# FREEDOM BANK

Dear Shareholders: October 31, 2016

On behalf of our board of directors and management, we are pleased to present these results. The Freedom Bank of Virginia continued increasing assets, net income and earnings per share, both for the quarter and the nine month period ending September 30, 2016.

## Third Quarter Results

For the quarter ending September 30, 2016, Freedom Bank earned a record net income of $719,205. This was up $186,213 (34.9%) from $532,992 earned for the same period one year earlier. This produced a 0.60% return on average assets for the quarter. Earnings per share were $0.12, unchanged from the prior year due to additional shares outstanding from a successful stock offering at the end of 2015.

The increase in the bottom line started with improved top line revenue. Interest income from loans and investments increased $1,048,969 (24.0%). Non interest income, primarily generated through the gain on sale of mortgages, increased $756,702 (121.0%) from the prior year. Together revenue was up $1,805,671 over the prior year.

Expenses also increased to fund revenue growth. Interest expense was $974,753, up $189,716 (24%) from the prior year. The provision for possible loan losses was $515,500, an increase from the $139,000 taken in the same quarter of 2015 primarily due to increased loan volume. The bank has grown loans approximately $62,000,000 on a net basis in the past six months. The additional provision to the reserve has increased the allowance for possible loan losses to 1.03% versus 0.96% one year earlier.

Compensation and benefits was largest expense at $2,969,295, up $837,326 (39%) from the prior year. Much of the increase was in the mortgage division, which was also a strong contributor to pre-tax net income. Occupancy expense of $250,340 increased $29,972 (13.6%). The bank moved to larger space in the main office and sustained some double rent during renovations that will be eliminated in the fourth quarter.

## Year to Date Results through September 30, 2016

Freedom Bank earned a record net income of $1,785,080 through September 30, 2016. This exceeded the $1,130,373 earned through the same period in 2015 by 57.9%. It also exceeded the total net profit for all of 2015, which was $1,718,570. Earnings per share through the third quarter of 2016 were $0.29 per share, up from $0.26 per share in 2015 despite an increase in shares outstanding from the bank's successful capital raise in 2015. Net income increases were driven by increased revenue from loan growth and mortgage banking activities. Interest income from loans and investments increased $2,559,965 (20.7%) to $14,900,726 in 2016 versus 2015. Non interest income, primarily generated through the gain on sale of mortgages, increased $1,653,053 (101.6%) to $3,280,747 through the third quarter of 2016. Together revenue was up $4,213,018.00 at September 30, 2016 over the prior year.

Increased revenue growth required investments in people and technology, which resulted in increased expenses during 2016 compared with the prior year. Interest expense at September 30, 2016 was $2,624,278, up $439,426 (20.1%) from in 2015 for the period. The provision for possible loan losses was $925,500 at September 30, 2016, compared to $609,000 for the same period in 2015. Organic loan growth was more robust in 2016, which required a higher reserve. The bank grew loans approximately $76,000,000 on a net basis in the trailing twelve months ending September 30, 2016 and reserved accordingly.

Compensation and benefits was largest expense at $8,156,757, up $1,985,798 (32.2%) from the prior year. Much of the increase was in the mortgage division, which contributes to pre-tax net income. Occupancy expense was $730,523 through September 30, 2016, an $111,065 increase from the same period in 2015. Equipment and depreciation related to the additional space occupied by the bank increased to $403,804, a $66,104 (19.6%) increase over 2015. Additional profitability required a higher franchise tax to the State of Virginia, which was $278,718, a $48,151 (20.9%) increase from the prior year. Overall non-interest expenses were $11,845,765 through September 30, 2016, up $2,384,789 (25.2%) from 2015.

Mortgage Banking Operations

The Bank's mortgage division increased its contribution in the first nine months of 2016. The division closed 407 loans through September 30, 2016. Pre-tax net income attributed to the mortgage division was $829,383 at September 30, 2016, up from $332,197 in pre-tax net income from the mortgage division one year earlier.

Balance Sheet

Total assets increased $103,934,364 (26.6%) to $494,027,493 at September 30, 2016 compared to September 30, 2015. The highest yielding asset of Loans Receivable grew organically $76,097,431 (23.7%) to $396,819,026 at September 30, 2016. Loans held for sale were $13,825,894, up from $6,141,110 the prior year. Investment Securities held for sale were $46,196,986, up 31.4% from $35,149,994 a year earlier. Increased borrowing from the Federal Home Loan Bank of Atlanta required the purchase of more stock, which increased to $2,995,900 from $1,423,550 the prior year.

Asset quality remains strong with non-performing assets comprising 0.22% of total assets at September 30, 2016. They were 0.09% of total assets at September 30, 2015. Past due loan balances still accruing interest were $0 at September 30, 2016 compared to $122,797.96 or 0.04% of total loans the prior year. Both of these metrics are far superior to national peers.

Deposits also increased at September 30, 2016 compared with the same period in 2015. Non interest checking deposits were $66,056,888, up $8,197,012 (14.2%) from 2015. Interest checking balances were up $16,842,806 (19.1%) to $105,056,440 at September 30, 2016. Balances on certificates of deposit increased $35,987,120 (17.6%) to $241,037,751. Of this total $112,042,000 were brokered. An additional $18,964,000 was reciprocal deposits through the CDARs program where Freedom Bank arranged

additional FDIC insurance for our clients on large deposits. The bank is working on reducing broker certificates of deposit as a percentage of assets by focusing on increasing core deposits. Initiatives to achieve this goal include offering service charge free checking accounts, more advertising of checking accounts and increasing the rates paid to consumers on certificate of deposit balances under $99,000.

The bank borrowed more from the Federal Home Loan Bank of Atlanta in 2016 than the prior year to fund the asset growth to maintain earnings per share growth despite the increased share count from the successful capital raise the prior year. Short term advances were $22,000,000, at September 30, 2016 versus $0 one year earlier. Long term advances were $4,714,000 at September 30, 2016 and were $2,000,000 in 2015.

Capital increased to $51,158,971 at September 30, 2016, a 55.6% increase over the $32,881,109 level at September 30, 2015. Book value per share was $8.30 at September 30, 2016 and $7.68 at September 30, 2015.

The leverage ratio was 10.70%. CET1 capital was 12.4%. Tier I capital ratio was 12.4% and the total capital ratio was 13.4%. All of these are above well capitalized levels.

We are pleased with the rising profitability from operating leverage, and thank you for your continued support.

Craig S. Underhill
President & CEO

Richard C. Litman
Chairman

FREEDOM BANK

**The Freedom Bank of Virginia**
**Statements of Financial Condition**
**(UNAUDITIED)**

| | September 30, 2016 | September 30, 2015 |
|---|---|---|
| **ASSETS** | | |
| Cash and due from banks | $ 4,905,564 | $ 4,782,417 |
| Federal funds sold | 24,107,000 | 17,053,000 |
| Interest Bearing Balances with Banks | 1,031,321 | 1,027,212 |
| Investment securities available for sale, at fair value | 46,196,986 | 35,149,994 |
| FHLB and Federal Reserve Bank stock | 2,995,900 | 1,423,550 |
| Loans held for sale | 13,825,894 | 6,141,110 |
| Loans receivable | 396,819,026 | 320,721,595 |
| Allowance for possible loan losses | (4,100,459) | (3,069,920) |
| Net Loans | 392,718,567 | 317,651,675 |
| Premises and equipment, net | 713,768 | 772,910 |
| Accrued interest and other receivables | 1,028,948 | 927,824 |
| Deferred Tax Asset | 1,604,000 | 1,320,000 |
| Other assets | 2,632,761 | 1,636,949 |
| Bank Owned Life Insurance | 2,266,784 | 2,206,488 |
| **Total Assets** | $ 494,027,493 | $ 390,093,129 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Liabilities: | | |
| Demand deposits: | | |
| Non-interest bearing deposits | $ 66,056,888 | $ 57,859,877 |
| Interest Checking | 105,056,440 | 88,213,634 |
| Savings deposits | 2,148,690 | 2,883,938 |
| Time deposits | 241,037,751 | 205,050,631 |
| Total Deposits | 414,299,769 | 354,008,080 |
| Fed Funds Purchased and FHLB advances | 26,714,286 | 2,000,000 |
| Other accrued expenses | 1,685,113 | 1,097,054 |
| Accrued interest payable | 169,354 | 106,886 |
| **Total Liabilities** | 442,868,522 | 357,212,020 |
| Stockholders' Equity: | | |
| Common stock of $0.01 par value with 25,000,000 shares authorized, 6,166,454 shares issued and outstanding at September 30, 2016 | | |
| Common stock of $3.16 par value with 15,000,000 shares authorized, 4,279,349 shares issued and outstanding September 30, 2015 | | |
| Voting Common Stock | 55,377 | 13,509,682 |
| 5,537,747 and 4,279,349 shares issued and outstanding September 30, 2016 and September 30, 2015 | | |
| Non-Voting Common Stock | 6,287 | - |
| 628,707 shares issued and outstanding September 30, 2016 | | |
| Additional paid-in capital | 47,774,866 | 18,643,656 |
| Accumulated other comprehensive income | 94,876 | (126,518) |
| Retained earnings (deficit) | 3,227,565 | 854,289 |
| **Total Stockholders' Equity** | 51,158,971 | 32,881,109 |
| **Total Liabilities and Stockholders' Equity** | $ 494,027,493 | $ 390,093,129 |

*The Notes to Financial Statements are an integral part of these statements.*

FREEDOM BANK

**The Freedom Bank of Virginia**
**Statements of Operations**
**(UNAUDITED)**

| | For the three months ended September 30, | | For the nine months ended September 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| **Interest Income** | | | | |
| Interest and fees on loans | $ 5,127,745 | $ 4,194,268 | $ 13,984,388 | $ 11,848,047 |
| Interest on investment securities | 288,447 | 168,017 | 908,254 | 475,388 |
| Interest on Federal funds sold | 362 | 5,300 | 8,084 | 17,326 |
| Total Interest Income | 5,416,554 | 4,367,585 | 14,900,726 | 12,340,761 |
| **Interest Expense** | | | | |
| Interest on deposits | 942,623 | 784,283 | 2,624,278 | 2,184,852 |
| Interest on borrowed funds | 32,130 | 754 | 81,450 | 754 |
| Total Interest Expense | 974,753 | 785,037 | 2,705,728 | 2,185,606 |
| Net Interest Income | 4,441,801 | 3,582,548 | 12,194,998 | 10,155,155 |
| **Provision for Possible Loan Losses** | 515,500 | 139,000 | 925,500 | 609,000 |
| Net Interest Income after Provision for Possible Loan Losses | 3,926,301 | 3,443,548 | 11,269,498 | 9,546,155 |
| **Other Income** | | | | |
| Gain on sale of mortgage loans | 1,333,657 | 533,145 | 3,078,286 | 1,394,950 |
| Service charges and other income | 35,188 | 78,739 | 157,372 | 186,823 |
| Increase in cash surrender value of bank-owned life insurance | 14,829 | 15,088 | 45,089 | 45,921 |
| Total Other Income | 1,383,674 | 626,972 | 3,280,747 | 1,627,694 |
| **Operating Expenses** | | | | |
| Officers and employee compensation and benefits | 2,969,295 | 2,131,969 | 8,156,757 | 6,170,959 |
| Occupancy expense | 250,340 | 220,388 | 730,523 | 619,458 |
| Equipment and depreciation expense | 150,177 | 111,717 | 403,804 | 337,700 |
| Insurance expense | 78,579 | 73,235 | 236,644 | 211,912 |
| Professional fees | 227,682 | 196,939 | 693,501 | 650,337 |
| Data and item processing | 221,129 | 228,043 | 690,145 | 686,225 |
| Business development | 36,128 | 50,703 | 150,809 | 146,297 |
| Franchise tax | 107,070 | 89,081 | 278,718 | 230,567 |
| Other operating expenses | 181,270 | 180,473 | 504,864 | 407,521 |
| Total Operating Expenses | 4,221,670 | 3,282,528 | 11,845,765 | 9,460,976 |
| Income before Income Taxes | 1,088,305 | 807,992 | 2,704,480 | 1,712,873 |
| **Provision for Income Taxes** | 369,100 | 275,000 | 919,400 | 582,500 |
| **Net Income** | $ 719,205 | $ 532,992 | $ 1,785,080 | $ 1,130,373 |

*The Notes to Financial Statements are an integral part of these statements.*