

FREEDOM BANK

November 17, 2017

Dear Shareholders:

On behalf of our Board of Directors and management, we are pleased to present our third quarter results. The Freedom Bank of Virginia earned net income of \$791,715 for the third quarter ending September 30, 2017, up 10% from \$719,205 for the same period in 2016. Earnings per share were \$0.12 for the third quarter, compared to \$0.11 for the third quarter of 2016 as restated for the five percent stock dividend that was paid on July 7, 2017. The bank successfully grew core deposits during the quarter, which were held in low yielding cash balances waiting for deployment at September 30th. This compressed the net interest margin for the third quarter.

There was no provision for loan losses required in the third quarter due to flat loan growth. Non-interest income was down from the prior year, due mostly to reduced income from the sale of mortgage originations. This was partially off-set by reduced compensation expense as fewer commissions and expenses related to mortgage originations were paid. Professional fees were \$170,213 higher. The bank crossed the \$500 million in assets threshold in 2017 and additional accounting rules apply as well as increased regulatory compliance required additional use of consultants in 2017.

For the nine months ending September 30, 2017, net income was \$2,515,851. This was up \$730,771 (40.9%) from the prior year. Earnings per share through the third quarter of 2017 were \$0.39 per share, up from \$0.28 per share in 2016 as restated for the stock dividend. Earnings benefited from requiring only a \$30,000 contribution to the provision for possible loan losses compared to \$925,500 a year earlier due to a combination of slower loan growth and recoveries of previous charged-off loans in 2017.

Non-interest income of \$3,611,958 through September 30, 2017 was 10.3% lower than the prior year. The main reason was reduced mortgage loan origination volume, which led to a lower gain on loans held for sale. Operating expenses through nine months were up \$785,723 (6.2%) from the prior year. Main categories were compensation up \$350,317 (4.29%) and professional fees related to the growth of the bank and increasing regulatory compliance, up \$362,424 (52.3%).

Total assets increased \$67,102,774 (13.6%) to \$561,130,267 at September 30, 2017 compared to September 30, 2016. Loan growth slowed in 2017 as the bank focused on growing core deposits and increasing liquidity for sustainable growth. The highest yielding asset of loans receivable grew \$1,743,286 to \$398,562,312 at September 30, 2017 from a year earlier. Loans held for sale were \$11,528,559 compared to \$13,825,894 the prior year. Investment securities available for sale were \$52,772,671, up from \$46,196,986 in 2016. Additionally, the bank had \$14,911,233 in municipal bonds held to maturity in 2017 that it did not hold in the prior year.

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Asset quality remains strong with non-performing assets comprising 0.30% of total assets at September 30, 2017, versus 0.22% of total assets at September 30, 2016. Past due loan balances still accruing interest were \$1,512,627 at September 30, 2017 compared with \$0 the prior year. Both of these metrics are superior to community banks nationally.

Non-interest checking balances were \$73,483,463 at September 30, 2017, up 11.2% from \$66,056,888 a year earlier. Interest bearing checking account balances were \$179,943,810, a \$74,887,370 (71.3%) increase from \$105,056,440 the prior year. Certificates of deposits were \$238,411,457, down from \$241,037,751 a year earlier, as transaction accounts funded more of the growth of the bank.

The deposit mix changed to become more core focused in 2017. Brokered CD deposits declined from \$80,102,000 at September 30, 2016 to \$48,778,000 at September 30, 2017. Municipal deposits of approximately \$26,000,000 at September 30, 2017 replace some of the brokered CDs from the prior year. Total deposits were \$493,902,789 at September 30, 2017, versus \$414,299,769 the prior year. Transaction account balances of \$253,427,273 exceeded time and savings deposit balances of \$240,475,516 for the first time in the past five years as a result of the bank's emphasis on core deposit growth.

Capital increased to \$54,700,983 at September 30, 2017, a \$3,542,012 increase over the \$51,158,971 level at September 30, 2016. Tangible book value per share was \$8.38 at September 30, 2017, an increase from \$7.90 per share at September 30, 2016 as restated for the stock dividend. Regulatory capital ratios were strong at September 30, 2017 with the leverage ratio, tier I ratio and total capital ratios at 9.99%, 12.75% and 13.81% respectively. Two of the three improved over the prior year when they were 10.70%, 12.40% and 13.40% respectively. All capital ratios are well in excess of those necessary to be considered well capitalized under regulatory guidance.

We expect to open our fourth branch office at 4500 Daly Drive, Suite 240, Chantilly, Virginia in the fourth quarter to help continue growing core deposits and to serve new and existing customers in this area. We are pleased with the strong organic growth of the bank's assets, core deposits and profitability and we thank you for your continued support.



Craig S. Underhill
President & CEO



Richard Litman
Chairman

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The Freedom Bank of Virginia
Statements of Financial Condition

	<u>September 30, 2017</u>	<u>September 30, 2016</u>
ASSETS		
Cash and due from banks	\$ 1,487,632	\$ 1,176,028
Federal funds sold	69,119,000	24,107,000
Interest Bearing Balances with Banks	6,080,661	4,760,857
Investment securities available for sale, at fair value	52,722,671	46,196,986
Investment securities held to maturity	14,911,233	-
FHLB and Federal Reserve Bank stock	2,411,550	2,995,900
Loans held for sale	11,528,559	13,825,894
Loans receivable	398,562,312	396,819,026
Allowance for possible loan losses	(4,562,370)	(4,100,459)
Net Loans	<u>393,999,942</u>	<u>392,718,567</u>
Premises and equipment, net	1,383,953	713,768
Accrued interest and other receivables	1,392,669	1,028,948
Deferred Tax Asset	2,125,500	1,604,000
Other assets	1,643,945	2,632,761
Bank Owned Life Insurance	<u>2,322,952</u>	<u>2,266,784</u>
Total Assets	<u><u>\$ 561,130,267</u></u>	<u><u>\$ 494,027,493</u></u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Demand deposits:		
Non-interest bearing deposits	\$ 73,483,463	\$ 66,056,888
Interest Checking	179,943,810	105,056,440
Savings deposits	2,064,059	2,148,690
Time deposits	<u>238,411,457</u>	<u>241,037,751</u>
Total Deposits	493,902,789	414,299,769
Fed Funds Purchased and FHLB advances	10,428,571	26,714,286
Other accrued expenses	1,950,442	1,685,112
Accrued interest payable	<u>147,482</u>	<u>169,355</u>
Total Liabilities	<u>506,429,284</u>	<u>442,868,522</u>
Stockholders' Equity:		
Common stock of \$0.01 par value with 25,000,000 shares authorized,		
Voting Common Stock	58,668	55,377
5,866,765 and 5,537,747 shares issued and outstanding		
September 30, 2017 and September 30, 2016		
Non-Voting Common Stock	6,601	6,287
660,143 and 628,707 shares issued and outstanding		
September 30, 2017 and September 30, 2016		
Additional paid-in capital	52,311,337	47,774,866
Accumulated other comprehensive income	(387,271)	94,876
Retained earnings	<u>2,711,648</u>	<u>3,227,565</u>
Total Stockholders' Equity	<u>54,700,983</u>	<u>51,158,971</u>
Total Liabilities and Stockholders' Equity	<u><u>\$ 561,130,267</u></u>	<u><u>\$ 494,027,493</u></u>

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

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

	For the three months ended September 30,		For the nine months ended September 30,	
	2017	2016	2017	2016
Interest Income				
Interest and fees on loans	\$ 5,286,184	\$ 5,127,745	\$ 15,814,952	\$ 13,984,388
Interest on investment securities	603,727	288,447	1,390,015	908,254
Interest on Federal funds sold	6,388	362	12,565	8,084
Total Interest Income	<u>5,896,299</u>	<u>5,416,554</u>	<u>17,217,532</u>	<u>14,900,726</u>
Interest Expense				
Interest on deposits	1,336,841	942,623	3,485,109	2,624,278
Interest on borrowed funds	47,076	32,130	125,709	81,450
Total Interest Expense	<u>1,383,917</u>	<u>974,753</u>	<u>3,610,818</u>	<u>2,705,728</u>
Net Interest Income	4,512,382	4,441,801	13,606,714	12,194,998
Provision for Possible Loan Losses	<u>-</u>	<u>515,500</u>	<u>30,000</u>	<u>925,500</u>
Net Interest Income after Provision for Possible Loan Losses	4,512,382	3,926,301	13,576,714	11,269,498
Other Income				
Gain on sale of mortgage loans	1,231,444	1,648,245	3,376,345	3,823,619
Service charges and other income	56,501	35,188	193,044	157,372
Increase in cash surrender value of bank- owned life insurance	13,894	14,829	42,569	45,089
Total Other Income	<u>1,301,839</u>	<u>1,698,262</u>	<u>3,611,958</u>	<u>4,026,080</u>
Operating Expenses				
Officers and employee compensation and benefits	2,869,891	2,969,295	8,507,074	8,156,757
Occupancy expense	264,713	250,340	754,793	730,523
Equipment and depreciation expense	144,742	150,177	432,083	403,804
Insurance expense	73,932	78,579	290,335	236,644
Professional fees	397,895	227,682	1,055,925	693,501
Data and item processing	256,270	221,129	670,757	690,145
Business development	61,092	36,128	169,001	150,809
Franchise tax	131,156	107,070	361,353	278,718
Mortgage fees and settlements	203,356	314,588	530,087	745,333
Other operating expenses	211,559	181,270	605,413	504,864
Total Operating Expenses	<u>4,614,606</u>	<u>4,536,258</u>	<u>13,376,821</u>	<u>12,591,098</u>
Income before Income Taxes	1,199,615	1,088,305	3,811,851	2,704,480
Provision for Income Taxes	<u>407,900</u>	<u>369,100</u>	<u>1,296,000</u>	<u>919,400</u>
Net Income	<u>\$ 791,715</u>	<u>\$ 719,205</u>	<u>\$ 2,515,851</u>	<u>\$ 1,785,080</u>

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