DOGWOOD RESEARCH LLC

Freedom Bank of Virginia (FDVA – OTCQX)

Investor Relations Report

May 4, 2015

Loan Growth Momentum Continues into 2015

For the past few years, Freedom Bank has balanced the need to invest in growth while maintaining profitability, which is a tough task for a bank that has grown as rapidly as Freedom Bank. In the first quarter, Freedom Bank was again able to deliver positive earnings despite an uptick in growth expenditures.

Once again, Freedom Bank delivered strong loan growth in the first quarter, which sets the tone for what should be another year of top-tier loan growth in 2015. The new additions to the lending team over the past couple of years have been ramping up production and contributing to the expansion in the loan portfolio. We expect the opening of Freedom Bank's third branch (in Reston) will enhance the presence of the Freedom Bank brand and lead to additional growth. Finally, Freedom Bank has recently made significant hires within their mortgage lending division, which should help to drive revenue growth in 2015 and beyond.

While earnings will likely remain unpredictable for the foreseeable future, we believe investors in this growth story will remain focused on how well management is building the franchise for future earnings and less concerned about near-term swings in earnings. As a result of the increase in share count due to the recent capital raises and the commencement of incurring income tax expense, we are adjusting our 2015 earnings per share estimate from $0.40 to $0.20.

FDVA shares currently trade at approximately 1.0 times book value. While community bank stocks have been stagnant in recent quarters, FDVA shares have appreciated by nearly 13.4% over the past two years. Many community bank stocks have wallowed in recent months as a result of interest rate and regulatory concerns, although we expect some renewed interest in the sector as a result of increased merger and acquisition activity. Valuation levels throughout the sector remain subdued, although recent hints at potential interest rate increases have led to renewed interest in the banking sector.

Company Overview

The Freedom Bank of Virginia is headquartered in Fairfax, Virginia and had $353.7 million in assets at quarter-end. The bank operates three branch locations in Northern Virginia: one in Vienna, one in Fairfax and their newest branch is in Reston. The bank offers a full suite of traditional banking products, including retail checking and savings products, residential mortgage loans and a broad array of commercial products.

The bank's stock trades on the OTC Market Group's OTCQX under the ticker FDVA

Last Price: $7.30
Market Capitalization: $31.2 million

52 Week Range:
$7.25 - $10.00

Annual Dividend: $0.00
Dividend Yield: 0.0%

Book Value: $7.47
Tangible Book Value: $7.47

EPS Actuals and Estimates
FY2013A: $0.36
FY2014A: $0.40
FY2015E: $0.20
(Adjusted for eleven-for-ten stock split in Q2 2014)

Price/Earnings (P/E)
2013A: 20.3x
2014A: 18.3x
2015E: 36.5x

Price/Book Value: 1.0x
Price/Tangible Book Value: 1.0x

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important disclosures

Loan Portfolio Expands; New Capital Should Support Additional Growth

First quarter earnings per share totaled $0.03 compared to $0.09 in last year's first quarter. While earnings per share were down year-over-year, it is worth noting that earnings on a pre-provision, pre-tax basis increased to $516 thousand from $448 thousand in the prior year period.

The first quarter was the first quarter that Freedom Bank has had income tax expense (net operating losses fully utilized), so earnings comparisons in 2015 will be skewed due to the added tax expense.

Net Interest Income Growth Follows Loan Growth

Freedom Bank's exceptional loan growth has driven an increase in interest income and net interest income. Compared to last year's first quarter, interest income in the first quarter of 2015 increased by over $709 thousand, a 22.4% increase, which, in turn, led to a 21.2% increase in net interest income.

Loan Growth Momentum Should Continue

Gross loans have increased by just over $48.0 million over the past four quarters – a 19.6% increase. Growth in the first quarter alone accounted for $13.8 million of the growth, which equates to 19.7% annualized growth.

While it will likely be tough for Freedom Bank to maintain such a rapid pace of growth throughout 2015, we anticipate loan growth levels will remain quite strong and easily outpace typical loan growth rates seen throughout the rest of the community banking sector.

Core Deposits Expand

Freedom Bank continues to focus on growing core deposits. We expect the new branch in Reston will contribute to core deposit growth as the branch matures and becomes engrained in the community. Over the past year, Freedom Bank has grown non-CD deposits (non-interest, checking and savings accounts) by just over $30.4 million, or 29.9%.

New Branch Contributing

As a result of the opening of Freedom Bank's third branch, occupancy expense increased to $197 thousand from $137 thousand a year ago. Management noted that the new branch, which is located in Reston, has reached $30 million in deposits in its first nine months of operation. We continue to expect the new branch to enhance Freedom Bank's presence in the Reston market and should help to improve the bank's deposit mix by attracting new core deposits.

Mortgage Lending Division Makes New Hires

Late in 2014, Freedom Bank brought on-board Richard Hutchison to lead the bank's mortgage banking group. Since then, Freedom Bank has added several other mortgage lenders, which should result in a ramp-up in this division's profitability levels throughout 2015. The potential growth opportunity in mortgage lending offers the potential for additional revenue growth and diversification. Due to the successful hiring efforts in recent quarters, Freedom Bank's compensation expense increased by nearly $443 thousand, or 32.1%, over the past year.

Credit Quality Stays Strong

Due to the growth in the loan portfolio, Freedom Bank's first quarter provision for potential loan losses increased to $300 thousand from $100 thousand in last year's first quarter. Freedom Bank's overall credit quality remains stellar, as total nonperforming assets total a low 0.13% of assets, which is down from 0.49% a year ago.

Capital Update

Freedom Bank recently completed two capital raises, which net the company approximately $3.5 million after expenses. The additional capital will be used to support recent and future growth opportunities. Freedom Bank ended the quarter with a Tier 1 Capital ratio of 11.0% and all of Freedom Bank's regulatory capital ratios remain in well-capitalized territory.

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