Freedom Bank

Annual Report

2011

FREEDOM BANK

To Our Shareholders:

On behalf of the Board of Directors and management team we are very pleased to present the 2011 financial results of The Freedom Bank of Virginia. It was a year of historical growth for the Bank in many ways. The Bank ended the year with record pre-tax profits, asset size, loans outstanding and most importantly, a smooth transition of top management.

John Rohrback retired from Freedom Bank after ten years of service at the end of July 2011, and was succeeded by Craig Underhill, who was the President and COO of the Bank at that time. We are pleased to inform you that John agreed to remain on the Board of Directors, where he continues to provide leadership and guidance to the Bank.

John was a founding employee of Freedom Bank and served as CEO for most of his tenure. He was instrumental in every major decision for the first ten years, including the large capital raising effort in 2007. He successfully steered the Bank through the trouble times of the industry these past four years and left a legacy of strong capital and earnings to allow for future growth. On behalf of the Board of Directors, we thank John for his strong leadership and are thankful for his continued involvement with the Bank.

Freedom Bank continued the upward earnings trend in 2011, finishing the year with a record pre-tax net income of $1,900,300, up from $1,821,514 the prior year. The Bank recognized a tax benefit in 2010 that increased earnings by $612,000. No tax benefit was recognized in 2011.

Total assets grew $36,207,146 or 21.1% to a record $207,557,264 in 2011. Even in a soft economy, the Bank experienced double digit loan growth of 10.2% to $154,407,193. Because assets were growing faster than loans, the Bank increased investments in securities by $8,077,806 or 103.9% over the prior year. Again in 2011 the Bank had no Other Real Estate Owned from foreclosures on its books at year end or at any time during the year.

Freedom Bank generated strong deposit growth in 2011 as well, with more customers choosing to move money into their Interest Checking Accounts from their Demand Deposit Accounts. Total non interest bearing Demand Deposits decreased $4,405,495 (14.8%) to $25,392,303 in 2011. This was more than offset by the $22,634,635 (118.9%) increase in Interest Checking deposits. Overall, these stable transaction account balances increased $18,929,141 (37.3%) to $66,067,073 in 2011. Total deposits for the Bank increased $34,023,360 to $183,146,322.

Capital continues to be both a focus and strength of Freedom Bank. Common Equity increased by $2,122,384 or 9.8% to $23,697,402 during the year. Freedom had 2,363,665 shares outstanding at December 31, 2011 providing a book value per share of $10.03. Regulatory Capital minimums for Tier 1 Leverage Ratio, Risk Based Capital Tier 1, and Risk Based Capital Tier 2 are 5.0%, 6.0% and 10.0% respectively to be considered well capitalized. At December 31, 2011 the ratios for the Bank were 12.85%, 14.44% and 14.52% respectively, all in the well capitalized category. The Bank continues its tradition of maintaining a strong capital base to serve the needs of its customers and stockholders.

This year Freedom Bank announced a six for five stock split that was effective for stockholders owning the stock on February 16, 2012.

The Board of Directors and management are pleased to be able to present you with these results and we thank you for your continued support of the Bank.

Richard C. Litman
Chairman of the Board

Craig S. Underhill
President & Chief Executive Officer

FREEDOM BANK

2011 Financial Summary

TABLE OF CONTENTS PAGE

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, 2011 and 2010, 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, 2011 and 2010, 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 2, 2012

4035 Ridge Top Road, #700, Fairfax, Virginia 22030 (703) 385-8888 Fax (703) 385-3940
10694-A Crestwood Drive, Manassas, Virginia 20109-3497 (703) 368-3533 Fax (703) 361-1958
www.tgccpa.com
Member of American Institute of Certified Public Accountants Division for CPA Firms

THE FREEDOM BANK OF VIRGINIA

BALANCE SHEETS
YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
ASSETS		
Cash and Due from banks	$ 16,128,032	$ 3,441,325
Interest Bearing Deposit with Banks	1,007,339	-
Federal Funds sold	15,753,000	17,212,000
Securities Available-for-Sale	15,183,798	5,767,655
Securities Held-to-maturity	666,152	2,004,489
Federal Reserve Bank Stock, at cost	689,350	615,600
Loans Held for Sale	3,007,500	992,551
Loans Receivable	154,407,193	140,074,925
Allowance for Possible Loan Losses	(2,037,164)	(1,735,353)
Net Loans	152,370,029	138,339,572
Bank Premises and Equipment, net	213,857	315,774
Accrued interest receivable	519,450	517,293
Deferred Tax Asset	612,000	612,000
Other assets	1,406,757	1,531,859
Total Assets	$ 207,557,264	$ 171,350,118
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Demand deposits		
Non-interest bearing	$ 25,392,303	$ 29,797,798
Interest bearing	41,673,770	19,039,135
Savings deposits	1,269,065	830,262
Time deposits	114,811,184	99,455,768
Total Deposits	183,146,322	149,122,963
Other accrued expenses	654,898	580,902
Accrued interest payable	58,642	71,235
Total Liabilities	183,859,862	149,775,100
Stockholders' Equity		
Common stock, $5 par value, 5,000,000 shares authorized: 2,363,665 shares issued and outstanding, 2011; 2,357,361 shares issued and outstanding, 2010	11,818,325	11,786,805
Additional paid-in capital	16,184,810	16,042,863
Accumulated other comprehensive income	134,776	86,159
Retained earnings (deficit)	(4,440,509)	(6,340,809)
Total Stockholders' Equity	23,697,402	21,575,018
Total Liabilities and Stockholders' Equity	$ 207,557,264	$ 171,350,118

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

STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2011 AND 2010

	2011	2010
Interest Income		
Interest and fees on loans	$ 9,110,312	$ 8,730,192
Interest on investment securities	399,427	379,702
Interest on Federal Funds sold	38,662	46,035
Total Interest Income	9,548,401	9,155,929
Interest Expense		
Interest on deposits	1,861,828	2,197,618
Net Interest Income	7,686,573	6,958,311
Provision for Possible Loan Losses	348,000	200,000
Net Interest Income after Provision for Possible Loan Losses	7,338,573	6,758,311
Other Income		
Service charges and other income	568,028	548,428
Total Other Income	548,428	548,428
Operating Expenses		
Officers and employee compensation and benefits	3,406,089	3,156,155
Occupancy expense	530,328	544,326
Equipment and depreciation expense	218,752	234,641
Insurance expense	241,878	332,217
Professional fees	398,568	101,590
Data and item processing	534,008	525,559
Business development	124,851	109,202
Franchises tax	202,955	202,136
Other operating expenses	348,872	279,399
Total Operating Expenses	6,006,301	5,485,225
Income (Loss) before Income Taxes	1,900,300	1,821,514
Income Tax (Benefit) Expense	-	(612,000)
Net Income (Loss)	$ 1,900,300	$ 2,433,514
Net Income (Loss) Per Common Share	$ 0.80	$ 1.03
Net Income (Loss) Per Diluted Share	$ 0.80	$ 1.03

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

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2011 AND 2010

	Shares of Common Stock	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Deficit)	Retained Earnings (Deficit)	Total Stockholders' Equity
Balance, December 31, 2009	2,357,361	$ 11,786,805	$ 16,002,413	$ 44,133	$ (8,774,323)	$ 19,059,028
Comprehensive Income:						
Net Income	-	-	-	-	2,433,514	2,433,514
Change in unrealized gain on securities available- for-sale, net of tax of $22,629	-	-	-	42,026	-	42,026
Total Comprehensive Income						2,475,540
Stock-Based Compensation	-	-	40,450	-	-	40,450
Balance, December 31, 2010	2,357,361	11,786,805	16,042,863	86,159	(6,340,809)	21,575,018
Comprehensive Income:						
Net Income	-	-	-	-	1,900,300	1,900,300
Change in unrealized gain on securities available- for-sale, net of tax of $26,179	-	-	-	48,617	-	48,617
Total Comprehensive Income						1,983,642
Stock-Based Compensation	-	-	138,742	-	-	138,742
Balance, December 31, 2011	2,363,665	$ 11,818,325	$ 16,184,810	$ 134,776	$ (4,440,509)	$ 23,697,402

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

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2011 AND 2010

		2011		2010
Cash Flows from Operating Activities				
Net Income (loss)	$	1,900,300	$	2,433,514
Noncash items included in net income (loss)				
Depreciation and amortization		108,998		155,620
Provision for possible loan losses		348,000		200,000
Net amortization of securities		67,420		42,347
Gain on sale of available-for-sale securities		(72,500)		-
Stock-based compensation expense		138,742		40,450
Deferred income tax benefit		-		(612,000)
(Increase) Decrease in				
Loans held for sale		(2,014,949)		(603,000)
Accrued interest receivable		(2,157)		(33,783)
Other assets		125,102		(75,712)
Increase (Decrease) in				
Other accrued expenses		47,817		(141,505)
Accrued interest payable		(12,593)		(19,861)
Net Cash Provided (Used) by Operating Activities		634,180		1,386,070
Cash Flows from Investing Activities				
Federal Funds sold, net		1,459,000		(6,388,000)
Interest bearing deposit with banks		(1,007,339)		-
Loan originations, net		(14,378,457)		(5,436,890)
Purchase of available-for-sale securities		(11,223,645)		(2,327,573)
Maturities, calls and paydowns of securities available-for-sale		814,878		1,209,575
Proceeds from sales of securities available-for-sale		1,072,500		-
Paydowns of held-to-maturity securities		1,338,337		2,032,624
Purchase of Federal Reserve Bank Stock		(73,750)		(59,200)
Acquisition of bank equipment		(7,081)		(41,566)
Net Cash Used by Investing Activities		(22,005,557)		(11,011,030)
Cash Flows from Financing Activities				
Increase in deposits, net		34,058,359		11,691,158
Common stock issuance		34,725		-
Net Cash Provided by Financing Activities		34,058,084		11,691,158
Net Increase in Cash and Due from Banks		12,686,707		2,066,198
Cash and Due from Banks, beginning of year		3,441,325		1,375,127
Cash and Due from Banks, end of year	$	16,128,032	$	3,441,325
Noncash Investing Activity				
Unrealized gain (loss) on securities available-for-sale, net	$	48,617	$	42,026
Supplemental Information				
Cash paid during the year for interest	$	1,874,421	$	2,217,479
Cash paid during the year for income taxes	$	80,000	$	-

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 (the Bank) conform to generally accepted accounting principles (GAAP) and reflect practices of the banking industry. The policies are summarized below.

Nature of Operations

The Freedom Bank of Virginia 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 (FDIC). 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 stock is considered a restricted investment security, is carried at cost and is evaluated annually for impairment. The stock is required in order to be a member of the Federal Reserve.

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 sells its mortgage loans forward to investors and the estimated fair value is largely dependent upon the terms of these outstanding loan purchase commitments, as well as movement in market interest rates.

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 ongoing 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. The Bank owned no other real estate at December 31, 2011 and 2010.

Other Assets

Included in other assets is approximately $739,000 and $933,000 as of December 31, 2011 and 2010, respectively, of prepaid expense related to the required prepayment of the FDIC premium through the fourth quarter of 2012.

Stockholders' Equity

At December 31, 2011, 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 carryforward 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.

Management has determined that recent profitability and projections of future taxable income will be adequate to absorb a portion of the Bank's net operating loss carryforward included in the deferred tax asset. Therefore, $612,000 of the valuation allowance taken against the deferred tax asset was reversed in December 2010, resulting in the net tax benefit shown in the table in Note 8.

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 2010, 2009 and 2008 income tax returns are open and subject to examination. The Bank is not currently under audit by any income tax jurisdiction.

The Bank has no uncertain tax positions that qualify for either recognition or disclosure in the financial statements, and no interest and penalties have been recorded in the accompanying financial statements related to uncertain tax positions.

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 August 2010, the Bank entered into an employment agreement with the Bank's current 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 17 months and will 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 banks, 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.

Financial Statement Reclassification

Certain reclassifications have been made to conform the prior period data to the current presentation. These reclassifications had no effect on reported earnings.

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.

Adoption of New Accounting Standards

Accounting Standards Update (ASU) 2010-20, *Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses,* expands disclosures to require an entity to disaggregate by portfolio segment or class certain existing disclosures and provide certain new disclosures about its financing receivables and related allowance for credit losses. The disclosures are effective for annual reporting periods ending on or after December 15, 2011 and are included in these financials retrospectively. Under ASU 2011-01, the disclosures related to troubled debt restructurings within this update are effective for the first annual reporting period ending on or after December 15, 2011 and are not expected to have a material impact on the Bank's financial statements.

Accounting Standard Updates Not Yet Effective

ASU 2011-02, *A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring,* clarifies which loan modifications constitute troubled debt restructurings. The update is intended to assist creditors in determining whether a modification of the terms of a receivable meets the criteria to be considered a troubled debt restructuring, both for purposes of recording an impairment loss and for disclosure of troubled debt restructurings. The update is effective for annual periods ending on or after December 15, 2012, including interim periods within those annual periods.

ASU 2011-04, *Fair Value Measurement: Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs,* changes the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. The update is effective for annual periods beginning after December 15, 2011.

ASU 2011-05, *Comprehensive Income: Presentation of Comprehensive Income,* requires that all nonowner changes in stockholder's equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The update eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholder's equity. ASU 2011-12 delayed the effectiveness of the provisions of this update that require the presentation on the face of the income statement of the components of net income which are being reclassified from accumulated other comprehensive income. The remaining provisions of this standard are effective for fiscal years ending after December 15, 2012, and interim and annual periods thereafter.

The adoption of the new accounting standard updates are not expected to have a material impact on the Bank's financial statements.

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. The required reserve at December 31, 2011 and 2010 was $712,000 and $622,000, 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, 2011				
Available-for-sale				
U.S. Government and Agency securities	$ 4,000,000	$ 32,451	$ -	$ 4,032,451
Corporate securities	2,036,359	42,719	(7,292)	2,071,786
Mortgage backed securities	8,940,092	149,383	(9,914)	9,079,561
Total Available-for-sale	14,976,451	224,553	(17,206)	15,183,798
Held-to-maturity				
Mortgage backed securities	666,152	23,206	-	689,358
Total Investment Securities	$15,642,603	$ 247,759	$ (17,206)	$15,873,156
December 31, 2010				
Available-for-sale				
U.S. Government and Agency securities	$ 1,000,000	$ 77,624	$ -	$ 1,077,624
Corporate securities	1,097,819	46,833	(2,716)	1,141,936
Mortgage backed securities	3,537,284	35,466	(24,655)	3,548,095
Total Available-for-sale	5,635,103	159,923	(27,371)	5,767,655
Held-to-maturity				
Mortgage backed securities	2,004,489	51,915	-	2,056,404
Total Investment Securities	$ 7,639,592	$ 211,838	$ (27,371)	$ 7,824,059

The amortized cost and estimated fair value of debt securities at December 31, 2011, 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	$ -	$ -	$ -	$ -
After 1 year - 5 years	4,238,654	4,308,290	-	-
After 5 years - 10 years	1,547,705	1,553,239	-	-
After 10 years	250,000	242,708	-	-
	6,036,359	6,104,237	-	-
Mortgage backed securities	8,940,092	9,079,561	666,152	689,358
	$14,976,451	$15,183,798	$ 666,152	$ 689,358

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, 2011 and 2010, U.S. Government and agency securities and mortgage backed securities with a carrying value of $6,897,234 and $4,426,044, 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, 2011, aggregated by investment category and length of time that individual securities have been in a continuous loss position, is as follows:

	Less Than Twelve Months		Over Twelve Months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
Available-for-sale				
Corporate securities	$ -	$ -	$ 7,292	$ 242,708
Mortgage backed securities	$ 9,914	$ 2,353,692	$ -	$ -
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, 2011, two debt securities with an unrealized loss for less than one year depreciated less than one percent from the Bank amortized cost basis. One security with an unrealized loss for greater than one year depreciated three percent from the Bank amortized cost basis. The securities are secured by mortgage loans or are corporate bonds. 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 securities are not deemed to be other-than-temporary.

4. LOANS RECEIVABLE

Loans receivable include the following:

	2011	2010
Commercial	$ 36,236,920	$ 32,103,239
Consumer and other	1,687,104	2,107,038
Real estate	116,773,498	106,177,212
Subtotal	154,697,522	140,387,489
Deferred loan fees	(290,329)	(312,564)
Totals	$ 154,407,193	$ 140,074,925

Commercial and industrial loans: The commercial lending portfolio consists primarily of commercial and industrial loans for the financing of accounts receivable, property, plant and equipment. Commercial loans typically are made on the basis of the borrower's ability to repay the loan from the cash flow from its business and are secured by business assets, such as commercial real estate, accounts receivable, equipment and inventory, the values of which may fluctuate over time and generally cannot be appraised with as much precision as residential real estate. To manage these risks, the Bank's policy is to secure commercial loans originated with both the assets of the business, which are subject to the risks described above, and other additional collateral and guarantees that may be available.

Real estate - commercial loans: Commercial real estate loans are primarily secured by various types of commercial real estate, including office, retail, warehouse, industrial and other non-residential types of properties and are made to the owners and/or occupiers of such property. The repayment of loans secured by income-producing properties is typically dependent upon the successful operation of a business or real estate project, and thus may be subject to adverse conditions in the commercial real estate market or in the general economy. The Bank generally requires personal guarantees or endorsements with respect to these loans and loan-to-value ratios for commercial real estate loans, which generally do not exceed 80 percent.

Real estate - residential and home equity loans: This portfolio consists of residential first and second mortgage loans, residential construction loans and home equity lines of credit and term loans secured primarily by the residences of borrowers. Residential mortgage loans and home equity lines of credit secured by owner-occupied property generally are made with a loan-to-value ratio of up to 80 percent.

An analysis of the allowance for possible loan losses based on type or loan segment, which identifies certain loans that are evaluated for individual or collective impairment, as of December 31 is as follows:

	Commercial and Industrial	Real Estate - Commercial	Real Estate - Construction	Real Estate - Residential	Consumer	Unallocated	Total
2011							
Allowance for Possible Loan Losses:							
Beginning balance	$ 250,804	$ 770,680	$ 331,626	$ 293,370	$ 21,474	$ 67,399	$ 1,735,353
Charge-offs	(30,982)	-	(49,000)	-	-	-	(79,982)
Recoveries	32,011	-	1,782	-	-	-	33,793
Provision	22,519	405,455	(26,003)	6,820	(7,595)	(53,196)	348,000
Ending balance	$ 274,352	$ 1,176,135	$ 258,405	$ 300,190	$ 13,879	$ 14,203	$ 2,037,164
Individually evaluated for impairment	$ -	$ 314,422	$ -	$ 72,073	$ -	$ -	$ 386,495
Collectively evaluated for impairment	274,352	861,713	258,405	228,117	13,879	14,203	1,650,669
Loans Receivable:							
Ending balance	$36,236,920	$85,319,241	$13,708,236	$17,746,021	$ 1,687,104	$ -	$154,697,522
Individually evaluated for impairment	$ 506,313	$ 3,185,232	$ 1,400,125	$ -	$ 367,073	$ -	$ 5,458,743
Collectively evaluated for impairment	35,730,607	82,134,009	12,308,111	17,746,021	1,320,031	-	149,238,779
2010							
Allowance for Possible Loan Losses:							
Beginning balance	$ 561,686	$ 534,784	$ 205,380	$ 391,726	$ 54,918	$ 159,359	$ 1,907,853
Charge-offs	-	-	(471,676)	(167,161)	(43,224)	-	(682,061)
Recoveries	58,815	-	240,537	247	9,962	-	309,561
Provision	(369,697)	235,896	357,385	68,558	(182)	(91,960)	200,000
Ending balance	$ 250,804	$ 770,680	$ 331,626	$ 293,370	$ 21,474	$ 67,399	$ 1,735,353
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	250,804	770,680	331,626	293,370	21,474	67,399	1,735,353
Loans Receivable:							
Ending balance	$32,103,239	$75,837,640	$11,419,747	$18,919,825	$ 2,107,038	$ -	$140,387,489
Individually evaluated for impairment	$ 742,746	$ -	$ 1,556,000	$ -	$ -	$ -	$ 2,298,746
Collectively evaluated for impairment	31,360,493	75,837,640	9,863,747	18,919,825	2,107,038	-	138,088,743

An analysis of non-accrual and past due loans is as follows at December 31:

	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Financing Receivables	Nonaccrual Loans
2011							
Commercial - non-real estate							
Commercial and industrial	$ -	$ -	$ -	$ -	$ 36,236,920	$ 36,236,920	$ 506,313
Commercial real estate							
Owner occupied	418,403	288,249	978,838	1,685,490	31,196,991	32,882,481	978,838
Non-owner occupied	-	-	-	-	52,436,759	52,436,759	-
Construction							
Residential	-	-	-	-	8,616,200	8,616,200	1,400,125
Commercial	-	-	575,094	575,094	4,516,942	5,092,036	575,094
Consumer - non-real estate							
Automobile	-	-	-	-	329,689	329,689	-
Other	1,428	-	-	1,428	1,355,987	1,357,415	-
Residential							
First Trusts	-	-	-	-	9,330,217	9,330,217	-
Equity Lines	-	-	367,073	367,073	8,048,732	8,415,805	367,073
Total	$ 419,831	$ 288,249	$ 1,921,005	$ 2,629,085	$152,068,437	$154,697,522	$ 3,827,443
2010							
Commercial - non-real estate							
Commercial and industrial	$ 127,882	$ -	$ -	$ 127,882	$ 31,975,357	$ 32,103,239	$ 742,746
Commercial real estate							
Owner occupied	-	-	-	-	35,277,315	35,277,315	-
Non-owner occupied	1,625,803	-	-	1,625,803	38,934,522	40,560,325	-
Construction							
Residential	-	-	-	-	5,460,613	5,460,613	1,556,000
Commercial	575,094	-	-	575,094	5,384,041	5,959,135	-
Consumer - non-real estate							
Automobile	-	-	-	-	228,058	228,058	-
Other	-	-	-	-	1,878,980	1,878,980	-
Residential							
First Trusts	-	-	-	-	10,133,274	10,133,274	-
Equity Lines	-	-	-	-	8,786,550	8,786,550	-
Total	$ 2,328,779	$ -	$ -	$ 2,328,779	$138,058,710	$140,387,489	$ 2,298,746

An analysis of impaired loans based on loan segment is as follows at December 31:

	Recorded Investment	Unpaid Principal Balance	Related Allowance for Loan Losses	Average Recorded Investment	Interest Income Recognized
2011					
With no related allowance recorded:					
Commercial - non-real estate					
Commercial and industrial	$ 506,313	$ 506,313	$ -	$ 514,397	$ -
Construction					
Residential	1,400,125	1,400,125	-	1,501,502	-
With an allowance recorded:					
Commercial - real estate					
Owner occupied	978,838	978,838	38,750	982,930	43,511
Non-owner occupied	2,206,394	2,781,488	275,672	2,203,121	90,707
Consumer	367,073	367,252	72,073	367,252	2,380
Total:					
Commercial - non-real estate	506,313	506,313	-	514,397	-
Commercial - real estate	3,185,232	3,760,326	314,422	3,186,051	134,218
Construction	1,400,125	1,400,125	-	1,501,502	-
Consumer	367,073	367,252	72,073	367,252	2,380
2010					
With no related allowance recorded:					
Commercial - non-real estate					
Commercial and industrial	$ 742,746	$ 742,746	$ -	$ 784,578	$ -
Construction					
Residential	1,556,000	1,556,000	-	1,556,000	-
Total:					
Commercial - non-real estate	742,746	742,746	-	784,578	-
Construction	1,556,000	1,556,000	-	1,556,000	-

No additional funds are committed to be advanced in connection with the impaired loans.

One of the most significant factors in assessing the Bank's loan portfolio is the risk rating. The Bank uses the following risk ratings to manage the credit quality of its loan portfolio: pass, special mention, substandard, doubtful and loss. Special mention loans are those loans that have potential weakness that deserves management's close attention. These loans have potential weaknesses that may result in deterioration of the repayment prospects for the loan or the bank's credit position at some future date. Substandard loans are inadequately protected by current sound worth, paying capacity of the borrower, or pledged collateral. Doubtful loans have all the inherent weaknesses in the substandard classification and collection or liquidation in full is highly questionable. Loss loans are considered uncollectible and of such little value that continuance as an active asset is not warranted. All other loans not rated are considered to have a pass rating.

An analysis of the credit quality indicators is as follows at December 31:

	Pass	Special Mention	Substandard	Doubtful	Loss
2011					
Commercial - non-real estate					
Commercial and industrial	$ 35,268,280	$ 462,327	$ 506,313	$ -	$ -
Commercial real estate					
Owner occupied	28,301,984	3,601,659	978,838	-	-
Non-owner occupied	43,806,859	4,723,506	3,906,394	-	-
Construction					
Residential	7,216,075	-	1,400,125	-	-
Commercial	5,092,036	-	-	-	-
Consumer - non-real estate					
Automobile	328,952	737	-	-	-
Other	1,357,415	-	-	-	-
Residential					
First trusts	9,330,217	-	-	-	-
Equity lines	8,048,732	-	367,073	-	-
Total	$138,750,550	$ 8,788,229	$ 7,158,743	$ -	$ -
2010					
Commercial - non-real estate					
Commercial and industrial	$ 29,804,882	$ 1,600,214	$ 698,143	$ -	$ -
Commercial real estate					
Owner occupied	32,473,510	2,803,806	-	-	-
Non-owner occupied	35,196,339	5,363,986	-	-	-
Construction					
Residential	3,683,339	-	1,556,000	221,274	-
Commercial	5,959,134	-	-	-	-
Consumer - non-real estate					
Automobile	218,165	9,893	-	-	-
Other	1,878,980	-	-	-	-
Residential					
First trusts	10,133,274	-	-	-	-
Equity lines	8,602,592	183,958	-	-	-
Total	$127,950,215	$ 9,961,857	$ 2,254,143	$ 221,274	$ -

An analysis of troubled debt restructurings at December 31 is as follows:

	2011			2010		
	Number of Contracts	Pre-Modification Oustanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Pre-Modification Outstanding Recorded Investment
Commercial and industrial	2	$ 612,780	$ 612,780	1	$ 521,472	$ 521,472
Commercial real estate	1	1,631,300	1,631,300	-	-	-

The Bank has no additional funds committed to be advanced in connection with the troubled debt restructured loans.

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 $3,204,093 and $3,636,656 at December 31, 2011 and 2010, respectively. New loans made to such related parties including loans held by new directors, amounted to $3,116,244 and $1,354,811 and payments amounted to $3,548,807 and $2,899,311 at December 31, 2011 and 2010, respectively.

5. BANK PREMISES AND EQUIPMENT

Bank premises and equipment include the following:

	2011	2010
Furniture and equipment	$ 1,084,629	$ 1,077,548
Leasehold improvements	130,959	130,959
Software	300,562	300,562
Total Cost	1,516,150	1,509,069
Less accumulated depreciation	(1,302,293)	(1,193,295)
Net Bank Premises and Equipment	$ 213,857	$ 315,774

Depreciation of bank premises and equipment charged to expense amounted to $108,998 and $155,620 in 2011 and 2010, respectively.

6. DEPOSITS

Time deposits in denominations of $100,000 or more totaled $79,879,691 and $61,346,589 at December 31, 2011 and 2010, respectively.

The following are time deposits maturing in years ending December 31:

2012	$ 79,231,485
2013	23,920,559
2014	1,351,629
2015	2,002,329
2016 and thereafter	8,305,182
Total	$ 114,811,184

The Bank held related party deposits of approximately $3,921,000 and $4,894,000 at December 31, 2011 and 2010, respectively.

7. BORROWINGS

At December 31, 2011 and 2010, 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, 2011 and 2010.

At December 31, 2011 and 2010, the Bank had an additional $2,000,000 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, 2011 and 2010.

8. INCOME TAXES

Significant components of deferred income tax assets and liabilities are as follows at December 31:

Deferred Source	2011	2010
Net operating loss carryforward	$ 490,000	$ 1,251,000
Loan loss reserve	1,151,000	1,033,000
Unearned loan fees	99,000	106,000
Depreciation	(17,000)	(22,000)
Gross deferred tax assets	1,723,000	2,368,000
Valuation allowance	(1,111,000)	(1,756,000)
Net deferred tax assets	$ 612,000	$ 612,000

The Bank has net operating losses carried forward of approximately $1,442,000 at December 31, 2011, which start to expire in 2023. The Bank had a current year net operating loss carryforward benefit of $761,000.

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

	2011	2010
Current tax expense	$ -	$ -
Deferred tax expense	645,000	602,000
Change in valuation allowance	(645,000)	(1,214,000)
	$ -	$ (612,000)

The following is a reconciliation of the Federal statutory income tax rate to the effective tax rate as a percent of pre-tax income for the years ended December 31:

	2011	2010
Federal statutory rate	34%	34%
Permanent differences	-	1
Change in valuation allowance	(34)	(69)
Effective tax rate	0%	(34)%

9. CAPITAL REQUIREMENTS

The Bank is subject to various regulatory capital requirements administered by 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, 2011, that the Bank meets all the capital adequacy requirements to which it is subject.

As of December 31, 2011, 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 following table. 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, 2011 and 2010 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, 2011:						
Total Capital (to Risk Weighted Assets)	$ 23,697,402	14.52%	$ 13,058,320	8.00%	$ 16,322,900	10.00%
Tier 1 Capital (to Risk Weighted Assets)	$ 23,562,626	14.44%	$ 6,529,160	4.00%	$ 9,793,740	6.00%
Tier 1 Capital (to Average Assets)	$ 23,562,626	12.85%	$ 7,335,889	4.00%	$ 9,169,861	5.00%
December 31, 2010:						
Total Capital (to Risk Weighted Assets)	$ 21,575,018	14.91%	$ 11,575,760	8.00%	$ 14,469,700	10.00%
Tier 1 Capital (to Risk Weighted Assets)	$ 21,488,859	14.85%	$ 5,787,880	4.00%	$ 8,681,820	6.00%
Tier 1 Capital (to Average Assets)	$ 21,488,859	12.49%	$ 6,880,367	4.00%	$ 8,600,459	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 Board approved increasing the number of authorized shares from 250,000 to 400,000 during 2011. The authorized and granted options under the Plan are as follows:

	Authorized	Granted
2007 Plan	400,000	301,900

The stock options shall not be exercisable more than ten years after the date such option is granted. The granted stock option and equity plan shares are vested as of January 1, 2009. Shares vest when granted subsequent to January 1, 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, 2009	99,400	$ 14.65	$ -
Grants	50,000	8.83	8.83
Exercised	-	-	-
Canceled or expired	-	-	-
Outstanding, December 31, 2010	149,400	12.70	12.70
Grants	152,500	9.93	9.93
Exercised	-	-	-
Canceled or expired	-	-	-
Outstanding, December 31, 2011	301,900	$ 11.30	$ 11.30

The weighted average fair value of options granted during the year ended December 31, 2011 was $1.38. The weighted average remaining contractual life of options outstanding as of December 31, 2011 is 8.4 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 the 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 3.25 percent, an estimated dividend yield of zero percent, an expected holding period of 10 years and volatility of 5.00 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 bonds 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.

The Bank's compensation plan for the Board of Directors provides for payments for attending regularly scheduled meetings of the Board of Directors as well as subcommittee meetings. The plan requires payment to be made in the form of Bank stock to be accrued in the current year and paid out in the first quarter of the following year.

For the years ended December 31, 2011 and 2010, the Bank recognized stock-based compensation expense of $138,742 and $40,450, respectively.

11. OPERATING LEASES

In December 2010, the Bank exercised its second 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 2015. The total base annual lease payments for the second year of the extension are $66,774, increasing a maximum of five 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 July 2011, the Bank renewed its lease for its loan operations on the second floor at 10555 Main Street in Fairfax, Virginia. The agreement provides for an initial lease term of approximately five years commencing August 1, 2011 and ending July 31, 2016. Total base annual lease payments are $148,764 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 one period of five 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 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 10 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, 2011:

Years ending December 31:	
2012	$ 435,305
2013	449,766
2014	464,732
2015	245,755
Thereafter	97,671
	$ 1,693,229

Rent expense amounted to $454,993 and $448,441 for the years ended December 31, 2011 and 2010, respectively.

12. FAIR VALUE MEASUREMENTS

During 2011, the Bank changed the assessment of inputs used in measuring fair value for both years for available-for-sale securities to resemble the assessments used by their broker.

Fair value is the exit price that would be received to sell an asset or paid to transfer a liability. Fair value is a market-based measurement that should be determined using assumptions that market participants would use in pricing an asset or liability. A three-level hierarchy is used to prioritize the inputs used in measuring fair value. The levels within the hierarchy are described with Level 1 having the highest priority and Level 3 having the lowest. 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, 2011:

	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, 2011				
Available-for-sale securities	$15,183,798	$ -	$15,183,798	$ -
December 31, 2010				
Available-for-sale securities	$ 5,767,655	$ -	$ 5,767,655	$ -

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, 2011				
Impaired loans	$ 5,458,743	$ -	$ 5,072,248	$ 386,495
December 31, 2010				
Impaired loans	$ 2,298,746	$ -	$ 2,298,746	$ -

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

Cash and due from banks: The carrying amounts of cash and due from banks approximate their fair value.

Interest bearing deposits with banks: The carrying amounts of interest bearing deposits with banks 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.

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.

Loans held for sale: The carrying amount is the lower of aggregate cost or fair value. The estimated fair value is dependent upon the terms of the outstanding loan purchase commitments as well as movement in market interest rates.

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 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, 2011 and 2010, 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:

	2011		2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash and due from banks	$ 16,128,032	$ 16,128,032	$ 3,441,325	$ 3,441,325
Interest bearing deposit with banks	1,007,339	1,007,339	-	-
Federal funds sold	15,753,000	15,753,000	17,212,000	17,212,000
Securities available-for-sale	15,183,798	15,183,798	5,767,655	5,767,655
Loans held for sale	3,007,500	3,007,500	992,551	992,551
Securities held-to-maturity	666,152	689,358	2,004,489	2,056,404
Loans receivable, net	154,407,193	155,583,607	138,339,572	140,358,633
Accrued interest receivable	519,450	519,450	517,293	517,293
Total Financial Assets	$206,672,464	$207,872,084	$168,274,885	$170,345,861
Financial liabilities				
Non-interest bearing deposits	$ 25,392,303	$ 25,392,303	$ 29,797,798	$ 29,797,798
Interest bearing deposits	42,942,835	42,942,835	19,869,397	19,869,397
Time deposits	114,811,184	113,941,222	99,455,768	97,642,988
Accrued interest payable	58,642	58,642	71,235	71,235
Total Financial Liabilities	$183,204,964	$182,335,002	$149,194,198	$147,381,418

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 sheets.

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

	2011	2010
Commitments to extend credit	$ 53,813,651	$ 42,092,564
Standby letters of credit	$ 1,150,862	$ 416,202

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 2011 or 2010.

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, 2011 and 2010, 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, which allows eligible employees to contribute up to 25 percent of their compensation. The Board of Directors may elect to approve to match a portion of each employee's contribution. The Bank elected to make a discretionary contribution of $77,082 and $68,904 for the years ended December 31, 2011 and 2010, respectively.

16. LEGAL CONTINGENCIES

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.

17. SUBSEQUENT EVENT

On February 22, 2012, the Bank declared a six-for-five stock split of common stock. The stock split will be effective for shareholders of record on February 16, 2012.

BOARD OF DIRECTORS

Richard C. Litman
Chairman of the Board

Cynthia Carter Atwater
Corporate Secretary

G. Thomas Collins, Jr.

Terry L. Collins, Ph.D.

H. Jason Gold

Norman P. Horn

David C. Karlgaard, Ph.D.

Michael A. Miranda

Alvin E. Nashman, Ph.D.

John T. Rohrback

Craig S. Underhill
President & Chief Executive Officer

EXECUTIVE MANAGEMENT

Craig S. Underhill
President & Chief Executive Officer

Karin M. Johns
Executive Vice President
& Chief Financial Officer

Robert D. Willey, Jr.
Executive Vice President, Commercial Lending

SENIOR MANAGEMENT

Deborah A. Free
Senior Vice President
& Branch Administration Officer

Joan E. Liszka
Senior Vice President
& Assistant Corporate Secretary

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

WITH DEEPEST APPRECIATION FOR THE DIRECTORS WHO PREVIOUSLY SERVED

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

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

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

Irving Bernstein
Founding Director
2000 - 2007
Director Emeritus

William G. Dukas
Founding Director
2000 - 2011
In Memoriam

George C. Dukas
Director
2002 - 2005
Director Emeritus

Michael A. Falke
Founding Director
2000 - 2002

Timothy P. Hecht
Director
2005 - 2007
Director Emeritus

George Z. Kontzias
Director
2002 - 2006
Director Emeritus

Russell E. Sherman
Founding Director
2000 - 2007
In Memoriam

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

James F. Steffey
Founding Director
2000 - 2007
Director Emeritus

C. Stephen Templeton
Founding Director
2000 - 2002
Director Emeritus

Charles M. Wright
Founding Director
2000 - 2002
Director Emeritus

ADVISORY BOARD

Arlene Lyles Pripeton, Chairman

Darren Bernstein
Irving Bernstein
William C. Bogart
Louis M. Cocks, Jr.
Jimmy B. Contristan
John R. Herbert
Timothy P. Hecht
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
Michael J. Sullivan
C. Stephen Templeton
Thomas J. Tracy
Stephen M. Turner
Robert G. Williams
Charles M. Wright
Theodore A. Yiannarakis

COMMERCIAL LENDING

Robert D. Willey, Jr.
Executive Vice President, Commercial Lending

Jeremiah D. Behan
Senior Vice President
& Real Estate Lending Officer

Michael A. Marsden
Vice President
& Relationsihp Management Officer
Government Lending

James T. Nelson
Senior Vice President
Corporate Banking Division

Paula A. Newsome
Vice President
& Relationship Management Officer

Michael J. Underwood
Senior Vice President
& Relationship Management Officer

Karla V. Wills
Vice President
& Retail Banking Officer

LOAN ADMINISTRATION

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

MORTGAGE LOAN

George J. Decker
Vice President
& Mortgage Loan Originator

William T. Rogers
Mortgage Loan Originator

Frederic V. Wilson
Mortgage Loan Originator

OPERATIONS

Karin M. Johns
Executive Vice President
& Chief Financial Officer

INVESTOR RELATIONS, HUMAN RESOURCES, MARKETING

Joan E. Liszka
Senior Vice President
& Assistant Corporate Secretary

BRANCHES

Deborah A. Free
Senior Vice President
& Branch Administration Officer

G. Veronika Cavero
Branch Operations Manager

Alfredo G. Molina
Branch Manager

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 - Memeber Allpoint Network
Bank by Mail
Cashier's Checks
Corporate Credit Card – MasterCard
Corporate Debit Card
Electronic Check Processing & Deposit Program
E-Statements
Freedom Direct Online Banking
Lock Box Service
Merchant Credit Card Services
Notary Services
Safe Deposit Boxes

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 - Member Allpoint Network
American Express Travelers Cheques/Gift Cards
Bank by Mail
Cashier's Checks
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

Freedom Bank of Virginia
P.O. Box 4510, Fairfax, Virginia 22038-4510

703.242.5300
www.freedombankva.com

Member FDIC

EQUAL HOUSING LENDER