DOGWOOD RESEARCH LLC

Freedom Bank of Virginia (FDVA – OTCQX)

Investor Relations Report

May 9, 2016

Earnings Push Higher; Capital Raise Completed

Freedom Bank delivered a solid first quarter as many of the key contributors to earnings in 2015 continued to push forward through the first part of 2016. Loan growth was, once again, a primary driver of earnings growth in the quarter and the mortgage banking team delivered a strong performance that also supported the earnings increase. All in all, Freedom Bank appears set to deliver another positive year in 2016.

In the first quarter, Freedom Bank completed the second portion of the capital raise that got underway late in 2015. During the period, an additional $6.0 million of equity was raised, which followed-up the $10.0 million raise in the fourth quarter. Altogether, Freedom raised $16.0 million through the issuance of approximately 1.88 million shares of common stock at $8.50 per share, which combined to boost the company's total capital base to $42.6 million at the end of the first quarter from $29.8 million one year ago (the increase was also aided by earnings during that period). Of the 1.88 million of new shares issued, approximately 629 thousand were Class B non-voting common shares.

Community bank stocks appear to be held captive by the uncertainty surrounding potential interest rate hikes and the burden of regulatory costs on profitability levels. Those two primary influences have combined to keep investor interest in the sector at bay, although certain segments of the group have benefited from above average growth profiles and an up-tick in merger activity.

While FDVA shares have not appreciated meaningfully in recent periods, it is worth noting that the stock has digested the increase in share count gracefully and the company's market capitalization has expanded from $38.1 million two years ago to the current $52.4 million. Book value per share increased to $8.02 at March 31st from $7.47 a year ago. FDVA shares are currently trading at just under 1.1 times book value and approximately 21.2 times our current 2016 earnings per share estimate of $0.40.

Company Overview

The Freedom Bank of Virginia is headquartered in Fairfax, Virginia and had $425.1 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: $8.49
Market Capitalization: $52.4 million

52 Week Range:
$7.25 - $9.00

Annual Dividend: $0.00
Dividend Yield: 0.0%

Book Value: $8.02
Tangible Book Value: $8.02

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: 21.2x
2015A: 21.2x
2016E: 21.2x

Price/Book Value: 1.1x
Price/Tangible Book Value: 1.1x

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important disclosures

The Positive Momentum of 2015 Carries Into Q1; Capital Raise Completed

Earnings in the first quarter spiked to just over $402 thousand from approximately $143 thousand in last year's first quarter. The increase in earnings was driven by solid net interest income growth, a drop in loan loss provision expense and strong mortgage banking results. These three areas of strength were able to more than offset an increase in operating expenses, which were up as a result of the company's growth efforts. On a per share basis, earnings increased to $0.07 from $0.03 in the year ago period.

Steady Loan Growth Once Again in Q1

Freedom Bank's loan balance increased to $334.8 million at quarter-end, up from $292.8 million a year ago and $319.1 million at year-end. The year-over-year growth on a percentage basis was nearly 14.4%, which sets the tone for yet another year of solid loan growth in 2016. As Freedom Bank continues to grow and mature, it will become a bit more difficult for the company to post the type of percentage growth figures that we have become accustomed to seeing in recent years, simply as a function of the growing asset base and how the math works, but we foresee a long runway of growth opportunities for the bank nevertheless. Certainly double-digit percentage growth is achievable as a baseline expectation and the potential for additional growth on top of that if Freedom Bank adds new producers to the team.

Net Interest Income Pushes Higher

Net interest income climbed higher in the first quarter as a result of interest income growth, which was driven by growth in both the loan and securities portfolios. Interest on loans moved 16.2% higher to $4.3 million from $3.7 million a year ago and interest income from the securities portfolio nearly doubled to $284 thousand from $145 thousand in last year's first quarter. Compared to the year ago period, interest expense climbed 24.7% to $848 thousand. Net interest income increased by 18.0% year-over-year to nearly $3.8 million.

Mortgage Banking Production Aids Earnings

First quarter non-interest income surged $415 thousand to $651 thousand from $237 thousand last year on the back of strong production from the mortgage banking group. Revenue from this group alone more than tripled to over $570 thousand. While the interest rate environment and its impact on mortgage activity could impact production levels from the mortgage banking area, it certainly seems that the group is on pace for a solid year in 2016. Total operating expenses in the first quarter increased by approximately 25.9%, with the majority of the increase coming from an increase in compensation and benefits expenses, which is a result of the additional production staff added in recent quarters.

Increase in Interest Checking Accounts

It has been nice to see an uptick in the bank's interest checking balance over the past year. Freedom Bank is a commercially focused institution in a competitive market, so their deposit base will likely always favor time deposits; however, Freedom Bank will continue to focus on driving core deposit growth. Over the past year, interest checking deposits have increased to over $101.2 million from $73.9 million.

Capital Raise Completed

During the first quarter, FDVA completed the second part of the $16.0 million capital raise that began late in 2015. Patriot Financial Partners, a private equity firm with a focus on community banks, led the capital raise and brings an additional source of banking expertise to FDVA. The majority of the shares issued in the first quarter were Class B non-voting shares. The non-voting shares were issued to ensure Patriot Financial Partners did not exceed a 9.9% ownership position of voting common stock outstanding. The additional common equity pushed Freedom Bank's equity to assets to 11.6% at quarter-end from 9.0% at the same time last year. The additional capital, along with retained earnings, should allow Freedom Bank to continue to capture growth opportunities while maintaining a strong capital base.

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