DOGWOOD RESEARCH LLC

Freedom Bank of Virginia (FDVA – OTCQX)

Investor Relations Report

August 15, 2016

Record Second Quarter and First Half Results for FDVA

Freedom Bank shifted into a higher gear in the second quarter and drove earnings to record levels for both the second quarter and first half of the year. A combination of robust loan growth and a spike in mortgage banking production contributed to the improvement in profitability. We have been impressed with Freedom Bank's ability to maintain strong growth rates and expand profitability while continuing to make investments in the franchise. The second quarter and first half results support those trends.

We do not see any reason that the momentum will not continue into the third quarter and Freedom Bank's first half results increase our confidence in our full year earnings outlook, which is currently pegged at $0.40 per share (earnings totaled $0.18 per share through the first six months of the year). With the recently completed capital raise behind them, we expect the Freedom Bank team to continue to focus on growth opportunities, which should result in profitability gains as those investments made in recent years are further leveraged.

One particular bright spot in recent quarters has been the bank's mortgage banking team. Freedom Bank has aggressively hired several seasoned producers over the past year or so and the business line's results have expanded as a result. While mortgage banking results will always be impacted by seasonal influences, we expect the group to continue to contribute positively to the bottom line in the second half of the year.

FDVA shares have held steady in recent months as investors continue to take a neutral stance towards the community banking sector. As has been the case for some time now, investors are concerned about the sector's ability to generate above average returns given the heightened regulatory environment and low growth economic conditions. A positive for FDVA shareholders is that the company has delivered consistent growth in recent years, which is one characteristic that investors have rewarded. FDVA shares currently trade at approximately 1.1 times book value and 22.0 times our 2016 EPS estimate.

Company Overview

The Freedom Bank of Virginia is headquartered in Fairfax, Virginia and had $475.8 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: $8.80
Market Capitalization: $54.3 million

52 Week Range:
$7.75 - $9.19

Annual Dividend: $0.00
Dividend Yield: 0.0%

Book Value: $8.17
Tangible Book Value: $8.17

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: 22.0x
2015A: 22.0x
2016E: 22.0x

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

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important disclosures

Plenty of Positives to Go Around in the First Half of 2016

Second quarter earnings of $663 thousand marked an increase of approximately $209 thousand over last year's second quarter earnings, a 45.9% improvement. For the first six months of the year, earnings totaled $1.066 million, an impressive $468 thousand, or 78.4%, increase over the $597 thousand earned during the first half of 2015.

Both the three-month and six-month results benefited from a strong uptick in interest income and mortgage banking production – a continuation of what we have seen from Freedom Bank in recent history.

Loan Growth Spikes in Q2

It would not be a report on Freedom Bank if we did not discuss loan growth. In the second quarter alone, loans receivable (not including mortgage banking activity) increased by nearly $32.0 million. If you were to extrapolate that level of growth over a full year it would amount to nearly $127.9 million in annualized growth – a 38.2% growth rate. The increase in capital in recent quarters increased the bank's legal lending limit, which allows the bank to compete for larger loans than what was previously allowed. The second quarter loan growth was aided by the bank's ability to make larger loans.

Core Deposit Growth Remains a Focus Area

Checking account deposits have increased by $40.5 million over the past year as a result of Freedom Bank's continued efforts to enhance their deposit mix. The growth of core deposits should help to support the bank's net interest margin in future periods as those deposits typically carry a lower cost than other funding sources.

To help diversify the funding base and support the strong mortgage banking production, Freedom Bank began borrowing from the Federal Home Loan Bank of Atlanta and tapped a Fed Funds facility in the second quarter. These sources of funds are a common way for banks to manage liquidity and duration outside of the more typical deposit products.

Mortgage Banking Continues to Roll

Freedom Bank's recent push into mortgage banking continues to pay off handsomely with strong year-over-year growth rates. The large percentage increases that we have seen in mortgage banking revenue will begin to wind down as we start to lap when the growth began a year ago. That said, in the second quarter the mortgage banking team posted a $480 thousand increase in revenue over last year's second quarter, which amounted to a 69.0% increase.

Investments in Growth Drivers Push Expenses Up

Given the overall growth registered over the past year it is no real surprise that total operating expenses through the first half of 2016 increased by approximately $1.4 million (23.0%) over the same period last year. The increase was due in large part to a $1.1 million increase (28.4%) in total compensation expense, which was up due to the additional staff brought on-board to ramp up production.

Capital Levels Look Healthy

Earlier in 2016, Freedom Bank completed a capital raise that ended up raising $16.0 million through the issuance of approximately 1.88 million shares of common stock at $8.50 per share. At June 30th, Freedom Bank's equity to assets ratio stood at a healthy 10.6% and the bank's Tier 1 ratio was also healthy at 13.1%. The combination of the recent capital infusion and the company's increase in profitability should keep capital levels strong and support growth for some time.

Credit Quality Remains Strong

Overall asset quality remained stellar in the second quarter and we do not anticipate that this will change in the second half of the year given the steady economic conditions throughout Freedom Bank's footprint. Freedom Bank set aside $270 thousand in the second quarter for potential loan losses, which put the allowance for potential loan losses at 0.98% of loans versus 0.96% a year ago.

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