FREEDOM BANK

2018
ANNUAL REPORT

Experience Innovation • Bank With Freedom

Business Banking

Personal Banking

Mortgage Banking

ABOUT THE BANK

OUR VISION

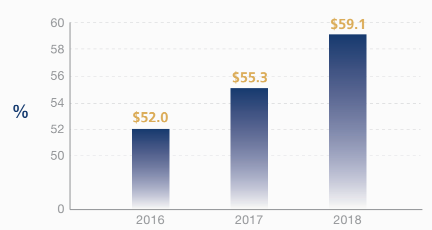
- Provide compelling ideas, relevant financial products, and exceptional service to our clients in the way they wish to be served
- Focus on building lead relationships with businesses, real estate owners, and professionals with sales offices across Northern Virginia and the DC Metropolitan Service Area
- Concentrate on industry verticals to deliver unique, sector-specific solutions and have market executives to engage local businesses and communities
- Use innovative technology, a network of sales offices, and a team of experienced bankers to make banking functional and convenient for businesses and consumers

OUR CORE VALUES

- Freedom Bank's innovative approach to banking starts with IDEAS based upon a keen understanding of client needs and market opportunities.
  - > **INNOVATION** - Exhaust all options and take smart risks
  - > **DISCIPLINE** - Act with unwavering integrity
  - > **EXPERIENCE** - Deliver exceptional outcomes
  - > **ATTITUDE** - Build relationships through teamwork and respect
  - > **SERVICE** - Participate in our communities and industries
- Our IDEAS help define the value we bring to lead client relationships and in the capabilities that we develop on our team or through partnering with best-in-class product providers.

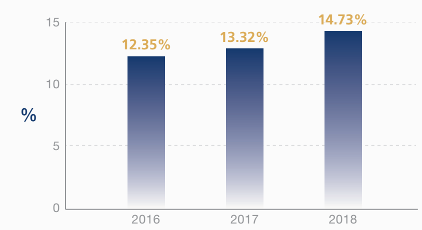
FINANCIAL HIGHLIGHTS

SHAREHOLDERS EQUITY



Rounded $MM as of December 31

TIER 1 CAPITAL RATIO



As of December 31

FREEDOM BANK

Experience Innovation • Bank With Freedom

A LETTER TO OUR SHAREHOLDERS

April 15, 2019

Dear Shareholders:

On behalf of our directors and officers, we are pleased to present our 2018 Annual Report and to share the highlights of our financial performance and the development of a new strategic plan over the past year. We are both in new roles at the Bank this year which reflects the period of significant and exciting change across our board, management team and operating platform that has occurred. In 2018, we made huge strides to improve our operations and to invest in our people and technology in order to position our company for improved financial results going forward. The excitement about our future and the talent in place to capitalize on our opportunity are captured in the faces of our talented and diverse colleagues portrayed on the cover of this report.

We would be remiss if we did not take a moment to recognize the efforts of several dedicated and talented Directors who have retired since the beginning of 2018 through the writing of this letter. Richard C. Litman, Craig S. Underhill, Alvin E. Nashman, Terry L. Collins, Robert Falese, Jr., and G. Thomas Collins Jr. have served admirably and we are grateful for their efforts on behalf of our shareholders. We are also excited to welcome a new class of energetic and diverse Directors during 2018 through the writing of this letter, including Brandon C. Park, Joseph J. Thomas, Lauren Friend McKelvey, Joseph M. English III, Kevin J. Kooman, and Maury Peiperl. Our proxy provides background information on these current and nominated Directors for election.

Over our 17-year history, the Bank has returned 31.42% to its shareholders, as compared to 12.7% over the same time period for the KBW NASDAQ Bank Index as provided by S&P Global. However, recent results have been disappointing and the board recognized that there were important areas where the Bank could improve its performance after a period of rapid growth. The board, therefore, embarked on a corporate-wide restructuring in the second half of 2018 to create the new Freedom Bank. The balance sheet restructuring and efforts to reduce overhead expenses have positioned us to be much stronger financially at a time in our economy of great uncertainty. The new strategic plan adopted by the board this year has set up the company for the Bank's next chapter of improving financial performance and returns to shareholders.

The Bank undertook a conscious effort over the past twelve months to de-risk its balance sheet by growing total shareholder equity and increasing tier 1 capital ratios as graphically displayed on the charts contained on the adjacent page. Total shareholder equity at the end of 2018 reached $59.1 million up 6.9% over 2018, and, as a result, the Bank's Tier 1 Capital Ratio increased to 14.7% at year-end 2018, a 10.9% increase over 2017 and well ahead of the 10% "well capitalized" regulatory requirement. We also bolstered the Bank's allowance for loan losses to 1.15% of total loans, a 4.4% increase over the prior year and well ahead of peer.

It is important to note that part of this improvement was the sale of 128,791 shares of common stock to our new CEO and certain existing investors via a contractual pre-emptive rights offering which raised $1.4 million of new capital for the Bank. This represents a strong show of support by current management and investors; and ensures that there is a strong alignment by management and the board with all shareholders. With this capital and the strong economic and demographic factors in the Northern Virginia banking market, the Bank has exceptional credit quality metrics, as well as excess capital by regulatory standards, which together provide abundant capacity for stable and steady growth.

We have also begun to improve key fundamental elements of our franchise value by increasing "core deposits." The level of core deposits is widely recognized as one of the most important financial metrics of community banks given

A LETTER TO OUR SHAREHOLDERS (CONT.)

the greater stability and lower cost of funding. Non-interest bearing and interest checking deposits as a percent of total deposits increased to 19% as compared to 16% in 2017 and we now have 75.7% of our deposits deemed as core deposits (e.g. excluding brokered deposits and CDs over $250 thousand). Furthermore, in anticipation of the inevitable slowing of the investor real estate market, we have made a deliberate shift in emphasis in our loan portfolio to Commercial and Industrial loans and Owner Occupied Real Estate loans. These types of loans now comprise 46% of our total loans as compared to 39% last year. This has enabled us to reduce the concentration of Commercial Real Estate loans as a percentage of Tier 1 Capital to 182%, well below the regulatory threshold of 300%.

As detailed on the inside front cover, the board has adopted a new strategic plan with the vision to *provide compelling ideas, relevant financial products, and exceptional service to our clients in the way they wish to be served.* There are many elements to this new compelling vision that are expressed in our new brand promise: Experience Innovation, Bank with Freedom. We have also revised our core values for all of our colleagues with the value statement *Freedom Bank's innovative approach to banking starts with **IDEAS** based upon a keen understanding of client needs and market opportunities.*

These values will enable us to drive a new model of the community bank of the future with seven key strategic initiatives focused on industry verticals, regional markets, lending products, treasury service products, capital market products, digital capabilities and M&A. We aspire to have these initiatives come together and build a banking franchise with great potential. Freedom Bank now possesses a strong team of banking professionals, enjoys a dynamic group of clients, and serves a robust set of communities, which together will enable us to deliver attractive shareholder returns over time.

Sincerely,

H. JASON GOLD
Chairman of the Board

JOSEPH J. THOMAS, CFA
President & CEO

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 sheets of The Freedom Bank of Virginia (the "Company") as of December 31, 2018 and 2017, and the related consolidated statements of operations, comprehensive income, stockholders' equity and cash flows for the years ended December 31, 2018 and 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, 2018 and 2017, and the results of their operations and their cash flows for the years 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 audits. 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 audits 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 audits 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 audits 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 audits provide a reasonable basis for our opinion.

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

Dixon Hughes Goodman LLP

Gaithersburg, Maryland
March 19, 2019

FINANCIAL STATEMENTS

BALANCE SHEETS

December 31
2018 and 2017

ASSETS	2018	2017
Cash and Due from Banks	$ 1,270,559	$ 1,164,368
Interest Bearing Deposits with Banks	14,376,684	33,936,870
Federal Funds Sold	-	127,000
Securities Available-for-Sale	48,204,339	61,989,669
Securities Held-to-Maturity	-	14,869,181
Restricted Stock Investments	3,076,000	2,533,500
Loans Held for Sale	4,415,520	7,772,501
Loans Receivable	394,080,457	407,332,772
Allowance for Loan Losses	(4,572,393)	(4,562,370)
Net Loans	389,508,064	402,770,402
Bank Premises and Equipment, net	1,748,935	1,595,575
Accrued Interest Receivable	1,229,534	1,643,427
Deferred Tax Asset	1,247,513	974,614
Bank-Owned Life Insurance	12,401,317	2,338,146
Other Assets	1,336,522	1,407,079
TOTAL ASSETS	$478,814,987	$533,122,332

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

LIABILITIES	2018	2017
Deposits		
Demand Deposits		
Non-Interest Bearing	$ 67,012,857	$ 69,942,247
Interest Bearing	128,403,358	184,271,412
Savings Deposits	3,023,239	2,273,760
Time Deposits	202,292,311	209,493,201
Total Deposits	400,731,765	465,980,620
Federal Home Loan Bank Advances	17,142,857	10,428,571
Other Accrued Expenses	1,607,491	1,256,202
Accrued Interest Payable	218,537	162,749
TOTAL LIABILITIES	$ 419,700,650	$ 477,828,142
STOCKHOLDERS' EQUITY		
Preferred Stock, $0.01 par value, 5,000,000 shares authorized; 0 shares issued and outstanding, 2018 and 2017	-	-
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:		
6,423,602 and 5,866,765 shares issued and outstanding at December 31, 2018 and 2017, respectively (includes 115,000 and 0 unvested shares, respectively)	63,086	58,668
Non-Voting Common Stock:		
673,000 and 660,143 shares issued and outstanding at December 31, 2018 and 2017, respectively	6,730	6,601
Additional Paid-in Capital	57,416,068	53,241,342
Accumulated Other Comprehensive Loss, net	(1,124,101)	(573,698)
Retained Earnings	2,752,554	2,561,277
Total Stockholders' Equity	59,114,337	55,294,190
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$478,814,987	$533,122,332

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

STATEMENTS OF OPERATIONS

Years Ended December 31

2018 and 2017

INTEREST INCOME	2018	2017
Interest and Fees on Loans	$ 21,016,737	$ 21,117,267
Interest on Investment Securities	2,224,165	1,993,655
Interest on Federal Funds Sold	466	19,922
Total Interest Income	23,241,368	23,130,844
INTEREST EXPENSE		
Interest on Deposits	5,352,235	4,831,359
Interest on Borrowings	322,373	172,206
Total Interest Expense	5,674,608	5,003,565
Net Interest Income	17,566,760	18,127,279
PROVISION FOR LOAN LOSSES	406,000	30,000
Net Interest Income After Provision for Loan Losses	17,160,760	18,097,279
NON-INTEREST INCOME		
Gain on Sale of Mortgage Loans	3,168,195	4,314,314
Service Charges and Other Income	279,132	251,128
Gain (Loss) on Sales of Investment Securities	(1,181,108)	17,943
Increase in Cash Surrender Value of Bank-Owned Life Insurance	63,171	56,420
Total Non-Interest Income	2,329,390	4,639,805
NON-INTEREST EXPENSES		
Officers and Employee Compensation and Benefits	11,654,250	10,916,694
Occupancy Expense	1,098,985	1,002,240
Equipment and Depreciation Expense	664,284	556,024
Insurance Expense	438,813	363,673
Professional Fees	2,108,033	1,682,060
Data and Item Processing	1,249,830	930,667
Business Development	245,294	225,535
Franchise Taxes	553,238	492,508
Mortgage Fees and Settlements	498,411	711,797
Other Operating Expense	830,158	770,775
Total Non-Interest Expenses	19,341,296	17,651,973
Income Before Income Taxes	148,854	5,085,111

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

	2018	2017
INCOME TAX EXPENSE (BENEFIT)	(42,423)	2,389,792
NET INCOME	$ 191,277	$ 2,695,319
EARNINGS PER COMMON SHARE – BASIC	$ 0.03	$ 0.41
EARNINGS PER COMMON SHARE – DILUTED	$ 0.03	$ 0.39
WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING – BASIC	6,751,251	6,518,614
WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING – DILUTED	6,948,844	6,833,739

STATEMENTS OF COMPREHENSIVE INCOME

Years Ended December 31
2018 and 2017

	2018	2017
Net Income	$ 191,277	$ 2,695,319
Other Comprehensive Income (Loss):		
Unrealized holding gains (losses) on securities available-for-sale arising during the year, net of taxes of $413,173 and ($27,347) in 2018 and 2017, respectively	(1,554,314)	53,084
Losses (gains) on sales of securities available-for-sale, net of taxes of ($248,033) and $6,101 in 2018 and 2017, respectively	933,075	(11,842)
Amortization of unrealized losses on securities transferred from available-for-sale to held-to-maturity net of taxes of $18,830 and $1,477 in 2018 and 2017, respectively	70,836	2,868
Total Other Comprehensive Income (Loss):	(550,403)	44,110
COMPREHENSIVE INCOME (LOSS)	$ (359,126)	$ 2,739,429

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

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Years Ended December 31

2018 and 2017

	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, 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**
Net income	-	-	-	-	191,277	191,277
Other comprehensive loss	-	-	-	(550,403)	-	(550,403)
Stock options exercised	315,903	3,159	2,241,842	-	-	2,245,001
Issuance of common stock	128,791	1,288	1,428,292	-	-	1,429,580
Restricted stock - vested	10,000	100	(100)	-	-	-
Stock-based compensation - stock options	-	-	130,672	-	-	130,672
Stock-based compensation - restricted stock	-	-	374,020	-	-	374,020
BALANCE, DEC. 31, 2018	**6,981,602**	**$ 69,816**	**$57,416,068**	**$ (1,124,101)**	**$2,752,554**	**$59,114,337**

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

STATEMENTS OF CASH FLOWS

Years Ended December 31

2018 and 2017

CASH FLOWS FROM OPERATING ACTIVITIES	2018	2017
Net income	$ 191,277	$ 2,695,319
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	289,809	257,284
Provision for loan losses	406,000	30,000
Net amortization of available-for-sale securities	720,630	538,559
Net amortization of held-to-maturity securities	122,324	171,008
(Gains) losses on sales of investment securities	1,181,108	(17,943)
Gain on sale of mortgage loans	(3,168,195)	(4,314,314)
Loans held for sale originated	(120,543,245)	(161,044,213)
Proceeds from the sale of loans held for sale	127,068,421	165,074,220
Stock-based compensation expense	504,692	225,837
Gain on sale of other real estate owned	(4,097)	-
Deferred income tax expense (benefit)	(126,589)	1,290,933
Increase in cash surrender value of bank-owned life insurance	(63,171)	(56,420)
(Increase) decrease in:		
Accrued interest receivable	413,893	(291,608)
Other assets	70,557	(328,372)
Increase (decrease) in:		
Other accrued expenses	351,289	(342,741)
Accrued interest payable	55,788	(12,323)
Net cash provided by Operating Activities	7,470,491	3,875,226

CASH FLOWS FROM INVESTING ACTIVITIES		
Net change in federal funds sold	127,000	23,981,000
Purchase of bank-owned life insurance	(10,000,000)	-
Net change in interest bearing deposits with banks	19,433,143	(29,578,538)
Loan (originations) payments, net	11,688,552	613,658
Purchase of available-for-sale securities	(7,015,763)	(48,817,670)
Maturities, calls and paydowns of securities available-for-sale	7,907,679	6,411,284
Proceeds from sales of securities available-for-sale	25,041,821	9,032,629
Proceeds from sale of other real estate owned	1,171,882	-
Purchase (sale) of restricted stock investments, net	(542,500)	1,184,900
Acquisition of bank premises and equipment	(443,169)	(413,979)
Net cash provided (used) in Investing Activities	47,368,645	(37,586,716)

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

STATEMENTS OF CASH FLOWS

Years Ended December 31
2018 and 2017

CASH FLOWS FROM FINANCING ACTIVITIES	2018	2017
(Decrease) increase in deposits, net	$ (65,248,855)	$ 66,588,391
Advances from the Federal Home Loan Bank	39,000,000	6,000,000
Repayment of advances from the Federal Home Loan Bank	(32,285,714)	(39,285,715)
Proceeds from stock options	2,245,001	65,913
Proceeds from stock warrants	-	256,167
Proceeds from sale of stock, net	1,429,580	-
Net cash provided (used) in Financing Activities	(54,859,988)	33,624,756
Net increase (decrease) in cash and due from banks	106,191	(86,734)
Cash and due from banks, beginning of year	1,164,368	1,251,102
CASH AND DUE FROM BANKS, END OF YEAR	$ 1,270,559	$ 1,164,368
NONCASH INVESTING ACTIVITY		
Unrealized gain (loss) on securities available-for-sale, net	$ (786,379)	$ 66,833
Transfer of securities from held-to-maturity to available-for-sale	$ 5,072,984	$ -
Unrealized, unamortized loss on securities remaining prior to transfer to available-for-sale, net	$ 89,666	$ -
Loans transferred to other real estate owned	$ 1,167,785	$ -
SUPPLEMENTAL INFORMATION		
Cash paid during the year for interest	$ 5,618,820	$ 5,015,888
Cash paid during the year for income taxes	$ -	$ 1,346,000

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

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

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.

NATURE OF OPERATIONS AND PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of The Freedom Bank of Virginia and its formerly wholly-owned subsidiary, FBV Capital Advisors Inc. (FBVCA), a broker-dealer in securities, together referred to as "the Bank". 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, Chantilly and Reston, 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.

In September 2018, FBVCA was sold through a stock purchase agreement. The Bank recorded $22,900 and $24,723 in legal fees related to the transaction for the year ended December 31, 2018 and 2017, respectively. Additionally, the Bank recorded a gain on sale of approximately $38,000 for the year ended December 31, 2018. All intercompany balances and transactions in 2017 have been eliminated in consolidation.

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 interest bearing deposits with other institutions. Interest bearing deposits are valued at cost. Interest income is recorded as interest income on investment securities.

INVESTMENT SECURITIES

Investment securities are classified as either held-to-maturity, available-for-sale or trading securities. In determining such classification, securities that the Bank has the positive intent and ability to hold to maturity are classified as held-to-maturity and are carried at amortized cost. Securities classified as available-for-sale are carried at estimated fair value with unrealized gains and losses included in stockholders' equity on an after tax basis. Trading securities are carried at estimated fair value with unrealized gains and losses included in non-interest income.

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

Federal Reserve Bank stock, 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 status 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 status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

LOANS HELD-FOR-SALE

Loans held for sale consist primarily of residential mortgage loans, which are secured by one-to-four family residential real estate. Loans held for sale are carried at the lower of aggregate cost, net of purchase discounts or premiums, deferred fees, and deferred origination costs, or fair value. The Bank sells its mortgage loans forward to investors and the estimated fair value is largely dependent upon the terms of these outstanding loan purchase commitments, as well as movement in market interest rates.

ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses is maintained at a level that, in management's judgment, is adequate to absorb 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.

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, 2018 and 2017.

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.

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 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 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 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 2015, 2016 and 2017 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 became effective January 1, 2018 and among other things, permanently lowered 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.

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.

	2018	2017
Average number of common shares outstanding	6,751,251	6,518,614
Effect of dilutive options	197,593	315,125
Average number of common shares outstanding used to calculate diluted earnings per common share	6,948,844	6,833,739

Stock options for 19,873 and 1,500 shares of common stock were not considered in computing diluted earnings per common share for 2018 and 2017, respectively, because they were antidilutive. Non-vested restricted common shares, which carry all rights and privileges of a common share with respect to the stock, including the right to vote, were included in the basic and diluted per common share calculations.

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.

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 evaluated the overall impact on affected revenue streams and any related contracts, including asset management fees, gains and losses on the sale of real estate, deposit related fees and interchange fees. Based on this evaluation, the Bank determined that ASU 2014-09 did not materially change the method in which revenue from impacted revenue streams was previously recognized. The Bank applied the guidance using a modified retrospective approach. This approach requires the application of the new guidance to uncompleted contracts at the date of adoption. Periods prior to the date of adoption were not retrospectively revised as the impact on uncompleted contracts at the date of adoption was not material.

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 amendments related to equity securities without readily determinable fair values were applied prospectively to equity investments that exist as of the date of the adoption of the amendments. ASU 2016-01 requires the use of exit price rather than entrance price in determining the fair value of loans not measured at fair value on a non-recurring basis in the consolidated balance sheets. See Note 12 – Fair Value Measurements for information regarding the change in the valuation of these loans. The adoption of ASU 2016-01 did not have a material impact on the Bank's financial statements.

ASU 2016-02

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. Among other things, in the amendments in ASU 2016-02, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date: (1) A lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) A right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Under the new guidance lessor accounting is largely unchanged. Certain targeted improvements were made to align, where necessary, lessor accounting with the lessee accounting model and Topic 606, Revenue from Contracts with Customers. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted upon issuance. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach. The FASB made subsequent amendments to Topic 842 in July 2018 through ASU 2018-10 ("Codification Improvements to Topic 842, Leases") and ASU 2018-11 ("Leases (Topic 842): Targeted Improvements"). Among these amendments is the provision in ASU 2018-11 that provides entities with an additional (and optional) transition method to adopt the new lease standard. Under this transition method, an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. Consequently, an entity's reporting for the comparative periods presented in the financial statements in which it adopts the new leases standard will continue to be in accordance with current GAAP (Topic 840, Leases). The effect of adopting this standard on January 1, 2019 was an approximately $3.75 million increase in assets and liabilities on our balance sheet.

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 began archiving core loan data beginning in January 2018 in anticipation of the implementation of the new standard. Additionally, a third-party vendor was engaged to begin running parallel models starting in the first quarter of 2019. 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 2017 financial statements have been reclassified to conform to the 2018 financial statement presentation.

SUBSEQUENT EVENTS

The date to which events occurring after December 31, 2018, the date of the most recent balance sheet, have been evaluated for possible adjustment to the financial statements or disclosure is March 19, 2019, 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, 2018 and 2017 was $1,737,000 and $2,740,000, 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, 2018	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
Available-for-sale				
Corporate notes	$ 3,758,201	$ 22,592	$ (84,964)	$ 3,695,829
Mortgage backed securities	35,789,803	15,956	(895,425)	34,910,334
Municipal securities	5,070,380	-	(354,836)	4,715,544
SBA loan pools	5,008,870	2,828	(129,066)	4,882,632
Total Available-for-sale	49,627,254	41,376	(1,464,291)	48,204,339
Held-to-maturity				
Municipal securities	-	-	-	-
TOTAL INVESTMENT SECURITIES	$ 49,627,254	$ 41,376	$ (1,464,291)	$ 48,204,339

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

The amortized cost and estimated fair value of debt securities at December 31, 2018, by contractual maturity, are as follows:

	AVAILABLE-FOR-SALE	
	AMORTIZED COST	FAIR VALUE
Amounts maturing in:		
1 year or less	$ -	$ -
After 1 year - 5 years	1,505,797	1,462,222
After 5 years - 10 years	4,381,522	4,335,916
After 10 years	7,950,132	7,495,867
	13,837,451	13,294,005
Mortgage backed securities	35,789,803	34,910,334
	$49,627,254	$48,204,339

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, 2018 and 2017, U.S. Government and agency securities and mortgage backed securities with carrying values of $0 and $20,395,555, 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, 2018, 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	$ 51,190	$ 451,981	$ 33,774	$ 966,226
Mortgage backed securities	19,300	3,433,339	876,125	29,833,703
Municipal securities	-	-	354,836	4,715,544
SBA loan pools	10,986	889,985	118,080	3,367,115
TOTALS	$ 81,476	$ 4,775,305	$ 1,382,815	$ 38,882,588

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, 2018, 6 debt securities with an unrealized loss for less than one year and 57 debt securities with an unrealized loss for greater than one year depreciated approximately 3.2 percent from the Bank's amortized cost basis. 34 of the securities are secured by Federal agency mortgage backed securities or U.S. Treasury obligations and direct obligations of U.S. Government agencies, 3 of the securities are corporate bonds, 15 are private-label collateralized mortgage obligations, and 11 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.

During the year, the Bank transferred 29 municipal securities from held-to-maturity to available-for-sale. Based on changes in the current rate environment, management elected this change in an effort to more effectively manage the investment portfolio, including subsequently selling some securities that were formerly classified as held-to-maturity. The amortized cost of the securities that were transferred totaled $14.5 million and the net unrealized loss related to these securities totaled $608,000 on the date of transfer. This one was a one-time transfer, done in accordance with ASU 2017-02, and management does not believe that it has tainted its held to maturity classification.

The Bank received $25,041,821 in proceeds from available-for-sale securities during the year ended December 31, 2018. As a result, the Bank recognized $0 million in gross gains and $1,181,108 in gross losses for the year ended December 31, 2018.

Restricted investments consist of the following at December 31:

	2018	2017
Federal Reserve Bank stock	$ 1,710,300	$ 1,571,300
Federal Home Loan Bank stock	1,299,700	896,200
Community Bankers Bank stock	66,000	66,000
TOTALS	$ 3,076,000	$ 2,533,500

4. Loans Receivable

Loans receivable include the following at December 31:

	2018	2017
Commercial and industrial	$ 76,919,421	$ 64,153,229
Real estate - commercial	191,543,985	202,399,170
Real estate - construction	32,335,250	38,721,639
Real estate - residential	67,991,855	81,752,643
Consumer and other	25,506,991	20,754,304
Subtotals	394,297,502	407,780,985
Deferred loan fees, net	(217,045)	(448,213)
TOTALS	$ 394,080,457	$ 407,332,772

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 2018	COMMERCIAL & INDUSTRIAL	REAL ESTATE - COMMERCIAL	REAL ESTATE - CONSTRUCTION	REAL ESTATE - RESIDENTIAL	CONSUMER	TOTAL
Allowance for Loan Losses						
Beginning balance	$ 767,017	$ 2,464,708	$ 864,183	$ 368,319	$ 98,143	$ 4,562,370
Charge-offs	-	-	(191,453)	-	(165,249)	(356,702)
Recoveries	-	-	-	-	525	525
Provision	67,109	8,437	(220,624)	321,285	229,793	406,000
Reclassification[1]	-	-	-	(39,000)	-	(39,800)
Ending Balance	$ 834,126	$ 2,473,145	$ 452,106	$ 649,804	$ 163,212	$ 4,572,393
Individually evaluated for impairment	-	-	-	-	-	-
Collectively evaluated for impairment	834,126	2,473,145	452,106	649,804	163,212	4,572,393

[1] The reclassification in the current year relates to the removal of a reserve that was originally posted for the mortgage loans held-for-sale portfolio. This reserve is now recorded in Other Liabilities on the Balance Sheet

Loans Receivable						
Ending Balance	$ 76,919,421	$191,543,985	$ 32,335,250	$ 67,991,855	$ 25,506,991	$394,297,502
Individually evaluated for impairment	$ 1,185,111	$ 3,185,852	$ 500,000	$ 2,824,302	-	$ 7,695,265
Collectively evaluated for impairment	75,734,310	188,358,133	31,835,250	65,167,553	25,506,991	386,602,237

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	738,488	2,464,708	864,183	253,319	98,143	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

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

YEAR 2018	30-59 DAYS PAST DUE	60-89 DAYS PAST DUE	90 DAYS OR MORE PAST DUE	TOTAL PAST DUE	CURRENT	TOTAL LOANS RECEIVABLE	NONACCRUAL LOANS
Commercial and industrial	$ 355,727	$ 220,352	$ -	$ 576,079	$ 76,343,342	$ 76,919,421	$ 503,794
Real estate - commercial	-	-	-	-	191,543,985	191,543,985	-
Real estate - construction	1,575,669	-	500,000	2,075,669	30,259,581	32,335,250	500,000
Real estate - residential	853,813	-	-	853,813	67,138,042	67,991,855	1,808,766
Consumer	-	-	-	-	25,506,991	25,506,991	-
TOTALS	$ 2,785,209	$ 220,352	$ 500,000	$ 3,505,561	$390,791,941	$394,297,502	$ 2,812,560
YEAR 2017							
Commercial and industrial	$ -	$ 125,625	$ -	$ 125,625	$ 64,027,604	$ 64,153,229	$ 125,625
Real estate - commercial	-	-	-	-	202,399,170	202,399,170	-
Real estate - construction	-	-	-	-	38,721,639	38,721,639	-
Real estate - residential	-	-	540,500	540,500	81,212,143	81,752,643	540,500
Consumer	-	-	-	-	20,754,304	20,754,304	-
TOTALS	$ -	$ 125,625	$ 540,500	$ 666,125	$407,114,860	$407,780,985	$ 666,125

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

YEAR 2018	RECORDED INVESTMENT	UNPAID PRINCIPAL BALANCE	RELATED ALLOWANCE FOR LOAN LOSSES	AVERAGE RECORDED INVESTMENT	INTEREST INCOME RECOGNIZED
With no related allowance recorded:					
Commercial and industrial	$ 1,185,111	$ 1,308,693	$ -	$ 1,195,950	$ 63,687
Real Estate - commercial	3,185,852	3,185,852	-	3,231,715	147,545
Real Estate - construction	500,000	500,000	-	500,000	16,389
Real Estate - residential	2,824,302	2,848,237	-	3,289,832	199,735
Consumer	-	-	-	-	-
With an allowance recorded:					
Commercial and industrial	-	-	-	-	-
Real Estate - commercial	-	-	-	-	-
Real Estate - construction	-	-	-	-	-
Real Estate - residential	-	-	-	-	-
Consumer	-	-	-	-	-
TOTAL					
Commercial and industrial	1,185,111	1,308,693	-	1,195,950	63,687
Real Estate - commercial	3,185,852	3,185,852	-	3,231,715	147,545
Real Estate - construction	500,000	500,000	-	500,000	16,389
Real Estate - residential	2,824,302	2,848,237	-	3,289,832	199,735
Consumer	-	-	-	-	-
	$ 7,695,265	$ 7,842,782	$ -	$ 8,217,497	$ 427,356

YEAR 2017	RECORDED INVESTMENT	UNPAID PRINCIPAL BALANCE	RELATED ALLOWANCE FOR LOAN LOSSES	AVERAGE RECORDED INVESTMENT	INTEREST INCOME RECOGNIZED
With no related allowance recorded:					
Commercial and industrial	$ -	$ -	$ -	$ -	$ -
Real Estate - commercial	1,479,649	1,479,649	-	1,489,050	71,712
Real Estate - construction	-	-	-	-	-
Real Estate - residential	104,443	104,443	-	116,779	6,961
Consumer	-	-	-	-	-
With an allowance recorded:					
Commercial and industrial	125,625	125,625	28,529	134,028	5,635
Real Estate - commercial	-	-	-	-	-
Real Estate - construction	-	-	-	-	-
Real Estate - residential	536,500	536,500	115,000	657,084	-
Consumer	-	-	-	-	-
TOTAL					
Commercial and industrial	125,625	125,625	28,529	134,028	5,635
Real Estate - commercial	1,479,649	1,479,649	-	1,489,050	71,712
Real Estate - construction	-	-	-	-	-
Real Estate - residential	640,943	640,943	115,000	773,863	6,961
Consumer	-	-	-	-	-
	$ 2,246,217	$ 2,246,217	$ 143,529	$ 2,396,941	$ 84,308

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 2018	PASS	SPECIAL MENTION	SUBSTANDARD	DOUBTFUL	LOSS
Commercial and industrial	$ 74,858,816	$ 1,025,857	$ 1,034,748	$ -	$ -
Real estate - commercial	184,916,352	3,441,781	3,185,852	-	-
Real estate - construction	31,835,250	-	500,000	-	-
Real estate - residential	62,471,813	2,671,805	2,848,237	-	-
Consumer	25,506,991	-	-	-	-
TOTALS	**$ 379,589,222**	**$ 7,139,443**	**$ 7,568,837**	$ -	$ -

YEAR 2017	PASS	SPECIAL MENTION	SUBSTANDARD	DOUBTFUL	LOSS
Commercial and industrial	$ 63,394,410	$ 633,194	$ -	$ 125,625	$ -
Real estate - commercial	199,175,861	1,743,660	1,479,649	-	-
Real estate - construction	38,721,639	-	-	-	-
Real estate - residential	81,111,699	82,272	558,672	-	-
Consumer	20,725,029	29,275	-	-	-
TOTALS	**$ 403,128,638**	**$ 2,488,401**	**$ 2,038,321**	**$ 125,625**	**$ -**

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, 2018 and December 31, 2017, the Bank had a recorded investment in troubled debt restructurings of $534,405 and $230,068, respectively. The Bank allocated $0 and $28,529 of specific allowance for those loans at December 31, 2018 and December 31, 2017. The Bank modified three loans during the year ended December 31, 2018 which were classified as TDRs. Concessions granted to borrowers include changes in interest rates, maturity dates and/or payment amounts or some combination of each. There were two credits classified as a TDR in the prior year which defaulted during the year ended December 31, 2018. These two credits were charged off in full and recognized through the allowance for loan loss reserve.

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 $2,660,871 and $1,463,571 at December 31, 2018 and 2017, respectively. New loans made to such related parties amounted to $3,106,500, and repayments amounted to $1,490,186 in 2018.

5. Bank Premises and Equipment

Bank premises and equipment include the following:

	2018	2017
Furniture and equipment	$ 1,802,846	$ 1,475,882
Leasehold improvements	1,452,819	1,181,317
Construction in progress	18,720	240,760
Software	185,303	118,560
Total Cost	3,459,688	3,016,519
Less accumulated depreciation	(1,710,753)	(1,420,944)
NET BANK PREMISES AND EQUIPMENT	$ 1,748,935	$ 1,595,575

Depreciation and amortization of bank premises and equipment charged to expense amounted to $289,809 and $257,284 in 2018 and 2017, respectively.

6. Deposits

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

2019	$ 122,156,615
2020	44,246,614
2021	28,289,152
2022	5,744,181
2023	1,855,749
TOTAL	$ 202,292,311

Time deposits in denominations that meet or exceed the FDIC minimum limit of $250,000 or more totaled $83,457,849 and $66,371,688 at December 31, 2018 and 2017, respectively.

The Bank held related party deposits of approximately $6,442,635 and $7,083,000 at December 31, 2018 and 2017, respectively.

7. Borrowings and Advances

The Bank's borrowings from the Federal Home Loan Bank of Atlanta (FHLB) were $17.1 million and $10.4 million at December 31, 2018 and 2017, respectively. At December 31, 2018 and 2017, the weighted average rates on FHLB advances were 2.05% and 1.77%, respectively. These advances were secured by a blanket collateral agreement with the FHLB pledging the Bank's portfolio of residential first mortgage loans with a collateral value of $79.4 million and $41.9 million.

FHLB advances are subject to prepayment penalties. During the year ended December 31, 2018 and 2017, the Company prepaid no FHLB advances.

Callable advances are callable at the option of the FHLB. If an advance is called, the Bank has the option to pay off the advance without penalty, re-borrow funds on different terms, or convert the advance to a three-month floating rate advance tied to LIBOR. The Bank did not have any callable FHLB advances at December 31, 2018 or 2017.

Advances from the FHLB are summarized by year of maturity and weighted average interest rate at December 31, 2018:

	AMOUNT	WEIGHTED AVERAGE RATE
2019	$ 5,500,000	2.37%
2020	4,500,000	2.13%
2021	3,000,000	1.34%
2022	4,142,857	2.05%
TOTAL	$ 17,142,857	

8. Income Taxes

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

	2018	2017
Deferred tax assets		
Allowance for loan losses	$ 852,944	$ 820,195
Unearned loan fees and costs, net	45,579	94,125
Accrued compensation	114,418	52,500
Non-accrual loan interest	6,000	11,690
Unrealized losses on securities	298,812	152,502
Stock options	-	52,734
Restricted stock	52,903	-
Net operating loss carryforward	193,941	-
Other	11,803	-
	1,576,400	1,183,746
Deferred Tax Liabilities		
Depreciation	304,636	200,868
Interest rate lock	24,251	8,264
	328,887	209,132
Net deferred tax assets	$ 1,247,513	$ 974,614

Income tax expense (benefit) was as follows:

	2018	2017
Current tax expense	$ 84,166	$ 1,098,859
Deferred tax expense (benefit)	(126,589)	687,602
Deferred tax asset adjustment for enacted change in tax rate	-	603,331
	$ (42,423)	$ 2,389,792

Income tax expense for 2017 included a 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 was 34%. Effective January 1, 2018, the Bank's tax rate is 21%.

Effective tax rates differ from the federal statutory rate of 21% for 2018 and 34% for 2017, which is applied to income before income taxes due to the following:

	2018	2017
Federal statutory rate times financial statement income	$ 31,259	$ 1,728,938
Effect of:		
Tax-exempt income, net of disallowance	(111,618)	(138,966)
Earnings from bank-owned life insurance	(13,266)	(19,183)
Deferred tax asset adjustment for enacted change in tax rate	-	603,331
Stock compensation	(69,659)	68,786
Other	120,861	146,886
	$ (42,423)	$ 2,389,792

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, 2018 and, 2017, that the Bank meets all the capital adequacy requirements to which it is subject.

As of December 31, 2018, 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, 2018 and 2017 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, 2018						
Total Capital (to Risk Weighted Assets)	$64,810,831	15.85%	$32,712,769	8.00%	$40,890,961	10.00%
Tier 1 Capital (to Risk Weighted Assets)	$60,238,439	14.73%	$24,534,577	6.00%	$32,712,769	8.00%
Common Equity Tier 1 Capital (to Risk Weighted Assets)	$60,238,439	14.73%	$18,400,932	4.50%	$26,579,125	6.50%
Tier 1 Capital (to Adjusted Average Assets)	$60,238,439	12.16%	$19,821,838	4.00%	$24,777,298	5.00%
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%

10. Stock Option & Equity Plan

In 2007, the Bank established the 2007 stock option and equity plan (the Plan) for executives, other employees, officers, directors and consultants. Shares have been reserved for issuance by the Bank upon the grant of stock options or restricted stock awards. Shares issued 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 and 200,000 at the August 2018 and March 2016 annual meetings, respectively. The authorized and granted options under the Plan are as follows at December 31, 2018:

	AUTHORIZED	GRANTED	VESTED
2007 Plan	1,075,280	979,761	828,957

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, 2018, there was approximately $103,944 in unrecognized compensation expense related to non-vested stock options that are expected to be recognized over a weighted average period of 0.77 years. At December 31, 2017, there was approximately $246,000 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, 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, 2017	696,779	7.01
Grants	-	-
Exercised	(315,903)	7.11
Canceled or expired	(50,427)	8.69
OUTSTANDING, DECEMBER 31, 2018	330,449	$ 6.67

There were no stock options granted during the year ended December 31, 2018. The weighted average remaining contractual life of options outstanding as of December 31, 2018 is 4.00 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.

In 2018, 125,000 voting common shares of restricted stock were granted to two executives in connection with their overall compensation plan. 50,000 shares were granted September 25, 2018 as part of a performance-based restricted stock agreement at a value of $12.21 for the first 10,000 shares. All subsequent shares will be valued upon the determination of future performance criteria. These restricted shares vest in accordance with tranches over five performance periods, March 15, 2019, March 15, 2020, March 15, 2021, March 15, 2022, and March 15, 2023. 50,000 shares were granted September 25, 2018 as part of a time-based restricted stock agreement at a value of $12.21. These restricted shares cliff vest over a five year period beginning December 15, 2018. As of December 31, 2018, 10,000 of the time-based restricted shares have vested. 25,000 shares were granted October 1, 2018 as part of a performance-based restricted stock agreement at a value of $12.05 for the first 5,000 shares. All subsequent shares will be valued upon the determination of future performance criteria. These restricted shares vest in accordance with tranches over the same five performance periods noted above.

For the years ended December 31, 2018 and 2017, the Bank recognized $382,592 and $225,837 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 2.75% 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 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 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, 2018:

YEAR ENDING DECEMBER 31	
2019	$ 889,986
2020	912,570
2021	863,428
2022	701,143
2023	682,420
Thereafter	513,999
	$ 4,563,546

Rent expense amounted to $913,935 and $823,706 for the years ended December 31, 2018 and 2017, respectively.

12. Fair Value Measurements

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. U.S. GAAP requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. U.S. GAAP also establishes a fair value hierarchy which prioritizes the valuation inputs into three broad levels. Based on the underlying inputs, each fair value measurement in its entirety is reported in one of the three levels. These levels are:

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

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

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

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

SECURITIES AVAILABLE-FOR-SALE:

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

LOANS HELD-FOR-SALE:

The Bank originates fixed rate residential loans on a servicing released basis in the secondary market. Loans closed but not yet settled with an investor, are carried in the Bank's loans held for sale portfolio. These loans are fixed rate residential loans that have been originated in the Bank's name and have closed. Virtually all of these loans have commitments to be purchased by investors at a locked-in price with the investors on the same day that the loan was locked in with the Bank's customers. Therefore, these loans present very little market risk for the Bank and are classified as Level 2. The carrying amount of these loans approximates fair value.

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)
2018				
Available-for-sale securities	$ 48,204,339	$ -	$ 48,204,339	$ -
Loans held for sale	4,415,520	-	$ 4,415,520	-
	$ 52,619,859	$ -	$ 52,619,859	$ -
2017				
Available-for-sale securities	$ 61,989,669	$ -	$ 61,989,669	$ -
Loans held for sale	7,772,501	-	$ 7,772,501	-
	$ 69,762,170	$ -	$ 69,762,170	$ -

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)
2018				
Impaired loans	$ -	$ -	$ -	$ -
2017				
Impaired loans	$ 518,596	$ -	$ -	$ 518,596

There were no financial assets measured at fair value on a non-recurring basis as of December 31, 2018. 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%

FASB ASC 825, *Financial Instruments*, requires disclosure about fair value of financial instruments, including those financial assets and financial liabilities that are not required to be measured and reported at fair value on a recurring or nonrecurring basis. ASC 825 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Bank. Additionally, in accordance with ASU 2016-01, which the Bank adopted on January 1, 2018 on a prospective basis, the Bank uses the exit price notion, rather than the entry price notion, in calculating the fair values of financial instruments not measured at fair value on a recurring basis.

		FAIR VALUE MEASUREMENTS AT DECEMBER 31, 2018 USING			
	CARRYING AMOUNT	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Financial assets					
Cash and due from banks	$ 1,270,559	$ 1,270,559	$ -	$ -	$ 1,270,559
Interest bearing deposits with banks	14,376,684	14,376,684	-	-	14,376,684
Federal funds sold	-	-	-	-	-
Securities available-for-sale	48,204,339	-	48,204,339	-	48,204,339
Securities held-to-maturity	-	-	-	-	-
Loans held for sale	4,415,520	-	4,415,520	-	4,415,520
Loans receivable, net	389,508,064	-	-	390,930,000	390,930,000
Accrued interest receivable	1,229,534	1,229,534	-	-	1,229,534
Bank-owned life insurance	12,401,317	-	12,401,317	-	12,401,317
TOTAL FINANCIAL ASSETS	**$471,406,017**	**$ 16,876,777**	**$ 65,021,176**	**$390,930,000**	**$472,827,953**
Financial liabilities					
Demand deposits	$198,439,454	$198,439,454	$ -	$ -	$198,439,454
Time deposits	202,292,311	-	201,319,000	-	201,319,000
Federal Home Loan Bank advances	17,142,857	-	17,170,803	-	17,170,803
Accrued interest payable	218,537	218,537	-	-	218,537
TOTAL FINANCIAL LIABILITIES	**$418,093,159**	**$198,657,991**	**$218,489,803**	**$ -**	**$417,147,794**

	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	-	-	398,360,000	398,360,000
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	$526,611,564	$ 36,871,665	$ 86,952,260	$398,360,000	$522,183,925
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	-	10,454,643	-	10,454,643
Accrued interest payable	162,749	162,749	-	-	162,749
TOTAL FINANCIAL LIABILITIES	$476,571,940	$256,650,168	$219,493,643	$ -	$476,143,811

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:

	2018	2017
Commitments to extend credit	$ 71,394,000	$ 95,568,000
Standby letters of credit	$ 2,446,000	$ 2,372,000

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 had one financial letter of credit drawn during 2018. The total commitment for this letter of credit is $155,000. The letter of credit is secured by a second deed of trust on owner-occupied real estate which is subordinate to a first deed of trust held by the Bank. The Bank has not incurred any losses on its commitments in 2018 or 2017.

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 $235,000 and $226,000 in 2018 and 2017 for employee service rendered in 2017 and 2016, respectively. There was no accrual for a discretionary contribution made during the year ended December 31, 2018.

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, 2016	$ (461,355)	$ (62,047)	$ (523,402)
Amortization of transferred securities, net of tax of $1,477	-	2,868	2,868
Reclassification for (gains) 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)
Unrealized gains (losses) net of tax of $413,173	(1,554,314)	-	(1,554,314)
Reclassification for (gains) losses on sales net of tax of $248,033	933,075	-	933,075
Amortization of transferred securities, net of tax of $18,830	-	70,836	70,836
BALANCE AT DECEMBER 31, 2018	$ (1,124,101)	$ -	$ (1,124,101)

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 2018 and 2017, the Bank obtained legal services from two separate law firms, for which one of its directors was a partner.

SHAREHOLDER & COMPANY INFORMATION

BOARD OF DIRECTORS

H. JASON GOLD
CHAIRMAN

JOHN T. ROHRBACK
VICE CHAIRMAN

CYNTHIA CARTER ATWATER
DIRECTOR

JOSEPH J. THOMAS
PRESIDENT AND CEO

ROBERT D. FALESE JR.
DIRECTOR

BRANDON C. PARK
DIRECTOR

LAUREN FRIEND MCKELVEY
DIRECTOR

EXECUTIVE OFFICERS & SENIOR LEADERSHIP TEAM

JOSEPH J. THOMAS
PRESIDENT AND CEO

SHAUN E. MURPHY
EXECUTIVE VICE PRESIDENT &
CHIEF OPERATING AND CREDIT OFFICER

RAJ MEHRA
EXECUTIVE VICE PRESIDENT &
CHIEF FINANCIAL OFFICER

RICHARD A. HUTCHISON
EXECUTIVE VICE PRESIDENT &
CHIEF MORTGAGE OFFICER

KATHLEEN S. CROSON
EXECUTIVE VICE PRESIDENT &
CHIEF BANKING OFFICER

CORPORATE HEADQUARTERS

The Freedom Bank of Virginia
10555 Main Street
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
Tuesday, May 28, 2019 – 1 p.m.
at The Freedom Bank of Virginia Corporate Headquarters
10555 Main Street, Suite 600
Fairfax, VA 22030

OUR

IDEAS

EMPOWER EMPLOYEES

TO

BENEFIT CLIENTS

FREEDOM BANK

Experience Innovation • Bank With Freedom

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703-663-2300

VIENNA

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Vienna, VA 22180

703-667-4170

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Chantilly, VA 20151

703-766-6400

PRINCE WILLIAM COUNTY

703-667-4166

OTCQX : FDVA