FREEDOM BANK

2017 ANNUAL REPORT

ABOUT THE BANK

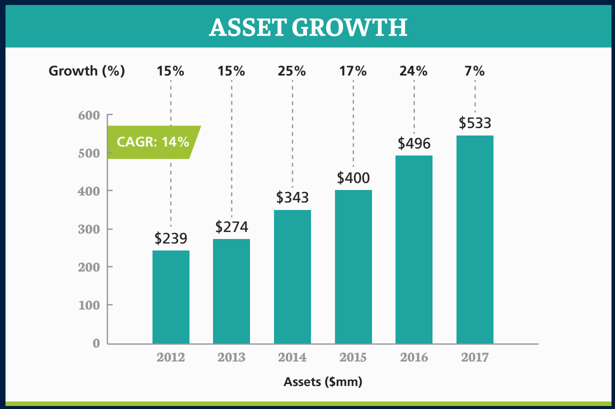
We're an independent, locally-owned bank that's all about getting it right—for you. Whatever your needs, we provide every financial tool your nearby national and regional banks offer.

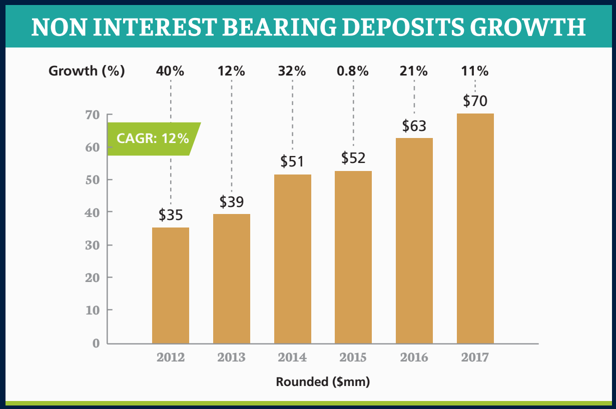
But we provide them differently. Very noticeably differently.

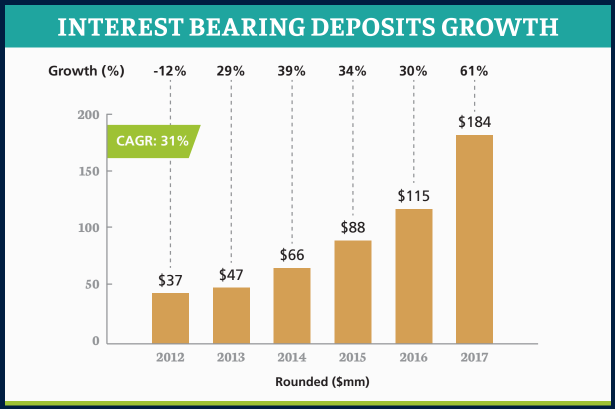
How? Because we've been serving our part of Northern Virginia for a long time. Same team, with over 200 years of combined experience and connections.

Long-standing bonds of trust and our local contacts, combined with our unencumbered, small-bank agility, mean we get it right for you fast, and tailored to your needs. No formulas, no big-bank rules, no distant decision makers who are miles and days away. Our decision makers are your neighbors. Right here.

FINANCIAL HIGHLIGHTS







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INDEPENDENT AUDITOR'S REPORT

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders and the board of directors of Freedom Bank of Virginia

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheet of Freedom Bank of Virginia and subsidiary (the "Company") as of December 31, 2017, and the related consolidated statement of operations, comprehensive income, stockholders' equity and cash flows for the year ended December 31, 2017, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2017, and the results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

BASIS FOR OPINION

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provide a reasonable basis for our opinion.

EMPHASIS OF MATTER

As discussed in Note 1 to the consolidated financial statements, the Company restated its 2016 financial statements to correct errors related to other assets, deferred loan costs, stock option expense and deferred taxes. Our opinion is not modified with respect to this matter.

The consolidated financial statements of Freedom Bank of Virginia as of December 31, 2016, were audited by other auditors whose report dated March 15, 2017, expressed an unmodified opinion on those financial statements. As discussed in Note 1 to the financial statements, the Company has restated its 2016 financial statements to correct the errors related to other assets, deferred loan costs, stock option expense and deferred taxes. The other auditors reported on the 2016 financial statements before the restatement.

As part of our audit of the 2017 financial statements, we also audited the adjustments described in Note 1 that were applied to restate the 2016 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to Freedom Bank of Virginia and Subsidiary's 2016 financial statements other than with respect to the adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2016 financial statements as a whole.

We have served as the Company's auditor since 2017.

Dixon Hughes Goodman LLP

Gaithersburg, Maryland
May 8, 2018

A LETTER TO OUR SHAREHOLDERS

Dear Shareholder,

On behalf of the board of directors and management of the Freedom Bank of Virginia (OTCQX: FDVA), (the "Company" or "Freedom") we are pleased to provide you with Freedom's 2017 annual report. Changes in the local banking market allowed us to recruit outstanding individuals to our senior management team. Raj Mehra, our new Chief Financial Officer, came to us in December of 2017 from Middleburg Financial Corporation, a $1.4 billion publicly traded bank holding company, where he had been Chief Financial Officer since 2009.

Kathleen Croson, also a veteran of Middleburg Bank, joined in January 2018 as our Chief Banking Officer. Kathleen oversees all of our retail banking operation. And we are pleased to note that shortly before year-end we opened our fourth branch office at 4500 Daly Drive Suite 240, Chantilly, VA 20151 on December 29, 2017.

Recently there was another important change: On July 17, 2018 the Company announced that H. Jason Gold, a founding and the longest serving director, was elected Chairman of the Board of Directors. He succeeded Richard Litman, who retired as Chairman after eleven years in that role. We are pleased that Mr. Litman continues to serve as a director.

FINANCIAL HIGHLIGHTS FOR 2017

- Net income was $2.69 million, or $0.39 per diluted share for the full year 2017, compared to net income of $2.65 million (as restated) or $0.41 per diluted share for the full year 2016.
- Excluding a one-time tax adjustment of $603,331 related to the Tax Cuts and Jobs Act of 2017, non-GAAP adjusted net income for 2017 was $3.30 million, or $0.48 per diluted share;
- Total assets were $533.1 million at December 31, 2017, an increase of $36.2 million or 7.3% from the previous year;
- Available-for-sale securities increased by $32.9 million in 2017, as the Company increased its on-balance sheet liquidity;
- Loans receivable were flat in 2017 compared to 2016, as payoffs offset new loan originations;
- Deposits grew by $66.6 million during the year or 16.67% to $465.9 million at December 31, 2017, with the growth occurring in demand deposits. Time deposits declined in 2017 as the Company made the decision to reduce brokered certificates of deposits by $24 million;
- Federal Home Loan Bank advances declined by $33.3 million or 76.14% in 2017, as the Company paid off wholesale borrowings; and
- Capital ratios were strong in 2017, and above regulatory minimums for well-capitalized banks, with increases in the Common Equity Tier 1 Capital ratio, the Tier 1 Capital ratio (based on risk weighted assets), and the Total Capital ratio, compared to 2016.

The Company also restated certain amounts in the December 31, 2016 and 2015 balance sheets and the 2016 statement of operations to correct errors related to accounting for stock compensation expense, deferred loan origination costs, interest rate lock commitments and deferred income taxes. The net effect of the correction of these errors was an increase to stockholders' equity for both 2015 and 2016.

The Company has consistently grown average loan balances over the past few years, with an increased concentration in commercial real estate (CRE) loans. In 2017, the Company diversified its loan portfolio by emphasizing other types of loans resulting in a decrease in CRE concentration (as measured by CRE loans relative to total capital) to 229% on December 31, 2017 from 301% on December 31, 2016.

TOTAL REVENUE

Interest income was $23.13 million in 2017, compared to $20.51 million in 2016, an increase of 12.8%, primarily due to higher interest income from loans. Interest expense was $5 million in 2017, higher by $1.3 million compared to 2016, primarily due to an increase in interest-bearing deposits in 2017 as the Company increased on-balance sheet liquidity during the year. Net interest income (before a provision for loan losses) was $18.13 million in 2017, higher by $1.3 million compared to 2016, or an increase of 7.8%.

NON-INTEREST INCOME

Non-interest income in 2017 was $4.64 million, compared to $5.26 million in 2016 (as restated), a decline of 11.9%, primarily due to lower gain-on-sale of mortgage loans. Total revenue (comprising net interest income and non-interest income) was $22.77 million in 2017.

NON-INTEREST EXPENSE

Non-interest expense for 2017 was $17.65 million, higher by 3.5% compared to 2016, primarily due to an increase in fees paid for professional services during 2017 and higher franchise taxes. Compensation expenses were flat during the year. Occupancy expenses increased slightly as the Company opened a banking center in Chantilly, Virginia, during the fourth quarter of 2017.

ASSET QUALITY

Asset quality continued to be strong with total non-performing assets of $666,125 or 0.12% of total assets as of December 31, 2017, compared to $396,341 or 0.08% of total assets at December 31, 2016.

All of the non-performing loans in 2017 and 2016 were non-accrual loans. Consequently, non-accrual loans were $666,125 or 0.16% of total loans as of December 31, 2017, compared to $396,341 or 0.10% of total loans as of December 31, 2016. The Company's allowance for loan and lease losses ("ALLL") was $4.56 million or 1.12% of total loans at December 31, 2017, compared to $4.15 million or 1.02% of total loans at December 31, 2016. The Company experienced increased loss recoveries in 2017 and flat loan growth, which resulted in a modest $30,000 provision for loan losses in 2017, compared to a provision of $1.09 million in the prior year.

TOTAL ASSETS

Total assets at December 31, 2017 were $533.1 million, compared to $496.9 million at December 31, 2016 (as restated), an increase of $36.2 million during the year. Changes in major asset categories were as follows:

Cash balances and deposits with other banks increased by $29.5 million compared to December 31, 2016, and Fed Funds sold decreased by $24 million. Available-for-sale securities balances increased by $32.9 million compared to December 31, 2016, as the Company built up on-balance sheet liquidity.

TOTAL LIABILITIES

Total liabilities at December 31, 2017 were $477.8 million, an increase of $32.9 million compared to December 31, 2016. Deposits grew by $66.6 million for the full year to $466 million as of December 31, 2017. Demand deposits increased by $76.7 million, offset by declines in savings and time deposits. The decrease in time deposits resulted from the Company's decision to pay off maturing brokered certificates of deposits. Federal Home Loan Bank ("FHLB") advances decreased by $33.3 million as the Company paid off wholesale borrowings.

SHAREHOLDERS' EQUITY AND CAPITAL

Shareholders' equity at December 31, 2017 was $55.3 million, compared to $52.0 million at December 31, 2016 (as restated). Additional paid in capital at December 31, 2017 was $53.2 million compared to $48.7 million at December 31, 2016 (as restated), primarily due to a 5% stock dividend that was declared on May 29, 2017, which increased the number of common shares outstanding by 310,424. The book value of the Company's common stock at December 31, 2017 was $8.47 per share versus $8.42 per share at December 31, 2016.

We thank you for your continued support of Freedom Bank.

Craig S. Underhill

CRAIG S. UNDERHILL
President & CEO

H Jason Gold

H. JASON GOLD
Chairman of the Board

BUSINESS BANKING

We understand the unique needs of businesses. You need a long-term, strategic financial partner to help your business grow, allow you to serve your clients more effectively and efficiently, and maximize profit and cash flow. We understand how the right banking products and services can make an important difference to your bottom line.

We have a proven track record of partnering with local businesses for over 15 years to help you achieve your financial goals. Many of Freedom Bank's board members and management team have specific expertise, offering you a wealth of industry knowledge.

MEET YOUR FINANCIAL NEEDS

Our business banking team excels in offering clients flexibility, customized products and services, and access through our branches and Freedom Direct, our online banking platform for businesses. Whether it is depository, lending, or treasury management services, we offer convenience and options to help maximize cash flow.

FOCUS ON YOUR BUSINESS

We know growing your business is what matters most to you, so your dedicated Relationship Manager is here for you with trusted advice, quick decisions, and tailored solutions. You get to focus on doing what you do best: running your business.

BANK YOUR WAY

Whether it's in person at one of our four locations, online at your convenience, or face-to-face at your place of business, we're here as your partner to help you achieve your financial goals.

GOVCON PREMIER BENEFITS

- **Flexibility**
- **Customization**
- **Accessibility**

TREASURY SERVICES

- **Online Banking**
- **Cash Flow Management**
- **Operating Efficiency**

PRODUCTS & SERVICES

Commercial Lending

- Business Installment Loans
- Commercial Lines of Credit
- Commercial Real Estate Mortgages
- Small Business Administration (SBA) Loans

GovCon Premier Services

- Working Capital Lines of Credit
- Asset Based Loans
- Mezzanine Financing
- Financial Capability Letters & Support
- Equipment Financing
- M&A Advisory Services

Treasury Management

- Online Business Banking
- Mobile Banking
- Remote Deposit Capture
- ACH Origination
- Domestic and Foreign Wire Transfer Services
- Merchant Bankcard Services
- ACH Block and Filter
- Positive Pay Check & ACH Processing

PERSONAL BANKING

We were founded on meeting your personal banking needs and believe strongly in building relationships with our clients and the communities we serve. Combining small-bank agility with a big-bank menu of products and services, we provide solutions to meet your financial needs.

We are committed to giving back to the communities we serve, and we're proud of the fact that our bank and its team members have contributed time and resources to a wide variety of worthy causes.

LOCAL TEAM MEMBERS

We're not just a company in a community. We're members of the community, too. Many of our team members live in the areas we serve, and we understand the unique needs of those living in the northern Virginia areas, allowing us to create solutions that help you reach your goals.

COMPREHENSIVE PRODUCTS & SERVICES

In addition to a wide variety of standard bank products and services, which include checking and savings accounts, we also offer many others such as mortgages, HELOCs, personal loans, CDs, IRA investments, and credit cards. And, through our FBV Personal Mobile App, you're able to enjoy the convenience of banking on the go, on your schedule, from just about anywhere, anytime.

ATTENTIVE SERVICE

We provide you with outstanding service that is attentive to your unique needs. Our team will get to know you and your family and will offer solutions to help you achieve long-term financial security and flexibility.

WHY WE'RE UNIQUE

- **Relationships**
- **Convenience**
- **Giving Back**

Far left: Freedom Bank's Chantilly Market Team comprised of Salam Alsaad, Assistant Branch Manager; Brendon Murphy, Mortgage Loan Officer, Freedom Bank Mortgage; Terrell Monroe, Client Service Representative; Edward W. Lull, Jr., Senior Vice President, Commercial Banking; and Derege Denu, Vice President, Branch Manager, Freedom Bank.

Far right: Freedom Bank celebrated the grand opening of our newest location at 4500 Daly Drive, Suite 240 in Chantilly, VA, in May of 2018. Our guests included John Boylan, President & CEO, Dulles Regional Chamber of Commerce; Kathy Smith, Sully District Supervisor, Fairfax County; Craig S. Underhill, President & CEO, Freedom Bank; Derege Denu, Vice President, Branch Manager; and Alan Fogg, Vice President, Communications and Research Fairfax County, Economic Development Authority.

PRODUCTS & SERVICES

- Checking, Savings, & Money Market Accounts
- Certificates of Deposit
- IRA Investments
- Mortgage Loans
- Personal Loans
- Online Banking and Bill Payment
- Mobile Banking & Mobile Deposits
- EMV Chip Debit Cards
- Credit Cards

COMMUNITY ENGAGEMENT

As a local community bank with deep roots to area families and businesses, Freedom Bank is committed to giving back to the community we so proudly serve. In the past year, we had the honor of participating and contributing to numerous outstanding causes throughout the Northern Virginia area. We are dedicated to seeing our clients, our neighbors, and our communities succeed.

HIGHLIGHTS OF OUR COMMUNITY INVOLVEMENT

- 15 Freedom Bank Employees participated in the Feed My Starving Children MobilePack at New Hope Church in Lorton, VA in April 2017 to pack meals for needy children and their families across the globe. Freedom Bank employees, alongside other volunteers, packed 225 boxes—totaling 48,600 meals to feed those in need around the world.
- In the summer of 2017, Freedom Bank participated in Collect for Kids by holding a backpack drive in three of our branches to help students in need obtain school supplies. The program ensures all Fairfax County students have the supplies they need to have a successful school year.
- In addition to sponsoring Britepath's Complete the Circle event, Freedom Bank hosted a food drive to collect non-perishable food and household items during the month of October in our three branch lobbies. Complete the Circle is a community event/service project to raise awareness and take a stand against hunger in the Fairfax County area. The goal is to empower our neighbors who are struggling to move from a place of need to financial self-sufficiency.
- Freedom Bank held a blood drive at its headquarters office in Fairfax, VA, in early November, to benefit INOVA Blood Services. We attracted 39 donors, collection units, which means 81 lives were potentially saved.
- In June, six bank employees volunteered at a Title I Elementary School in Herndon, VA and taught 150 5th-grade students the importance of saving through hands-on exercises.
- In September, Kim Cybulski and Ed Lull of Freedom Bank participated in the Get Smart About Credit program to work with our nation's youth to instill sound money management skills. They spent time with 8th graders simulating adult situations, touching on careers, families, salaries, a credit score, and financial obligations in the fully digital, innovative, hands-on environment of Finance Park. They guided students through different phases of the day, which mimic real-world budgeting decisions, spending research, and bill payment.
- During 2017, Freedom Bank continued to support Veterans Moving Forward through contributions for every VA mortgage loan closed, purchased, or refinanced.
- Freedom Bank Mortgage sponsored RE/MAX Gateways' Annual Breakfast with Santa that benefits Toys for Tots, a program run by the United States Marine Corps Reserve which distributes toys to children whose parents cannot afford to buy them gifts for Christmas.

FINANCIAL STATEMENTS

BALANCE SHEETS

Years Ended December 31

2017 and 2016

ASSETS	2017	(As Restated - Note 1) 2016
Cash and Due from Banks	$ 1,164,368	$ 1,251,102
Interest Bearing Deposits with Banks	33,936,870	4,358,332
Federal Funds Sold	127,000	24,108,000
Securities Available-for-Sale	61,989,669	29,074,040
Securities Held-to-Maturity	14,869,181	15,035,844
Restricted Stock Investments	2,533,500	3,718,400
Loans Held for Sale	7,772,501	7,488,194
Loans Receivable	407,332,772	407,564,141
Allowance for Loan Losses	(4,562,370)	(4,150,081)
Net Loans	402,770,402	403,414,060
Bank Premises and Equipment, net	1,595,575	1,438,880
Accrued Interest Receivable	1,643,427	1,351,819
Deferred Tax Asset	974,614	2,288,271
Bank-Owned Life Insurance	2,338,146	2,281,726
Other Assets	1,407,079	1,078,706
TOTAL ASSETS	$533,122,332	$496,887,374

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

LIABILITIES	2017	(As Restated - Note 1) 2016
Deposits		
Demand Deposits		
Non-interest Bearing	$ 69,942,247	$ 62,941,221
Interest Bearing	184,271,412	114,549,659
Savings Deposits	2,273,760	2,921,102
Time Deposits	209,493,201	218,980,247
Total Deposits	465,980,620	399,392,229
Federal Home Loan Bank Advances	10,428,571	43,714,286
Other Accrued Expenses	1,256,202	1,598,943
Accrued Interest Payable	162,749	175,072
Total Liabilities	477,828,142	444,880,530
STOCKHOLDERS' EQUITY		
Preferred stock, $0.01 par value, 5,000,000 shares authorized: 0 shares issued and outstanding, 2017 and 2016 Common stock, $0.01 par value, 25,000,000 shares: 23,000,000 shares voting and 2,000,000 shares non-voting	—	—
Voting Common Stock:		
5,866,765 and 5,550,565 shares issued and outstanding at December 31, 2017 and 2016, respectively	58,668	55,506
Non-Voting Common Stock:		
660,143 and 628,707 shares issued and outstanding at December 31, 2017 and 2016, respectively	6,601	6,287
Additional Paid-in Capital	53,241,342	48,708,431
Accumulated Other Comprehensive loss, net	(573,698)	(523,402)
Retained Earnings	2,561,277	3,760,022
Total Stockholders' Equity	55,294,190	52,006,844
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 533,122,332	$ 496,887,374

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

STATEMENTS OF OPERATIONS

Years Ended December 31

2017 and 2016

INTEREST INCOME	2017	(Restated) 2016
Interest and Fees on Loans	$21,117,267	$19,327,206
Interest on Investment Securities	1,993,655	1,174,707
Interest on Federal Funds Sold	19,922	9,338
Total Interest Income	23,130,844	20,511,251
INTEREST EXPENSE		
Interest on Deposits	4,831,359	3,581,426
Interest on Borrowings	172,206	119,910
Total Interest Expense	5,003,565	3,701,336
Net Interest Income	18,127,279	16,809,915
PROVISION FOR LOAN LOSSES	30,000	1,090,500
Net Interest Income After Provision for Loan Losses	18,097,279	15,719,415
NON-INTEREST INCOME		
Gain on Sale of Mortgage Loans	4,314,314	4,982,058
Service Charges and Other Income	269,071	223,616
Increase in Cash Surrender Value of Bank-owned Life Insurance	56,420	60,031
Total Non-Interest Income	4,639,805	5,265,705
NON-INTEREST EXPENSES		
Officers and Employee Compensation and Benefits	10,916,694	10,984,208
Occupancy Expense	1,002,240	982,653
Equipment and Depreciation Expense	556,024	536,758
Insurance Expense	363,673	322,479
Professional Fees	1,682,060	1,045,666
Data and Item Processing	930,667	908,258
Business Development	225,535	203,717
Franchise Taxes	492,508	385,787
Mortgage Fees and Settlements	711,797	995,428
Other Operating Expenses	770,775	688,926
Total Non-Interest Expenses	17,651,973	17,053,880
Income Before Income Taxes	5,085,111	3,931,240

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

	2017	(Restated) 2016
INCOME TAX EXPENSE	2,389,792	1,276,880
NET INCOME	$ 2,695,319	$ 2,654,360
EARNINGS PER COMMON SHARE – BASIC	$ 0.41	$ 0.42
EARNINGS PER COMMON SHARE – DILUTED	$ 0.39	$ 0.41
WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING – BASIC	6,518,614	6,351,547
WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING – DILUTED	6,833,739	6,480,944

STATEMENTS OF COMPREHENSIVE INCOME

Years Ended December 31

2017 and 2016

	2017	(Restated) 2016
Net Income	$ 2,695,319	$ 2,654,360
Other Comprehensive Income (Loss):		
Unrealized holding gain (loss) on securities available-for-sale arising during the year, net of taxes of ($27,347) and $64,799 in 2017 and 2016, respectively.	53,084	(125,786)
Gains on sales of securities available-for-sale, net of taxes of $6,101 and $10,657 in 2017 and 2016, respectively.	(11,842)	(20,686)
Amortization of unrealized losses on securities transferred from available-for-sale to held-to-maturity net of taxes of $1,477 and $248 in 2017 and 2016, respectively.	2,868	482
Total Other Comprehensive Income (Loss):	44,110	(145,990)
COMPREHENSIVE INCOME	$ 2,739,429	$ 2,508,370

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

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Years Ended December 31

2017 and 2016

	Voting and Non-Voting SHARES OF COMMON STOCK	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	RETAINED EARNINGS (DEFICIT)	TOTAL STOCKHOLDERS' EQUITY
BALANCE, DEC. 31, 2015 AS PREVIOUSLY REPORTED	5,455,820	17,227,330	$ 24,282,805	$ (371,695)	$ 1,442,485	$ 42,580,925
Restatement adjustment[1]	—	—	491,518	(5,717)	(336,823)	148,978
BALANCE, DEC. 31, 2015 AS RESTATED	5,455,820	17,227,330	$ 24,774,323	$ (377,412)	$ 1,105,662	$ 42,729,903
Net Income (Restated)	—	—	—	—	2,654,360	2,654,360
Change in par value	—	(17,172,772)	17,172,772	—	—	—
Other Comprehensive Loss (Restated)	—	—	—	(145,990)	—	(145,990)
Stock Warrants Exercised	12,818	128	115,234	—	—	115,362
Stock Options Exercised	4,752	48	29,748	—	—	29,796
Sale of Common Stock	705,882	7,059	6,244,383	—	—	6,251,442
Stock-based Compensation (Restated)	—	—	371,971	—	—	371,971
BALANCE, DEC. 31, 2016	6,179,272	61,793	48,708,431	$ (523,402)	3,760,022	52,006,844
Net Income	—	—	—	—	2,695,319	2,695,319
Other Comprehensive Income	—	—	—	44,110	—	44,110
Reclassification of stranded tax effects from changes in tax rate	—	—	—	(94,406)	94,406	—
5% Stock Dividend	310,424	3,104	3,985,366	—	(3,988,470)	—
Stock Warrants Exercised	28,463	285	255,882	—	—	256,167
Stock Options Exercised	8,749	87	65,826	—	—	65,913
Stock-based Compensation	—	—	225,837	—	—	225,837
BALANCE, DEC. 31, 2017	6,526,908	65,269	$ 53,241,342	$ (573,698)	$ 2,561,277	$ 55,294,190

[1] December 31, 2015 and 2016 balances have been restated from previously reported results to correct for material and certain other errors from prior periods. Refer to Note 1.

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

STATEMENTS OF CASH FLOWS

Years Ended December 31

2017 and 2016

CASH FLOWS FROM OPERATING ACTIVITIES	2017	(Restated) 2016
Net Income	$ 2,695,319	$ 2,654,360
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and Amortization	257,284	229,487
Provision for Possible Loan Losses	30,000	1,090,500
Net Amortization of Available-for-Sale Securities	538,559	1,295,554
Net Amortization of Held-to-Maturity Securities	171,008	27,967
Gain on Sale of Available-for-Sale Securities	(17,943)	(31,343)
Gain on Sale of Mortgage Loans	(4,314,314)	(4,982,058)
Loans Held for Sale Originated	(161,044,213)	(178,909,688)
Proceeds from the Sale of Loans Held for Sale	165,074,220	184,038,396
Stock-based Compensation Expense	225,837	371,971
Loss on Disposal of Equipment	—	2,771
Deferred Income Tax Expense (Benefit)	1,290,933	(428,263)
Increase in Cash Surrender Value of Bank-Owned Life Insurance	(56,420)	(60,031)
(Increase) Decrease In:		—
Accrued Interest Receivable	(291,608)	(387,824)
Other Assets	(328,372)	(42,079)
Increase (Decrease) In:		—
Other Accrued Expenses	(342,741)	(395,694)
Accrued Interest Payable	(12,323)	77,856
Net Cash Provided (Used) by Operating Activities	3,875,226	4,551,882

CASH FLOWS FROM INVESTING ACTIVITIES		
Net Change in Federal Funds Sold	23,981,000	(9,108,000)
Net Change in Interest Bearing Deposits with Banks	(29,578,538)	1,259,489
Loan Originations and Payments, Net	613,658	(88,096,189)
Purchase of Available-for-Sale Securities	(48,817,670)	(32,882,393)
Maturities, Calls and Paydowns of Securities Available-for-Sale	6,411,284	7,551,912
Proceeds from Sales of Securities Available-for-Sale	9,032,629	26,022,799
Purchase of Restricted Stock Investments	(472,600)	(4,470,350)
Sale of Restricted Stock Investments	1,657,500	2,354,500
Acquisition of Bank Premises and Equipment	(413,979)	(937,740)
Net Cash (Used In) Investing Activities	(37,586,716)	(98,305,972)

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

STATEMENTS OF CASH FLOWS

Years Ended December 31

2017 and 2016

CASH FLOWS FROM FINANCING ACTIVITIES	2017	(Restated) 2016
Increase in Deposits, net	66,588,391	49,827,488
Advances (Repayments) From Federal Home Loan Bank, net	(33,285,715)	37,514,286
Proceeds From Stock Options and Warrants Exercised	322,080	145,158
Proceeds From Sale of Stock, net	—	6,251,442
Net Cash Provided by Financing Activities	33,624,756	93,738,374
NET (DECREASE) INCREASE IN CASH AND DUE FROM BANKS	(86,734)	(15,716)
CASH AND DUE FROM BANKS, BEGINNING OF YEAR	1,251,102	1,266,818
CASH AND DUE FROM BANKS, END OF YEAR	$ 1,164,368	$ 1,251,102

NONCASH INVESTING ACTIVITY		
Unrealized (Loss) Gain on Securities Available-for-Sale, net	$ 66,833	$ (221,198)
Transfer of Securities from Available-for-Sale to Held-to-Maturity	$ —	$ 15,158,552
Unrealized loss on Securities prior to transfer to Held-to-Maturity, net	$ —	$ 94,741
SUPPLEMENTAL INFORMATION		
Cash Paid During the Year for Interest	$ 5,015,888	$ 3,503,570
Cash Paid During the Year for Income Taxes	$ 1,346,000	$ 1,628,000

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

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2017 AND 2016

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 in the United States of America (GAAP) and reflect practices of the banking industry. The policies are summarized below along with a discussion of the restatement of the Bank's prior year financial statements.

RESTATEMENT

Certain amounts in the Bank's December 31, 2016 and 2015 balance sheets and in the Bank's 2016 statement of operations have been restated for the corrections of accounting errors related to interest rate lock commitments, deferred loan origination costs, stock based compensation and deferred income taxes related to unrealized losses on securities available-for-sale transferred to held-to-maturity. During 2017, the Bank determined that it did not properly record interest rate lock commitments related to locked mortgage loans being held as of December 31, 2016 along with deferred loan origination costs. The initial recording of interest rate lock commitments and deferred loan costs as of January 1, 2016 increased other assets and loans, accordingly with an offsetting increase to retained earnings. The correction of the errors for 2016 activity related to the interest rate lock commitments and deferred loan origination costs reduced other assets and gain on loans held for sale and increased loans, interest and fees on loans and officer and employee compensation. Also, during 2017, the Bank determined that several errors had been made in the calculation of stock based compensation. Historically the Bank has utilized the Black-Scholes option pricing model to determine the fair value of stock options. The historical calculations were comprised of mathematical errors along with errors in the key assumptions of the model. The net effect of the correction of these errors was an increase to additional paid-in capital, an increase to stock based compensation and a decrease to retained earnings. The Bank also determined that at December 31, 2016 the deferred tax asset related to the aforementioned transferred securities had not been recorded. The correction of this error increased other assets and decreased accumulated other comprehensive loss. The change to accumulated other comprehensive loss at December 31, 2015 resulted from the correction of the income tax rate used to measure deferred tax assets at that date. The effects of the corrections of these errors on the Bank's prior year financial statements are summarized below:

	Previously Reported Amounts	Restated Amounts	Effect of Restatement Increase (Decrease)
AT DECEMBER 31, 2015:			
Additional paid in capital	$ 24,282,805	$ 24,774,323	$ 491,518
Accumulated other comprehensive loss	(371,695)	(377,412)	(5,717)
Retained earnings	1,442,485	1,105,662	(336,823)
Stockholders' equity	42,580,925	42,729,903	148,978
AT DECEMBER 31, 2016:			
Loans receivable	$ 402,941,879	$ 403,414,060	$ 472,181
Deferred tax asset	1,891,600	2,288,271	396,671
Other assets	1,597,333	1,078,706	(518,627)
Total assets	496,537,149	496,887,374	350,225
Other accrued expenses	1,598,948	1,598,943	(5)
Additional paid in capital	47,958,932	48,708,431	749,499
Accumulated other comprehensive loss	(548,380)	(523,402)	24,978
Retained earnings	4,184,269	3,760,022	(424,247)
Stockholders' equity	51,656,614	52,006,844	350,230

	Previously Reported Amounts	Restated Amounts	Effect of Restatement Increase (Decrease)
YEAR ENDED DECEMBER 31, 2016:			
Interest and fees on loans	$ 19,287,266	$ 19,327,206	$ 39,940
Gain on sale of mortgage loans	4,986,961	4,982,058	(4,903)
Officer and employee compensation	10,726,227	10,984,208	257,981
Income before income taxes	4,154,184	3,931,240	(222,944)
Income tax expense	1,412,400	1,276,880	(135,520)
Net income	2,741,784	2,654,360	(87,424)
Earnings per common share - basic[1]	$0.43	$0.42	($0.01)
Earnings per common share - diluted[1]	0.42	0.41	(0.01)

[1] Retroactively restated for effects of the 5% stock dividend declared in 2017

NATURE OF OPERATIONS AND PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of The Freedom Bank of Virginia and its wholly-owned subsidiary, FBV Capital Advisors Inc., a broker-dealer in securities, together referred to as "the Bank". All intercompany balances and transactions have been eliminated in consolidation. 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, Fairfax, Reston, and Chantilly, 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 in the United States of America 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. Significant estimates affecting the Bank's financial statements relate to the allowance for loan losses, the valuation of the deferred tax assets and other-than-temporary impairment assessments for investment securities. Actual results could differ from those estimates.

INTEREST BEARING DEPOSIT WITH BANKS

The Bank maintains an interest bearing deposit with other institutions. 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. The unrealized holding gain or loss for securities transferred from available-for-sale to held-to-maturity remains in accumulated other comprehensive income and is amortized over future years.

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 (loss) income, net of their tax effect. Realized gains (losses) on securities available-for-sale are included in non-interest income and, when applicable, are reported as a reclassification adjustment, net of tax, in other comprehensive income (loss).

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

Federal Reserve Bank stock, Federal Home Loan Bank (FHLB) stock, and Community Bankers Bank stock are considered restricted investment securities, are carried at cost and are evaluated annually for impairment. The stock is required in order to be a member or for borrowings.

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.

INTEREST RATE LOCK COMMITMENTS

The Bank enters into interest rate lock commitments (IRLCs) to originate residential mortgage loans for sale in the secondary market whereby the interest rate on the loan is determined prior to funding. The period of time between issuance of a rate lock commitment and closing and sale of the loan generally ranges from 15 to 75 days. The IRLCs with customers are considered derivative financial instruments. The Bank recognizes derivative financial instruments at fair value as either an other asset or other liability in the consolidated balance sheet. Because the IRLCs, are not designated as hedging instruments, adjustments to reflect unrealized gains and losses resulting from changes in fair value of the IRLCs are reported as noninterest income or noninterest expense, as applicable.

ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses is maintained at a level that, in management's judgment, is adequate to absorb probable 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. The allowance consists of two basic components: the specific allowance and the pooled allowance.

The specific allowance component is used to individually establish an allowance for loans considered impaired. 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.

The pooled component is used to estimate the losses inherent in the pools of non-impaired loans. These loans are then also segregated by loan type and allowance factors are assigned by management based on delinquencies, loss history, trends in volume and terms of loans, effects of changes in lending policy, the experience and depth of management, national and local economic trends, concentrations of credit, results of the loan review system and the effect of external factors (i.e., competition and regulatory requirements). Current economic conditions take into account the average unemployment rate for the Northern Virginia area and for the nation, with the most significance given to the local data. The allowance factors assigned differ by loan type.

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. The Bank amortizes software over three years using the straight-line method.

Expenditures for maintenance, repairs and improvements under $1,000 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 non-interest expense, 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 had no other real estate owned at December 31, 2017 and 2016.

BANK-OWNED LIFE INSURANCE

The Bank has entered into bank-owned single premium life insurance policies 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 income. The Bank monitors the financial strength and condition of both counterparties.

STOCKHOLDERS' EQUITY

On May 29, 2017, the Bank declared a 5% stock dividend, effective for stockholders of record on June 23, 2017. All references to share and per share amounts in the financial statements have been restated to reflect the stock dividend.

During December 2015, the Bank entered into purchase agreements for the private placement of an aggregate of $16 million of its common stock to institutional investors. The purchase agreements encompass two closings; the first closing on December 29, 2015, and the second closing upon satisfaction of certain conditions as set forth in the agreements. The first closing raised capital of $9,336,432, net of related expenses of $663,572, encompassing 1,176,471 shares. Offering expenses include $250,000 for the lead investor as reimbursement of expenses and related matters in connection with the consummation of the equity investment. The purchase agreements required an amendment to the Bank's articles of incorporation whereby the amount of authorized capital will consist of 25,000,000 shares of common stock at $0.01 par value per share, of which 23,000,000 will consist of shares of voting common stock and 2,000,000 will consist of non-voting common stock, and 5,000,000 shares of preferred stock at $0.01 par value per share. In addition, the purchase agreement required upon request of the lead investor to cause an increase in the number of directors on the Board by one director and to appoint a person nominated by such lead investor. The Articles of Incorporation Amendment and the change to the Board of Directors was effective March 16, 2016. The second closing raised funds of $6,251,442 with 77,175 shares of voting common stock and 628,707 shares of non-voting common stock. In addition, the institutional investors hold a registration rights agreement that permits them to request the Bank register a Form S-1 (Registration Statement under the Securities Act of 1933), as outlined in the agreement, if the Bank has formed a holding company.

The proceeds of the rights offering and the private placement are for general corporate purposes which may include improving the Bank's regulatory capital position and supporting future growth.

The rights, preferences, and privileges of the voting and non-voting common stock shall be in all respects and for all purposes identical except with respect to voting power. The holders of voting common stock shall exclusively possess all voting power and each share is entitled to one vote. The holders of non-voting common stock have no voting power. Holders of common stock are entitled to receive an equal amount of dividends per share if, as and when declared from time to time by the Board of Directors.

Shares of non-voting common stock may be converted into shares of voting common stock at the option of the holder thereof in accordance with the provisions outlined in the amended articles of incorporation.

Shares of preferred stock may be issued in one or more series. Authority is expressly vested in the Board of Directors at any time and from time to time to cause the preferred stock to be issued in one or more series and, to the fullest extent permitted by law, to fix and determine the preferences, limitations and relative rights of the shares of any series of preferred stock so established and provide for the issuance of shares thereof.

Comprehensive income 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 the difference between the basis of the 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.

A valuation allowance is recorded if, based upon the evidence available, it is more likely than not some portion or all of the net deferred tax assets will not be realized.

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. The Bank is not currently under audit by any income tax jurisdiction. The income tax returns of the Bank for 2014, 2015 and 2016 are subject to examination by income taxing authorities, generally for three years after they were filed.

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.

The results for the year ended December 31, 2017 include the effect of the Tax Cuts and Jobs Act ("the Act"), which was signed into law on December 22, 2017. The Act becomes effective January 1, 2018 and among other things, permanently lowers the federal corporate income tax rate to 21% from the maximum rate prior to the passage of the Act of 35%. When the federal corporate income tax rate changes, U.S. GAAP requires companies to re-measure their deferred tax assets and deferred tax liabilities, including those accounted for in accumulated other comprehensive income, as of the date of enactment, and record the corresponding effects as income tax expense. As a result of the permanent reduction in the corporate income tax rate, the Bank recognized in the fourth quarter of 2017 a provisional $603,331 reduction in the value of its net deferred tax asset and recorded a corresponding incremental income tax expense of $603,331 in its consolidated results of operations. The Bank's evaluation of the effect of the Act is subject to refinement for up to one year after enactment.

EARNINGS PER SHARE (EPS)

Basic EPS 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. Potential common shares that may be issued by the Bank relate solely to stock options outstanding during the period and are determined using the treasury stock method.

The following shows the weighted average number of shares used in computing earnings per common share and the effect on the weighted average number of shares of potentially dilutive common stock. The number of common shares for all periods have been retroactively restated to reflect the effects of the 5% stock dividend declared on May 29, 2017.

	2017	2016
Average number of common shares outstanding	6,518,614	6,351,547
Effect of dilutive options	315,125	129,398
Average number of common shares outstanding used to calculate diluted earnings per common share	6,833,739	6,480,944

Stock options for 1,500 and 5,250 shares of common stock were not considered in computing diluted earnings per common share for 2017 and 2016, respectively, because they were antidilutive.

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 and Chief Executive Officer which was subsequently amended effective April 20, 2016. The agreement provides for a base salary, performance bonus, and other benefits. The agreement has an initial term of twenty-four months from the amended effective date and shall be automatically extended and renewed for an additional successive twelve months unless either party provides a written notice of non-renewal as per 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.

RECENT ACCOUNTING PRONOUNCEMENTS

ASU 2014-09

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers*. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. This standard also includes expanded disclosure requirements that result in an entity providing users of the financial statements with comprehensive information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity's contracts with customers. ASU 2014-09 is effective for public business entities for fiscal years beginning after December 15, 2017. The Bank is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

ASU 2016-01

In January 2016, the FASB issued ASU 2016-01: Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The amendments in ASU 2016-01, among other things: 1) Requires equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. 2) Requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes. 3) Requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e., securities or loans and receivables). 4) Eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost. The amendments in this ASU are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Bank does not expect the adoption of ASU 2016-01 to have a material impact on its financial statements.

ASU 2016-02

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The guidance in ASU 2016-02 supersedes the lease recognition requirements in Accounting Standards Codification (ASC) Topic 840, Leases (FAS 13). ASU 2016-02 requires an entity to recognize assets and liabilities on the balance sheet for the rights and obligations created by leased assets and provide additional disclosures. ASU 2016-02 is effective for public business entities for fiscal years beginning after December 15, 2018, with early adoption permitted. The Bank is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

ASU 2016-13

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The guidance in ASU 2016-13 replaces the current incurred loss impairment methodology, with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to estimate credit losses. ASU 2016-13 is effective for public business entities for fiscal years beginning after December 15, 2019, with early adoption permitted for fiscal years beginning after December 15, 2018. The Bank is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

ASU 2018-02

During February 2018, the FASB issued ASU 2018-02: Income Statement – Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. The amendments provide financial statement preparers with an option to reclassify stranded tax effects within accumulated other comprehensive income to retained earnings in each period in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act (or portion thereof) is recorded. The amendments are effective for all organizations for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted. Organizations should apply the proposed amendments either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act is recognized. The Bank has elected to reclassify the stranded income tax effects from the Tax Cuts and Jobs Act in the financial statements for the period ending December 31, 2017. The amount of this reclassification in 2017 was $94,406.

RECLASSIFICATION

Certain items in the 2016 financial statements have been reclassified to conform to the 2017 financial statement presentation.

SUBSEQUENT EVENTS

The date to which events occurring after December 31, 2017, the date of the most recent balance sheet, have been evaluated for possible adjustment to the financial statements or disclosure is May 4, 2018, which is the date on which the financial statements were available to be issued.

2. Restriction of Cash and Due from Banks

The Bank is required to maintain reserve funds in cash or on deposit with the Federal Reserve. The required reserve at December 31, 2017 and 2016 was $2,740.000 and $1,269,000, respectively.

3. Investments

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

DEC. 31, 2017	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
Available-for-Sale				
Corporate Notes	$ 3,761,254	$ 15,238	$ (31,217)	$ 3,745,275
Mortgage Backed Securities	37,471,255	289	(585,034)	36,886,510
Municipal Securities	15,551,471	25,841	(26,610)	15,550,702
SBA Loan Pools	5,842,225	—	(35,043)	5,807,182
Total Available-for-Sale	62,626,205	41,368	(677,904)	61,989,669
Held-to-Maturity				
Municipal Securities	14,869,181	62,660	(79,897)	14,851,944
TOTAL INVESTMENT SECURITIES	$ 77,495,386	$ 104,028	$ (757,801)	$ 76,841,613

DEC. 31, 2016	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
Available-for-Sale				
Corporate Notes	$ 3,010,075	$ 9,796	$ (26,861)	$ 2,993,010
Mortgage Backed Securities	19,921,547	912	(587,050)	19,335,409
SBA Loan Pools	6,841,442	4,593	(100,414)	6,745,621
Total Available-for-Sale	29,773,064	15,301	(714,325)	29,074,040
Held-to-Maturity				
Municipal Securities	15,035,844	—	(777,676)	14,258,168
TOTAL INVESTMENT SECURITIES	$ 44,808,908	$ 15,301	$ (1,492,001)	$ 43,332,208

The amortized cost and estimated fair value of debt securities at December 31, 2017, 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	1,004,102	1,019,338	301,207	301,026
After 5 Years - 10 Years	3,519,346	3,481,334	1,511,309	1,476,984
After 10 Years	20,631,502	20,602,487	13,056,665	13,073,934
	25,154,950	25,103,159	14,869,181	14,851,944
Mortgage Backed Securities	37,471,255	36,886,510	—	—
	$62,626,205	$ 61,989,669	$ 14,869,181	$ 14,851,944

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, 2017 and 2016, U.S. Government and agency securities and mortgage backed securities with carrying values of $20,395,555 and $16,610,637, 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, 2017, aggregated by investment category and length of time that individual securities have been in a continuous loss position, is as follows:

	LESS THAN 12 MONTHS		OVER 12 MONTHS	
	GROSS UNREALIZED LOSSES	FAIR VALUE	GROSS UNREALIZED LOSSES	FAIR VALUE
Available-for-Sale				
Corporate Notes	$ 4,848	$ 1,752,305	$ 26,370	$ 973,631
Mortgage Backed Securities	261,935	19,990,034	323,099	15,552,456
Municipal Securities	26,610	8,432,383	—	—
SBA Loan Pools	1,779	1,394,617	33,263	4,412,566
TOTALS	$ 295,172	$ 31,569,339	$ 382,732	$ 20,938,653
Held-to-Maturity				
Municipal Securities	$ 9,209	$ 889,371	$ 70,688	$ 5,436,625

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, 2017, 29 debt securities with an unrealized loss for less than one year and 40 debt securities with an unrealized loss for greater than one year depreciated less than 1 percent from the Bank's amortized cost basis. 45 of the securities are secured by Federal agency mortgage backed securities or U.S. Treasury obligations and direct obligations of U.S.

Government agencies. 5 of the securities are corporate bonds and 20 of the securities are municipal 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.

Restricted investments consist of the following at December 31:

	2017	2016
Federal Reserve Bank	$ 1,571,300	$ 1,434,100
Federal Home Loan Bank	896,200	2,218,300
Community Bankers Bank	66,000	66,000
TOTALS	$ 2,533,500	$ 3,718,400

4. LOANS RECEIVABLE (RESTATED)

Loans receivable include the following at December 31:

	2017	(Restated) 2016
Commercial and Industrial	$ 64,153,229	$ 60,278,401
Consumer and Other	20,754,304	16,517,598
Real Estate	322,873,452	331,289,560
Subtotals	407,780,985	408,085,559
Deferred Loan Fees, net	(448,213)	(521,418)
TOTALS	$ 407,332,772	$ 407,564,141

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 – construction loans: This portfolio consists of commercial and residential construction loans secured by real estate. The loans are secured by property and generally made with a loan-to-as built and loan-to-as-completed value not exceeding 75 percent.

Real estate – residential and home equity loans: This portfolio consists of residential first and second mortgage 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.

Consumer loans: This portfolio consists of car loans, boat loans, loans secured by stock and unsecured loans. The consumer loans are generally made to borrowers with a minimum credit score of 700 and a maximum debt to income ratio of 40%.

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:

YEAR 2017	COMMERCIAL & INDUSTRIAL	REAL ESTATE - COMMERCIAL	REAL ESTATE - CONSTRUCTION	REAL ESTATE - RESIDENTIAL	CONSUMER	TOTAL
Allowance for Loan Losses						
Beginning Balance	$ 542,229	$ 2,311,155	$ 838,328	$ 402,615	$ 55,754	**$ 4,150,081**
Charge-offs	—	—	(283,530)	—	—	**(283,530)**
Recoveries	96,189	—	569,630	—	—	**665,819**
Provision	128,599	153,553	(260,245)	(34,296)	42,389	**30,000**
Ending Balance	$ 767,017	$ 2,464,708	$ 864,183	$ 368,319	$ 98,143	**$ 4,562,370**
Individually Evaluated for Impairment	28,529	—	—	115,000	—	**143,529**
Collectively Evaluated for Impairment	738,487	2,464,708	864,184	253,318	98,144	**4,418,841**
Loans Receivable						
Ending Balance	$64,153,229	$202,399,170	$38,721,639	$81,752,643	$20,754,304	$407,780,985
Individually Evaluated for Impairment	$ 125,625	$ 1,479,649	—	$ 640,943	—	**$ 2,246,217**
Collectively Evaluated for Impairment	64,027,604	200,919,521	38,721,639	81,111,700	20,754,304	**405,534,768**

YEAR 2016	COMMERCIAL & INDUSTRIAL	REAL ESTATE - COMMERCIAL	REAL ESTATE - CONSTRUCTION	REAL ESTATE - RESIDENTIAL	CONSUMER	TOTAL
Allowance for Loan Losses						
Beginning Balance	$ 371,094	$ 1,597,407	$ 777,024	$ 294,592	$ 93,303	**$ 3,133,420**
Charge-offs	—	—	—	(115,378)	—	(115,378)
Recoveries	—	—	—	—	41,539	**41,539**
Provision	171,135	713,748	61,304	223,401	(79,088)	**1,090,500**
Ending Balance	$ 542,229	$ 2,311,155	$ 838,328	$ 402,615	$ 55,754	**$ 4,150,081**
Individually Evaluated for Impairment	—	—	—	—	—	**—**
Collectively Evaluated for Impairment	542,229	2,311,155	838,328	402,615	55,754	**4,150,081**
Loans Receivable						
Ending Balance	$60,278,401	$200,637,913	$52,610,598	$78,041,049	$16,517,598	$408,085,559
Individually Evaluated for Impairment	$ 210,136	$ 873,437	$ 333,530	$ 729,041	$ —	**$ 2,146,144**
Collectively Evaluated for Impairment	60,068,265	199,764,476	52,277,068	77,312,008	16,517,598	**405,939,415**

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

YEAR 2017	30-59 DAYS PAST DUE	60-89 DAYS PAST DUE	90 DAYS OR MORE PAST DUE	TOTAL PAST DUE	CURRENT	TOTAL LOANS RECEIVABLES	NONACCRUAL LOANS
Commercial - Non-Real Estate							
Commercial and Industrial	$ —	$ 125,625	$ —	$ 125,625	$ 64,027,604	$64,153,229	$ 125,625
Commercial - Real Estate							
Owner Occupied	—	—	—	—	100,716,901	100,716,901	—
Non-Owner Occupied	—	—	—	—	101,682,269	101,682,269	—
Construction							
Residential	—	—	—	—	20,714,000	20,714,000	—
Commercial	—	—	—	—	18,007,639	18,007,639	—
Consumer - Non-Real Estate							
Automobile	—	—	—	—	664,501	664,501	—
Other	—	—	—	—	20,089,803	20,089,803	—
Residential							
First Trusts	—	—	—	—	71,988,442	71,988,442	—
Equity Lines	—	—	540,500	540,500	9,223,701	9,764,201	540,500
TOTALS	$ —	$125,625	$540,500	$ 666,125	$407,114,860	$407,780,985	$ 666,125

YEAR 2016	30-59 DAYS PAST DUE	60-89 DAYS PAST DUE	90 DAYS OR MORE PAST DUE	TOTAL PAST DUE	CURRENT	TOTAL LOANS RECEIVABLES	NONACCRUAL LOANS
Commercial - Non-Real Estate							
Commercial and Industrial	$ —	$ —	$ —	$ —	$ 60,278,401	$ 60,278,401	$ 62,811
Commercial - Real Estate							
Owner Occupied	—	—	—	—	83,919,319	83,919,319	—
Non-Owner Occupied	—	—	—	—	116,718,594	116,718,594	—
Construction							
Residential	—	—	333,530	333,530	36,952,074	37,285,604	333,530
Commercial	—	—	—	—	15,324,994	15,324,994	—
Consumer - Non-Real Estate							
Automobile	—	—	—	—	796,054	796,054	—
Other	—	1,338	—	1,338	15,720,206	15,721,544	—
Residential							
First Trusts	—	—	—	—	66,294,678	66,294,678	—
Equity Lines	—	—	546,500	546,500	11,199,871	11,746,371	—
TOTALS	$ —	$ 1,338	$ 880,030	$ 881,368	$407,204,191	$408,085,559	$ 396,341

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

YEAR 2017	RECORDED INVESTMENT	UNPAID PRINCIPAL BALANCE	RELATED ALLOWANCE FOR LOAN LOSSES	AVERAGE RECORDED INVESTMENT	INTEREST INCOME RECOGNIZED
With No Related Allowance Recorded:					
Real Estate					
Construction	$ —	$ —	$ —	$ —	$ —
Commercial	1,479,649	1,479,649	—	1,489,050	71,712
Residential	104,443	104,443	—	116,779	6,961
Commercial and Industrial	—	—	—	—	—
With An Allowance Recorded:					
Real Estate					
Construction	—	—	—	—	—
Commercial	—	—	—	—	—
Residential	536,500	536,500	115,000	657,084	—
Commercial and Industrial	125,625	125,625	28,529	134,028	5,635
Consumer	—	—	—	—	—
TOTAL					
Real Estate	2,120,592	2,120,592	115,000	2,262,913	78,673
Commercial and Industrial	125,625	125,625	28,529	134,028	5,635
Consumer	—	—	—	—	—
	$ 2,246,217	$ 2,246,217	$ 143,529	$ 2,396,941	$ 84,308

YEAR 2016	RECORDED INVESTMENT	UNPAID PRINCIPAL BALANCE	RELATED ALLOWANCE FOR LOAN LOSSES	AVERAGE RECORDED INVESTMENT	INTEREST INCOME RECOGNIZED
With No Related Allowance Recorded:					
Real Estate					
Construction	$ 333,530	$ 333,530	$ —	$ 225,054	$ —
Commercial	873,437	873,437	—	880,030	44,470
Residential	729,041	729,041	—	955,336	13,977
Commercial and Industrial	210,136	210,036	—	251,625	10,174
TOTAL					
Real Estate	1,936,008	1,936,008	—	2,060,420	58,447
Commercial and Industrial	210,136	210,036	—	251,625	10,174
	$ 2,146,144	$ 2,146,044	—	$ 2,312,045	$ 68,621

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:

YEAR 2017	PASS	SPECIAL MENTION	SUBSTANDARD	DOUBTFUL	LOSS
Commercial – Non-Real Estate					
Commercial and Industrial	$ 63,394,410	$ 633,194	$ —	$ 125,625	$ —
Commercial – Real Estate					
Owner Occupied	97,493,592	1,743,660	1,479,649	—	—
Non-Owner Occupied	101,682,269	—	—	—	—
Construction					
Residential	20,714,000	—	—	—	—
Commercial	18,007,639	—	—	—	—
Consumer – Non-Real Estate					
Automobile	664,501	—	—	—	—
Other	20,060,528	29,275	—	—	—
Residential					
First Trusts	71,966,269	—	22,172	—	—
Equity Lines	9,145,430	82,272	536,500	—	—
TOTALS	$ 403,128,638	$ 2,488,401	$ 2,038,321	$ 125,625	$ —

YEAR 2016	PASS	SPECIAL MENTION	SUBSTANDARD	DOUBTFUL	LOSS
Commercial – Non-Real Estate					
Commercial and Industrial	$ 59,930,404	$ 136,523	$ 211,474	$ —	$ —
Commercial – Real Estate					
Owner Occupied	78,866,162	5,053,157	—	—	—
Non-Owner Occupied	116,718,594	—	—	—	—
Construction					
Residential	36,952,074	—	333,530	—	—
Commercial	15,324,994	—	—	—	—
Consumer – Non-Real Estate					
Automobile	796,054	—	—	—	—
Other	15,721,544	—	—	—	—
Residential					
First Trusts	66,156,311	111,222	27,145	—	—
Equity Lines	10,437,924	761,947	546,500	—	—
TOTALS	$ 400,904,061	$ 6,062,849	$ 1,118,649	$ —	$ —

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.

As of December 31, 2017 and December 31, 2016, the Bank had a recorded investment in troubled debt restructurings of $230,068 and $245,352 respectively. The Bank allocated $28,529 and $0 of specific allowance for those loans at December 31, 2017 and December 31, 2016.

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 $1,463,571 and $4,176,267 at December 31, 2017 and 2016, respectively. New loans made to such related parties amounted to $0, and repayments amounted to $2,712,696 in 2017.

5. BANK PREMISES AND EQUIPMENT

Bank premises and equipment include the following:

	2017	2016
Furniture and Equipment	$ 1,475,882	$ 1,419,660
Leasehold Improvements	1,181,317	1,111,336
Construction in Progress	240,760	13,198
Software	118,560	58,345
Total Cost	3,016,519	2,602,539
Less Accumulated Depreciation	(1,420,944)	(1,163,659)
NET BANK PREMISES AND EQUIPMENT	$ 1,595,575	$ 1,438,880

Depreciation and amortization of bank premises and equipment charged to expense amounted to $257,284 and $229,487 in 2017 and 2016, respectively.

6. DEPOSITS

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

2018	$ 125,877,941
2019	56,065,582
2020	8,040,500
2021	14,380,725
2022	5,128,453
TOTAL	$ 209,493,201

Time deposits in denominations that meet or exceed the FDIC minimum limit of $250,000 or more totaled $66,371,688 and $68,592,296 at December 31, 2017 and 2016, respectively.

The Bank held related party deposits of approximately $7,083,000 and $10,140,000 at December 31, 2017 and 2016, respectively.

7. BORROWINGS AND ADVANCES

At December 31, 2017 and 2016, the Bank had $2,100,000 available under a line of credit Fed Funds facility to be used for temporary, short-term needs with borrowings not to exceed seven consecutive business days. There were no borrowings on this line at December 31, 2017 and 2016.

At December 31, 2017 and 2016, the Bank had an additional $6,000,000 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. The line is secured by $200,000, plus any earnings credited, held in a cash and correspondent account that is recorded as cash and due from banks on the balance sheets. There were no borrowings on this line at December 31, 2017 and 2016.

At December 31, 2017 and 2016, the Bank had $10,000,000 available under a line of credit Fed Funds facility to be used for overnight cash settlements. The line is secured by $500,000 held in a cash and correspondent account that is recorded as cash and due from banks on the balance sheets at December 31, 2017 and 2016. There were no borrowings on this line at December 31, 2017 and 2016.

At December 31, 2017 and 2016, the Bank had an unsecured uncommitted Fed Funds facility available in the amount of $10,000,000. Borrowings may not be outstanding for more than fourteen consecutive days followed by at least three business days with no usage. Interest is due daily on the outstanding balance of the facility each day based on the interest determined at the time of each advance. There were no borrowings on this line at December 31, 2017 and 2016.

On September 23, 2015, the Bank entered into an agreement with the FHLB for $2,000,000 advanced under a principal reducing credit facility. The agreement calls for semi-annual principal payments of $142,857 beginning March 23, 2016 and interest payments at 1.72 percent, and matures on September 23, 2022. The balance at December 31, 2017 and 2016 was $1,428,571 and $1,714,286, respectively.

On February 11, 2016, the Bank entered into an additional agreement with the FHLB for $3,000,000 advanced under a fixed rate credit facility. The agreement calls for monthly interest payments at 1.34 percent and matures on February 11, 2021. The balance at December 31, 2017 and 2016 was $3,000,000.

In December 2016, the Bank entered into four additional 30-day borrowing agreements with the FHLB totaling $39,000,000, advanced under the fixed rate credit facility for temporary, short-term needs. The agreements call for monthly interest payments at rates ranging from 0.49 percent to 0.64 percent and mature in January 2017. The balance at December 31, 2016 was $39,000,000.

On March 27, 2017, the Bank entered into an additional agreement with the FHLB for $3,000,000 advanced under the fixed rate credit facility. The agreement calls for monthly interest payments at 1.81% percent and matures on March 27, 2020. The balance at December 31,2017 and 2016 was $3,000,000 and $0.

On March 27, 2017, the Bank entered into an additional agreement with the FHLB for $3,000,000 advanced under the fixed rate credit facility. The agreement calls for monthly interest payments at 2.18% and matures on March 27, 2022. The balance at December 31, 2017 and 2016 was $3,000,000 and $0.

The principal reducing credit facility and the fixed rate credit facilities with the FHLB are secured by certain residential and commercial mortgages. For the years ended December 31, 2017 and 2016, interest expense on the borrowings was $172,206 and $119,910, respectively.

Principal maturities by year are as follows:

2018	$ 285,714
2019	285,714
2020	3,285,714
2021	3,285,714
2022	3,285,715
Thereafter	—
TOTAL	**$ 10,428,571**

8. INCOME TAXES (RESTATED)

Year-end deferred tax assets and liabilities were due to the following:

	2017	2016
Deferred Tax Assets		
Allowance for loan losses	$ 820,195	$ 1,904,505
Unearned loan fees and costs, net	94,125	177,283
Accrued vacation	52,500	68,000
Non-accrual loan interest	11,690	192,546
Unrealized losses on securities	152,502	269,631
Stock options	52,734	77,381
	1,183,746	2,689,346
Deferred Tax Liabilities		
Depreciation	200,868	365,721
Interest rate lock	8,264	35,354
	209,132	401,075
Net deferred tax assets	$ 974,614	$ 2,288,271

Income tax expense (benefit) was as follows:

	2017	2016
Current Tax Expense	$ 1,098,859	$ 1,705,143
Deferred Tax (Benefit) Expense	687,602	(428,263)
Deferred Tax Asset Adjustment for Enacted Change in Tax Rate	603,331	—
	$ 2,389,792	$ 1,276,880

Income tax expense for 2017 includes a provisional downward adjustment of net deferred tax assets in the amount of $603,331, recorded as a result of the enactment of the Tax Cuts and Jobs Act on December 22, 2017. The Bank's marginal tax rate prior to the enactment of the Act is 34%. Effective January 1, 2018, the Company's tax rate will be 21%.

Effective tax rates differ from the federal statutory rate of 34% applied to income before income taxes due to the following:

	2017	2016
Federal statutory rate times financial statement income	$ 1,728,938	$ 1,336,622
Effect of:		
Tax-exempt income	(138,966)	(121,185)
Earnings from bank-owned life insurance	(19,183)	(20,411)
Deferred tax asset adjustment for enacted change in tax rate	603,331	—
Stock compensation	68,786	60,105
Other	146,886	21,749
	$ 2,389,792	$ 1,276,880

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 as of January 1, 2015, of total capital, Tier 1 capital and common equity Tier 1 capital to risk-weighted assets (as defined in the regulations), and Tier 1 capital to adjusted average total assets (as defined). Prior to January 1, 2015, minimum amounts and ratios of total capital, Tier 1 capital and Tier 1 capital to adjusted average total assets (as defined), were required. Management believes, as of December 31, 2017 and, 2016, that the Bank meets all the capital adequacy requirements to which it is subject.

As of December 31, 2017, 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, CET1 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, 2017 and 2016 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, 2017						
Total Capital (to Risk Weighted Assets)	$60,370,258	14.41%	$33,508,352	8.00%	$41,885,440	10.00%
Tier 1 Capital (to Risk Weighted Assets)	$55,807,888	13.32%	$25,131,264	6.00%	$33,508,352	8.00%
Common Equity Tier 1 Capital (to Risk Weighted Assets)	$55,807,888	13.32%	$18,848,448	4.50%	$27,225,536	6.50%
Tier 1 Capital (to Adjusted Average Assets)	$55,807,888	10.19%	$21,916,680	4.00%	$27,395,850	5.00%
DEC. 31, 2016 (RESTATED)						
Total Capital (to Risk Weighted Assets)	$56,620,327	13.33%	$33,980,095	8.00%	$42,475,119	10.00%
Tier 1 Capital (to Risk Weighted Assets)	$52,470,246	12.35%	$25,485,071	6.00%	$33,980,095	8.00%
Common Equity Tier 1 Capital (to Risk Weighted Assets)	$52,470,246	12.35%	$19,113,803	4.50%	$27,608,827	6.50%
Tier 1 Capital (to Adjusted Average Assets)	$52,470,246	10.82%	$19,398,600	4.00%	$24,248,250	5.00%

10. STOCK OPTION PLAN (RESTATED)

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 shareholders approved increasing the number of authorized shares by 200,000 at the March 2016 annual meeting. The authorized and granted options under the Plan are as follows at December 31, 2017:

	AUTHORIZED	GRANTED	VESTED
2007 Plan	875,280	854,761	559,568

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, 2017, there was approximately $246,000 in unrecognized compensation expense related to non-vested share-based compensation that is expected to be recognized over a weighted average period of 1.62 years. At December 31, 2016, there was approximately $471,000 in unrecognized compensation expense related to non-vested share-based compensation.

Amounts and the number of options have been retrospectively adjusted for the 5% stock dividend that was effective on, June 23, 2017. The Bank canceled and reissued stock options granted in 2007.

The following summarizes the option activity under the Plan:

	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE
OUTSTANDING, DECEMBER 31, 2015	580,410	$ 6.70
Grants	141,225	7.89
Exercised	(4,990)	5.97
Canceled or Expired	(18,253)	8.04
OUTSTANDING, DECEMBER 31, 2016	698,392	6.92
Grants	42,186	10.16
Exercised	(8,749)	7.53
Canceled or Expired	(35,050)	8.81
OUTSTANDING, DECEMBER 31, 2016	696,779	$ 7.01

The weighted average fair value of options granted during the year ended December 31, 2017 was $10.16. The weighted average remaining contractual life of options outstanding as of December 31, 2017 is 5.0 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 expected volatility is based on the average of the historical volatility of peer institutions and the Bank. 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 of zero.

The fair value of options granted was determined using the following weighted-average assumptions as of each grant date.

	2017	2016
Risk-free interest rate	2.32%	1.45%
Expected term (years)	5.61	6.50
Expected stock price volatility	32.09%	33.55%
Dividend yield	0.00%	0.00%

For the years ended December 31, 2017 and 2016, the Bank recognized $225,837 and $371,971 in stock-based compensation expense, respectively.

11. OPERATING LEASES

In December 2015, the Bank exercised its third 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 2020. The total base annual lease payments for the base year of the third extension are $85,223, 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 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 provided for an initial lease term of ten years commencing January 1, 2005 and ending December 31, 2014. In December 2014, the Bank entered into an updated agreement that separated the headquarters and branch space. The headquarters space lease for 2,405 square feet was extended for an additional year ending December 31, 2015. Total base annual payments under the one-year extension are $225,855 for both the headquarters and branch space. The lease for this space was again extended through October 31, 2016, at which point the space was vacated. Monthly lease payments under the extension were $7,015. The agreement included additional rent payments based on a pro rata portion of annual taxes, common area maintenance charges, and utilities.

The updated lease agreement for the branch is for an initial lease term of ten years commencing January 1, 2016 and ending December 31, 2025. Total base annual lease payments are $125,895 for the first year, increasing 3 percent per annum thereafter. The agreement includes additional rent payments based on a pro rata portion of annual taxes, common area maintenance charges, and utilities. The Bank has the right to renew the branch lease for two periods of five additional years as provided for in the lease. The lease agreement for the branch space is for 3,597 square feet.

In September 2015, the Bank entered into a new lease agreement for suites on the second and sixth floors at 10555 Main Street in Fairfax, Virginia. The agreement provides for an initial lease term of eight years commencing January 1, 2016 and ending December 31, 2023. Total base annual lease payments are $352,806 for the first year, increasing three percent per annum thereafter. The lease agreement is for 13,189 square feet. The agreement includes the option to renew the lease for two periods of five additional years at the then 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 November 2013, the Bank entered into a lease for an additional branch facility at 11700 Plaza America Drive in Reston, Virginia. The agreement provides for an initial lease term of 10 years commencing May 1, 2014 and ending April 30, 2024 with the option to extend the term for two additional periods of five years each. Total base annual lease payments are $80,576 for the first year, increasing 1.0275 percent per annum thereafter. The lease agreement is for 2,518 square feet. The agreement includes additional rent payments based on a pro rata portion of annual taxes, common area maintenance charges, and utilities.

In February 2015, the Bank entered into a sub-lease agreement for office space in Chantilly, Virginia. The agreement provides for an initial lease term of two years commencing March 1, 2015 through February 28, 2017. Total base annual payments are $64,875 for 4,055 square feet.

In June 2016, the Bank entered into a lease agreement for a single office space in Ruther Glen, Virginia. The agreement provides for an initial lease term of one year commencing July 1, 2016 through June 31, 2017. Total base annual payments are $17,400.

In February 2017, the Bank entered into a lease agreement for office space in Chantilly, Virginia. The agreement provides for an initial lease term of three years commencing March 1, 2017 through February 28, 2020 with the option to extend the term for an additional three years. Total base annual payments are $161,400 for the first year increasing 3% per annum thereafter. The lease agreement is for 6,725 square feet. The agreement includes additional rent payments based on a pro rata portion of annual taxes, common area maintenance charges, and utilities.

In June 2017, the Bank entered into a lease agreement for additional office space in Chantilly, Virginia. The agreement provides for an initial lease term of five years commencing December 1, 2017 through November 30, 2022 with the option to extend the term for an additional two terms of five years each. Total base annual payments are $33,360.00 for the first year increasing 2.5% per annum thereafter. The lease agreement is for 1,112 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, 2017:

YEARS ENDING DECEMBER 31	
2018	$ 877,039
2019	889,986
2020	912,570
2021	863,428
2022	701,143
Thereafter	1,196,419
	$ 5,440,585

Rent expense amounted to $823,706 and $842,487 for the years ended December 31, 2017 and 2016, respectively.

12. FAIR VALUE MEASUREMENTS

FASB 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 consider observable market data (Level 2).

Derivative asset – IRLCs: The Bank recognizes IRLCs at fair value. Fair value of IRLCs is based on either (i) the price of the underlying loans obtained from an investor for loans that will be delivered on a best efforts basis or (ii) the observable price for individual loans traded in the secondary market for loans that will be delivered on a mandatory basis. All of the Bank's IRLCs are classified as 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:

	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, 2017				
Available-for-Sale Securities	$ 61,989,669	$ —	$ 61,989,669	$ —
Derivative asset - IRLCs	39,354	—	$ 39,354	—
	$ 62,029,023	$ —	$ 62,029,023	$ —
DECEMBER 31, 2016				
Available-for-Sale Securities	$ 29,074,040	$ —	$ 29,074,040	$ —
Derivative asset - IRLCs	103,983	—	$ 103,983	—
	$ 29,178,023	$ —	$ 29,178,023	$ —

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 receivable 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 possible 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, 2017				
Impaired Loans	$ 518,596	$ —	$ —	$ 518,596
DECEMBER 31, 2016				
Impaired Loans	$ 942,841	$ —	$ —	$ 942,841

The following table presents quantitative information about Level 3 fair value measurements for financial assets measured at fair value on a non-recurring basis as of December 31, 2017:

		FAIR VALUE MEASUREMENTS AT DECEMBER 31, 2017		
	FAIR VALUE	VALUATION TECHNIQUE(S)	UNOBSERVABLE INPUTS	RANGE OF INPUTS
Impaired Loans	$ 518,596	Appraisals	Discount to reflect current market conditions and estimated selling costs	10% - 15%

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, consisting of money market deposits, Federal Reserve Bank and Federal Home Loan Bank accounts, approximates 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 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.

Federal Home Loan Bank advances: The fair value of the Federal Home Loan Bank advances is determined using rates currently available to the Bank for debt with similar terms and remaining maturities.

Off-balance sheet financial instruments: At December 31, 2017 and 2016, the fair values of loan commitments and standby letters of credit are immaterial. Therefore, they have not been included in the following table.

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

		FAIR VALUE MEASUREMENTS AT DECEMBER 31, 2017 USING			
	CARRYING AMOUNT	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Financial Assets					
Cash and Due from Banks	$ 1,164,368	$ 1,164,368	$ —	$ —	$ 1,164,368
Interest Bearing Deposits with Banks	33,936,870	33,936,870	—	—	33,936,870
Federal Funds Sold	127,000	127,000	—	—	127,000
Securities Available-for-Sale	61,989,669	—	61,989,669	—	61,989,669
Securities Held-to-Maturity	14,869,181	—	14,851,944	—	14,851,944
Loans Held for Sale	7,772,501	—	7,772,501	—	7,772,501
Loans Receivable, net	402,770,402	—	—	398,360,0000	398,360,0000
Derivative asset - IRLCs	39,354	—	39,354	—	39,354
Accrued Interest Receivable	1,643,427	1,643,427	—	—	1,643,427
Bank-owned Life Insurance	2,338,146	—	2,338,146	—	2,338,146
TOTAL FINANCIAL ASSETS	$526,650,918	$ 36,871,665	$ 86,991,614	$398,360,000	$522,223,279
Financial Liabilities					
Demand Deposits	$256,487,419	$256,487,419	$ —	$ —	$256,487,419
Time Deposits	209,493,201	—	209,039,000	—	209,039,000
Federal Home Loan Bank Advances	10,428,571	—	10,428,571	—	10,428,571
Accrued Interest Payable	162,749	162,749	—	—	162,749
TOTAL FINANCIAL LIABILITIES	$476,571,941	$256,650,168	$219,467,571	$ —	$476,117,740

FAIR VALUE MEASUREMENTS AT DECEMBER 31, 2016 USING					
	CARRYING AMOUNT	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Financial Assets					
Cash and Due from Banks	$ 1,251,102	$ 1,251,102	$ —	$ —	$ 1,251,102
Interest Bearing Deposits with Banks	4,358,332	4,358,332	—	—	4,358,332
Federal Funds Sold	24,108,000	24,108,000	—	—	24,108,000
Securities Available-for-Sale	29,074,040	—	29,074,040	—	29,074,040
Securities Held-to-Maturity	15,035,844	—	14,258,168	—	14,258,168
Loans Held for Sale	7,488,194	—	7,488,194	—	7,488,194
Loans Receivable, net	403,414,060	—	—	401,871,989	401,871,989
Derivative asset - IRLCs	103,983	—	103,983	—	103,983
Accrued Interest Receivable	1,351,819	1,351,819	—	—	1,351,819
Bank-owned Life Insurance	2,281,726	—	2,281,726	—	2,281,726
TOTAL FINANCIAL ASSETS	**$488,467,100**	**$ 31,069,253**	**$ 53,206,111**	**$401,871,989**	**$486,147,353**
Financial Liabilities					
Demand Deposits	$180,411,982	$180,411,982	$ —	$ —	$180,411,982
Time Deposits	218,980,247	—	219,914,252	—	219,914,252
Federal Home Loan Bank Advances	43,714,286	—	43,714,286	—	43,714,286
Accrued Interest Payable	175,072	175,072	—	—	175,072
TOTAL FINANCIAL LIABILITIES	**$443,281,587**	**$180,587,054**	**$263,628,538**	**$ —**	**$444,215,592**

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:

	2017	2016
Commitments to Extend Credit	$ 95,568,000	$ 99,651,000
Standby Letters of Credit	$ 2,372,000	$ 1,596,000

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 2017 or 2016.

14. DEFERRED BENEFITS

The Bank has a contributory 401(k) savings plan covering substantially all employees, which allows eligible employees to contribute up to 100 percent of their compensation, subject to the limits established by the IRS for 401(k) contributions. 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 approximately $226,000 and $193,000 for each of the years ended December 31, 2017 and 2016, respectively.

The Bank has deferred compensation plans for its directors, and its executives. Under the directors' plan, a director may elect to defer all or a portion of any director-related fees, including fees for serving on board committees. Under the executives' plan, certain employees may defer all or a portion of their compensation, including any bonus compensation.

15. ACCUMULATED OTHER COMPREHENSIVE LOSS

The following table presents the changes in accumulated other comprehensive loss, by category, net of tax, for the periods indicated:

	Unrealized Gains (Losses) on Available-for-Sale Securities	Unrealized Losses on Securities Transferred from Available-for-Sale to Held-to Maturity	Accumulated Other Comprehensive Loss)
BALANCE AT DECEMBER 31, 2015	$ (377,412)	$ —	$ (377,412)
Transfer of from AFS to HTM, net of tax of $32,212	62,529	(62,529)	—
Amortization of transferred securities, net of tax of $248	—	482	482
Reclassification for losses on sales net of tax of $10,657	(20,686)	—	(20,686)
Unrealized losses net of tax of $64,799	(125,786)	—	(125,786)
BALANCE AT DECEMBER 31, 2016	$ (461,355)	$ (62,047)	$ (523,402)
Amortization of transferred securities, net of tax of $1,477	—	2,868	2,868
Reclassification for losses on sales net of tax of $6,101	(11,842)	—	(11,842)
Unrealized gains net of tax of $27,347	53,084	—	53,084
Reclassification of stranded tax effects from change in tax rate	(82,749)	(11,657)	(94,406)
BALANCE AT DECEMBER 31, 2017	$ (502,862)	$ (70,836)	$ (573,698)

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. RELATED PARTY TRANSACTIONS

In 2017, the Bank began using a brokerage firm, at which one of the Bank's directors is a principal, through which it offers benefits such as payroll services and health and dental insurance for employees of the Bank. The brokerage firm receives commission payments directly from the benefit providers and the Bank pays no fees to the brokerage firm. Also, in 2017 and 2016, the Bank obtained legal services from a law firm, at which one of its directors was a partner.

SHAREHOLDER
& COMPANY INFORMATION

BOARD OF DIRECTORS

FRONT ROW (L TO R)

ALVIN E. NASHMAN, PH.D

CRAIG S. UNDERHILL
PRESIDENT &
CHIEF EXECUTIVE OFFICER

RICHARD C. LITMAN

JOHN T. ROHRBACK
VICE CHAIRMAN

BACK ROW (L TO R)

ROBERT FALESE, JR.

TERRY L. COLLINS, PH.D

G. THOMAS COLLINS, JR.

H. JASON GOLD
CHAIRMAN

CYNTHIA CARTER ATWATER
CORPORATE SECRETARY

BRANDON C. PARK

DIRECTORS EMERITUS

With Deepest Appreciation for the Directors Who Previously Served

IRVING BERNSTEIN
Founding Director
2000-2007
In Memoriam

JOHN F. CARMAN
Founding Director & Vice Chairman
2000-2006
In Memoriam

GEORGE C. DUKAS
Director
2002-2005
Director Emeritus

WILLIAM G. DUKAS
Founding Director
2000-2011
In Memoriam

MICHAEL A. FALKE
Founding Director
2000-2002

RICHARD L. HALL
Founding Director, President & COO
2000-2003
In Memoriam

NORMAN P. HORN
Director Emeritus

TIMOTHY P. HECHT
Director
2005-2007
Director Emeritus

DAVID C. KARLGAARD, Ph.D
Director Emeritus

GEORGE Z. KONTZIAS
Director
2002-2006
Director Emeritus

MICHAEL A. MIRANDA
Co-Founder & Organizing Director
2000-2013
In Memoriam

JAMES N. NEWSOME
Founding Chairman & CEO
2000-2003
Director Emeritus

RUSSELL E. SHERMAN
Founding Director
2000-2007
In Memoriam

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

JAMES F. STEFFEY
Founding Director
2000-2007
In Memoriam

C. STEPHEN TEMPLETON
Founding Director
2000-2002

CHARLES M. WRIGHT
Founding Director
2000-2002
Director Emeritus

MANAGEMENT TEAM

EXECUTIVE OFFICERS & SENIOR LEADERSHIP TEAM

FRONT ROW (L TO R)

CATHERINE O. BRAGAN
Senior Vice President
Client Services

RAJ MEHRA
Executive Vice President
Chief Financial Officer

KENDRA MCKEE
Vice President
Human Resources

JENNY JOUDEH
Senior Vice President
Banking Administration
& Operations

CRAIG S. UNDERHILL
President &
Chief Executive Officer

DONNA P. RAKES
Senior Vice President
Chief Risk Officer

BACK ROW (L TO R)

JAMES C. WHIRLEY
Senior Vice President
Accounting

THOMAS E. BROWN
Senior Vice President
Information Technology

RICHARD A. HUTCHISON
Executive Vice President
Chief Mortgage Officer
NMLS# 179316

KIMBERLY J. RYMAN
Senior Vice President
Compliance

KATHLEEN S. CROSON
Executive Vice President
Chief Banking Officer

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

SALLY T. SIVERONI
Executive Vice President
Chief Credit Officer

NOT PICTURED

KARIN M. JOHNS
Executive Vice President
Chief Accounting Officer

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

MORTGAGE LOAN OFFICERS

ANDREW CHEVALIER
Mortgage Loan Officer
NMLS# 1696419

KIM-ANN H. CYBULSKI
Senior Mortgage Loan Officer
NMLS# 188605

GEORGE J. DECKER
Senior Mortgage Loan Officer
NMLS# 525099

KEVIN P. DENNIS
Senior Mortgage Loan Officer
NMLS# 185900

ANGELA GANSOR
Mortgage Loan Officer
NMLS# 431133

STEFAN GOLDFADEN
Senior Mortgage Loan Officer
NMLS# 886220

SCOTT HILL
Senior Mortgage Loan Officer
NMLS# 187713

CHARLES G. HUTCHISON
Mortgage Loan Officer
NMLS# 1019699

EVAN KAY
Mortgage Loan Officer
NMLS# 1459364

CHRISTINE S. KERN
Senior Mortgage Loan Officer
NMLS# 970512

PAIGE LUTZ
Senior Mortgage Loan Officer
NMLS# 1052568

ALBERT MAGHAMEZ
Senior Mortgage Loan Officer
NMLS# 188407

STEVEN L. MITCHELL
Senior Mortgage Loan Officer
NMLS# 888275

BRENDON MURPHY
Mortgage Loan Officer
NMLS# 1669843

CHRISTOPHER PERSIL
Senior Mortgage Loan Officer
NMLS# 188099

BONNIE L. ZAPF
Senior Mortgage Loan Officer
NMLS# 188572

COMMERCIAL BANKING

VISHAL M. GANDHI
Senior Vice President
and Team Leader

CHRISTINA R. HJELMQUIST
Vice President
Treasury Management

EDWARD W. LULL, JR.
Senior Vice President

DANIEL E. MARKS
Vice President
NMLS# 618696

MARTIN MCCLARNON
Vice President
NMLS# 1060021

JAMES T. NELSON, III
Senior Vice President

DARREN T. TULLY
Vice President
NMLS# 1066465

MICHAEL J. UNDERWOOD
Senior Vice President
and Team Leader

BRANCH LOCATIONS

CHANTILLY

DEREGE W. DENU
Vice President/Branch Manager
NMLS# 150524

VIENNA

PAULA A. NEWSOME
Vice President/Branch Manager
NMLS# 993276

FAIRFAX

SALMA SUFI
Vice President/Branch Manager
NMLS# 1504176

RESTON

ALFREDO G. MOLINA
Assistant Vice President/
Branch Manager
NMLS# 1306195

CORPORATE HEADQUARTERS

The Freedom Bank of Virginia
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Fairfax, VA 22030
703-242-5300

TRANSFER AGENT

American Stock Transfer & Trust Company
Shareholder Services – Admin 5 Team
6201 Fifteenth Avenue
Brooklyn, NY 11219
718-921-8300
www.astfinancial.com

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Dixon Hughes Goodman LLP
Gaithersburg, Maryland

COMMON STOCK

The Freedom Bank of Virginia
Common stock is traded on the
OTC Markets Group (OTCQX) under the symbol FDVA

NOTICE OF ANNUAL MEETING

The Annual Meeting of Shareholders will be held on
Wednesday, August 29, 2018 – 10:00 a.m.
at the Westwood Country Club
800 Maple Avenue East
Vienna, VA 22180

FREEDOM BANK

CHANTILLY

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FAIRFAX

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RESTON

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Reston, VA 22190

703-663-2300

VIENNA

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Vienna, VA 22180

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MORTGAGE DIVISION

4211 Pleasant Valley Road
Chantilly, VA 20151

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