FREEDOM BANK

FAIRFAX • VIENNA

ANNUAL REPORT

2012 FINANCIAL RESULTS












Freedom Bank



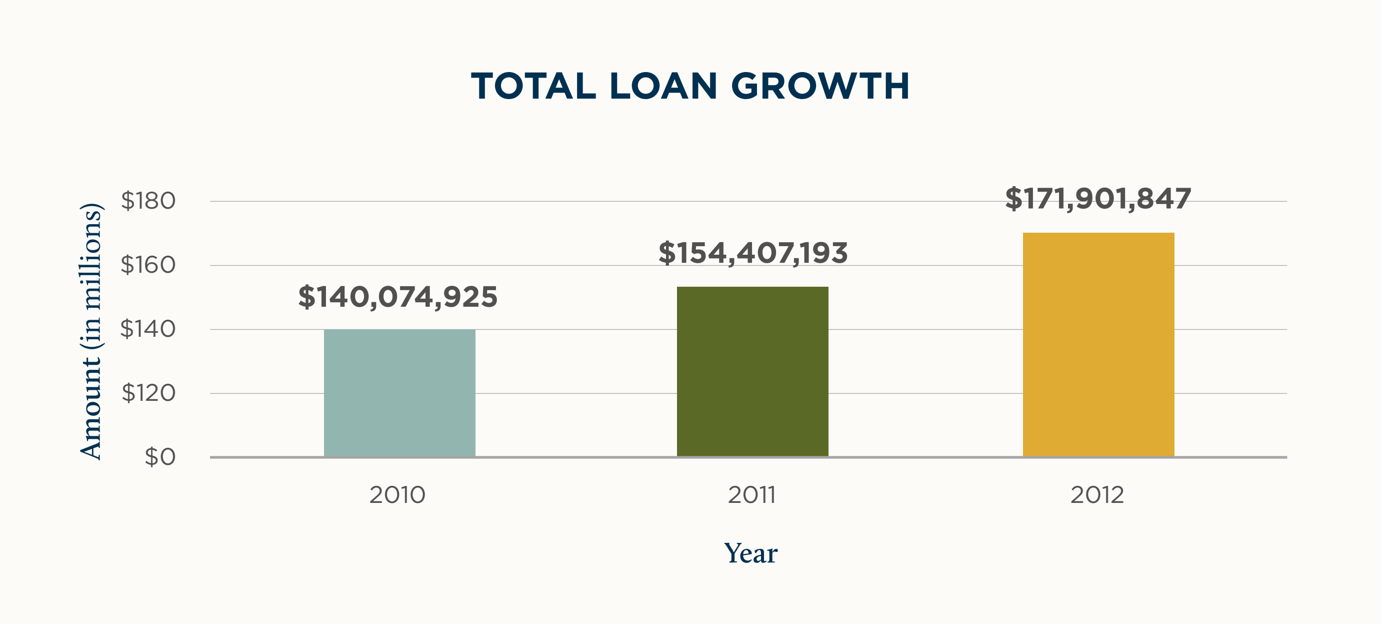


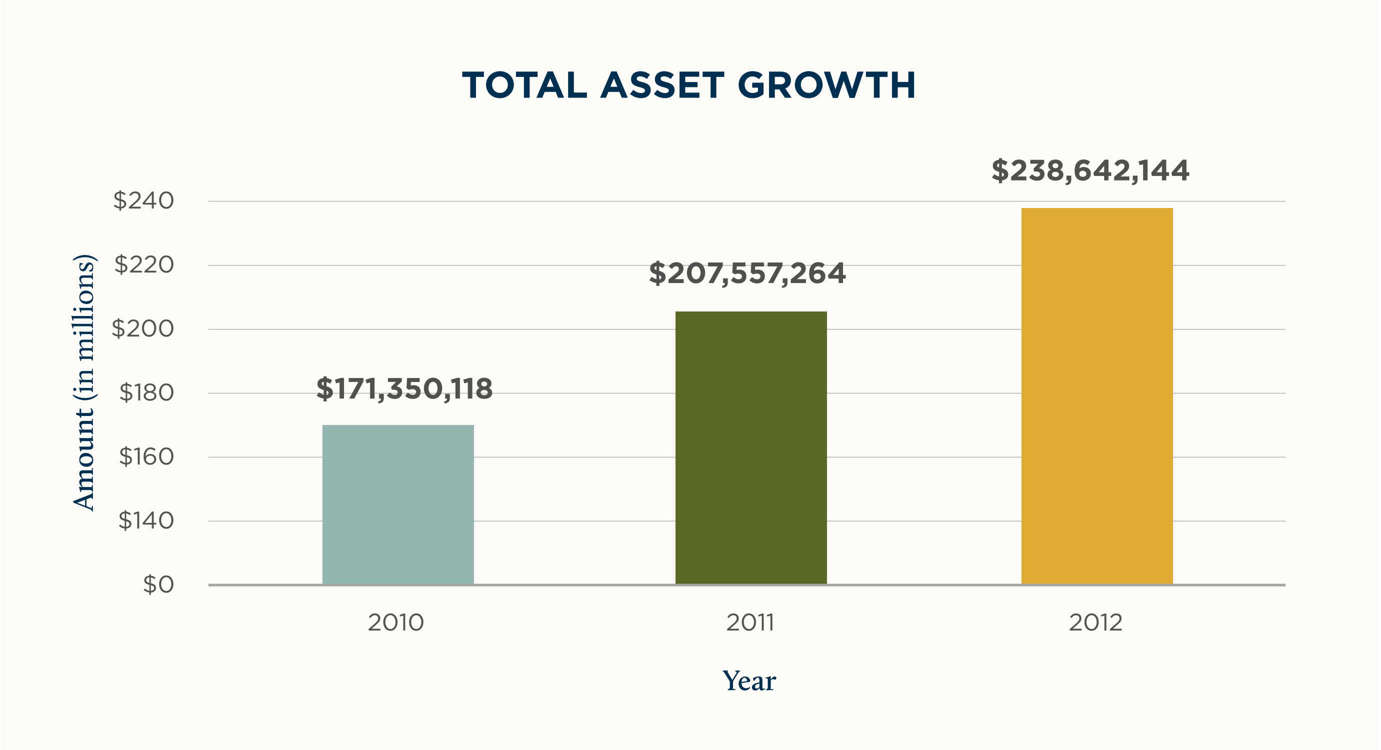


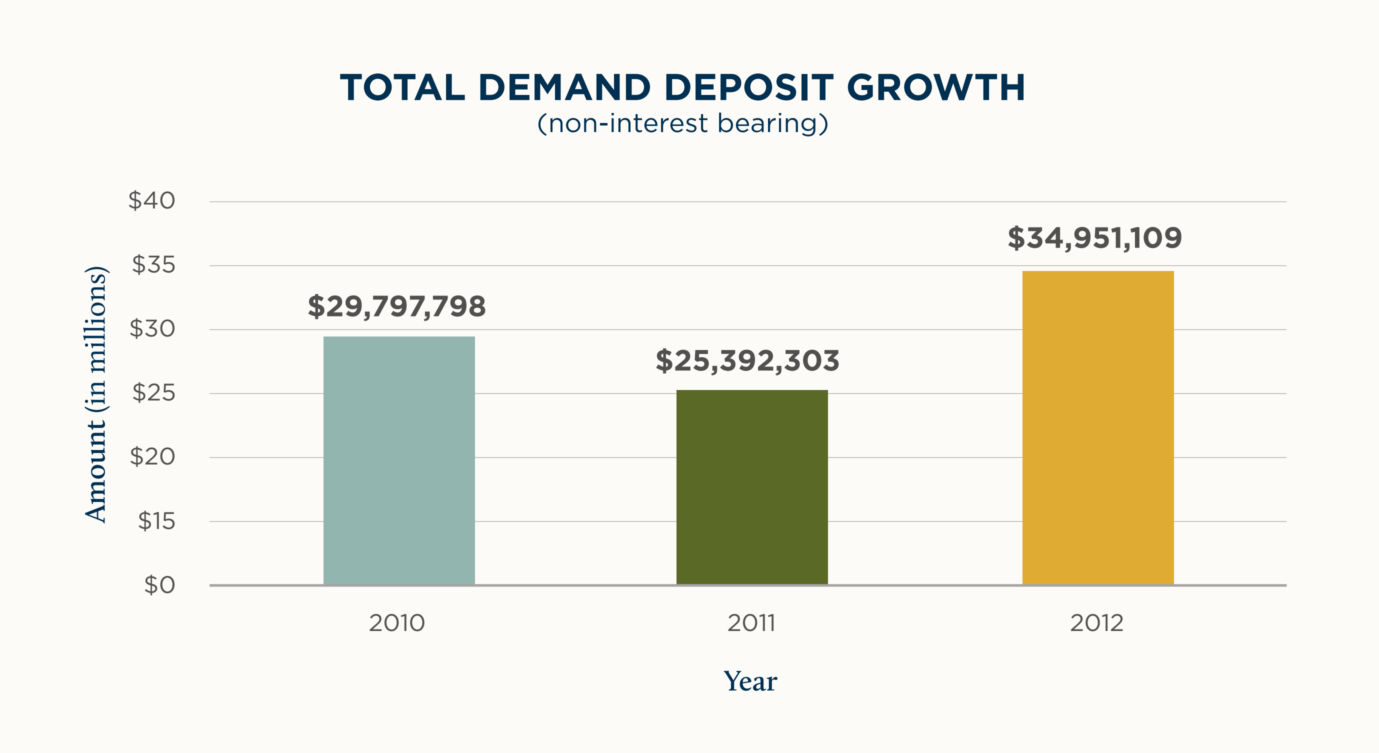


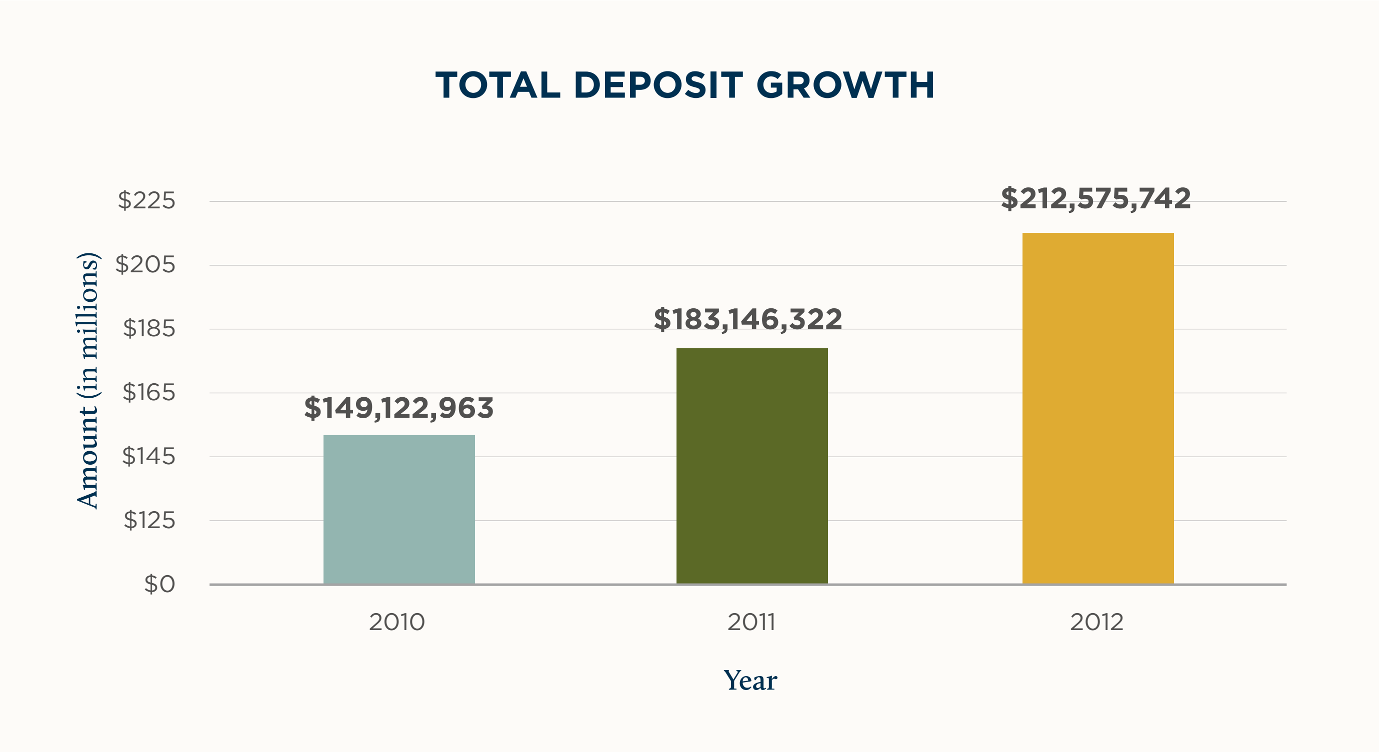



FINANCIAL HIGHLIGHTS






TOTAL DEMAND DEPOSIT GROWTH
(non-interest bearing)
$40
$35
$30
$25
$20
$15
$0
Amount (in millions)
$29,797,798
$25,392,303
$34,951,109
2010
2011
2012
Year


TOTAL DEPOSIT GROWTH
$225
$205
$185
$165
$145
$125
$0
Amount (in millions)
$149,122,963
$183,146,322
$212,575,742
2010
2011
2012
Year

a letter to our

SHAREHOLDERS

ON BEHALF OF THE BOARD OF DIRECTORS AND EMPLOYEES OF THE FREEDOM BANK OF VIRGINIA, we are pleased to report our results for 2012. Freedom Bank had another year of strong financial performance in 2012, its third consecutive year of profitability. Total assets, loans and checking account balances all ended at record highs. Asset quality also improved, in terms of both timely payments and a reduction in non-performing assets. The Bank's capital exceeded $25,000,000 for the first time at a year end.

Stockholder's equity at December 31, 2012 was $25,264,084, up 6.61% from $23,697,402 at December 31, 2011. Year end book value per share was $8.81, up 5.51% from $8.35 the prior year. Capital continues to be a strength of the Bank. Regulatory capital minimums to be considered well capitalized 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. At December 31, 2012, the ratios for the Bank were 11.06%, 13.80% and 15.03% 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.

The Bank has focused for many years on serving the banking needs of the government contractors in the region. Deposits increased over the prior year by 16.05% in part because of this customer base. Non-interest bearing deposits increased $9,558,806 (37.64%) to $34,951,109, while interest bearing checking accounts dropped $5,071,905 (12.17%) to $36,601,864 and time deposits increased $29,429,419 (21.55%) to $139,555,489 at December 31, 2012.

Because of our growth in deposits and shareholder's equity, the assets of the Bank grew to $238,642,144 at December 31, 2012 up 14.98% from $207,557,264 at year end 2011.

Investment Securities Available for Sale increased $13,533,997 (89.13%) to $28,717,795 at December 31, 2012. Double digit gross loan growth for the year resulted from the Bank's investment in additional business development and lending officers. New lenders made a significant contribution in the fourth quarter particularly with loans to medical professionals. These loans helped gross loans increase 11.33% to $171,901,847 at year end, up from $154,407,193 at December 31, 2011. The Bank also increased the Provision for Possible Loan Losses by $340,200 over the prior year and had an increased compensation expense of $270,000 in the fourth quarter.

Asset quality improved significantly in 2012. Loans on which the Bank is no longer accruing interest was halved from 2.43% of total loans at December 31, 2011 to 1.21% at December 31, 2012. Loans past due for regularly scheduled payments declined from 1.67% at December 31, 2011 to 0.23% at December 31, 2012.

The Bank earned a net profit in 2012 of $1,192,000 ($0.42 per share), down from $1,900,300 in 2011 ($0.67 per share), which is due principally to the highlighted investments the Bank made in additional staff and improving asset quality. Barring deterioration in the local economy, the Bank's achievements position it for continuing growth in 2013 by adding staff and locations.

In addition, the Bank has formed an investment banking subsidiary, FBV Capital Partners, Inc., which, when approved by the Financial Industry Regulatory Authority (FINRA), will provide merger and acquisitions advisory services. Building on our success in the government contracting market, this subsidiary will focus primarily on this industry segment. To lead the effort, the Bank hired Robert N. Rubin, a well-known and successful investment banker with over twenty years experience assisting companies with mergers and acquisitions in the local market. The Bank is seeking FINRA approval to acquire a broker dealer license which it expects to receive in the near future. Although merger and acquisition transactions have long lead times and revenues from these services will not be immediate, we believe our industry knowledge and relationships will enable the Bank to enhance its market penetration and generate fee income from these services.

The Board of Directors approved new deferred compensation plans in 2012, effective for 2013, for both the Board and the executive officers that include an option to invest in the Bank's stock. The plans do not provide any additional compensation, but change the present means of compensation. The Board members now have the option to participate in a deferred compensation plan that includes a Freedom Bank Stock Fund, among other investment options. We are pleased to inform you that 100% of eligible directors agreed to participate in the Freedom Bank Stock Fund for 2013. A similar plan was offered to executives who were allowed to defer up to fifteen percent of compensation into a deferred compensation plan that includes a Freedom Bank Stock Fund, among other investment options. Like the directors, 100% of eligible current employees elected to participate in the Freedom Bank Stock Fund. These new plans are expected to increase the volume of shares traded and provide a strong economic incentive to both management and directors to increase the value of the Bank's shares over time.

We thank you for your continued support of the Bank and hope to see you at our annual meeting.

Craig S. Underhill
PRESIDENT & CEO

Richard C. Litman
CHAIRMAN

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INDEPENDENT AUDITOR'S REPORT

TO THE BOARD OF DIRECTORS & STOCKHOLDERS

The Freedom Bank of Virginia
Vienna, Virginia

We have audited the accompanying financial statements of The Freedom Bank of Virginia, which comprise the balance sheets as of December 31, 2012 and 2011, and the related statements of operations, comprehensive income, changes in stockholders' equity and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Thompson, Greenspon & Co., P.C.

Fairfax, Virginia
March 20, 2013

FINANCIAL STATEMENTS

Balance Sheets

YEARS ENDED DECEMBER 31
2012 & 2011

ASSETS	2012 ($)	2011 ($)
Cash and Due from Banks	10,884,094	16,128,032
Interest Bearing Deposits with Banks	1,016,006	1,007,339
Federal Funds Sold	18,788,000	15,753,000
Securities Available-for-Sale	28,717,795	15,183,798
Securities Held-to-Maturity	348,616	666,152
Federal Reserve Bank Stock (at cost)	746,650	689,350
Loans Held for Sale	3,656,829	3,007,500
Loans Receivable	171,901,847	154,407,193
Allowance for Possible Loan Losses	(2,236,822)	(2,037,164)
NET LOANS	**169,665,025**	**152,370,029**
Bank Premises and Equipment (net)	199,500	213,857
Accrued Interest Receivable	607,276	519,450
Deferred Tax Asset	612,000	612,000
Other Assets	1,357,178	1,406,757
Bank-Owned Life Insurance	2,043,175	—
TOTAL ASSETS	**238,642,144**	**207,557,264**

LIABILITIES	2012 ($)	2011 ($)
Deposits		
Demand Deposits		
Non-interest Bearing	34,951,109	25,392,303
Interest Bearing	36,601,864	41,673,770
Savings Deposits	1,467,280	1,269,065
Time Deposits	139,555,489	114,811,184
TOTAL DEPOSITS	212,575,742	183,146,322
Other Accrued Expenses	732,466	654,898
Accrued Interest Payable	69,852	58,642
TOTAL LIABILITIES	213,378,060	183,859,862

STOCKHOLDERS' EQUITY		
Common stock ($4.17 par value, 5,000,000 shares authorized: (2,866,117 Shares Issued & Outstanding [2012]; 2,836,404 Shares Issued & Outstanding [2011])	11,942,228	11,818,325
Additional Paid-in Capital	16,284,303	16,184,810
Accumulated Other Comprehensive Income (net)	285,809	134,776
Retained Deficit	(3,248,256)	(4,440,509)
TOTAL STOCKHOLDERS' EQUITY	25,264,084	23,697,402
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	238,642,144	207,557,264

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

Statements of Operations

YEARS ENDED DECEMBER 31
2012 & 2011

INTEREST INCOME	2012 ($)	2011 ($)
Interest & Fees on Loans	9,305,595	9,110,312
Interest on Investment Securities	574,361	399,427
Interest on Federal Funds Sold	40,993	38,662
TOTAL INTEREST INCOME	9,920,949	9,548,401
INTEREST EXPENSE		
Interest on Deposits	2,008,653	1,861,828
NET INTEREST INCOME	7,912,296	7,686,573
PROVISION FOR POSSIBLE LOAN LOSSES	688,200	348,000
NET INTEREST INCOME AFTER	7,224,096	7,338,573
OTHER INCOME		
Service Charges & Other Income	832,641	568,028
Increase in Cash Surrender Value of Bank-owned Life Insurance	43,175	—
TOTAL OTHER INCOME	875,816	568,028
OPERATING EXPENSES		
Officers & Employee Compensation & Benefits	4,094,031	3,406,089
Occupancy Expense	510,776	530,328
Equipment & Depreciation Expense	188,442	218,752
Insurance Expense	179,105	241,878

OPERATING EXPENSES CONT'D	2012 ($)	2011 ($)
Professional Fees	548,748	398,568
Data & Item Processing	607,388	534,008
Business Development	123,455	124,851
Franchise Taxes	226,110	202,955
Other Operating Expenses	429,604	348,872
TOTAL OPERATING EXPENSES	**6,907,659**	**6,006,301**
INCOME BEFORE INCOME TAXES	**1,192,253**	**1,900,300**
INCOME TAX EXPENSE	—	—
NET INCOME	1,192,253	1,900,300
NET INCOME PER COMMON SHARE	0.42	0.67
NET INCOME PER DILUTED SHARE	0.42	0.67

Statements of Comprehensive Income

YEARS ENDED DECEMBER 31

2012 & 2011

	2012 ($)	2011 ($)
Net Income	1,192,253	1,900,300
Other Comprehensive Income: (Unrealized holding gain arising during the year, net of tax expense of $81,326 in 2012 and $26,179 in 2011	151,033	48,617
COMPREHENSIVE INCOME	**1,343,286**	**1,948,917**

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

Statements of Changes in Stockholders' Equity

YEARS ENDED DECEMBER 31
2012 & 2011

	SHARES OF COMMON STOCK ($)	COMMON STOCK ($)	ADDITIONAL PAID-IN CAPITAL ($)	ACCUMULATED OTHER COMPREHENSIVE INCOME ($)	RETAINED EARNINGS ($) (DEFICIT)	TOTAL STOCKHOLDERS' EQUITY ($)
BALANCE (DEC. 31, 2010)	***2,357,361**	**11,786,805**	**16,042,863**	**86,159**	**(6,340,809)**	**21,575,018**
Net Income	—	—	—	—	1,900,300	1,900,300
Comprehensive Income	—	—	—	48,617	—	48,617
Issuance of Common Stock	6,304	31,520	3,205	—	—	34,725
Stock-based Compensation	—	—	138,742	—	—	138,742
BALANCE (DEC. 31, 2011)	***2,363,665**	**11,818,325**	**16,184,810**	**134,776**	**(4,440,509)**	**23,697,402**
Net Income	—	—	—	—	1,192,253	1,192,253
Comprehensive Income	—	—	—	151,033	—	151,033
Six-for-five Stock Split	472,739	—	—	—	—	—
Issuance of Common Stock	29,713	123,903	65,059	—	—	188,962
Stock-based Compensation	—	—	34,434	—	—	34,434
BALANCE (DEC. 31, 2012)	**2,866,117**	**11,942,228**	**16,284,303**	**285,809**	**(3,248,256)**	**25,264,084**

***Shares of common stock retroactively adjusted for the six-for-five stock split is 2,836,404 and 2,828,833 as of December 31, 2011 and 2010, respectively.**

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

Statements of Cash Flows

YEARS ENDED DECEMBER 31

2012 & 2011

CASH FLOWS FROM OPERATING ACTIVITIES	2012 ($)	2011 ($)
Net Income	1,192,253	1,900,300
Non-Cash Items Included in Net Income		
Depreciation & Amortization	85,895	108,998
Provision for Possible Loan Losses	688,200	348,000
Net Amortization of Available-for-Sale Securities	422,375	67,420
Gain on Sale of Available-for-Sale Securities	(7,872)	(72,500)
Stock-based Compensation Expense	34,434	138,742
Increase in Cash Surrender Value of Bank-Owned Life Insurance	(43,175)	—
(Increase) Decrease in		
Loans Held for Sale	(649,329)	(2,014,949)
Accrued Interest Receivable	(87,826)	(2,157)
Other Assets	49,579	125,102
Increase (Decrease) in		
Other Accrued Expenses	(3,758)	47,817
Accrued Interest Payable	11,210	(12,593)
NET CASH PROVIDED BY OPERATING ACTIVITIES	**1,691,986**	**634,180**

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

CASH FLOWS FROM INVESTING ACTIVITIES	2012 ($)	2011 ($)
Federal Funds Sold (net)	(3,035,000)	1,459,000
Interest Bearing Deposit with Banks	(8,667)	(1,007,339)
Loan Organizations (net)	(17,983,196)	(14,378,457)
Purchase of Available-for-Sale Securities		(11,223,645)
Maturities, Calls & Paydowns of Securities Available-for-Sale	10,330,573	814,878
Proceeds from Sales of Securities Available-for-Sale	2,139,567	1,072,500
Purchase of Bank-Owned Life Insurance	(2,000,000)	—
Paydowns of Held-to-Maturity Securities	317,536	1,338,337
Purchase of Federal Reserve Bank Stock	(57,300)	(73,750)
Acquisition of Bank Equipment	(71,538)	(7,081)
NET CASH USED BY INVESTING ACTIVITIES	**(36,554,306)**	**(22,005,557)**

CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in Deposits (net)	29,429,420	34,023,359
Common Stock Issuance	188,962	34,725
NET CASH PROVIDED BY FINANCING ACTIVITIES	**29,618,382**	**34,058,084**

NET (DECREASE) INCREASE IN CASH & DUE FROM BANKS	(5,243,938)	12,686,707
CASH & DUE FROM BANKS (BEGINNING OF YEAR)	**16,128,032**	**3,441,325**
CASH & DUE FROM BANKS (END OF YEAR)	**10,884,094**	**16,128,032**

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

NONCASH INVESTING ACTIVITY	2012 ($)	2011 ($)
UNREALIZED GAIN ON SECURITIES AVAILABLE-FOR-SALE (NET)	151,033	48,617

SUPPLEMENTAL INFORMATION		
CASH PAID DURING THE YEAR FOR INTEREST	1,997,443	1,874,421
CASH PAID DURING THE YEAR FOR INCOME TAXES	160,000	80,000

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

Notes to Financial Statements

DECEMBER 31
2012 & 2011

1. Nature of Operations & 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.

INTEREST BEARING DEPOSITS WITH BANKS

The Bank maintains an interest bearing deposit with another institution in Virginia. Interest bearing deposits are valued at cost. Interest income is recorded as interest income on investment securities.

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. Income from loans sold is included in service charges and other income on the financial statements. Income from loans sold was $564,431 and $290,709 for the years ended December 31, 2012 and 2011, respectively.

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 are 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, 2012 and 2011.

OTHER ASSETS

Included in other assets is approximately $604,000 and $739,000 as of December 31, 2012 and 2011, respectively, of prepaid expense related to the required prepayment of the FDIC premium through the fourth quarter of 2012.

BANK-OWNED LIFE INSURANCE

The Bank entered into bank-owned life insurance policies during 2012 that are maintained by two counterparties. Under the bank-owned life insurance policies, executives or other key individuals are the insured and the Bank is the owner and beneficiary of each policy. As such, the insured has no claim to either the insurance policy, cash value, or a portion of the policy's death proceeds. The increase in the cash surrender value over time is recorded as other non-interest income. The Bank monitors the financial strength and condition of both counterparties.

STOCKHOLDERS' EQUITY

At December 31, 2012, warrants were outstanding and exercisable to purchase 278,507 shares of common stock at $11.04 per share if exercised by January 15, 2015, and 53,880 shares of common stock at $11.04 per share if exercised by February 16, 2015. The amounts and number of warrants have been adjusted for the six-for-five stock split that was effective on February 16, 2012.

Comprehensive income represents all changes in equity that result from recognized transactions and other economic events of the period. Other comprehensive income 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.

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 2011, 2010 and 2009 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.

SUBSEQUENT EVENTS

The date to which events occurring after December 31, 2012, the date of the most recent balance sheet, have been evaluated for possible adjustment to the financial statements or disclosure is March 20, 2013, which is the date on which the financial statements were available to be issued.

2. Restriction of Cash & 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, 2012 and 2011 was $1,024,000 and $712,000, respectively.

3. Securities Available-for-Sale & 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 ($)	FAIR VALUE ($)
DEC. 31, 2012				
Available-for-Sale				
U.S. Gov't & Agency Securities	2,500,000	24,233	—	2,524,233
Corporate Securities	1,758,685	71,016	—	1,829,701
Mortgage-backed Securities	19,227,770	295,915	(39,134)	19,484,551
Municipal Securities	534,478	15,962	—	550,440
SBA Loan Pools	4,257,155	71,715	—	4,328,870
TOTAL AVAILABLE-FOR-SALE	**28,278,088**	**478,841**	**(39,134)**	**28,717,795**
Held-to-Maturity				
Mortgage-backed Securities	348,616	8,036	—	356,652
TOTAL INVESTMENT SECURITIES	**28,626,704**	**486,877**	**(39,134)**	**29,074,447**
DEC. 31, 2011				
Available-for-Sale				
U.S. Gov't & 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**

The amortized cost and estimated fair value of debt securities at December 31, 2012, by contractual maturity, are as follows:

	AVAILABLE-FOR-SALE		HELD-TO-MATURITY	
	AMORTIZED COSTS ($)	GROSS UNREALIZED GAINS ($)	GROSS UNREALIZED LOSSES ($)	FAIR VALUE ($)
Amounts Maturing in:				
1 Year or Less	813,035	828,658	—	—
After 1 Year - 5 Years	3,445,650	3,525,276	—	—
After 5 Years - 10 Years	534,478	550,440	—	—
After 10 Years	4,257,155	4,328,870	—	—
	9,050,318	**9,233,244**	—	—
Mortgage-backed Securities	19,227,770	19,484,551	348,616	356,652
	28,278,088	**28,717,795**	**348,616**	**356,652**

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, 2012 and 2011, U.S. Government and agency securities and mortgage backed securities with a carrying value of $19,804,687 and $6,897,234, 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, 2012, 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	—	—	—	—
Mortgage-backed Securities	39,134	2,245,542	—	—
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, 2012, four debt securities with an unrealized loss for less than one year depreciated less than two percent from the Bank amortized cost basis. The securities are 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 securities are not deemed to be other-than-temporary.

4. Loans Receivable

Loans receivable include the following:

	2012 ($)	2011 ($)
Commercial	37,615,013	36,236,920
Consumer & Other	5,395,105	1,687,104
Real Estate	129,180,162	116,773,498
SUBTOTAL	**172,190,280**	**154,697,522**
Deferred Loan Fees	(288,433)	(290,329)
TOTALS	**171,901,847**	**154,407,193**

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 & INDUSTRIAL ($)	REAL ESTATE-COMMERCIAL ($)	REAL ESTATE-CONSTRUCTION ($)	REAL ESTATE-RESIDENTIAL ($)	CONSUMER ($)	UNALLOCATED ($)	TOTAL ($)
2012							
Allowance for Possible Loan Losses							
Beginning Balances	274,352	1,176,135	258,405	300,190	13,879	14,203	2,037,164
Charge-offs	—	(488,542)	—	—	—	—	(488,542)
	—	—	—	—	—	—	—
Provision	105,680	533,700	57,713	(29,549)	34,859	(14,203)	688,200
ENDING BALANCE	**380,032**	**1,221,293**	**316,118**	**270,641**	**48,738**	**—**	**2,236,822**
Individually Evaluated for Impairment	100,923	185,672	—	65,239	1,812	—	353,646
Collectively Evaluated for Impairment	279,109	1,035,621	316,118	205,402	46,926	—	1,883,176
Loans Receivable							
ENDING BALANCE	**37,615,013**	**92,966,709**	**10,386,789**	**25,826,664**	**5,395,105**	**—**	**172,190,280**
Individually Evaluated for Impairment	489,783	1,631,300	1,231,029	391,964	6,182	—	3,750,258
Collectively Evaluated for Impairment	37,125,230	91,335,409	9,155,760	25,434,700	5,388,923	—	168,440,022
2011							
Allowance for Possible Loan Losses							
Beginning Balances	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

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 ($)	TOTAL FINANCING RE-CEIVABLES ($)	NONACCRUAL LOANS ($)
2012							
Commercial Non-Real Estate							
Commercial & Industrial	—	—	—	—	37,615,013	37,615,013	489,783
Commercial Real Estate							
Owner Occupied	—	—	—	—	35,690,444	35,690,444	—
Non-Owner Occupied	—	—	—	—	57,276,265	57,276,265	—
Construction							
Residential	—	—	—	—	9,273,622	9,273,622	1,231,029
Commercial	—	—	—	—	1,113,167	1,113,167	—
Consumer Non-Real Estate							
Automobile	—	—	6,182	6,182	272,759	278,941	6,182
Other	—	—	—	—	5,116,164	5,116,164	—
Residential							
First Trusts	—	—	—	—	17,533,926	17,533,926	—
Equity Lines	—	—	391,964	391,964	7,900,774	8,292,738	391,964
TOTAL	**—**	**—**	**398,146**	**398,146**	**171,792,134**	**172,190,280**	**2,118,958**

	30-59 DAYS PAST DUE ($)	60-89 DAYS PAST DUE ($)	90 DAYS OR MORE PAST DUE ($)	TOTAL PAST DUE ($)	CURRENT ($)	TOTAL FINANCING RE-CEIVABLES ($)	NONACCRUAL LOANS ($)
2011							
Commercial Non-Real Estate							
Commercial & 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**

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 ($)
2012					
With No related Allowance Recorded					
Construction					
Residential	1,231,029	1,231,029	—	1,388,575	—
With an Allowance Recorded					
Commercial Non-Real Estate					
Commercial & Industrial	489,783	489,783	100,923	497,204	—
Commercial Real Estate					
Non-Owner Occupied	1,631,300	1,631,300	185,672	1,631,300	82,924
Consumer	398,146	398,146	67,051	414,028	2,069
TOTAL					
Commercial Non-Real Estate	489,783	489,783	100,923	497,204	—
Residential Construction	1,231,029	1,231,029	—	1,388,575	—
Commercial Real Estate	1,631,300	1,631,300	185,672	1,631,300	82,924
Consumer	398,146	398,146	67,051	414,028	2,069

	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 & 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

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 ($)
2012					
Commercial Non-Real Estate					
Commercial & Industrial	35,818,776	1,306,454	489,783	—	—
Commercial Real Estate					
Owner Occupied	31,000,674	4,689,769	—	—	—
Non-Owner Occupied	48,590,585	5,079,381	3,606,300	—	—
Construction					
Residential	8,042,593	—	1,231,029	—	—
Commercial	1,113,167	—	—	—	—
Consumer Non-Real Estate					
Automobile	272,759	—	6,182	—	—
Other	5,116,164	—	—	—	—
Residential					
First Trusts	17,533,927	—	—	—	—
Equity Lines	7,799,592	101,180	391,965	—	—
TOTAL	**155,288,237**	**11,176,784**	**5,725,259**	**—**	**—**

	PASS ($)	SPECIAL MENTION ($)	SUBSTANDARD ($)	DOUBTFUL ($)	LOSS ($)
2011					
Commercial Non-Real Estate					
Commercial & 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**	**—**	**—**

A loan modification is classified as a troubled debt restructuring (TDR) if both of the following exist: 1) the borrower is experiencing financial difficulty, and 2) the Bank has granted a concession to the borrower. The assessment of whether the above conditions exist is subjective and requires management's judgment. TDRs are typically modified through reductions in interest rates, reduction in payments, changing the payment terms or through extensions in term maturity.

There were no loans modified as TDRs for the year ended December 31, 2012. An analysis of troubled debt restructurings at December 31, 2011 is as follows:

	NUMBER OF CONTRACTS ($)	PRE-MODIFICATION OUTSTANDING RECORDED INVESTMENT($)	POST-MODIFICATION OUTSTANDING RECORDED INVESTMENT($)
Commercial & Industrial	2	590,963	590,963
Commercial Real Estate	1	1,631,300	1,631,300

The 2011 TDRs are performing as expected post-modification with one of the loans remaining on nonaccrual. 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 $3,028,477 and $3,204,093 at December 31, 2012 and 2011, respectively. New loans made to such related parties, including loans held by new directors, amounted to $425,544 and $3,116,244 and payments amounted to $601,160 and $3,548,807 at December 31, 2012 and 2011, respectively.

5. BANK PREMISES AND EQUIPMENT

Bank premises and equipment include the following:

	2012 ($)	2011 ($)
Furniture & Equipment	1,152,437	1,084,629
Leasehold Improvements	133,489	130,959
Software	301,762	300,562
TOTAL COST	1,587,688	1,516,150
Less Accumulated Depreciation	(1,388,188)	(1,302,293)
NET BANK PREMISES & EQUIPMENT	199,500	213, 857

Depreciation and amortization of bank premises and equipment charged to expense amounted to $85,895 and $108,998 in 2012 and 2011, respectfully.

6. DEPOSITS

Time deposits in denominations of $100,000 or more totaled $100,591,201 and $79,879,691 at December 31, 2012 and 2011, respectively.

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

2013	$94,315,858
2014	23,040,810
2015	2,593,337
2016	17,941,078
2017 & Thereafter	1,664,406
TOTAL	**$139,555,489**

The Bank held related party deposits of approximately $5,581,000 and $3,921,000 at December 31, 2012 and 2011, respectively.

7. BORROWINGS

At December 31, 2012 and 2011, 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, 2012 and 2011.

At December 31, 2012 and 2011, 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, 2012 and 2011.

8. INCOME TAXES

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

DEFERRED SOURCE	2012 ($)	2011 ($)
Net Operating Loss Carryforward	14,000	490,000
Loan Loss Reserve	1,223,000	1,151,000
Unearned Loan Fees & Costs (net)	98,000	99,000
Depreciation	(19,000)	(17,000)
GROSS DEFERRED TAX ASSETS	**1,316,000**	**1,723,000**
Valuation Allowance	(704,000)	(1,111,000)
NET DEFERRED TAX ASSETS	**612,000**	**612,000**

The Bank has net operating losses carried forward of approximately $42,000 at December 31, 2012, which start to expire in 2029. The Bank had a current year net operating loss carryforward benefit of $476,000.

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

	2012 ($)	2011 ($)
Current Tax Expense	—	—
Deferred Tax Expense	407,000	645,000
Change in Valuation Allowance	(407,000)	(645,000)
	—	—

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:

	2012 (%)	2011 (%)
Federal Statutory Rate	34%	34%
Permanent Differences	—	—
Change in Valuation Allowance	(34)	(34)
Effective Tax Rate	0%	0%

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, 2012, that the Bank meets all the capital adequacy requirements to which it is subject.

As of December 31, 2012, 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, 2012 and 2011 are as follows:

	ACTUAL		FOR CAPITAL ADEQUACY PURPOSES		MINIMUM TO BE WELL CAPITALIZED UNDER PROMPT CORRECTIVE ACTION PROVISIONS	
	AMOUNT ($)	RATIO (%)	AMOUNT ($)	RATIO (%)	AMOUNT ($)	RATIO (%)
DEC. 31, 2012						
Total Capital (to risk weighted assets)	25,264,091	13.95	14,484,880	8.00	18,106,100	10.00
Tier 1 Capital (to risk weighted assets)	24,978,282	13.80	7,242,440	4.00	10,863,660	6.00
Tier 1 Capital (to average assets)	24,978,282	11.48	8,700,816	4.00	10,876,080	5.00
DEC. 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

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 are as follows:

	AUTHORIZED	GRANTED	VESTED
2007 Plan	480,000	374,220	335,250

The stock options shall not be exercisable more than ten years after the date such option is granted. Shares typically vest over periods ranging from one to four years. At December 31, 2012, there was no unrecognized compensation expense related to non-vested share-based compensation due to materiality.

Amounts and the number of options have been retrospectively adjusted for the six-for-five stock split that was effective on February 16, 2012. The Bank canceled and reissued stock options granted in 2007.

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

	NUMBER OF SHARES ($)	OPTION PRICE PER SHARE ($)	AVERAGE EXERCISE PRICE ($)
OUTSTANDING (DEC. 31, 2010)	**179,280**	10.58	—
Grants	183,000	8.28	8.28
Exercised	—	—	—
Canceled or expired	—	—	—
OUTSTANDING (DEC. 31, 2011)	**362,280**	**9.42**	**9.42**
Grants	110,820	8.64	8.64
Exercised	—	—	—
Canceled or expired	(98,880)	12.21	12.21
OUTSTANDING (DEC. 31, 2012)	**374,220**	**8.45**	**8.45**

The weighted average fair value of options granted during the year ended December 31, 2012 was $1.19. The weighted average remaining contractual life of options outstanding as of December 31, 2012 is 9.5 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 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 in the form of Bank stock.

For the years ended December 31, 2012 and 2011, the Bank recognized stock-based compensation expense of $34,434 and $138,742, 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, 2012:

YEARS ENDING DECEMBER 31	
2013	$449,767
2014	464,732
2015	245,755
2016	97,671
TOTAL	**$1,257,925**

Rent expense amounted to $440,405 and $454,993 for the years ended December 31, 2012 and 2011, respectively.

12. FAIR VALUE MEASUREMENTS

Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 820, Fair Value Measurements and Disclosures, provides a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. Fair value focuses on the price that would be received to sell the asset or paid to transfer the liability regardless of whether an observable liquid market price existed (an exit price). The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described below:

Level 1 – inputs to the valuation methodology are based upon unadjusted quoted prices for identical assets or liabilities in active markets that the Bank has the ability to access.

Level 2 – inputs to the valuation methodology include: quotes prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability, and market-corroborated inputs. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement. Level 3 assets and liabilities measured at fair value are based on one or more of three valuation techniques (market, cost, or income approach). The market approach evaluates prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. The cost approach evaluates the amount that would be required to replace the service capacity of an asset (i.e. replacement cost). The income approach uses techniques that convert future amounts to a single present amount based on market expectations (including present value techniques, option-pricing models, and lattice models).

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

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, 2012:

	FAIR VALUE ($)	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1) ($)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2) ($)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3) ($)
DEC. 31, 2012				
Available-for-Sale Securities	28,717,795	—	28,717,795	—
DEC. 31, 2011				
Available-for-Sale Securities	15,183,798	—	15,183,798	—

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) ($)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3) ($)
DEC. 31, 2012				
Impaired Loans	3,750,258	—	3,396,612	353,646
DEC. 31, 2011				
Impaired Loans	5,458,743	—	5,072,248	386,495

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 and held-to-maturity: 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 terms 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, 2012 and 2011, 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:

	2012		2011	
	CARRYING AMOUNT ($)	FAIR VALUE ($)	CARRYING AMOUNT ($)	FAIR VALUE ($)
Financial Assets				
Cash & Due from Banks	10,884,094	10,884,094	16,128,032	16,128,032
Interest Bearing Deposits with Banks	1,016,006	1,016,006	1,007,339	1,007,339
Federal Funds Sold	18,788,000	18,788,000	15,753,000	15,753,000
Securities Available-for-Sale	28,717,795	28,717,795	15,183,798	15,183,798
Loans Held for Sale	3,656,829	3,656,829	3,007,500	3,007,500
Securities Held-to-Maturity	348,616	356,652	666,152	689,358
Loans Receivable (net)	169,665,025	173,934,547	152,370,029	153,546,443
Accrued Interest Receivable	607,276	607,276	519,450	519,450
Bank-owned Life Insurance	2,043,175	2,043,175	—	—
TOTAL FINANCIAL ASSETS	**235,726,816**	**240,004,374**	**204,635,300**	**205,834,920**
Financial Liabilities				
Non-interest Bearing Deposits	34,951,109	34,951,109	25,392,303	25,392,303
Interest Bearing Deposits	38,069,144	38,069,144	42,942,835	42,942,835
Time Deposits	139,555,489	137,310,039	114,811,184	113,941,222
Accrued Interest Payable	69,852	69,852	58,642	58,642
TOTAL FINANCIAL LIABILITIES	**212,645,594**	**210,400,144**	**183,204,964**	**182,335,002**

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 approximately as follows:

	2012 ($)	2011 ($)
Commitments to Extend Credit	65,749,000	53,814,000
Standby Letters of Credit	899,000	1,151,000

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 2012 or 2011.

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, 2012 and 2011, capital was not available for payment of dividends.

15. DEFERRED BENEFITS

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 $75,996 and $77,082 for the years ended December 31, 2012 and 2011, respectively.

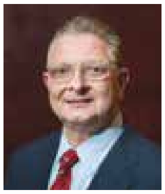
In December 2012, the Bank adopted a directors' deferred compensation plan. The plan became effective January 1, 2013. There was no activity for 2012.

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.

SHAREHOLDER & COMPANY INFORMATION

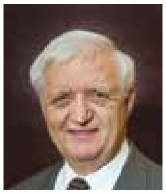
BOARD OF DIRECTORS



RICHARD C. LITMAN
Chairman

CYNTHIA CARTER ATWATER
Corporate Secretary

DAVID C. KARLGAARD, PH.D.

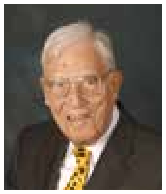


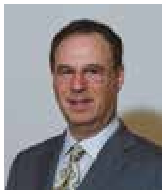
G. THOMAS COLLINS, JR.

MICHAEL A. MIRANDA

TERRY L. COLLINS, PH.D.

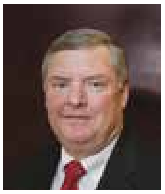
ALVIN E. NASHMAN, PH.D.

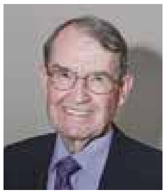




H. JASON GOLD

JOHN T. ROHRBACK





NORMAN P. HORN

CRAIG S. UNDERHILL
President & Chief Executive Officer

EXECUTIVE OFFICERS & SENIOR MANAGEMENT

CRAIG S. UNDERHILL
President &
Chief Executive Officer

C. KEVIN CURTIS
Executive Vice President
Chief Lending Officer

DEBORAH A. FREE
Senior Vice President
Branch Administration Officer

KARIN M. JOHNS
Executive Vice President
Chief Financial Officer

ROBERT D. WILLEY, JR.
Executive Vice President
Commercial Banking

JOAN E. LISZKA
Senior Vice President, Human Resources
Assistant Corporate Secretary

COMMERCIAL BANKING

C. KEVIN CURTIS
Executive Vice President
Chief Lending Officer
NMLS# 1040247

JAMES J. CURRY
Senior Vice President

JAMES T. NELSON, III
Senior Vice President

MICHAEL J. UNDERWOOD
Senior Vice President

STEPHEN A. WITT
Senior Vice President

VISHAL M. GANDHI
Vice President

MICHAEL A. MARSDEN
Vice President

E. ROBERT MUSSEMAN, JR.
Vice President
NMLS# 85152

LOAN ADMINISTRATION

ROBERT D. WILLEY, JR.
Executive Vice President
Senior Credit Officer

KIMBERLY J. RYMAN
Senior Vice President
Senior Loan Administration & Information Officer

SALLY T. SIVERONI
Vice President
Portfolio Manager

DIRECTORS EMERITUS

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

RUSSEL E. SHERMAN
Founding Director
2000-2007
In Memoriam

HARRY N. SNYDER, O.D.
Founding Director
2000-2007

JAMES F. STEFFEY
Founding Director
2000-2007
Director Emeritus

C. STEPHEN TEMPLETON
Founding Director
2000-2002

CHARLES M. WRIGHT
Founding Director
2000-2002
Director Emeritus

ADVISORY BOARD

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DARREN BERNSTEIN
IRVING BERNSTEIN
WILLIAM C. BOGART
LOUIS M. COCKS, JR.
JIMMY B. CONTRISTAN
JOHN R. HERBERT
TIMOTHY P. HECHT
M. KURKA
DAVID C. KNAPP
MICHAEL A. MAGNOTTI
DONALD J. MAYER
OWEN MICHAEL McCALL
STEPHEN W. McCARTHY
USAMA H. MISLEH
ELIZABETH J. MOFFETT
ALI R. OSKUIE
THOMAS J. RILEY
JAMES F. STEFFEY
MICHAEL J. SULLIVAN
C. STEPHEN TEMPLETON
THOMAS J. TRACY
STEPHEN M. TURNER
ROBERT G. WILLIAMS
CHARLES M. WRIGHT
THEODORE A. YIANNARAKIS

MORTGAGE LOAN

GEORGE J. DECKER
Vice President
Mortgage Loan Originator
NMLS# 525099

PAIGE A. LUTZ
Mortgage Loan Originator
NMLS# 1052568

WILLIAM T. ROGERS
Mortgage Loan Originator
NMLS# 141858

FREDRIC V. WILSON
Mortgage Loan Originator
NMLS# 525100

OPERATIONS

KARIN M. JOHNS
Executive Vice President
Chief Financial Officer

HUMAN RESOURCES, MARKETING, & SHAREHOLDER RELATIONS

JOAN E. LISZKA
Senior Vice President, Human Resources
Assistant Corporate Secretary

BRANCHES

DEBORAH A. FREE
Senior Vice President
Branch Administration Officer

PAULA A. NEWSOME
Vice President
NMLS# 993276

KARLA V. WILLS
Vice President

G. VERONIKA CAVERO
Branch Operations Manager

ALFREDO G. MOLINA
Branch Manager

FBV CAPITAL ADVISORS, INC.

ROBERT N. RUBIN
President, Subsidiary

CORPORATE HEADQUARTERS

10555 Main Street
Fairfax, VA 22030
703-242-5300

INDEPENDENT ACCOUNTANTS

Thompson, Greenspon & Co., P.C.
Fairfax, VA

TRANSFER AGENT

American Stock Transfer & Trust Company
Shareholder Services - Admin 2 Team
6201 Fifteenth Avenue
Brooklyn, NY 11219
800-937-5449

COMMON STOCK

The common stock trades on the
OTC Bulletin Board or OTCBB
under the symbol "FDVA."

ANNUAL MEETING

July 30, 2013- 10:00a.m.
The Westwood Country Club
800 Maple Avenue East
Vienna, VA 22180

FREEDOM BANK

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