

Freedom Bank of Virginia (FDVA – OTCQX)

February 8, 2016

Investor Relations Report

Earnings Climb in 2015; Fresh Capital Welcomed

In 2015, Freedom Bank continued down the path of growth and maturation while setting the bank up for future success and achievements via a large capital raise at year-end. On a pre-tax basis, earnings ramped 62.7% higher in 2015 on the back of loan growth and a strong contribution from the company's mortgage banking team. Despite incurring income taxes for the first time in 2015, Freedom Bank was able to post after-tax earnings growth of 7.4%.

Towards the end of the year, Freedom Bank announced a \$16.0 million private placement capital raise, of which \$10.0 million was completed just prior to year-end. The \$10.0 million portion included the sale of approximately 1.18 million shares for \$8.50 per share (accretive to book value). We anticipate the remaining \$6.0 million will be completed in the first quarter. Patriot Financial Partners, a private equity firm with a focus on community banks, led the capital raise and will bring an additional source of banking expertise and support to Freedom Bank.

We project net income to continue to grow in 2016, although the increase in share count associated with the capital raise will likely keep earnings per share in the same neighborhood as 2015 (\$0.40 per share). Upside to that estimate is achievable if mortgage banking results push higher, expense growth slows and the fresh capital allows the bank to drive loan growth at a more rapid pace than what would otherwise be possible.

Community bank stocks have traded lower since the beginning of December of 2015 alongside a swoon in the broader market. FDVA shares have fared better than the broader market during this period and currently trade at approximately 1.1 times book value and 21.3 times our 2016 earnings per share estimate. For much of the past year, FDVA shares have fluctuated between roughly \$7.50 and \$8.50, although it is worth noting that FDVA's market capitalization has increased to \$46.4 million from \$32.8 million one year ago, an approximately 41.4% increase due to the additional shares outstanding.

Company Overview

The Freedom Bank of Virginia is headquartered in Fairfax, Virginia and had \$400.4 million in assets at year-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: \$8.51
Market Capitalization: \$46.4 million

52 Week Range:
\$7.18 - \$8.67

Annual Dividend: \$0.00
Dividend Yield: 0.0%

Book Value: \$7.80
Tangible Book Value: \$7.80

EPS Actuals and Estimates

FY2014A: \$0.40
FY2015A: \$0.40
FY2016E: \$0.40

(Adjusted for eleven-for-ten stock split in Q2 2014)

Price/Earnings (P/E)

2014A: 21.3x
2015A: 21.3x
2016E: 21.3x

Price/Book Value: 1.1x

Price/Tangible Book Value: 1.1x

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Impressive Pre-Tax Earnings Growth; Loans, Capital, Book Value Climb

For the full year, Freedom Bank reported pre-tax earnings of \$2.6 million, which was up from \$1.6 million in 2014. On an after-tax basis, earnings moved higher to just over \$1.7 million versus \$1.6 million in the previous year. Freedom Bank began recognizing income tax expense in 2015. On a per share basis, after-tax earnings were flat at \$0.40 in 2015, again due to income tax expenses and the additional shares outstanding related to the company's capital raises.

For the fourth quarter, Freedom Bank reported pre-tax earnings of \$891 thousand versus \$300 thousand in last year's fourth quarter. Much of the growth in the fourth quarter was driven by the bank's mortgage banking business.

Loan Growth Pushes Assets Over \$400 Million

Loans grew by approximately \$40.1 million in 2015, a 14.4% growth rate. The loan growth helped to push total assets to over \$400 million for the first time. It is also worth noting that over the past two years Freedom Bank has grown the loan portfolio by over \$98.9 million – a 44.9% increase. The company's capital raises should provide plenty of support for further loan growth in 2016.

Net Interest Income Increased in 2015

Net interest income has seen similar growth over the past one and two year periods as the loan portfolio. In 2015, net interest income grew 22.0% over 2014 levels to nearly \$13.9 million. Over the last two years, net interest income grew by 49.8%. The growth in net interest income was a direct result of interest income climbing as the loan portfolio expanded.

New Branch Helps to Drive Deposit Growth

Interest checking deposits increased by just over \$22.2 million in 2015. Freedom Bank's newest branch, located in Reston, has helped to increase the bank's presence in the community and contributed to the increase in interest checking deposits. We expect the Reston branch to continue to mature in 2016 and drive additional core deposit growth.

Mortgage Banking Ramps Up

Growth in Freedom Bank's mortgage banking operation was a highlight of 2015. Mortgage banking fees ramped much higher during the year and contributed to strong pre-tax earnings growth experienced in 2015. Specifically, gains on the sale of mortgage loans cleared \$2.5 million during the year versus just under \$0.3 million in 2014, which is when the operation was beginning to ramp up.

Mortgage banking results will always be tied to the ebbs and flows of the mortgage market, but for Freedom Bank to have grown this business line organically into a strong contributor is certainly a welcomed addition.

Plenty of Fresh Capital Raised in 2015

As mentioned previously, Freedom Bank was able to raise approximately \$11.9 million in two capital raises during the year. Earnings for the year, along with the fresh capital, pushed the company's total capital base to nearly \$42.6 million from \$29.8 million a year ago. At year-end, Freedom Bank's Tier 1 capital ratio stood at a healthy 13.1%. Book value moved higher by 5.4% during the year to \$7.80. The company expects to complete the remaining \$6.0 million of the \$16.0 million private placement capital raise during the first quarter, which will further boost capital.

Credit Quality Stays Healthy

Freedom Bank's credit quality remains pristine, which has been the case for quite some time. At year-end, nonperforming assets totaled just 0.06% of loans, down from 0.14% one year ago, which is still very low. Due to the growth in the loan portfolio, Freedom Bank set aside \$673 thousand for potential loan losses in 2015 compared to \$486 thousand in 2014. The allowance for potential loan losses stood at 0.98% of loans at year-end, up just slightly from 0.96% one year ago. We anticipate Freedom Bank's credit quality will remain strong in 2016.

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