Freedom Bank

Annual Report

2009

FREEDOM BANK

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FREEDOM BANK

MANAGEMENT DISCUSSION

Describing the year 2009 is like writing two stories with opposite story lines and outcomes. The final three quarters of 2009 is certainly much easier to describe than the first quarter. The Bank earned $874,198 in the last three quarters of 2009, but in the first quarter it had to make a loan loss provision of $3,810,744 which in turn led to a net operating loss of $4,504,734 for the first quarter and a loss of $3,630,535 for the year.

The Provision in the first quarter was recognized due to the deterioration in the economy and rising unemployment in general, and specifically in recognition of decreased value of real property. Real estate values in Northern Virginia were lower due to the effect of the recession and increased unemployment which started with the sub-prime loan collapse and the burst of the residential real estate “bubble”. The Bank never engaged in sub-prime or alternate lending practices; however real estate sales slowed, inventory of unsold houses increased and real estate loan collateral values decreased. Numerous builders and residential developers ran out of cash to carry their projects during slow periods and the Bank experienced increased loan delinquency and foreclosures. Bank officers monitored the credit quality of the loan portfolio closely and worked diligently to reduce the amount of non-performing assets.

Since the end of the first quarter, credit quality has improved, delinquencies have decreased and several loan problems have been resolved. Residential real estate values have begun increasing again, existing home sales have improved. Construction of new homes has not improved enough to absorb the overhang of residential building lots but we hope to see signs of improvement in 2010. Other Real Estate Owned (OREO) was reduced to zero by the end of 2009 reflecting the effort to resolve credit problems.

The second quarter of 2009 begins the change in the story line to a more favorable outcome. The Bank returned to profitability at the beginning of the second quarter and reported Net Income of $104,523 for the whole quarter. The Third Quarter of 2009 produced Net Income of $238,304, and finally, reported Net Income of $531,371 for the Fourth Quarter of 2009, the third consecutive quarter of increased profitability. The second, third and fourth quarter total net income was $874,198, the best three quarters of the Bank’s history.

Two reasons which are readily apparent for the Bank performance may be seen by reviewing the balance sheet. They are the increase in loans outstanding and the increase in total deposits. Loans outstanding increased $13,938,601 between December 31, 2008 and December 31, 2009 and ended the period at $135,400,086. Total Deposits increased $16,531,342 and ended the year at $137,431,805. A sub-component of total deposits is non-interest bearing demand deposits which increased $8,138,589 and at December 31, 2009 totaled $27,796,586. This growth, in a very challenging year, brought loans outstanding above the breakeven level we have discussed frequently since the expansion plan was implemented in the middle of 2007.

Turning to the Statement of Operations, interest income increased to $8.2 million from $7.7 million but when looking at the component parts of interest income, both investment securities income and Fed Funds sold income decreased along with market rates while interest and fees on loans increased $1 million resulting from increased volume of loans outstanding.

Interest Expense decreased to $2,879,159 from $3,297,216 continuing the trend of lower interest rates. Even though interest expense decreased, the volume of deposits increased to $137,431,805 as of December 31, 2009 from $120,900,463. Interest Expense, calculated as an annualized percentage of deposits on the last day of the year was 2.09% at December 31, 2009 compared to 2.73% as of December 31, 2008.

The Provision for Possible Loan Losses was $4,435,744 for the entire 2009 year. In 2008, the Provision was $1,865,000. Of the total Provision, $3,810,744 was taken in the first quarter 2009.

Other Income from service charges increased to $572,448 for the year 2009 compared to $309,930 for 2008. Gain on sale of other real estate owned totaled $462,621. There were no comparable gains in 2008.

Total Operating Expenses increased to $5,550,037 during 2009 from $5,047,824 in 2008.

The combination of these factors, increased loan volume, increased interest on loans, decreased interest expense on deposits, increased loan loss provision, increased other income and gain on other real estate sales, resulted in a Net Loss of $3,630,535 for the whole year. However, the loss provision was largely a first quarter event, the since the first quarter the Bank has returned to profitability, with the final three quarters combined to total $874,198 in Net Income.

Freedom Bank capital remains strong with all capital ratios remaining above the "Well Capitalized" regulatory ratios. As of December 31, 2009, Freedom Bank had a 12.03% Tier 1 Leverage Ratio, more than twice the ratio considered by regulators to be "Well Capitalized." Tier 1 Risk Based Capital Ratio was 14.08% and likewise, this ratio was more than twice the regulatory definition of "Well Capitalized." The Tier 2 Risk Based Capital Ratio is 15.34%. "Well Capitalized" is above 10%.

This report is a bit longer than usual but the 2009 year was, as stated at the beginning of the letter, two different stories in one year with better results occurring more recently.

With all of challenges of 2009, we remained focused and did not slow down our efforts to provide a high level of customer service. Your Bank continued to invest in new products and services necessary to keep us competitive with other financial institutions in our area. For our business clients, corporate credit cards are now available. We also expanded our commercial remote capture product which has been highly successful and allows businesses the capability of depositing checks received from their customers directly from their own office computers. Deposits can be made beyond traditional banking hours and on weekends. Beginning in June 2009, the bank introduced "e-statements" for both commercial and consumer clients. "E-Statements" are available days sooner than mailed statements and allows us to help the environment by going "green" and saving on paper. In October of 2009, the Bank switched to "branch capture" for the processing of checks deposited at the teller line which extended the cut-off time for deposits from 2 pm to 4 pm.

Regrettably in July 2009, the board of directors lost a valuable colleague with the death of director Russell E. (Ted) Sherman. Mr. Sherman had been a director with our Bank since February 2007. He served as Chairman of the Bank's Compensation Committee and was a member of the director's Loan Committee. The board valued his advice, expertise and commitment. He was a great asset to our Bank and will be greatly missed by everyone.

As always, we thank you for your continued support and dedication. The directors, senior management and staff are dedicated and working diligently to maintain profitability in 2010 as we saw during the last three quarters of 2009.

Richard C. Litman

Richard C. Litman
Chairman of the Board

John T. Rohrback

John T. Rohrback
President & CEO

THOMPSON, GREENSPON & CO., P.C.
Certified Public Accountants
Management Consultants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders
The Freedom Bank of Virginia
Vienna, Virginia

We have audited the accompanying balance sheets of The Freedom Bank of Virginia as of December 31, 2009 and 2008, and the related statements of operations, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Freedom Bank of Virginia as of December 31, 2009 and 2008, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Thompson, Greenspon & Co., P.C.

Fairfax, Virginia
March 4, 2010

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BALANCE SHEETS

DECEMBER 31, 2009 AND 2008

	2009	2008
ASSETS		
Cash and due from banks	$ 1,375,127	$ 1,184,600
Federal funds sold	10,824,000	11,487,000
Securities available-for-sale	4,631,602	2,592,145
Securities held-to-maturity	4,032,860	7,118,270
Federal Reserve Bank stock, at cost	556,400	712,800
Loans receivable	135,400,086	121,461,485
Allowance for possible loan losses	(1,907,853)	(2,276,824)
Net Loans	133,492,233	119,184,661
Bank premises and equipment, net	429,828	535,648
Accrued interest receivable	483,510	418,545
Other real estate owned	-	705,329
Other assets	1,456,147	261,374
Total Assets	$ 157,281,707	$ 144,200,372
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Demand deposits		
Non-interest bearing	$ 27,796,586	$ 19,657,997
Interest bearing	16,257,975	14,161,811
Savings deposits	660,759	519,205
Time deposits	92,716,485	86,561,450
Total Deposits	137,431,805	120,900,463
Other accrued expenses	699,778	391,416
Accrued interest payable	91,096	203,169
Total Liabilities	138,222,679	121,495,048
Stockholders' Equity		
Common stock, $5 par value, 5,000,000 shares authorized:		
2,357,361 shares issued and outstanding, 2009 & 2008	11,786,805	11,786,805
Additional paid-in capital	16,002,413	16,002,413
Accumulated other comprehensive income	44,133	59,894
Retained earnings (deficit)	(8,774,323)	(5,143,788)
Total Stockholders' Equity	19,059,028	22,705,324
Total Liabilities and Stockholders' Equity	$ 157,281,707	$ 144,200,372

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

STATEMENTS OF OPERATIONS

YEARS ENDED DECEMBER 31, 2009 AND 2008	2009	2008
Interest Income		
Interest and fees on loans	$ 7,655,791	$ 6,672,194
Interest on investment securities	518,444	786,168
Interest on Federal funds sold	25,101	226,488
Total Interest Income	8,199,336	7,684,850
Interest Expense		
Interest on deposits	2,879,159	3,297,216
Net Interest Income	5,320,177	4,387,634
Provision for Possible Loan Losses	4,435,744	1,865,000
Net Interest Income after Provision for Possible Loan Losses	884,433	2,522,634
Other Income		
Service charges and other income	572,448	309,930
Gain on sale of other real estate owned	462,621	-
Total Other Income	1,035,069	309,930
Operating Expenses		
Officers and employee compensation and benefits	2,848,087	3,011,968
Occupancy expense	503,075	489,678
Equipment and depreciation expense	230,639	242,436
Insurance expense	276,562	78,421
Professional fees	701,280	161,214
Data and item processing	466,695	436,879
Business development	69,271	113,784
Franchises tax	220,144	160,302
Other operating expenses	234,284	353,142
Total Operating Expenses	5,550,037	5,047,824
Loss before Income Taxes	(3,630,535)	(2,215,260)
Provision for Income Taxes	-	-
Net Loss	$ (3,630,535)	$ (2,215,260)
Net Loss Per Common Share	(1.54)	(0.94)
Net Loss Per Diluted Share	(1.54)	(0.94)

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

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2009 AND 2008

	Shares of Common Stock	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Deficit)	Retained Earnings (Deficit)	Total Stockholders' Equity
Balance, December 31, 2007	2,357,361	$ 11,786,805	$ 15,980,422	$ 45,808	$ (2,928,528)	$ 24,884,507
Comprehensive Income (Loss):						
Net Loss	-	-	-	-	(2,215,260)	(2,215,260)
Change in unrealized gain (loss) on securities available- for-sale, net of tax of $7,585	-	-	-	14,086	-	14,086
Total Comprehensive Income (Loss)						(2,201,174)
Stock based compensation	-	-	21,991	-	-	21,991
Balance, December 31, 2008	2,357,361	11,786,805	16,002,413	59,894	(5,143,788)	22,705,324
Comprehensive Income (Loss):						
Net Loss	-	-	-	-	(3,630,535)	(3,630,535)
Change in unrealized gain (loss) on securities available- for-sale, net of tax of $8,486	-	-	-	(15,761)	-	(15,761)
Total Comprehensive Income (Loss)						(3,646,296)
Balance, December 31, 2009	2,357,361	$ 11,786,805	$ 16,002,413	$ 44,133	$ (8,774,323)	$ 19,059,028

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

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2009 AND 2008	2009	2008
Cash Flows from Operating Activities		
Net loss	$ (3,630,535)	$ (2,215,260)
Noncash items included in net loss		
Depreciation and amortization	166,947	183,080
Provision for possible loan losses	4,435,744	1,865,000
Net amortization (accretion) of securities	27,848	(21,126)
Stock-based compensation expense	-	21,991
Gain on other real estate	(462,621)	-
(Increase) Decrease in		
Accrued interest receivable	(64,965)	(47,279)
Other assets	(1,194,773)	(79,293)
Increase (Decrease) in		
Other accrued expenses	316,849	97,331
Accrued interest payable	(112,073)	107,197
Net Cash Used by Operating Activities	(517,579)	(88,359)
Cash Flows from Investing Activities		
Federal funds sold, net	663,000	(1,487,000)
Loan originations, net	(19,826,199)	(54,739,248)
Purchase of available-for-sale securities	(3,935,363)	(2,000,000)
Purchase of held-to-maturity securities	-	(986,509)
Maturities, calls and paydowns of securities available-for-sale	1,836,526	9,470,126
Paydowns of held-to-maturity securities	3,092,694	873,900
Purchase of Federal Reserve Bank stock	(10,800)	-
Proceeds from sale of other real estate	2,250,833	-
Proceeds from redemption of Federal Reserve Bank stock	167,200	35,350
Acquisition of bank equipment	(61,127)	(216,754)
Net Cash Used by Investing Activities	(15,823,236)	(49,050,135)
Cash Flows from Financing Activities		
Increase in deposits, net	16,531,342	48,862,321
Net Cash Provided by Financing Activities	16,531,342	48,862,321
Net Increase (Decrease) in Cash and Due from Banks	190,527	(276,173)
Cash and Due from Banks, beginning of year	1,184,600	1,460,773
Cash and Due from Banks, end of year	$ 1,375,127	$ 1,184,600
Noncash Investing Activity		
Unrealized (loss) gain on securities available-for-sale, net	$ (15,761)	$ 14,086
Transfer of loans to other real estate owned	$ 1,082,883	$ 705,329
Supplemental Information		
Cash paid during the year for interest	$ 2,991,232	$ 3,190,019
Cash paid during the year for income taxes	$ -	$ -

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

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of The Freedom Bank of Virginia conform to generally accepted accounting principles and reflect practices of the banking industry. The policies are summarized below.

Nature of Operations

The Freedom Bank of Virginia (the Bank) is a state chartered bank and a member of the Federal Reserve and is subject to the rules and regulations of the Virginia State Banking Commission, the Federal Reserve and the Federal Deposit Insurance Corporation. The Bank provides banking services at its branch offices in Vienna and Fairfax, Virginia, and serves customers primarily in the Northern Virginia area. The Bank was in organization during the period January 27, 2000 through July 22, 2001, and opened for business on July 23, 2001.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

The determination of the adequacy of the allowance for loan losses is based on estimates that are particularly susceptible to significant changes in the economic environment and market conditions. In connection with the determination of the estimated losses on loans, management obtains independent appraisals for significant collateral.

Securities

Debt securities are classified as held-to-maturity when the Bank has the positive intent and ability to hold the securities to maturity. Securities held-to-maturity are carried at amortized cost.

Debt securities not classified as held-to-maturity or trading securities are classified as available-for-sale. Securities available-for-sale are carried at fair value with unrealized gains and losses reported in other comprehensive income. Realized gains (losses) on securities available-for-sale are included in other income (expense) and, when applicable, are reported as a reclassification adjustment, net of tax, in other comprehensive income.

The amortization of premiums and accretion of discounts are recognized in interest income using methods approximating the interest method over the period to maturity. Declines in the fair value of individual held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary result in write-downs of the individual securities to their fair value. The related write-downs are included in earnings as realized losses. Gains and losses on sales of securities are recorded on the trade date and are determined using the specific-identification method.

Federal Reserve Bank stock is considered a restricted investment security, is carried at cost and evaluated annually for impairment.

Loans and Loan Fees

Loans that management has the intent and ability to hold for the foreseeable future, or until maturity or pay-off, generally are stated at the principal amount outstanding, less the allowance for loan losses and net deferred loan fees. Interest on loans is generally computed using the simple interest method.

Loan origination and commitment fees, as well as certain direct origination costs, are deferred and amortized as a yield adjustment over the lives of the related loans using the interest method. Amortization of deferred loan fees is discontinued when a loan is placed on non-accrual status.

The accrual of interest on mortgage and commercial loans is discontinued at the time the loan is 90 days delinquent unless the credit is well secured and in process of collection. Other personal loans are typically charged off no later than 180 days past due. In all cases, loans are placed on non-accrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on non-accrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Loans Held for Sale

Loans held for sale consist primarily of residential mortgage loans, which are secured by one-to-four family residential real estate. Loans held for sale are carried at the lower of aggregate cost, net of purchase discounts or premiums, deferred fees, and deferred origination costs, or fair value. The Bank determines the fair value of loans held for sale using current secondary market prices for loans with similar coupons, maturities and credit quality. The fair value of mortgage loans is subject to change primarily due to changes in market interest rates. Loans held for sale totaled approximately $390,000 and $487,000 as of December 31, 2009 and 2008, respectively, and are included in loans receivable in the financial statements.

Allowance for Loan Losses

The allowance for loan losses is maintained at a level that, in management's judgment, is adequate to absorb credit losses inherent in the loan portfolio. The amount of the allowance is based on management's evaluation of the collectability of the loan portfolio, including the nature of the portfolio, credit concentrations, trends in historical loss experience, specific impaired loans, economic conditions, and other risks inherent in the portfolio. A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due, according to the contractual terms of the loan agreement. Allowances for impaired loans are generally determined based on collateral values or the present value of estimated cash flows. Although management uses available information to recognize losses on loans, because of uncertainties associated with local economic conditions, collateral values, and future cash flows on impaired loans, it is reasonably possible that a material change could occur in the allowance for loan losses in the near term. However, the amount of the change that is reasonably possible cannot be estimated. The allowance is increased by a provision for loan losses, which is charged to expense and reduced by charge-offs, net of recoveries. Changes in the allowance relating to impaired loans are charged or credited to the provision for loan losses. Past due status is determined based on contractual terms.

Bank Premises and Equipment

Bank premises and equipment are stated at cost, less accumulated depreciation and amortization. Leasehold improvements are amortized over the shorter of the asset life or lease term using the straight-line method. Furniture and equipment are depreciated over estimated useful lives of three to seven years using the straight-line method. The Bank depreciates premises and equipment using accelerated methods for income tax reporting.

Expenditures for maintenance, repairs and improvements that do not materially extend the useful lives of bank premises and equipment are charged to earnings. When bank premises or equipment is sold or otherwise disposed of, the cost and related accumulated depreciation or amortization are removed from the accounts, and the effect is reflected in current earnings.

Leases that meet certain specified criteria are accounted for as capital assets and liabilities, and those not meeting the criteria are accounted for as operating leases.

Other Real Estate Owned

Real estate properties acquired through or in lieu of loan foreclosures are initially recorded at the fair value less estimated selling cost at the date of foreclosure. Any write-downs based on the asset's fair value at the date of acquisition are charged to the allowance for loan losses. After foreclosure, valuations are periodically performed by management and property held for sale is carried at the lower of the new cost basis or fair value less cost to sell. Impairment losses on property to be held and used are measured as the amount by which the carrying amount of a property exceeds its fair value. Costs of significant property improvements are capitalized, whereas costs relating to holding property are expensed. The portion of interest costs relating to development of real estate is capitalized. Valuations are periodically performed by management, and any subsequent write-downs are recorded as a charge to operations, if necessary, to reduce the carrying value of a property to the lower of its cost or fair value less cost to sell.

Other Assets

Included in other assets is approximately $1,207,000 of prepaid expense related to the required prepayment of the FDIC premium through the fourth quarter of 2012.

Stockholders' Equity

At December 31, 2009, warrants were outstanding and exercisable to purchase 232,089 shares of common stock at $13.25 per share if exercised by January 15, 2015 and 44,899 shares of common stock at $13.25 per share if exercised by February 16, 2015.

Comprehensive income (loss) represents all changes in equity that result from recognized transactions and other economic events of the period. Other comprehensive income (loss) refers to revenues, expenses, gains and losses that under accounting principles generally accepted in the United States of America are included in comprehensive income but excluded from net income, such as unrealized gains and losses on certain investments in debt and equity securities

Income Taxes

Income taxes are provided for the tax effects of the transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the basis of the net operating losses carry forward and allowance for loan losses. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred tax assets and liabilities are reflected at income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

At December 31, 2009 and 2008, a valuation allowance for the full amount of the gross deferred tax asset was recorded because of the uncertainties of the amount of taxable income that will be generated in future years.

The Bank has adopted the new accounting policy for uncertainty in income taxes on January 1, 2009. The adoption of that guidance resulted in no change to the financial statements. As a result of this new guidance, no interest and penalties have been recorded in the accompanying financial statements related to uncertain tax positions. The Bank files an income tax return in the U.S. Federal jurisdiction. The Bank pays state franchise tax in lieu of state income taxes. Currently, the 2008, 2007 and 2006 income tax returns are open and subject to examination. The Bank is not currently under audit by any income tax jurisdictions. As of December 31, 2009, the Bank had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements.

Earnings per Share (EPS)

Basic EPS excludes dilution and is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding for the year. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Bank. The Bank does not have any contracts or options with a dilutive effect; therefore, basic EPS and diluted EPS are equal.

Stock-Based Compensation

The Bank recognizes the cost of employee services received in exchange for an award of equity instruments in the financial statements over the period the employee is required to perform the services in exchange for the award (presumptively the vesting period). The Bank also measures the cost of employee services received in exchange for an award based on the grant-date fair value of the award.

Employment Contracts

In January 2007, the Bank entered into an employment agreement with the Bank's President. The agreement provides for a base salary, a performance bonus, annual adjustments to compensation and other benefits. The agreement has an initial term of three years and shall be automatically renewed for successive 12 month terms until employment is terminated under specific conditions as provided in the agreement.

The Bank has also entered into employment agreements with certain other key employees. The agreements provide for base salary, performance bonuses, and other benefits. The terms of the agreements range from one to two years with options to extend for additional one year periods until employment is terminated under specific conditions as provided in the agreements.

Statements of Cash Flows

The Bank considers all cash and amounts due from depository institutions, excluding interest-bearing deposits in other banks and Federal funds sold, to be cash equivalents for purposes of the statements of cash flows. The Freedom Bank of Virginia periodically has bank deposits including short-term investments in excess of Federally insured limits.

Off-Balance Sheet Credit Related Financial Instruments

In the ordinary course of business, the Bank has entered into commitments to extend credit, including commitments under credit card arrangements, commercial letters of credit, and standby letters of credit. Such financial instruments are recorded when they are funded.

Subsequent Events

The date to which events occurring after December 31, 2009, the date of the most recent balance sheet, have been evaluated for possible adjustment to the financial statements or disclosure is March 4, 2010, which is the date on which the financial statements were issued.

2. RESTRICTION OF CASH AND DUE FROM BANKS

The Bank is required to maintain reserve funds in cash or on deposit with the Federal Reserve Bank. The required reserve at December 31, 2009 and 2008 was $606,000 and $464,000, respectively.

3. SECURITIES AVAILABLE-FOR-SALE AND HELD-TO-MATURITY

The amortized cost and fair values of securities as shown in the balance sheets of the Bank are as follows:

	Amortized Costs	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2009				
Available-for-sale				
U.S. Government and Agency securities	$ 1,000,000	$ 62,870	$ -	$ 1,062,870
Corporate securities	1,587,528	56,006	-	1,643,534
Mortgage backed securities	1,976,176	-	(50,978)	1,925,198
Total Available-for-sale	4,563,704	118,876	(50,978)	4,631,602
Held-to-maturity				
Mortgage backed securities	4,032,860	96,122	-	4,128,982
Total Investment Securities	$ 8,596,564	$ 214,998	$ (50,978)	$ 8,760,584
December 31, 2008				
Available-for-sale				
U.S. Government and Agency securities	$ 2,500,000	$ 92,145	$ -	$ 2,592,145
Held-to-maturity				
Mortgage backed securities	7,118,270	79,480	(3,862)	7,193,888
Total Investment Securities	$ 9,618,270	$ 171,625	$ (3,862)	$ 9,786,033

The amortized cost and estimated fair value of debt securities at December 31, 2009, by contractual maturity, are as follows:

	Available-for-sale		Held-to-maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Amounts maturing in:				
1 year or less	$ 723,197	$ 741,369	$ -	$ -
After 1 year - 5 years	1,864,331	1,965,035	-	-
After 5 years - 10 years	-	-	-	-
After 10 years	-	-	-	-
	2,587,528	2,706,404	-	-
Mortgage backed securities	1,976,176	1,925,198	4,032,860	4,128,982
	$ 4,563,704	$ 4,631,602	$ 4,032,860	$ 4,128,982

Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

At December 31, 2009 and 2008, U.S. Government obligations with a carrying value of $4,626,677 and $500,000, respectively, were pledged to secure public deposits and for other purposes required or permitted by law.

Information pertaining to securities with gross unrealized losses at December 31, 2009, aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	Less Than Twelve Months		Over Twelve Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
Available-for-sale				
U.S. Government and Agency securities	$ 55,164	$ 934,492	$ -	$ -
Corporate securities	$ -	$ -	$ -	$ -
Held-to-maturity				
Mortgage backed securities	$ -	$ -	$ -	$ -

Management evaluates securities for other-than-temporary impairment on at least a quarterly basis, and, more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

At December 31, 2009, the one debt security with an unrealized loss depreciated six percent from the Bank amortized cost basis. The security is either guaranteed by the U.S. Government or secured by mortgage loans. These unrealized losses relate principally to current interest rates for similar types of securities. In analyzing an issuer's financial condition, management considers whether the securities are issued by the Federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition. As management has the ability to hold debt securities until maturity, or for the foreseeable future if classified as available-for-sale, management feels that the unrealized losses on the security is not deemed to be other-than-temporary.

4. LOANS RECEIVABLE

Loans receivable include the following:

	2009	2008
Commercial	$ 36,190,011	$ 29,802,719
Consumer and other	2,948,806	3,579,584
Loans held for sale	390,300	487,264
Real estate	96,152,302	87,923,971
Subtotal	135,681,419	121,793,538
Deferred loan fees	(281,333)	(332,053)
Totals	$ 135,400,086	$ 121,461,485

An analysis of the allowance for possible loan losses is as follows:

	2009	2008
Balance, beginning of period	$ 2,276,824	$ 681,789
Provision for loan losses	4,435,744	1,865,000
Loans charged to reserve	(4,969,969)	(272,102)
Recoveries credited to reserve	165,254	2,137
Totals	$ 1,907,853	$ 2,276,824

At December 31, 2009, the total recorded investment in loans on nonaccrual amounted to approximately $4,271,000. There were no loans past due 90 days or more and still accruing interest. At December 31, 2008, the total recorded investment in loans on nonaccrual amounted to approximately $848,000 and the total recorded investment in loans past due 90 days or more and still accruing interest amounted to approximately $650,000. At December 31, 2009 and 2008, the total recorded investment in impaired loans, all of which had allowances determined in accordance with GAAP, amounted to approximately $4,314,000 and $5,202,000, respectively. The average recorded investment in impaired loans amounted to approximately $4,758,000 and $2,901,000 for the years ended December 31, 2009 and 2008, respectively. The allowance for loan losses related to impaired loans amounted to approximately $278,000 and $1,238,000 at December 31, 2009 and 2008, respectively. Interest income on impaired loans of approximately $95,000 was recognized for cash payments received in 2009.

The Bank has entered into transactions with certain directors, executive officers, significant stockholders, and their affiliates. Such transactions were made in the ordinary course of business on substantially the same terms and conditions, including interest rates and collateral, as those prevailing at the same time for comparable transactions with other customers, and did not, in the opinion of management, involve more than normal credit risk or present other unfavorable features. The aggregate amount of loans outstanding to such related parties was $5,181,156 and $3,503,881 at December 31, 2009 and 2008, respectively. New loans made to such related parties including loans held by new directors, amounted to $3,204,473 and $1,292,089 and payments amounted to $1,527,198 and $822,345 at December 31, 2009 and 2008, respectively.

5. BANK PREMISES AND EQUIPMENT

Bank premises and equipment include the following:

	2009	2008
Furniture and equipment	$ 1,064,625	$ 1,041,675
Leasehold improvements	130,959	130,959
Software	300,562	262,385
Total Cost	1,496,146	1,435,019
Less accumulated depreciation	(1,066,318)	(899,371)
Net Bank Premises and Equipment	$ 429,828	$ 535,648

Depreciation of bank premises and equipment charged to expense amounted to $166,947 and $183,080 in 2009 and 2008, respectively.

6. DEPOSITS

Time deposits in denominations of $100,000 or more totaled $59,202,651 and $33,232,793 at December 31, 2009 and 2008, respectively.

At December 31, 2009, the following are time deposits maturing in years ending December 31:

2010	$ 63,346,503
2011	22,417,550
2012	5,285,064
2013	1,088,684
2014 and thereafter	578,683
	$ 92,716,484

The Bank held related party deposits of approximately $4,602,158 and $3,976,041 at December 31, 2009 and 2008, respectively.

7. BORROWINGS

At December 31, 2009, the Bank had $2,100,000 available under a line of credit Fed Funds facility to be used for temporary, short-term needs with borrowing not to exceed seven consecutive business days. There were no borrowings on this line at December 31, 2009 and 2008.

At December 31, 2009, the Bank had an additional $4,000,000 available under a line of credit Fed Funds facility to be used for temporary, short-term needs with borrowings not to exceed 30 consecutive calendar days. There were no borrowings on this line at December 31, 2009.

8. INCOME TAXES

The provision for income taxes consists of the following at December 31:

	2009	2008
Current benefit	$ -	$ -
Deferred benefit	-	-
	$ -	$ -

Net deferred tax assets are comprised of the following at December 31:

Deferred Source	2009	2008
Net operating loss carryforward	$ 1,784,000	$ 930,000
Loan loss reserve	1,104,000	728,000
Other	12,000	26,000
Unearned loan fees	96,000	113,000
Depreciation	(26,000)	(28,000)
Gross deferred tax assets	2,970,000	1,769,000
Allowance	(2,970,000)	(1,769,000)
Net deferred tax asset	$ -	$ -

The Bank has net operating losses carried forward of approximately $5,247,000 at December 31, 2009, which start to expire in 2021.

9. CAPITAL REQUIREMENTS

The Bank is subject to various regulatory capital requirements administered by the Federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification under the prompt corrective action guidelines are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of: total risk-based capital and Tier 1 capital to risk-weighted assets (as defined in the regulations), and Tier 1 capital to adjusted total assets (as defined). Management believes, as of December 31, 2009, that the Bank meets all the capital adequacy requirements to which it is subject.

As of December 31, 2009, the Bank was categorized as well capitalized under the regulatory framework for prompt corrective action. To remain categorized as well capitalized, the Bank will have to maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as disclosed in the table below. There are no conditions or events since the most recent notification that management believes have changed the Bank's prompt corrective action category.

The Bank's actual capital amounts and ratios as of December 31, 2009 and 2008 are as follows:

	Actual		For Capital Adequacy Purposes		Minimum to be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2009:						
Total Capital (to Risk Weighted Assets)	$ 19,059,025	13.70%	$ 11,129,360	8.00%	$ 13,911,700	10.00%
Tier 1 Capital (to Risk Weighted Assets)	$ 19,014,892	13.67%	$ 5,564,680	4.00%	$ 8,347,020	6.00%
Tier 1 Capital (to Average Assets)	$ 19,014,892	12.67%	$ 6,002,702	4.00%	$ 7,503,377	5.00%
December 31, 2008:						
Total Capital (to Risk Weighted Assets)	$ 22,705,324	17.96%	$ 10,112,000	8.00%	$ 12,640,000	10.00%
Tier 1 Capital (to Risk Weighted Assets)	$ 22,645,429	17.92%	$ 5,056,000	4.00%	$ 7,584,000	6.00%
Tier 1 Capital (to Average Assets)	$ 22,645,429	17.38%	$ 5,212,973	4.00%	$ 6,516,216	5.00%

10. STOCK OPTION PLAN

In 2007, the Bank established the 2007 stock option and equity plan (the Plan) for executives, other employees, officers, directors, and consultants. Shares under the Plan may be granted at not less than 100 percent of the fair market value at the grant date. The authorized and granted options under the Plan is as follows:

	Authorized	Granted
2007 Plan	250,000	99,400

The stock options shall not be exercisable more than ten years after the date such option is granted. The 2007 shares are vested as of December 31, 2009.

The following summarizes the option activity under the Stock Option Plan:

	Number of Shares	Option Price Per Share	Weighted Average Exercise Price
Outstanding, December 31, 2007	79,878	$ 14.65	$ 14.65
Grants	19,522	14.65	14.65
Exercised	-	-	-
Canceled or expired	-	-	-
Outstanding, December 31, 2008	99,400	14.65	-
Grants	-	-	-
Exercised	-	-	-
Canceled or expired	-	-	-
Outstanding, December 31, 2009	99,400	$ 14.65	$ 14.65

The weighted average fair value of options granted during the year ended December 31, 2008 was $1.71. The weighted average remaining contractual life of options outstanding as of December 31, 2009 is 7.5 years.

Stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense on a straight-line basis over the requisite service period, which is the vesting period. The Bank uses the Black-Scholes option pricing model to determine the fair value of stock options. The fair value of the stock based payment awards is affected by the price of our stock and a number of financial assumptions and variables. These variables include the risk free interest rate, expected dividend rate, expected stock price volatility and the expected life of the options. The following assumptions were used: a risk free interest rate of 4.5 percent, an estimated dividend yield of zero percent, an expected holding period of five years and volatility of 10 percent.

The expected volatility is based on the historical volatility of peer institutions. The risk-free interest rate is the implied yield available on U.S. Treasury zero-coupon issues with a remaining term equal to the expected term of the options granted. The expected life is based on the average of the contracted life and vesting schedule for the options granted. The dividend yield assumption is based on expected dividend payouts.

Beginning in January 2010, directors will be compensated for attendance at board and committee meetings using Bank common stock. Stock will only be awarded in quarters in which the Bank is profitable, and stock will be issued annually.

For the year ended December 31, 2008, the Bank recognized stock-based compensation expense of $21,991. No compensation expense was recognized for the year ended December 31, 2009.

11. OPERATING LEASES

In May 2008, the Bank entered into a lease for its loan operations to move from the fifth floor to the second floor at 10555 Main Street, in Fairfax, Virginia. The agreement provides for an initial lease term of approximately three years commencing July 1, 2008 and ending July 31, 2011. Total base annual lease payments are $162,608 for the first year, increasing three percent per annum, thereafter. The lease agreement is for 6,072 square feet. The lease provides the right to renew for two periods of three additional years with the base rent at the current market rate. The agreement includes additional rent payments based on a pro rata portion of annual taxes, common area maintenance charges, and utilities.

In December 2005, the Bank exercised its five-year option for the branch facility located at 502 Maple Avenue in Vienna, Virginia. The agreement provides for a term of five years ending December 2010. The total base annual lease payments for the first year of the extension are $62,668, increasing a maximum of four percent per annum, thereafter. The lease agreement includes approximately 1,862 square feet on the ground floor for the branch facility. The lease agreement includes additional rent payments based on a pro rata portion of annual taxes and common area maintenance charges.

In October 2004, the Bank entered into a lease for its headquarters and an additional branch facility at 10555 Main Street in Fairfax, Virginia. The agreement provides for an initial lease term of ten years commencing January 1, 2005 and ending December 31, 2014. Total base annual lease payments are $168,056 for the first year, increasing a maximum of three percent per annum, thereafter. The lease agreement is for 6,002 square feet. The agreement includes additional rent payments based on a pro rata portion of annual taxes, common area maintenance charges, and utilities.

The following are the future minimum lease payments at December 31, 2009:

Years ending December 31:	
2010	$ 434,874
2011	295,868
2012	214,568
2013	221,005
2014	227,635
	$ 1,393,950

Rent expense amounted to $440,149 and $388,716 for the years ended December 31, 2009 and 2008, respectively.

12. FAIR VALUE MEASUREMENTS

The Bank adopted the Fair Value Measurements required by the Fair Value Measurements and Disclosures of the FASB Accounting Standards Codification. The "Fair Value Measurements" standard defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements.

The standard defines fair value as the price that would be received upon sale of an asset or paid upon transfer of a liability in an orderly transaction between market participants at the measurement date and in the principal or most advantageous market for that asset or liability. The fair value should be calculated based on assumptions that market participants would use in pricing the asset or liability, not on assumptions specific to the entity. In addition, the fair value of liabilities should include consideration of non-performance risk including our own credit risk.

In addition to defining fair value, the standard expands the disclosure requirements around fair value and establishes a fair value hierarchy for valuation inputs. The hierarchy prioritizes the inputs into three levels based on the extent to which inputs used in measuring fair value are observable in the market. Each fair value measurement is reported in one of the three levels which is determined by the lowest level input that is significant to the fair value measurement in its entirety. These levels are:

Level 1 – inputs are based upon unadjusted quoted prices for identical instruments traded in active markets.

Level 2 – inputs are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – inputs are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. Therefore, the fair values are determined using model-based techniques that include option pricing models, discounted cash flow models, and similar techniques.

The following describes the valuation techniques used by the Bank to measure certain financial assets and liabilities recorded at fair value on a recurring basis in the financial statements.

Securities available-for-sale: Securities available-for-sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted market prices, when available (Level 1). If quoted market prices are not available, fair values are measured utilizing independent valuation techniques of identical or similar securities for which significant assumptions are derived primarily from or corroborated by observable market data. Third party vendors compile prices from various sources and may determine the fair value of identical or similar securities by using pricing models that considers observable market data (Level 2).

The following table presents the balances of financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2009:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2009				
Available-for-sale securities	$ 4,631,602	$ 1,643,534	$ 2,988,068	$ -
December 31, 2008				
Available-for-sale securities	$ 2,592,145	$ -	$ 2,592,145	$ -

Certain financial assets are measured at fair value on a nonrecurring basis in accordance with GAAP. Adjustments to the fair value of these assets usually result from the application of lower-of-cost-or-market accounting or write-downs of individual assets.

The following describes the valuation techniques used by the Bank to measure certain financial assets recorded at fair value on a nonrecurring basis in the financial statements.

Impaired loans: Loans are designated as impaired when, in the judgment of management based on current information and events, it is probable that all amounts due according to the contractual terms of the loan agreement will not be collected. The measurement of loss associated with impaired loans can be based on either the observable market price of the loan or the fair value of the collateral. Fair value is measured based on the value of the collateral securing the loans. Collateral may be in the form of real estate or business assets including equipment, inventory and accounts receivable. The vast majority of the collateral is real estate. The value of real estate collateral is determined utilizing an income or market valuation approach based on an appraisal conducted by an independent, licensed appraiser outside of the Bank using observable market data (Level 2). However, if the collateral is a house or building in the process of construction or if an appraisal of the real estate property is over two years old, then the fair value is considered (Level 3). The value of business equipment is based upon an outside appraisal if deemed significant, or the net book value on the applicable business' financial statements if not considered significant using observable market data. Likewise, values for inventory and accounts receivables collateral are based on financial statement balances or aging reports (Level 3). Impaired loans allocated to the allowance for loan losses are measured at fair value on a nonrecurring basis. Any fair value adjustments are recorded in the period incurred as provision for loan losses on the statements of operations.

The following table summarizes the Bank's financial assets that were measured at fair value on a nonrecurring basis as of December 31:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2009				
Impaired loans	$ 4,314,000	$ -	$ 4,036,000	$ 278,000
December 31, 2008				
Impaired loans	$ 5,202,000	$ -	$ 3,964,000	$ 1,238,000
Foreclosed assets	$ 705,000	$ -	$ 705,000	$ -

The following methods and assumptions were used by the Bank in estimating fair values of financial instruments as disclosed herein:

Cash and cash equivalent: The carrying amounts of cash and cash equivalents approximate their fair value.

Securities available-for-sale: Fair values for securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

Interest bearing deposits at other financial institutions: The carrying amounts of interest bearing deposits at other financial institutions payable on demand, consisting of money market deposits, approximate fair value. Fair value of fixed rate certificates of deposit is estimated based on discounted cash flow analyses using the remaining maturity of the underlying accounts and interest rates currently offered on certificates of deposit with similar original maturities.

Restricted stock: The carrying amount of Federal Reserve Bank stock and Federal Home Loan Bank stock approximates fair value.

Loans receivable: For variable-rate loans that reprice frequently and have no significant change in credit risk, fair values are based on carrying values. Fair values for certain mortgage loans (for example, one to four family residential), credit-card loans and other consumer loans are based on quoted market prices of similar loans sold in conjunction with securitization transactions, adjusted for differences in loan characteristics. Fair values for business real estate and business loans are estimated using a discounted cash flow analyses, using interest rates currently being offered for loans with similar term to borrowers of similar credit quality. Fair values for impaired loans are estimated using discounted cash flows analyses or underlying collateral values, where applicable.

Accrued interest: The carrying amounts of accrued interest approximate fair value.

Deposits: The carrying amounts of deposit liabilities payable on demand, consisting of NOW accounts, money market deposits and saving deposits approximate fair value. Fair value of fixed-rate certificates of deposit is estimated based on discounted cash flow analyses using the remaining maturity of the underlying accounts and interest rates currently offered on certificates of deposit with similar original maturities.

Off balance sheet financial instruments: At December 31, 2009 and 2008, the fair values of loan commitments and standby letters of credit are immaterial. Therefore, they have not been included in the following table.

The estimated fair values of the Bank's financial instruments are as follows at December 31:

	2009		2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	$ 12,199,127	$ 12,199,127	$ 12,671,600	$ 12,671,600
Securities available-for-sale	4,631,602	4,631,602	2,592,145	2,592,145
Restricted stock	556,400	556,400	712,800	712,800
Loans receivable, net	133,492,233	139,303,835	119,184,661	122,162,379
Accrued interest receivable	483,510	483,510	418,545	418,545
Total financial assets	$ 151,362,872	$ 157,174,474	$ 135,579,751	$ 138,557,469
Financial liabilities:				
Interest, money market and savings	$ 16,918,734	$ 16,918,734	$ 14,681,016	$ 14,681,016
Time Deposits	92,716,485	90,816,961	86,561,450	87,378,155
Accrued interest payable	91,096	91,096	203,169	203,169
Total financial liabilities	$ 109,726,315	$ 107,826,791	$ 101,445,635	$ 102,262,340

13. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

In the normal course of business, the Bank has outstanding commitments and contingent liabilities, such as commitments to extend credit and standby letters of credit, which are not included in the accompanying financial statements. The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit and standby letters of credit is represented by the contractual or notional amount of those instruments. The Bank uses the same credit policies in making such commitments as it does for instruments that are included in the balance sheet.

Financial instruments whose contract amount represents credit risk were as follows:

	2009	2008
Commitments to extend credit	$ 30,513,443	$ 38,161,150
Standby letters of credit	$ 148,202	$ 391,184

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation. Collateral held varies, but may include accounts receivable, inventory, property and equipment, and income-producing commercial properties.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Standby letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank's policy for obtaining collateral, and the nature of such collateral, is essentially the same as that involved in making commitments to extend credit.

The Bank has not been required to perform on any financial guarantees during the past two years. The Bank has not incurred any losses on its commitments in either 2009 or 2008.

14. RESTRICTION ON DIVIDENDS

The Bank is subject to certain restrictions on the amount of dividends that it may pay without prior regulatory approval. At December 31, 2009 and 2008, capital was not available for payment of dividends.

15. PROFIT SHARING PLAN

Effective July 1, 2002, the Bank adopted a contributory 401(k) savings plan covering substantially all employees. The plan allows eligible employees to contribute up to 25 percent of their compensation to the plan. The Board of Directors may elect to approve to match a portion of each employee's contribution. No contributions were made by the Bank for the years ended December 31, 2009 and 2008.

16. LEGAL CONTINGENCIES

In 2007, the Bank made a loan to a borrower and sold a participation in the loan to Monarch Bank. The loan matured on March 1, 2009, and has not been repaid. The participation agreement provides that the Bank will exercise normal mortgage lending practices in administering the loan. There is a disagreement between the two banks on how best to collect and service the loan. Monarch Bank filed an action against the Bank on June 3, 2009 in the Circuit Court of the City of Chesapeake, VA, alleging that the Bank has failed to properly service and collect the loan. Monarch Bank is seeking $2.19 million in actual damages, plus $350,000 in punitive damages as well as attorney's fees and costs. The Bank intends to defend this action and cannot, at this time, reasonably predict the ultimate outcome of the proceedings, if any, that will be imposed. The trial is currently scheduled for May 2010.

Various legal claims can arise from time to time in the normal course of business which, in the opinion of management, will have no material effect on the Bank's financial statements.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

BOARD OF DIRECTORS

Richard C. Litman
Chairman of the Board

Cynthia Carter Atwater
Corporate Secretary

William G. Dukas
Vice Chairman

John T. Rohrback
President & CEO

G. Thomas Collins, Jr.

Dr. Terry L. Collins

H. Jason Gold

Norman P. Horn

Dr. David C. Karlgaard

Michael A. Miranda

Dr. Alvin E. Nashman

IN MEMORIAM

Russell E. Sherman

Director

2007-2009

SENIOR MANAGEMENT

John T. Rohrback
President & CEO

Karin M. Johns
Executive Vice President
& Chief Financial Officer

Craig S. Underhill
Executive Vice President
& Chief Lending Officer

Deborah A. Free
Senior Vice President
& Branch Administration Officer

Christine A. Gorman
Senior Vice President
& Assistant Corporate Secretary

Kimberly J. Ryman
Senior Vice President
& Senior Administration & Information Officer

DIRECTORS EMERITUS, ADVISORY BOARD & GOVERNEMENT CONTRACTING COUNCIL

WITH DEEPEST APPRECIATION FOR THE DIRECTORS WHO PREVIOUSLY SERVED

James N. Newsome
Founding Chairman & CEO
2000 - 2003
Director Emeritus

George C. Dukas
Director
2002 - 2005
Director Emeritus

Harry N. Snyder, O.D.
Founding Director
2000 - 2007
Director Emeritus

John F. Carman
Founding Director / Vice Chairman
2000 - 2006
In Memoriam

Michael A. Falke
Founding Director
2000 - 2002

James F. Steffey
Founding Director
2000 - 2007
Director Emeritus

Richard L. Hall
Founding Director / President & COO
2000 - 2003
In Memoriam

Timothy P. Hecht
Director
2005 - 2007
Director Emeritus

C. Stephen Templeton
Founding Director
2000 - 2002
Director Emeritus

Irving Bernstein
Founding Director
2000 - 2007
Director Emeritus

George Z. Kontzias
Director
2002 - 2006
Director Emeritus

Charles M. Wright
Founding Director
2000 - 2002
Director Emeritus

ADVISORY BOARD

Arlene Lyles Pripeton, *Chairman*

Darren Bernstein
Irving Bernstein
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Michael J. Kurka
David C. Knapp

Michael A. Magnotti
Donald J. Mayer
Owen Michael McCall
Stephen W. McCarthy
Usama H. Misleh
Ali R. Oskuie
Thomas J. Riley
Harry N. Snyder, O.D.

James F. Steffey
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C. Stephen Templeton
Thomas J. Tracy
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COMMERCIAL ACCOUNT SERVICES

TRANSACTION ACCOUNTS
Business Checking
Not-For-Profit Organization Checking
Business / Corporate Analysis Account
Business Interest Checking

SAVINGS ACCOUNTS, INVESTMENT & FIDUCIARY SERVICES
Business Money Market
Business Savings
Certificates of Deposit
CDAR'S (Certificate of Deposit Account Registry Service®)
Trustee Accounts

CASH MANAGEMENT SERVICES
Concentration Accounts
Lockbox Accounts
Merchant Accounts
Repurchase Agreement Accounts
Sweep Accounts
Sweep Account into a Collateralized Repurchase Agreement Accounts
Target Balance Accounts
Zero Balance Accounts
Wire Transfers

CREDIT SERVICES
Commercial Term Loans
Commercial Line of Credit
Commercial Revolving Line of Credit
Commercial Letters of Credit
Commercial Real Estate Mortgages
Commercial Construction Loans
Small Business Administration (SBA) Loans

MANAGING ACCOUNTS & FUNDS
24 Hour Depository
24 Hour Telephone Banking
ACH Transactions & File Transfers
American Express Travelers Cheques/Gift Cards
ATM
Bank by Mail
Cashier's Checks & Money Orders
Corporate Credit Card – MasterCard
Corporate Debit Card
Electronic Check Processing & Deposit Program
E-Statements
Federal Tax Deposits
Freedom Direct Online Banking
Lock Box Service
Merchant Credit Card Services
Notary Services
Safe Deposit Boxes

PERSONAL ACCOUNT SERVICES

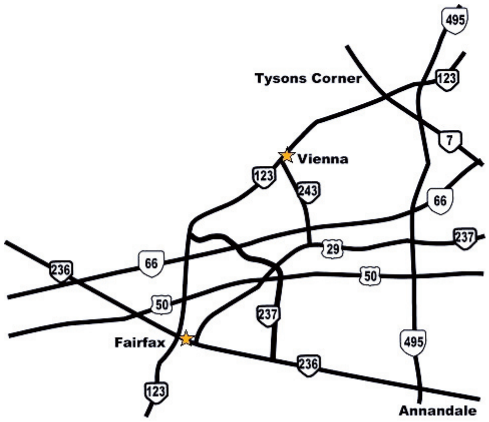
TRANSACTION ACCOUNTS
Freedom Ba$ic (Free) Checking
Freedom Interest Checking

SAVINGS ACCOUNTS & INVESTMENT & FIDUCIARY SERVICES
Personal Money Market Checking
Regular Savings
Senior or Student or Minor Savings
Certificates of Deposit
CDAR'S (Certificate of Deposit Account Registry Service®)

INDIVIDUAL RETIREMENT ACCOUNTS
Traditional
Roth
Coverdell (formerly Education IRA)
Simplified Employee Pensions (SEPS)

CREDIT SERVICES
Auto Loans
Boat & RV loans
Personal Loans
Overdraft Protection
Home Equity Loans & Lines of Credit
Mortgages

MANAGING ACCOUNTS & FUNDS
24 Hour Depository
24 Hour Telephone Banking
ACH Transactions/Direct Deposit
ATM
American Express Travelers Cheques/Gift Cards
Bank by Mail
Cashier's Checks & Money Orders
Credit Cards – Visa & MasterCard
Debit Check Card
E-Statements
Identity Theft Protection
Notary Services
Online Banking with Bill Payment
Safe Deposit Boxes
U. S. Savings Bonds
Wire Transfers



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