Freedom Bank

Experience Innovation • Bank With Freedom

2019 ANNUAL REPORT

Business Banking • Personal Banking • Mortgage Banking

freedom.bank

ABOUT THE BANK

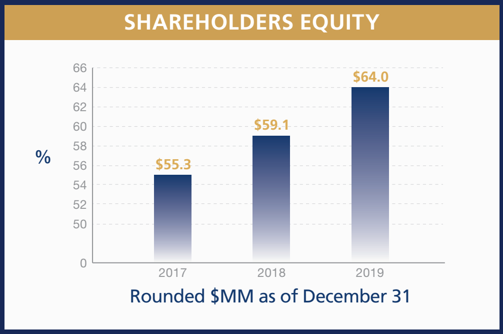
Our Vision

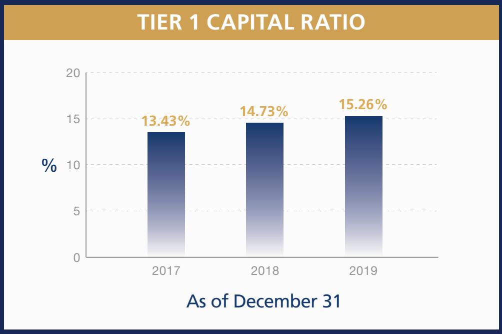
- Provide compelling ideas, relevant financial products, and exceptional service to our clients in the way they wish to be served
- Focus on building lead relationships with businesses, real estate owners, and professionals with sales offices across Northern Virginia and the DC Metropolitan Service Area
- 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.
    - > **I**NNOVATION - Exhaust all options and take smart risks
    - > **D**ISCIPLINE - Act with unwavering integrity
    - > **E**XPERIENCE - Deliver exceptional outcomes
    - > **A**TTITUDE - Build relationships through teamwork and respect
    - > **S**ERVICE - 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





FREEDOM BANK

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A LETTER TO OUR SHAREHOLDERS

March 15, 2020

Dear Shareholders:

On behalf of our directors and officers, we are pleased to present our 2019 Annual Report that highlights our financial performance. Our new strategic plan has transformed our company over the past year and has helped position us for growth and improved profitability going forward. As 2020 gets underway, we are seeing very challenging operating conditions and extreme global economic and capital markets volatility. We are fortunate to have a very strong credit profile and abundant capital to support our clients during this anxious time.

Freedom Bank is operating as a 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 strategic transactions. The initiatives are coming together to enable us to build a banking franchise with great potential and are captured in some of the client success stories displayed on the inside back cover of this annual report. These affirmations from our clients reinforce the power and potential of our model.

We were excited to welcome three new directors to Freedom Bank's Board of Directors and have made huge strides to improve our corporate structure and information systems to better manage growth going forward. We also substantially improved our infrastructure in 2019 and put the company back in the position to grow both organically and with new sales offices and fee-based businesses to better leverage our capital going forward.

You may have noticed that we have made significant investments in branding and technology with a new "torch" logo mark, freedom.bank URL, website, on-line banking system, and fully-digital mortgage platform. We launched our new value set: IDEAS (Innovation, Discipline, Experience, Attitude, and Service) to ensure that all of our associates have a unified understanding of our culture. We also ran a year-long advertising campaign with these themes along with client success stories to help communicate our commitment to clients.

We have strengthened our banking team with new Market Executives for Fairfax, Loudoun, and Prince William Counties and restructured Industry Verticals focused on Government Contracting, Insurance, and Non-Profits. We also created a dedicated Commercial Real Estate Group and added a new Head of Treasury Management. We are also excited to expand our bank's footprint with the announcement of our new sales office in Prince William County opening in the second quarter of 2020.

The investments in our people and technology have positioned us to now return to balance sheet growth in 2020, which will enable us to further improve financial results for shareholders. We have a contemporary strategic plan and extremely strong financial condition for success going forward. As our competitors get larger and undertake mergers, they cannot provide an entrepreneurial environment for employees, unique experience for clients, or engagement with local communities in a way that we can execute at Freedom Bank.

Our financial results in 2019 demonstrate the progress we are making as the company returned to solid levels of profitability with net income of $2.7 million or $0.37 per diluted share compared to net income of $0.2 million or $0.03 per diluted share in 2018. Return on assets of 0.55% also improved compared to 0.04% in 2018. Our total assets again exceeded $500 million and increased 4.5% compared to the prior year with over $100 million in new loan originations. Our mortgage division also had a stellar year with over $170 million in residential mortgage originations and gain on sale revenue with related fee income increased by 50% to $4.8 million.

A LETTER TO OUR SHAREHOLDERS (CONT.)

However, we did not achieve our budget expectations on some key performance metrics. Like most of the investment community, we were expecting two rate hikes by the Federal Reserve at the outset of 2019, but ended the year with three rate cuts. The 10-year treasury rate has declined by 40% from 2.5% in January 2019 to 1.5% at calendar year-end, and has obviously continued to decline in 2020. The reduction in market interest rates translated into an overall decline in our net interest income by 8.7% compared to 2018 and we saw our net interest margin decline by 5 basis points to 3.47%. We were able to overcome the pressure on our top line by reducing non-interest expenses by $1.2 million during the year.

Freedom Bank has more work to do to achieve our long run financial objectives. We have been focused on improving our funding costs, which declined to 1.5% in the fourth quarter, and reducing non-interest expenses. The bank's efficiency ratio improved from 97% in 2018 to 84% in 2019. We strengthened asset quality as non-accrual loans were reduced by 50% to 0.42% of total loans. We also have a very strong balance sheet with a Tier 1 Capital Ratio of 15.3% and a very healthy loan loss reserve at 1.05% of total loans. These are among the strongest metrics of any bank in the Washington DC MSA.

Obviously, market conditions have become even more challenging with significant economic impacts of the Coronavirus pandemic. Both equity and fixed income markets expect a significant slowdown in the economy leading to a recent precipitous decline in bank stocks and long-term interest rates. Freedom Bank's efforts to invest in our people, maintain strong liquidity, strengthen our balance sheet, improve the bank's credit profile, and reduce non-interest expenses should serve us well in this environment.

We are excited by our forward focus in 2020. Freedom Bank now possesses a strong team of banking professionals, enjoys a dynamic and growing group of clients, and serves a robust and caring set of communities, which together will enable us to deliver attractive returns to shareholders over time. We continue to work hard to continue to earn your confidence.

Experience Innovation – Bank with Freedom.

Sincerely,

H Jason Gold

H. JASON GOLD
Chairman of the Board

Joseph J. Thomas

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, 2019 and 2018, the related consolidated statements of operations, comprehensive income, stockholders' equity and cash flows for the years ended December 31, 2019 and 2018, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of their operations and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

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. 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.

Dixon Hughes Goodman LLP

We have served as the Company's auditor since 2017.
Gaithersburg, Maryland
March 12, 2020

FINANCIAL STATEMENTS

BALANCE SHEETS

December 31
2019 and 2018

ASSETS	2019	2018
Cash and Due from Banks	$ 927,322	$ 1,270,559
Interest Bearing Deposits with Banks	24,735,085	14,376,684
Securities Available-for-Sale	49,854,912	48,204,339
Restricted Stock Investments	3,752,750	3,076,000
Loans Held for Sale	11,656,802	4,415,520
Loans Receivable	392,941,874	394,080,457
Allowance for Loan Losses	(4,121,693)	(4,572,393)
Net Loans	388,820,181	389,508,064
Bank Premises and Equipment, net	1,480,535	1,748,935
Accrued Interest Receivable	1,278,037	1,229,534
Deferred Tax Asset	857,698	1,247,513
Bank-Owned Life Insurance	12,783,605	12,401,317
Right of Use Asset, net	2,928,546	-
Other Assets	1,317,201	1,336,522
TOTAL ASSETS	$500,392,674	$478,814,987

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

LIABILITIES	2019	2018
Deposits		
Demand Deposits		
Non-Interest Bearing	$ 80,630,053	$ 67,012,857
Interest Bearing	112,605,618	128,403,358
Savings Deposits	2,153,939	3,023,239
Time Deposits	199,821,006	202,292,311
Total Deposits	395,210,616	400,731,765
Federal Home Loan Bank Advances	35,857,143	17,142,857
Other Accrued Expenses	1,883,782	1,607,491
Lease Liability	2,981,132	-
Accrued Interest Payable	433,586	218,537
TOTAL LIABILITIES	$ 436,366,259	$ 419,700,650

STOCKHOLDERS' EQUITY		
Preferred Stock, $0.01 par value, 5,000,000 shares authorized; 0 shares issued and outstanding, 2019 and 2018	-	-
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:		
6,548,046 and 6,423,602 shares issued and outstanding at December 31, 2019 and 2018, respectively (includes 120,500 and 115,000 unvested shares, respectively)	64,275	63,086
Non-Voting Common Stock:		
673,000 shares issued and outstanding at December 31, 2019 and 2018, respectively	6,730	6,730
Additional Paid-in Capital	58,526,913	57,416,068
Accumulated Other Comprehensive Loss, net	(29,274)	(1,124,101)
Retained Earnings	5,457,771	2,752,554
Total Stockholders' Equity	64,026,415	59,114,337
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$500,392,674	$478,814,987

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

STATEMENTS OF OPERATIONS

Years Ended December 31

2019 and 2018

INTEREST INCOME	2019	2018
Interest and Fees on Loans	$ 21,113,850	$ 21,107,962
Interest on Investment Securities	1,369,822	1,740,241
Interest on Deposits with Banks	391,377	483,924
Interest on Federal Funds Sold	-	466
Total Interest Income	22,875,049	23,332,593
INTEREST EXPENSE		
Interest on Deposits	6,207,144	5,352,235
Interest on Borrowings	545,141	322,373
Total Interest Expense	6,752,285	5,674,608
Net Interest Income	16,122,764	17,657,985
PROVISION FOR LOAN LOSSES	194,500	406,000
Net Interest Income After Provision for Loan Losses	15,928,264	17,251,985
NON-INTEREST INCOME		
Gain on Sale of Mortgage Loans	4,083,717	2,679,861
Service Charges and Other Income	836,401	676,241
Gain (Loss) on Sales of Investment Securities	105,722	(1,181,108)
Increase in Cash Surrender Value of Bank-Owned Life Insurance	382,288	63,171
Total Non-Interest Income	5,408,128	2,238,165
NON-INTEREST EXPENSES		
Officers and Employee Compensation and Benefits	11,347,119	11,654,250
Occupancy Expense	1,142,845	1,098,985
Equipment and Depreciation Expense	891,384	664,284
Insurance Expense	118,226	438,813
Professional Fees	1,106,208	2,026,109
Data and Item Processing	885,836	1,249,830
Business Development	336,282	245,294
Franchise Taxes	629,989	635,162
Mortgage Fees and Settlements	843,191	498,411
Other Operating Expense	858,874	830,158
Total Non-Interest Expenses	18,159,954	19,341,296
Income Before Income Taxes	3,176,438	148,854

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

	2019	2018
INCOME TAX EXPENSE (BENEFIT)	471,221	(42,423)
NET INCOME	$ 2,705,217	$ 191,277
EARNINGS PER COMMON SHARE – BASIC	$ 0.38	$ 0.03
EARNINGS PER COMMON SHARE – DILUTED	$ 0.37	$ 0.03
WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING – BASIC	7,144,052	6,751,251
WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING – DILUTED	7,226,571	6,948,844

STATEMENTS OF COMPREHENSIVE INCOME

Years Ended December 31
2019 and 2018

	2019	2018
Net Income	$ 2,705,217	$ 191,277
Other Comprehensive Income (Loss):		
Unrealized holding gains (losses) on securities available-for-sale arising during the year, net of taxes of ($313,232) and $413,173 in 2019 and 2018, respectively	1,178,347	(1,554,314)
(Gains) losses on sales of securities available-for-sale, net of taxes of $22,202 and ($248,033) in 2019 and 2018, respectively	(83,520)	933,075
Amortization of unrealized losses on securities transferred from available-for-sale to held-to-maturity net of taxes of $18,830 in 2018	-	70,836
Total Other Comprehensive Income (Loss):	1,094,827	(550,403)
COMPREHENSIVE INCOME (LOSS)	$ 3,800,044	$ (359,126)

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

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Years Ended December 31

2019 and 2018

	Voting and Non-Voting SHARES OF COMMON STOCK	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	RETAINED EARNINGS	TOTAL STOCKHOLDERS' EQUITY
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**
Net income	-	-	-	-	2,705,217	2,705,217
Other comprehensive loss	-	-	-	1,094,827	-	1,094,827
Stock options exercised	93,944	939	663,305	-	-	664,244
Restricted stock - vested	25,000	250	(250)	-	-	-
Stock-based compensation - stock options	-	-	36,020	-	-	36,020
Stock-based compensation - restricted stock	-	-	411,770	-	-	411,770
BALANCE, DEC. 31, 2019	**7,100,546**	**$ 71,005**	**$58,526,913**	**$ (29,274)**	**$5,457,771**	**$64,026,415**

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

STATEMENTS OF CASH FLOWS

Years Ended December 31

2019 and 2018

CASH FLOWS FROM OPERATING ACTIVITIES	2019	2018
Net income	$ 2,705,217	$ 191,277
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	291,582	289,809
Amortization of right of use asset	823,278	-
Provision for loan losses	194,500	406,000
Net amortization of available-for-sale securities	622,990	720,630
Net amortization of held-to-maturity securities	-	122,324
(Gains) losses on sales of investment securities	(105,722)	1,181,108
Gain on sale of mortgage loans	(4,083,717)	(3,168,195)
Loans held for sale originated	(176,560,647)	(120,543,245)
Proceeds from the sale of loans held for sale	173,403,082	127,068,421
Change in lease liability	(770,692)	-
Stock-based compensation expense	447,790	504,692
Gain on sale of other real estate owned	-	(4,097)
Deferred income tax expense (benefit)	98,785	(126,589)
Increase in cash surrender value of bank-owned life insurance	(382,288)	(63,171)
(Increase) decrease in:		
Accrued interest receivable	(48,503)	413,893
Other assets	19,321	70,557
Increase in:		
Other accrued expenses	276,291	351,289
Accrued interest payable	215,049	55,788
Net cash provided by Operating Activities	(2,853,684)	7,470,491

CASH FLOWS FROM INVESTING ACTIVITIES		
Net change in federal funds sold	-	127,000
Purchase of bank-owned life insurance	-	(10,000,000)
Net change in interest bearing deposits with banks	(10,358,401)	19,433,143
Loan (originations) payments, net	6,828,950	11,688,552
Purchased loans, net of payments	(6,335,567)	-
Purchase of available-for-sale securities	(18,993,533)	(7,015,763)
Maturities, calls and paydowns of securities available-for-sale	9,209,349	7,907,679
Proceeds from sales of securities available-for-sale	9,002,200	25,041,821
Proceeds from sale of other real estate owned	-	1,171,882
Purchase (sale) of restricted stock investments, net	(676,750)	(542,500)
Acquisition of bank premises and equipment	(23,182)	(443,169)
Net cash provided (used) in Investing Activities	(11,346,934)	47,368,645

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

STATEMENTS OF CASH FLOWS

Years Ended December 31

2019 and 2018

CASH FLOWS FROM FINANCING ACTIVITIES	2019	2018
(Decrease) increase in deposits, net	$ (5,521,149)	$ (65,248,855)
Advances from the Federal Home Loan Bank	52,350,000	39,000,000
Repayment of advances from the Federal Home Loan Bank	(33,635,714)	(32,285,714)
Proceeds from stock options	664,244	2,245,001
Proceeds from sale of stock, net	-	1,429,580
Net cash provided (used) in Financing Activities	13,857,381	(54,859,988)

Net increase (decrease) in cash and due from banks	(343,237)	106,191
Cash and due from banks, beginning of year	1,270,559	1,164,368
CASH AND DUE FROM BANKS, END OF YEAR	$ 927,322	$ 1,270,559

SUPPLEMENTAL NONCASH DISCLOSURES		
Unrealized gain (loss) on securities available-for-sale, net	$ 1,385,860	$ (786,379)
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
Right-of-use assets obtained in exchange for lease liabilities	$ 3,751,824	$ -

SUPPLEMENTAL INFORMATION		
Cash paid during the year for interest	$ 6,537,236	$ 5,618,820
Cash paid during the year for income taxes	$ 120,000	$ -

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

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2019 AND 2018

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 in legal fees related to the transaction for the year ended December 31, 2018. Additionally, the Bank recorded a gain on sale of approximately $38,000 for the year ended December 31, 2018.

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 deposits with banks.

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 or charged off is reversed against interest income. The interest on these loans is accounted for on the cash basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

LOANS HELD-FOR-SALE

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

INTEREST RATE LOCK COMMITMENT

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

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, 2019 and 2018.

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

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 2016, 2017 and 2018 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.

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.

	2019	2018
Average number of common shares outstanding	7,144,052	6,751,251
Effect of dilutive options	82,519	197,593
Average number of common shares outstanding used to calculate diluted earnings per common share	7,226,571	6,948,844

Stock options for 19,876 and 23,026 shares of common stock and restricted stock awards of 10,000 and 0 were not considered in computing diluted earnings per common share for 2019 and 2018, 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 Company 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 Company'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. See Note 11 for further information regarding the Bank's leases.

ASU 2016-08

In March 2016, the FASB amended the Revenue from Contracts with Customers topic of the Accounting Standards Codification to clarify the implementation guidance on principal versus agent considerations and address how an entity should assess whether it is the principal or the agent in contracts that include three or more parties. The amendments were effective for reporting periods beginning after December 15, 2017. These amendments did not have a material effect on the financial statements.

ASU 2016-10

In April 2016, the FASB amended the Revenue from Contracts with Customers topic of the Accounting Standards Codification to clarify guidance related to identifying performance obligations and accounting for licenses of intellectual property. The amendments were effective for the Company for reporting periods beginning after December 15, 2017. These amendments did not have a material effect on the financial statements.

ASU 2016-12

In May 2016, the FASB amended the Revenue from Contracts with Customers topic of the Accounting Standards Codification to clarify guidance related to collectability, noncash consideration, presentation of sales tax, and transition. The amendments were effective for the Company for reporting periods beginning after December 15, 2017. These amendments did not have a material effect on the financial statements.

ASU 2016-13

In June 2016, the FASB issued guidance to change the accounting for credit losses and modify the impairment model for certain debt securities. The guidance requires a financial asset (including trade receivables) measured at amortized cost basis to be presented at the net amount expected to be collected. Thus, the income statement will reflect the measurement of credit losses for newly-recognized financial assets as well as the expected increases or decreases of expected credit losses that have taken place during the period. The amendments will be effective for the Company for fiscal years beginning after December 15, 2022 including interim periods within those fiscal years. Early adoption is permitted for all organizations beginning after December 15, 2018. The Company is currently in the process of evaluating the impact of adoption of this guidance on the financial statements.

ASU 2016-15

In August 2016, the FASB amended the Statement of Cash Flows topic of the Accounting Standards Codification to clarify how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendments were effective for the Company for fiscal years beginning after December 15, 2017 including interim periods within those fiscal years. These amendments did not have a material effect on the financial statements.

ASU 2016-16

In October 2016, the FASB amended the Income Taxes topic of the Accounting Standards Codification to modify the accounting for intra-entity transfers of assets other than inventory. The amendments were effective for the Company for fiscal years beginning after December 15, 2017 including interim periods within those fiscal years. These amendments did not have a material effect on the financial statements.

ASU 2016-18

In November 2016, the FASB amended the Statement of Cash Flows topic of the Accounting Standards Codification to clarify how restricted cash is presented and classified in the statement of cash flows. The amendments were effective for the Company for fiscal years beginning after December 15, 2017 including interim periods within those fiscal years. These amendments did not have a material effect on the financial statements.

ASU 2016-20

In December 2016, the FASB issued technical corrections and improvements to the Revenue from Contracts with Customers Topic. These corrections make a limited number of revisions to several pieces of the revenue recognition standard issued in 2014. The effective date and transition requirements for the technical corrections were effective for the Company for reporting periods beginning after December 15, 2017. The Company applied the guidance using a modified retrospective approach. These amendments did not have a material effect on the financial statements.

ASU 2017-01

In January 2017, the FASB issued guidance to clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounting for as acquisitions (or disposals) of assets or businesses. The amendment to the Business Combinations Topic is intended to address concerns that the existing definition of a business has been applied too broadly and has resulted in many transactions being recorded as business acquisitions that in substance are more akin to asset acquisitions. The guidance was effective for the Company for reporting periods beginning after December 15, 2017. These amendments did not have a material effect on the financial statements.

ASU 2017-04

In January 2017, the FASB amended the Goodwill and Other Topic of the Accounting Standards Codification to simplify the accounting for goodwill impairment for public business entities and other entities that have goodwill reported in their financial statements and have not elected the private company alternative for subsequent measurement of goodwill. The amendment removes the Step 2 of the goodwill impairment test. A goodwill impairment will not be the amount by which a reporting unit's carrying value exceeds it fair value, not to exceed the carrying amount of goodwill. The effective date and transition requirements for the for the technical corrections will be effective for the Company for reporting periods beginning after December 15, 2020. The Company does not expect these amendments to have a material effect on its financial statements.

ASU 2015-05

In February 2017, the FASB amended the Other Income Topic of the Accounting Standards Codification to clarify the scope of the guidance on nonfinancial asset derecognition as well as the accounting for partial sales of nonfinancial assets. The amendments conform the derecognition guidance on nonfinancial assets with the model for transactions in the new revenue standard. The amendments were effective for the Company's reporting periods beginning after December 15, 2017. These amendments did not have a material effect on the financial statements.

ASU 2017-08

In March 2017, the FASB amended the requirements in the Receivables – Nonrefundable Fees and Other Costs Topic of the Accounting Standards Codification related to the amortization period for certain purchased callable debt securities held at a premium. The amendments shorten the amortization period for the premium to the earliest call date. The amendments will be effective for the Company for interim and annual periods beginning after December 15, 2018. These amendments did not have a material effect on the financial statements.

ASU 2018-02

In February 2018, the FASB amended the Income Statement – Reporting Comprehensive Income Topic of the Accounting Standards Codification. The amendments allow a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. The amendments were effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. These amendments did not have a material effect on the financial statements.

ASU 2018-03

In February 2018, the FASB amended the Financial Instruments Topic of the Accounting Standards Codification. The amendments clarify certain aspects of the guidance issued in ASU 2016-01. The amendments were effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years beginning after June 15, 2018. All entities may early adopt these amendments for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, as long as they have adopted ASU 2016-01. These amendments did not have a material effect on the financial statements.

ASU 2018-10

In July 2018, the FASB amended the Leases Topic of the Accounting Standards Codification to make narrow amendments to clarify how to apply certain aspects of the new leases standard. The amendments are effective for reporting periods beginning after December 15, 2018. These amendments did not have a material effect on the financial statements.

ASU 2018-11

In July 2018, the FASB amended the Leases Topic of the Accounting Standards Codification to give entities another option for transition and to provide lessors with a practical expedient. The amendments will be effective for the Company for reporting periods beginning after December 15, 2018. These amendments did not have a material effect on the financial statements.

ASU 2018-13

In August 2018, the FASB amended the Fair Value Measurement Topic of the Accounting Standards Codification. The amendments remove, modify, and add certain fair value disclosure requirements based on the concepts in the FASB Concepts Statement, *Conceptual Framework for Financial Reporting – Chapter 8: Notes to Financial Statements*. The amendments are effective for all entities for fiscal years, and interim periods within those fiscal years beginning after December 15, 2019. Early adoption is permitted. An entity is permitted to early adopt any removed or modified disclosures upon issuance of this ASU and delay adoption of the additional disclosures until their effective date. The Company does not expect these amendments to have a material effect on its financial statements.

ASU 2018-15

In August 2018, the FASB amended the Intangibles – Goodwill and Other Topic of the Accounting Standards Codification to align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The amendments will be effective for the Company for fiscal years beginning after December 15, 2019. The Company does not expect these amendments to have a material effect on its financial statements.

ASU 2018-16

In October 2018, the FASB amended the Derivatives and Hedging Topic of the Accounting Standards Codification to expand the list of U.S. benchmark interest rates permitted in the application of hedge accounting. These amendments were effective for the Company for fiscal years beginning after December 15, 2018. These amendments did not have a material effect on the financial statements.

ASU 2018-17

In October 2018, the FASB amended the Consolidation topic of the Accounting Standards Codification for determining whether a decision-making fee is a variable interest. The amendments require organizations to consider indirect interests held through related parties under common control on a proportional basis rather than as the equivalent of a direct interest in its entirety. The amendments will be effective for the Company for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted. The Company will apply a full retrospective approach in which financial statements for each individual prior period presented and the opening balances of the earliest period presented are adjusted to reflect the period-specific effects of applying the amendments. The Company does not expect these amendments to have a material effect on its financial statements.

ASU 2018-18

In November 2018, the FASB amended the Collaborative Arrangements Topic of the Accounting Standards Codification to clarify the interaction between the guidance for certain collaborative arrangements and the new revenue recognition financial accounting and reporting standard. The amendments will be effective for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years. Early adoption is permitted. The company does not expect these amendments to have a material effect on its financial statements.

ASU 2018-20

In December 2018, the FASB issued guidance that provided narrow-scope improvements for lessors in the accounting for sales, use and similar taxes, the accounting for other costs paid by a lessee that may benefit a lessor, and variable payments when contracts have lease and non-lease components. The amendments were effective for the Company for reporting periods beginning after December 15, 2018 including interim periods within those fiscal years. These amendments did not have a material effect on the financial statements.

ASU 2019-01

In March 2019, the FASB issued guidance to address concerns companies had raised about an accounting exception they would lose when assessing the fair value of underlying assets under the leases standard and clarify that leases and lessors are exempt from a certain interim disclosure requirement associated with adopting the new standard. The amendments will be effective for the Company for reporting periods beginning after December 15, 2019. Early adoption is permitted. The Company does not expect these amendments to have a material effect on its financial statements.

ASU 2019-04

In April 2019, the FASB issued guidance that clarifies and improves areas of guidance related to recently issued standards of credit losses, hedging, and recognition and measurement of financial instruments. The amendments related to credit losses will be effective for the Company for reporting periods beginning after December 15, 2020. The amendments related to hedging were effective for the Company for interim and annual periods beginning after December 15, 2018. The amendments related to recognition and measurement of financial instruments will be effective for the Company for fiscal years after December 15, 2019 including interim periods within those years. The Company does not expect these amendments to have a material effect on its financial statements.

ASU 2019-05

In May 2019, the FASB issued guidance to provide entities with an option to irrevocable elect the fair value option, applied on an instrument-by-instrument basis for eligible instruments, upon adoption of ASU 2016-13, Measurement of Credit Losses on Financial Instruments. The amendments will be effective for the Company for reporting periods beginning after December 15, 2020. The Company does not expect these amendments to have a material effect on its financial statements.

ASU 2019-10

In November 2019, the FASB issued guidance to defer the effective dates for private companies, not-for-profit organizations, and certain smaller reporting companies applying standards on current expected credit losses (CECL). The new effective dates will be fiscal years beginning after December 15, 2022 including interim periods within those fiscal years;

ASU 2019-11

In November 2019, the FASB issued guidance that addresses issues raised by stakeholders during the implementation of ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The amendments affect a variety of Topics in the Accounting Standards Codification. The amendments are effective for fiscal years beginning after December 15, 2022 including interim periods within those fiscal years. Early adoption is permitted in any interim period as long as an entity has adopted the amendments in ASU 2016-13. The Company does not expect these amendments to have a material effect on its financial statements.

ASU 2019-12

In December 2019, the FASB issued guidance to simplify accounting for income taxes by removing specific technical exceptions that often produce information investors have a hard time understanding. The amendments also improve consistent application of and simplify GAAP for other areas of Topic 740 by clarifying and amending existing guidance. The amendments are effective for fiscal years beginning after December 15, 2020 including interim periods within those years. Early adoption is permitted. The Company does not expect these amendments to have a material effect on its financial statements.

RECLASSIFICATION

Certain items in the 2018 financial statements have been reclassified to conform to the 2019 financial statement presentation.

SUBSEQUENT EVENTS

The date to which events occurring after December 31, 2019, the date of the most recent balance sheet, have been evaluated for possible adjustment to the financial statements or disclosure is March 12, 2020, 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, 2019 and 2018 was $2,069,000 and $1,737,000, 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, 2019	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
Available-for-sale				
Corporate notes	$ 7,052,733	$ 27,281	$ (34,909)	$ 7,045,105
Mortgage backed securities	33,363,136	119,806	(140,309)	33,342,633
Municipal securities - tax exempt	4,419,299	64,847	-	4,484,146
Municipal securities - taxable	309,823	6,696	-	316,519
SBA loan pools	4,746,976	14,549	(95,016)	4,666,509
Total Available-for-sale	$ 49,891,967	$ 233,179	$ (270,234)	$ 49,854,912

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 - tax exempt	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

The amortized cost and estimated fair value of debt securities at December 31, 2019, 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	502,411	503,156
After 5 years - 10 years	9,422,657	9,404,877
After 10 years	6,603,763	6,604,246
	16,528,831	16,512,279
Mortgage backed securities	33,363,136	33,342,633
	$49,891,967	$49,854,912

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, 2019 and 2018, the Bank had U.S. Government and agency securities and/or mortgage backed securities with carrying values of $1,527,243 and $0, respectively, which 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, 2019, 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	$ 12,575	$ 1,786,265	$ 22,334	$ 977,666
Mortgage backed securities	23,377	1,827,537	116,932	13,563,839
SBA loan pools	-	-	95,016	2,885,657
TOTALS	$ 35,952	$ 3,613,802	$ 234,282	$ 17,427,162

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, 2019, 6 debt securities with an unrealized loss for less than one year and 32 debt securities with an unrealized loss for greater than one year depreciated approximately 1.27 percent from the Bank's amortized cost basis. 25 of the securities are secured by Federal agency mortgage backed securities or U.S. Treasury obligations and direct obligations of U.S. Government agencies, 4 of the securities are corporate bonds, 8 are private-label collateralized mortgage obligations, and 1 is a marketable certificate of deposit. 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.

In 2018, 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 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 $9,002,200 in proceeds from available for sale securities during the year ended December 31, 2019. As a result, the Bank recognized $116,244 million in gross gains and $10,522 in gross losses for the year ended December 31, 2019.

Restricted investments consist of the following at December 31:

	2019	2018
Federal Reserve Bank stock	$ 1,731,750	$ 1,710,300
Federal Home Loan Bank stock	1,955,000	1,299,700
Community Bankers Bank stock	66,000	66,000
TOTALS	$ 3,752,750	$ 3,076,000

4. Loans Receivable

Loans receivable include the following at December 31:

	2019	2018
Commercial and industrial	$ 76,796,738	$ 76,919,421
Real estate - commercial	216,273,591	191,543,985
Real estate - construction	13,771,761	32,335,250
Real estate - residential	64,629,464	67,991,855
Consumer and other	21,564,096	25,506,991
Subtotals	393,035,650	394,297,502
Deferred loan fees, net	(93,776)	(217,045)
TOTALS	$ 392,941,874	$ 394,080,457

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 2019	COMMERCIAL & INDUSTRIAL	REAL ESTATE - COMMERCIAL	REAL ESTATE - CONSTRUCTION	REAL ESTATE - RESIDENTIAL	CONSUMER	TOTAL
Allowance for Loan Losses						
Beginning balance	$ 834,126	$ 2,473,145	$ 452,106	$ 649,804	$ 163,212	$ 4,572,393
Charge-offs	(674,448)	-	-	-	-	(674,448)
Recoveries	28,748	-	-	500	-	29,248
Provision	617,192	76,810	(288,848)	(176,733)	(33,921)	194,500
Ending Balance	$ 805,618	$ 2,549,955	$ 163,258	$ 473,571	$ 129,291	$ 4,121,693
Individually evaluated for impairment	-	-	-	-	-	-
Collectively evaluated for impairment	805,618	2,549,955	163,258	473,571	129,291	4,121,693
Loans Receivable						
Ending Balance	$ 76,796,738	$ 216,273,591	$ 13,771,761	$ 64,629,464	$ 21,564,096	$ 393,035,650
Individually evaluated for impairment	$ 501,659	$ 7,730,407	$ -	$ 3,910,099	$ -	$ 12,142,165
Collectively evaluated for impairment	76,295,079	208,543,184	13,771,761	60,719,365	21,564,096	380,893,485

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
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

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

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

YEAR 2019	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	$ -	$ -	$ -	$ -	$ 76,796,738	$ 76,796,738	$ 31,433
Real estate - commercial	614,857	-	4,001,558	4,616,415	211,657,176	216,273,591	-
Real estate - construction	-	-	-	-	13,771,761	13,771,761	-
Real estate - residential	-	-	2,166,825	2,166,825	62,462,639	64,629,464	1,670,228
Consumer	124,157	243,425	57,430	425,012	21,139,084	21,564,096	-
TOTALS	$ 739,014	$ 243,425	$ 6,225,813	$ 7,208,252	$385,827,398	$393,035,650	$ 1,701,661
YEAR 2018							
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

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

YEAR 2019	RECORDED INVESTMENT	UNPAID PRINCIPAL BALANCE	RELATED ALLOWANCE FOR LOAN LOSSES	AVERAGE RECORDED INVESTMENT	INTEREST INCOME RECOGNIZED
With no related allowance recorded:					
Commercial and industrial	$ 501,659	$ 510,000	$ -	$ 594,301	$ 32,512
Real Estate - commercial	7,730,407	7,730,407	-	7,843,183	372,706
Real Estate - construction	-	-	-	-	-
Real Estate - residential	3,910,099	3,978,099	-	3,797,394	204,121
Consumer	-	-	-	-	-
With an allowance recorded:					
Commercial and industrial	-	-	-	-	-
Real Estate - commercial	-	-	-	-	-
Real Estate - construction	-	-	-	-	-
Real Estate - residential	-	-	-	-	-
Consumer	-	-	-	-	-
TOTAL					
Commercial and industrial	501,659	510,000	-	594,301	32,512
Real Estate - commercial	7,730,407	7,730,407	-	7,843,183	372,706
Real Estate - construction	-	-	-	-	-
Real Estate - residential	3,910,099	3,978,099	-	3,797,394	204,121
Consumer	-	-	-	-	-
	$ 12,142,165	$ 12,218,506	$ -	$ 12,234,878	$ 609,339

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**

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 2019	PASS	SPECIAL MENTION	SUBSTANDARD	DOUBTFUL	LOSS
Commercial and industrial	$ 74,002,420	$ 2,292,659	$ 501,659	$ -	$ -
Real estate - commercial	203,146,833	5,396,351	7,730,407	-	-
Real estate - construction	12,995,055	776,706	-	-	-
Real estate - residential	60,222,768	496,597	3,910,099	-	-
Consumer	21,564,096	-	-	-	-
TOTALS	**$ 371,931,172**	**$ 8,962,313**	**$ 12,142,165**	**$ -**	**$ -**

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**	**$ -**	**$ -**

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, 2019 and December 31, 2018, the Bank had a recorded investment in troubled debt restructurings of $0 and $534,405, respectively. The Bank allocated no specific allowance for those loans at December 31, 2019 and December 31, 2018. 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, 2019. These two credits were charged off in full and recognized through the allowance for loan losses reserve. The third credit comprising the TDR balance at December 31, 2018 was paid in full.

The Bank has entered into transactions with certain directors, executive officers, significant stockholders and their affiliates. Such transactions were made in the ordinary course of business on substantially the same terms and conditions, including interest rates and collateral, as those prevailing at the same time for comparable transactions with other customers and did not, in the opinion of management, involve more than normal credit risk or present other unfavorable features. The aggregate amount of loans outstanding to such related parties was $5,119,203 and $8,702,545 at December 31, 2019 and 2018, respectively. New loans made to such related parties amounted to $0, and repayments amounted to $111,757 in 2019. Two loans with an aggregate balance of $1,262,192 at December 31, 2018 were paid in full during the year ended December 31, 2019. Additionally, five loans with an aggregate balance of $2,209,393 at December 31, 2019 were removed from related party classification due to the retirement of the respective director during the year ended December 31, 2019.

5. Bank Premises and Equipment

Bank premises and equipment include the following:

	2019	2018
Furniture and equipment	$ 1,809,589	$ 1,802,846
Leasehold improvements	1,455,267	1,452,819
Construction in progress	-	18,720
Software	218,014	185,303
Total Cost	3,482,870	3,459,688
Less accumulated depreciation	(2,002,335)	(1,710,753)
NET BANK PREMISES AND EQUIPMENT	$ 1,480,535	$ 1,748,935

Depreciation and amortization of bank premises and equipment charged to expense amounted to $291,582 and $289,809 in 2019 and 2018, respectively.

6. Deposits

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

2020	$ 106,149,720
2021	68,167,326
2022	22,966,740
2023	1,839,184
2024	648,232
2025 AND THEREAFTER	49,804
TOTAL	$ 199,821,006

Time deposits in denominations that meet or exceed the FDIC minimum limit of $250,000 or more totaled $84,141,774 and $83,457,849 at December 31, 2019 and 2018, respectively.

The Bank held related party deposits of approximately $2,516,144 and $6,442,635 at December 31, 2019 and 2018, respectively.

7. Borrowings and Advances

The Company's borrowings from the Federal Home Loan Bank of Atlanta (FHLB) were $35.9 million and $17.1 million at December 31, 2019 and 2018, respectively. At December 31, 2019 and 2018, the weighted average rates on FHLB advances were 1.69% and 2.05%, 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 $99.3 million and $79.4 million.

FHLB advances are subject to prepayment penalties. During the year ended December 31, 2019 and 2018, 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 had $10 million in callable FHLB advances with a weighted average rate of 1.04% at December 31, 2019. There were no callable advances at December 31, 2018.

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

	AMOUNT	WEIGHTED AVERAGE RATE
2020	$ 5,500,000	2.20%
2021	15,750,000	1.85%
2022	4,607,143	2.12%
2023	-	n/a
2024	-	n/a
2025 AND THEREAFTER	10,000,000	0.95%
TOTAL	$ 35,857,143	

8. Income Taxes

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

	2019	2018
Deferred tax assets		
Allowance for loan losses	$ 804,265	$ 852,944
Unearned loan fees and costs, net	19,693	45,579
Accrued compensation	115,360	114,418
Non-accrual loan interest	16,032	6,000
Unrealized losses on securities	7,782	298,812
Restricted Stock	75,440	52,903
Mark to market adjustment	45,760	-
Lease Liability	626,038	-
Net operating loss carryforward	-	193,941
Other	14,427	11,803
	1,724,797	1,576,400
Deferred Tax Liabilities		
Depreciation	206,181	304,636
Right of use asset	614,995	-
Interest rate lock	45,923	24,251
	867,099	328,887
Net deferred tax assets	$ 857,698	$ 1,247,513

Income tax expense (benefit) was as follows:

	2019	2018
Current tax expense	$ 372,436	$ 84,166
Deferred tax expense (benefit)	98,785	(126,589)
	$ 471,221	$ (42,423)

Effective tax rates differ from the federal statutory rate of 21% for 2019 and 2018, which is applied to income before income taxes due to the following:

	2019	2018
Federal statutory rate times financial statement income	$ 667,052	$ 31,259
Effect of:		
Tax-exempt income, net of disallowance	(54,213)	(111,618)
Earnings from bank-owned life insurance	(80,280)	(13,266)
Stock compensation	(2,455)	(69,659)
Other	(58,883)	120,861
	$ 471,221	$ (42,423)

9. Capital Requirements

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of total 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). Management believes, as of December 31, 2019 and, 2018, that the Bank meets all the capital adequacy requirements to which it is subject.

As of December 31, 2019, 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, 2019 and 2018 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, 2019						
Total Capital (to Risk Weighted Assets)	$68,177,383	16.24%	$33,589,104	8.00%	$41,986,381	10.00%
Tier 1 Capital (to Risk Weighted Assets)	$64,055,691	15.26%	$25,191,828	6.00%	$33,589,104	8.00%
Common Equity Tier 1 Capital (to Risk Weighted Assets)	$64,055,691	15.26%	$18,893,871	4.50%	$27,291,147	6.50%
Tier 1 Capital (to Adjusted Average Assets)	$64,055,691	12.80%	$20,013,080	4.00%	$25,016,350	5.00%
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%

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, 2019:

	AUTHORIZED	GRANTED	VESTED
2007 Plan	1,075,280	813,485	680,208

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, 2019, there was approximately $15,113 in unrecognized compensation expense related to non-vested stock options that are expected to be recognized over a weighted average period of 0.72 years. At December 31, 2018, there was approximately $103,944 in unrecognized compensation expense related to non-vested share-based compensation.

The following summarizes the option activity under the Plan:

	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE
OUTSTANDING, DECEMBER 31, 2017	696,779	$ 7.01
Grants	-	-
Expired	(315,903)	7.11
Canceled or expired	(50,420)	8.69
OUTSTANDING, DECEMBER 31, 2018	330,456	6.67
Grants	-	-
Exercised	(93,944)	7.07
Expired	(59,228)	6.03
Forfeited	(10,250)	9.98
OUTSTANDING, DECEMBER 31, 2019	167,034	$ 6.47

There were no stock options granted during the years ended December 31, 2019 and 2018. The weighted average remaining contractual life of options outstanding as of December 31, 2019 is 2.72 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.

During the year ended December 31, 2019, 35,500 voting common shares of restricted stock were granted to Bank employees. All 35,500 shares were granted as part of a time-based restricted stock agreement. These restricted shares cliff vest over a three year period based on their date of grant.

During the year ended December 31, 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.

The following summarizes the restricted stock activity under the Plan:

	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE
OUTSTANDING, DECEMBER 31, 2017	-	$ -
Grants	125,000	11.14
Vested	(10,000)	12.21
Expired	-	-
Forfeited	-	-
OUTSTANDING, DECEMBER 31, 2018	115,000	11.05
Grants	35,500	10.19
Vested	(25,000)	11.14
Expired	-	-
Forfeited	(5,000)	10.40
OUTSTANDING, DECEMBER 31, 2019	120,500	$ 10.81

For the years ended December 31, 2019 and 2018, the Bank recognized $447,790 and $504,692 in stock-based compensation expense, respectively.

11. Operating Leases

The Company enters into leases in the normal course of business primarily for operations facilities, branch locations, and mortgage operations facilities. The Company's leases have remaining terms ranging from one to six years, some of which include renewal options to extend the lease for up to fifteen years.

The Company includes lease extensions if, after considering relevant economic factors, it is reasonably certain the Company will exercise the option. The Company has elected not to recognize leases with original lease terms of twelve months or less (short-term leases) on the Company's balance sheet.

Leases are classified as operating or finance leases at the lease commencement date. Lease expense for operating leases and short-term leases is recognized on a straight-line basis over the lease term. Right-of-use assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Right-of-use assets and lease liabilities are recognized at the lease commencement date based on the estimated present value of lease payments over the lease term.

The Company uses its incremental borrowing rate at lease commencement to calculate the present value of lease payments when the rate implicit in a lease is not known. The Company's incremental borrowing rate is based on the FHLB amortizing advance rate, adjusted for the lease term and other factors.

Right-of-use assets and lease liabilities by lease type, and the associated balance sheet classifications are as follows:

	BALANCE SHEET CLASSIFICATION	DECEMBER 31, 2019
Right-of-use assets: Operating leases	Right of Use Asset, net	2,928,546
Lease liabilities: Operating leases	Lease Liability	2,981,132

Lease Expense

The components of total lease cost were as follows for the period ending:

Operating lease cost	DECEMBER 31, 2019
Right-of-use asset amortization	823,278
Lease accretion	116,394

Lease Obligations

Future undiscounted lease payments for operating leases with initial terms of one year or more as of December 31, 2019 are as follows:

	FINANCE LEASE
2020	$ 776,141
2021	687,428
2022	707,630
2023	690,683
2024	193,766
2025 AND THEREAFTER	164,264

Supplemental Lease Information

	DECEMBER 31, 2019
Operating lease weighted average remaining lease term (years)	4.37 years
Operating lease weighted average discount rate	3.52%

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.

DERIVATIVE ASSET – IRLCS:

The Bank recognizes IRLCs at fair value. Fair value of IRLCs is based on either (i) the price of the underlying loans obtained from an investor for loans that will be delivered on a best efforts basis or (ii) the observable price for individuals loans traded in the secondary market for loans that will be delivered on a mandatory basis. All of the Bank's IRLCs are classified as Level 2.

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

	FAIR VALUE	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
2019				
Available-for-sale securities	$ 49,854,912	$ -	$ 49,854,912	$ -
Loans held for sale	11,656,802	-	11,656,802	-
Interest Rate Lock Derivative	104,397	-	104,397	-
	$ 61,616,111	$ -	$ 61,616,111	$ -
2018				
Available-for-sale securities	$ 48,204,339	$ -	$ 48,204,339	$ -
Loans held for sale	4,415,520	-	4,415,520	-
Interest Rate Lock Derivative	65,694	-	65,694	-
	$ 52,685,553	$ -	$ 52,685,553	$ -

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)
2019				
Impaired loans	$ -	$ -	$ -	$ -
2018				
Impaired loans	$ -	$ -	$ -	$ -

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:

		FAIR VALUE MEASUREMENTS AT DECEMBER 31, 2017		
	FAIR VALUE	VALUATION TECHNIQUE(S)	UNOBSERVABLE INPUTS	RANGE OF INPUTS
2019				
Impaired loans	$ -	Appraisals	Discount to reflect current market conditions and estimated selling costs	10% - 15%
2018				
Impaired loans	$ -	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, 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, 2019 USING			
	CARRYING AMOUNT	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Financial assets					
Cash and due from banks	$ 927,322	$ 927,322	$ -	$ -	$ 927,322
Interest bearing deposits with banks	24,735,085	24,735,085	-	-	24,735,085
Securities available-for-sale	49,854,912	-	49,854,912	-	49,854,912
Loans held for sale	11,656,802	-	11,656,802	-	11,656,802
Loans receivable, net	388,820,181	-	-	401,347,000	401,347,000
Accrued interest receivable	1,278,037	1,278,037	-	-	1,278,037
Bank-owned life insurance	12,783,605	-	12,783,605	-	12,783,605
TOTAL FINANCIAL ASSETS	$490,055,944	$ 26,940,444	$ 74,295,319	$401,347,000	$502,582,763
Financial liabilities					
Demand deposits	$195,389,610	$195,389,610	$ -	$ -	$195,389,610
Time deposits	199,821,006	-	200,761,000	-	200,761,000
Federal Home Loan Bank advances	35,857,143	-	35,736,392	-	35,736,392
Accrued interest payable	433,586	433,586	-	-	433,586
TOTAL FINANCIAL LIABILITIES	$431,501,345	$195,823,196	$236,497,392	$ -	$432,320,588

		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
Securities available-for-sale	48,204,339	-	48,204,339	-	48,204,339
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	-	17,120,089	-	17,120,089
Accrued interest payable	218,537	218,537	-	-	218,537
TOTAL FINANCIAL LIABILITIES	$418,093,159	$198,657,991	$218,439,089	$ -	$417,097,080

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:

	2019	2018
Commitments to extend credit	$ 78,240,000	$ 71,394,000
Standby letters of credit	$ 1,896,000	$ 2,446,000

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.

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. During the year ended December 31, 2019, the Bank implemented a non-discretionary 401(k) match. Expense related to this non-discretionary match was $169,254 for the year ended December 31, 2019. In 2018, the Bank had a discretionary contribution for which 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 in 2018 for employee service rendered in 2017. There was no discretionary match in 2019 for employee service rendered in 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, 2017	$ (502,862)	$ (70,836)	$ (573,698)
Unrealized losses net of tax of $413,173	(1,554,314)	-	(1,554,314)
Reclassification for 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
BALANCE AT DECEMBER 31, 2018	$ (1,124,101)	$ 70,836	$ (1,124,101)
Unrealized gains net of tax of $(313,232)	1,178,347	-	1,178,347
Reclassification for gains on sales net of tax of $22,202	(83,520)	-	(83,520)
BALANCE AT DECEMBER 31, 2019	$ (29,274)	$ -	$ (29,274)

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

For the years ended December 31, 2019 and 2018, the Bank began used 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 2019 and 2018, the Bank obtained legal services from one law firm, for which one of its directors was a partner. However, during the year ended December 31, 2018, the Bank's director departed from this law firm.

SHAREHOLDER & COMPANY INFORMATION

BOARD OF DIRECTORS

H. JASON GOLD
CHAIRMAN

JOHN T. ROHRBACK
VICE CHAIRMAN

CYNTHIA CARTER ATWATER
DIRECTOR

JOSEPH M. ENGLISH III
DIRECTOR

KEVIN J. KOOMAN
DIRECTOR

LAUREN FRIEND MCKELVEY
DIRECTOR

BRANDON C. PARK
DIRECTOR

MAURY PEIPERL
DIRECTOR

JOSEPH J. THOMAS
PRESIDENT & CEO

EXECUTIVE OFFICERS & SENIOR LEADERSHIP TEAM

JOSEPH J. THOMAS
PRESIDENT & 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

STEVE WITT
SENIOR VICE PRESIDENT & MARKET PRESIDENT
PRINCE WILLIAM COUNTY

STEPHEN H. MACNABB
SENIOR VICE PRESIDENT & MARKET PRESIDENT
FAIRFAX AND LOUDOUN COUNTIES

BRADLEY S. CROCKETT
SENIOR VICE PRESIDENT &
HEAD OF COMMERCIAL REAL ESTATE

VICTORIA S. LOUCKS
SENIOR VICE PRESIDENT &
HEAD OF TREASURY MANAGEMENT

CORPORATE HEADQUARTERS

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

TRANSFER AGENT

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Shareholder Services – Admin 5 Team
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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
Thursday, April 30, 2020 – 4 pm
at Army Navy Country Club - Fairfax
3315 Old Lee Hwy, Fairfax, VA 22030

OUR

IDEAS

EMPOWER EMPLOYEES TO BENEFIT CLIENTS

FREEDOM BANK

Experience Innovation • Bank With Freedom

CHANTILLY

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Chantilly, VA 20151

571-395-4000

FAIRFAX

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703-242-5300

RESTON

11700 Plaza America Drive, Suite 110
Reston, VA 22190

703-663-2300

VIENNA

502 Maple Avenue West
Vienna, VA 22180

703-667-4170

MANASSAS

Coming Soon

703-667-4166

MORTGAGE DIVISION

4211 Pleasant Valley Road
Chantilly, VA 20151

703-766-6400

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