earnings per share were \$0.28, up from \$0.17 in 2016. Book value per share was \$8.69 at June 30, 2017 compared to \$8.17 the prior year. The stock price for FDVA closed at \$12.50 on June 30, 2017. This was up from \$8.40 one year earlier providing a return of 48.8% in the past twelve months.

Balance Sheet Review

The Bank continues to show year over year growth. Total assets increased \$43,660,625 (9.2%) to \$519,492,612. The Bank remained liquid with \$37,530,549 in cash and federal funds sold. Investment securities totaled \$49,514,739 providing \$87,045,288 in liquid assets approximating 16.8% of total assets. In addition, the Bank had \$14,953,016 in municipal bonds held to maturity.

Loans held for investment of \$396,553,521 at June 30, 2017, which was a \$29,793,285 (8.1%) increase from the prior year. Loans held for sale were \$14,442,513, down from \$17,958,377 the prior year.

Asset quality was superior to national peers and improved from the prior year. Loan balances thirty days past due and still accruing interest were \$134,333 at June 30, 2017 down from \$156,682 at June 30, 2016. Non performing assets were only 0.10% of total assets at June 30, 2017, down from 0.20% a year earlier. Asset quality was assisted during the second quarter by a \$286,000 loan recovery, which increased the allowance for loan and leases to \$4,522,370. This recovery increased the allowance percentage at June 30, 2017 to 1.14%, up from 0.98% a year earlier due to the unexpected recovery.

The Bank focused on increasing core funding and reducing its non-core funding during the quarter. Non-interest bearing checking deposits increased \$1,970,190 (3.0%) to \$68,598,802 at June 30, 2017 while interest bearing checking deposits were \$145,830,987, up \$42,510,010 (41.2%) from the prior year. Transaction account balances comprised 47.3% of total deposits at June 30, 2017 compared to 43.0% at June 30, 2016. Time Deposits consisting of certificate of deposit balances grew to \$236,101,388 from \$222,870,391. The increase in time deposits was due to \$26,000,000 in new certificates of deposit from local government entities in 2017.

FHLB borrowing was \$10,571,428 at June 30, 2017, down from \$29,057,143 a year earlier. All FHLB Atlanta borrowing in 2017 was long term and taken to match fund the CRE portfolio. At June 30, 2016 \$24,700,000 of the borrowing was short term to fund loan growth.

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Retained earnings and redemption of warrants offered in a 2015 capital raise increased total capital from \$50,392,942 at June 30, 2016 to \$53,929,937 at June 30, 2017. Capital ratios at June 30, 2017 were Leverage of 10.65%, Tier One of 12.95% and Total Capital of 14.04%. All capital ratios remained well above the level considered to well capitalized even with the higher capital levels required under the Basel III Accords.

Operations for the Second Quarter

Interest on loans increased to \$5,362,916 for the quarter ended June 30, 2017 from \$4,532,347 the same quarter the prior year. Investment income on securities was up to \$451,885 for the quarter from \$335,430 for the second quarter of 2016. Higher interest rates combined with more deposits cause interest expense to increase to \$1,187,580 for the quarter, up from \$882,691 at June 30, 2016 quarter-end.

The Bank had a recovery of a previously charged off loan in the second quarter of 2017 that resulted in a recovery of \$286,000. This precluded the need for the Bank to make a provision for loan losses in the second quarter of 2017. The Bank made a \$267,000 provision for loan losses in the second quarter of 2016.

The Bank had non-interest income to \$1,489,783 for the second quarter of 2017 compared to \$1,523,046 for the comparable quarter of 2016. As in previous years, the gain on sale of mortgages of \$1,416,510 was the primary driver of non-interest income.

Non-interest expense increased 6.0% to \$4,491,567 in the second quarter of 2017 compared to the prior year. Compensation and benefits was most of the increase, up \$157,340 or 5.8% to \$2,891,120. This was a combination of more employees and merit increases.

Net income after taxes was \$1,075,512 for the quarter ended June 30, 2017 compared to \$663,425 a year earlier. This was the first quarter in which the Bank earned over \$1 million for a calendar quarter. Income taxes for the quarter were \$554,000 compared to \$342,500 the prior year. Higher net income produced higher returns for shareholders. The ROA for the second quarter was 0.85% in 2017, up from 0.56% in 2016. The ROE was 8.08% for the second quarter of 2017, up from 5.35% in 2016.

Operations for the Six Months Ended June 30, 2017

The large increase in net profit resulted from increased revenue. Interest on loans increased 18.8% to \$10,528,769 from \$8,856,643 the prior year. Investment income on securities was up to \$786,288 from \$619,807 at June 30, 2016. Higher interest rates combined with more deposits cause interest expense to increase to \$2,226,902 at June 30, 2017, up from \$1,730,975 the previous year.

The provision for loan losses was only \$30,000 at June 30, 2017 compared to \$410,000 at June 30, 2016. The smaller provision in 2017 was due to a large recovery on two troubled credits combined with the reduced pace of loan growth in the first half of 2017.

Non-interest income was \$2,310,119 at June 30, 2017 in line with the \$2,327,818 the prior year. As in previous years, the gain on sale of mortgages of \$2,144,901 was the main component of non-interest income.

Non-interest expense increased 6.0% to \$8,762,215 at June 30, 2017 from the previous year. Compensation and benefits was most of the increase, up \$449,720 or 8.7% to \$5,637,181. This was a combination of more employees and merit increases.

Net income before taxes was \$2,612,236 at June 30, 2017 compared to \$1,616,175 a year earlier. Income taxes through June 30, 2017 were \$888,100 and \$550,300 through June 30, 2016. Increased profitability generated higher returns for shareholders. The ROA for the first half of 2017 was 0.69%, up from 0.60% in 2016. The ROE for the first half of 2017 was 5.35%, up from 4.45% in 2016.

Other News

The Bank received regulatory approval to open its fourth branch banking office at 4500 Daly Drive, Suite 240, Chantilly, Virginia 20151. The branch is expected to increase the Bank's core deposit growth and is expected to open in the first quarter of 2018.

As previously announced, the Bank declared a five percent stock dividend on July 7, 2017, providing each of our shareholders with five percent more shares. The third quarter shareholder letter will be adjusted to reflect the new share count.

We are pleased with the strong organic growth of the Bank's assets and profitability and we thank you for your continued support.



Craig S. Underhill
President & CEO



Richard Litman
Chairman

**The Freedom Bank of Virginia
Statements of Operations**

	For the three months ended		For the six months ended	
	June 30,		June 30,	
	2017	2016	2017	2016
Interest Income				
Interest and fees on loans	\$ 5,362,916	\$ 4,532,347	\$ 10,528,769	\$ 8,856,643
Interest on investment securities	451,885	335,430	786,288	619,807
Interest on Federal funds sold	4,075	640	6,177	7,722
Total Interest Income	<u>5,818,876</u>	<u>4,868,417</u>	<u>11,321,234</u>	<u>9,484,172</u>
Interest Expense				
Interest on deposits	1,140,971	851,589	2,148,269	1,681,655
Interest on borrowed funds	46,609	31,102	78,633	49,320
Total Interest Expense	<u>1,187,580</u>	<u>882,691</u>	<u>2,226,902</u>	<u>1,730,975</u>
Net Interest Income	4,631,296	3,985,726	9,094,332	7,753,197
Provision for Possible Loan Losses	<u>-</u>	<u>267,000</u>	<u>30,000</u>	<u>410,000</u>
Net Interest Income after Provision for Possible Loan Losses	4,631,296	3,718,726	9,064,332	7,343,197
Other Income				
Gain on sale of mortgage loans	1,416,510	1,451,410	2,144,901	2,175,374
Service charges and other income	59,145	56,695	136,543	122,184
Increase in cash surrender value of bank- owned life insurance	14,128	14,940	28,675	30,260
Total Other Income	<u>1,489,783</u>	<u>1,523,046</u>	<u>2,310,119</u>	<u>2,327,818</u>
Operating Expenses				
Officers and employee compensation and benefits	2,891,120	2,733,780	5,637,181	5,187,462
Occupancy expense	236,513	237,866	490,081	480,183
Equipment and depreciation expense	144,950	126,412	287,342	253,627
Insurance expense	104,259	79,468	216,403	158,065
Professional fees	304,026	239,753	658,029	465,819
Data and item processing	246,360	232,169	414,487	469,016
Business development	49,636	71,596	107,909	114,681
Franchise tax	123,127	96,447	230,197	171,648
Mortgage fees and settlements	185,824	277,167	326,732	430,745
Other operating expenses	205,752	141,189	393,854	323,594
Total Operating Expenses	<u>4,491,567</u>	<u>4,235,847</u>	<u>8,762,215</u>	<u>8,054,840</u>
Income before Income Taxes	1,629,512	1,005,925	2,612,236	1,616,175
Provision for Income Taxes	<u>554,000</u>	<u>342,500</u>	<u>888,100</u>	<u>550,300</u>
Net Income	<u>\$ 1,075,512</u>	<u>\$ 663,425</u>	<u>\$ 1,724,136</u>	<u>\$ 1,065,875</u>

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

The Freedom Bank of Virginia
Statements of Financial Condition

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
ASSETS		
Cash and due from banks	\$ 1,280,260	\$ 1,175,840
Federal funds sold	24,213,000	107,000
Interest Bearing Balances with Banks	12,037,289	26,583,206
Investment securities available for sale, at fair value	49,514,739	55,927,128
Investment securities held to maturity	14,953,016	-
FHLB and Federal Reserve Bank stock	2,402,850	2,883,000
Loans held for sale	14,442,513	17,958,377
Loans receivable	396,553,521	366,760,237
Allowance for possible loan losses	<u>(4,562,370)</u>	<u>(3,584,959)</u>
Net Loans	391,991,151	363,175,278
Premises and equipment, net	1,402,961	641,784
Accrued interest and other receivables	1,322,230	1,161,348
Deferred Tax Asset	2,125,500	1,604,000
Other assets	1,093,081	2,363,071
Bank Owned Life Insurance	<u>2,714,022</u>	<u>2,251,955</u>
Total Assets	<u>\$ 519,492,612</u>	<u>\$ 475,831,988</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Demand deposits:		
Non-interest bearing deposits	\$ 68,598,802	\$ 66,628,612
Interest Checking	145,830,987	103,320,977
Savings deposits	2,672,910	2,003,193
Time deposits	<u>236,101,388</u>	<u>222,870,391</u>
Total Deposits	453,204,087	394,823,173
Fed Funds Purchased and FHLB advances	10,571,428	29,057,143
Other accrued expenses	1,633,705	1,420,774
Accrued interest payable	<u>153,455</u>	<u>137,956</u>
Total Liabilities	<u>465,562,675</u>	<u>425,439,046</u>
Stockholders' Equity:		
Common stock of \$0.01 par value with 25,000,000 shares authorized, 6,207,735 shares issued and outstanding at June 30, 2017 6,166,454 shares issued and outstanding at June 30, 2016		
Voting Common Stock	55,790	55,377
5,579,028 and 5,537,747 shares issued and outstanding June 30, 2017 and June 30, 2016		
Non-Voting Common Stock	6,287	6,287
628,707 shares issued and outstanding June 30, 2017 and June 30, 2016		
Additional paid-in capital	48,249,352	47,744,708
Accumulated other comprehensive income	(289,894)	78,211
Dividends Declared	3,988,470	
Retained earnings	<u>1,919,932</u>	<u>2,508,359</u>
Total Stockholders' Equity	<u>53,929,937</u>	<u>50,392,942</u>
Total Liabilities and Stockholders' Equity	<u>\$ 519,492,612</u>	<u>\$ 475,831,988</u>

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

(233,900)

517,450