DOGWOOD RESEARCH LLC

Freedom Bank of Virginia (FDVA – OTCQX)

Investor Relations Report

November 2, 2015

Pre-Tax Earnings Hit a Record High in Q3

Freedom Bank turned in a robust third quarter, highlighted by record pre-tax earnings. The strong results were a product of additional loan growth, contribution from the mortgage banking team and operating leverage driven by stable expenses and a growing revenue stream.

Management's decision to invest in the people and infrastructure necessary to grow the franchise has started to pay off, evidenced by the strong pre-tax earnings growth exhibited this year. For much of the period between 2012 and 2014, Freedom Bank walked the tight line between growth and profitability (successfully, we might add). Now we are starting to see the impact of positive earnings leverage as the expenses associated with growth initiatives level off and revenue continues to grow.

Freedom Bank's relatively new business line – mortgage banking – kept up the momentum in the third quarter and has contributed to the earnings growth delivered so far in 2015. On a year-to-date basis, gains on loans sold (mortgage banking revenue) and other service charges increased to nearly $1.9 million from $339 thousand last year. Management has continued to make additions to the mortgage banking team, which should help the division to post additional growth in 2016. There is some seasonality to the mortgage banking business and market forces (namely the interest rate environment) can impact production levels, so the ultimate impact the division will have on the bottom line will fluctuate on a quarterly basis. That said, the new earnings stream has gotten off to a positive start and is a welcomed addition to the franchise.

After weakening in late August along with broader market, the ABA (American Bankers Association) NASDAQ Community Bank Index bounced back nicely in September and early October. The index has appreciated by approximately 21.1% from the recent lows put in towards the end of January through October 29th, which helps to confirm our belief that investors' appetite for community bank stocks is growing. FDVA shares currently trade at approximately 1.0 times book value.

Company Overview

The Freedom Bank of Virginia is headquartered in Fairfax, Virginia and had $390.1 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: $7.96
Market Capitalization: $34.1 million

52 Week Range:
$7.18 - $9.00

Annual Dividend: $0.00
Dividend Yield: 0.0%

Book Value: $7.68
Tangible Book Value: $7.68

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: 22.1x
2014A: 19.9x
2015E: 19.9x

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

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See second page for important disclosures

Loan Growth and Mortgage Banking Push Pre-Tax Earnings Higher

Freedom Bank reported third quarter net income of $533 thousand, or $0.12 per share, which was up from $455 thousand ($0.11 per share) in the second quarter. Freedom Bank did not incur income taxes in 2014, so the comparable figure to last year's third quarter results was $808 thousand in pre-tax earnings versus $472 thousand in last year's third quarter – an impressive 71.2% increase. Pre-tax earnings for the first nine months of 2015 increased by $412 thousand, or 31.7%, to $1.7 million. After-tax net income per share declined to $0.26 on a year-to-date basis from $0.34 in the prior year, again due to the payment of income taxes in 2015.

Loan Growth Stands Out

Freedom Bank's ability to drive loan growth has been remarkably consistent over the past several years. Gross loans increased by just over $14.6 million in the third quarter and are up by $64.0 million, or 24.9%, over the past year. Over the past two years, gross loans have grown by just over $122.0 million – an impressive 61.4% increase. This growth comes during a period when many community banks have struggled to grow loans in a meaningful way due to heightened competition. We feel that the growth demonstrated by Freedom Bank is a reflection of the bank's successful hiring efforts and signals that the franchise is becoming increasingly entrenched in the community. As Freedom Bank continues to grow and mature it will become harder to replicate the percentage growth rates that we have seen in recent years, but the attractive Washington D.C. and Northern Virginia market will likely provide plenty of avenues for future growth.

Expenses Level Off in Q3

It was nice to see non-interest expenses level off and actually decline slightly from second quarter levels, which is an indicator that we could see additional earnings leverage in future periods as a result of growing revenue and stable expenses. On a year-to-date basis, the new hires in the mortgage division and the opening of the new branch in Reston contributed to an increase total non-interest expenses.

Core Deposit Growth Picks Up

One area that is often overlooked, but is essential to the long-term success of any bank is core deposit growth. Over the past year, Freedom Bank has increased non-interest bearing deposits by 18.0% and interest checking deposits by 80.6%, which is meaningful progress.

Given that Freedom Bank is a more commercial focused bank we would not expect them to have as high of a percentage of core deposits as some of their more consumer focused peers, but driving core deposits higher does indicate a deepening of relationships and is a key component of profitability and franchise value.

Credit Quality Remains Strong

As has been the case, Freedom Bank's overall credit quality remains nearly pristine. We expect the bank's strong credit results will continue into 2016, which should allow management to remain focused on franchise growth and profitable endeavors and not be sidetracked with cleaning-up problem loans. Due to the growth in the loan portfolio, Freedom Bank set aside $139 thousand for potential loan losses in the third quarter and a total of $609 thousand year-to-date compared to $327 thousand last year. Freedom Bank has had only $225 thousand in net charge-offs so far in 2015.

Increase in Profitability Aids Capital

In late 2014 and 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 generated by the company's increased level of profitability, has and should continue to support growth in the near-term. Given the increased scrutiny of capital by regulators after the financial crisis, we expect Freedom Bank to keep an eye on balancing growth opportunities and capital levels as the bank continues to grow and expand.

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