DOGWOOD RESEARCH LLC

Freedom Bank of Virginia (FDVA – OTCQX)

Investor Relations Report

July 28, 2015

Mortgage Banking and Loan Growth Drive a Strong Q2

The mortgage division announced its arrival with a big second quarter and Freedom Bank's decision to commit to this business line certainly looks like a good one at this early stage. The division's strong results helped to propel second quarter pre-tax earnings higher by over 43% compared to last year's second quarter.

Freedom Bank shareholders are probably accustomed to reading about the outsized growth rates that the bank seems to post quarter in and quarter out, but it bears repeating again following second quarter results. Gross loans increased by over $13.3 million in the second quarter and just over $53.0 million over the past year. Many community banks have struggled to grow loan balances over the past few years, so Freedom Bank's loan growth of over 20.9% over the past year certainly stands out.

After completing several organizational and strategic initiatives over the past two-plus years, Freedom Bank appears to be entering a new period whereby the returns on those investments and initiatives really take hold and develop into higher profitability levels. After seeing the profitability potential of the mortgage division in the second quarter, it has become apparent that our earnings expectations for the year are woefully low. Therefore, we are boosting our 2015 earnings per share estimate from $0.20 to $0.40, which could still prove to be conservative if growth across the business remains strong in the second half of the year.

Community bank stocks have started to show some signs of life in recent months after posting underwhelming returns throughout 2014 and early in 2015. The ABA (American Bankers Association) NASDAQ Community Bank Index has appreciated by nearly 8.0% from the end of April through July 24th, which is a positive sign that investors have started to pay attention to the banking sector. The anticipation of a rising interest rate environment and the potential that higher rates could be a positive for bank earnings seems to be the driver behind the surge in interest.

Company Overview

The Freedom Bank of Virginia is headquartered in Fairfax, Virginia and had $381.4 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: $7.70
Market Capitalization: $33.0 million

52 Week Range:
$7.18 - $9.85

Annual Dividend: $0.00
Dividend Yield: 0.0%

Book Value: $7.52
Tangible Book Value: $7.52

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

Price/Earnings (P/E)
2013A: 21.4x
2014A: 19.3x
2015E: 19.3x

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

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See second page for
important disclosures

Revenue Climbs Across the Board and Sets the Stage for a Strong 2015

Freedom Bank reported second quarter net income of $455 thousand, or $0.11 per share, which was up from $143 thousand, or $0.03 per share in the first quarter. Freedom Bank did not incur income taxes in 2014, so the comparable figure to last year's second quarter results was $689 thousand in pre-tax earnings versus $480 thousand in last year's second quarter.

Pre-tax earnings for the first half of 2015 increased by 9.2% to $905 thousand. After-tax net income per share declined to $0.14 during the six-month period from $0.22 in the prior year, again due to the payment of income taxes in 2015.

New Producers in the Mortgage Division Drive an Impressive Ramp in Production

Freedom Bank made a push in the mortgage banking business late in 2014 with the hiring of Richard Hutchison, who was brought on to manage the division. The hiring of producers started in the first quarter and then ramped up in the second quarter. Those producers have already made significant contributions to Freedom Bank's bottom line.

In fact, mortgage banking fees increased by an impressive $885 thousand in the first half of 2015 over the same period in 2014. The addition of meaningful income out of the mortgage division helps to diversify Freedom Bank's earnings streams and should give a boost to Freedom Bank's overall profitability levels going forward.

Expenses Increase Due to Investment in the Mortgage Division and New Branch

The recent hiring spurt in the mortgage division, along with the opening of the new branch in Reston, pushed total non-interest expenses higher by approximately 37.6% during the first half of the year. Higher compensation expenses accounted for approximately $1.2 million of the $1.7 million increase in total non-interest expenses during this period.

Loan Portfolio Continues to Expand

While the ramp up in mortgage banking stole the headline in the second quarter, the growth in the loan portfolio was just as impressive. Over the past year, gross loans have increased by just over $53.0 million, or 20.9%, and growth over the past eighteen months has topped $85.9 million (39.0%).

Growth in the second quarter alone amounted to approximately $13.3 million and we anticipate further gains during the second half of the year as Freedom Bank's lenders continue to gain traction in the Northern Virginia/D.C. market.

Credit Issues Remain Virtually Non-Existent

Credit quality continues to be a strong suit of Freedom Bank, which allows management to focus on growing the franchise. Total nonperforming assets remain at de minimus levels and well below most community bank peers. We have no reason to believe that credit will weaken in the back half of 2015.

Due to the growth in the loan portfolio, Freedom Bank set aside $170 thousand for potential loan losses in the second quarter and a total of $470 thousand during the first half of the year compared to $235 thousand during the first half of 2014. While Freedom Bank's credit quality has remained strong, regulators have insisted that banks maintain larger allowances for potential loan losses than before the financial crisis. At June 30th, Freedom Bank's allowance for loan losses stood at 0.96% of loans.

Capital Position Remains Healthy

As a reminder, late in 2014 and in early 2015 Freedom Bank completed two capital raises, which net the company approximately $3.5 million after expenses. The fresh capital, along with retained earnings, should help to support growth initiatives for the foreseeable future. Freedom Bank's regulatory capital ratios remain in well-capitalized territory.

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