



July 30, 2015

Dear Fellow Shareholder:

We are pleased to report continued strong second quarter and year-to-date results. These include a significant increase in net income, continued solid credit metrics and substantial loan and deposit growth. This marks our 18th consecutive quarter of profitability. Net income for the second quarter was \$1.52 million representing a 54% increase over last year's second quarter and a 7.2% increase over the first quarter's net income. Year-to-date net income was \$2.94 million or 49.2% higher than the \$1.97 million earned during the first half of 2014.

We are changing our letter format slightly beginning this quarter for easier reading. We understand the importance of the way we share information with you, and would appreciate your feedback on this new format.

**Key Performance Highlights:**

- Total assets at June 30, 2015 increased by 34.0% to \$748.7 million as compared to \$558.6 million as of June 30, 2014.
- Total loans at June 30, 2015 have grown by 34.0% or \$166.7 million since June 30, 2014 and 5.6% or \$35.0 million in the second quarter. Our loan pipeline is substantial and current momentum is strong.
- Total deposits have grown 28.6% or \$140.6 million since June 30, 2014 and 2.9% or \$17.9 million during the second quarter following very strong first quarter growth.
- The bank's year-to-date net interest margin was stable at 3.99% compared to 4.00% for the first half of 2014 and was 3.93% in the second quarter versus 4.05% in the first quarter. This linked decrease was primarily caused by larger than normal prepayment income collected in the first quarter returning to a more normal level in the second. However, we are experiencing some ongoing margin compression, as is the industry, in this very low rate environment.
- Net interest income, the bank's main source of income, increased 36.6% or \$3.62 million versus the first half of 2014, and 3.30% or \$222 thousand on a linked quarter basis.
- Non-interest expense increased by 31.6% or \$2.01 million compared to the same period last year. These increased operating expenses are appropriate relative to our significant asset growth of 34.0% during the past 12 months. The increase in the first half includes the fully loaded run rate cost of two branches we opened in the past 15 months.
- The bank's efficiency ratio improved to 60.2% in the first half from 62.0% during the same period last year. On a linked quarter basis our efficiency ratio improved to 59.7%.
- Credit quality remains very strong. Charge-offs during the quarter were less than \$1 thousand, and we had no loans past due at quarter-end. Non-accrual loans at quarter-end totaled \$1.9 million. The resulting ratio of non-performing assets to total assets stood at 0.26% at

quarter-end and remains among the best in the industry. The allowance for loan losses was 1.20% of loans outstanding at quarter-end compared to 1.29% as of June 30, 2014.

- The bank remains “Well Capitalized” at quarter-end with a leverage ratio of 9.70% and a total risk-based capital ratio of 12.77%.
- Earnings per share (EPS) increased 34.8% to \$0.62 for the first half of the year from \$0.46 for the same period last year. EPS decreased in the second quarter compared to the linked first quarter from \$0.33 to \$0.29 as a result of the 1 million shares issued during the recent capital raise. This decrease was more than offset by the \$0.68 accretion in per share book value from the capital raise.

A detailed profit and loss statement and balance sheet are attached to this letter.

Before we close this letter, there are two items worth noting. First, Steve Horvath, our Montgomery and Prince George’s County Group Manager, retired on June 30<sup>th</sup>. Steve has been a valued member of our senior management team for the past three years. We will miss his insights, leadership and counsel. Secondly, our very strong loan demand and growth is outpacing our growth in core deposits. Therefore, we would greatly appreciate any deposit referrals you can send our way as well as your own depository business. Not every individual or business needs a loan but everyone needs a place for their deposit accounts.

The first half of 2015 has been exciting and rewarding, and we are very optimistic about the second half of the year and beyond. On behalf of our colleagues and directors, thank you for your continued support. We welcome your comments and please contact us anytime.

Sincerely,



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Financial Highlights (Unaudited)  
(Dollars in thousands except per-share data)

	Six Months Ended		YoY Δ	Quarter Ended		LQ Δ
	06/30/15	06/30/14		06/30/15	03/31/15	
<b>Operating Results</b>						
Net Interest Income	\$ 13,530	\$ 9,907	36.6%	\$ 6,876	\$ 6,654	3.3%
Provision for Loan Loss	700	562	24.6%	\$ 350	\$ 350	0.0%
Net Interest Income after Provision	12,830	9,345	37.3%	\$ 6,526	\$ 6,304	3.5%
Non-Interest Income	394	368	7.1%	\$ 220	\$ 174	26.7%
Non-Interest Expense	8,383	6,370	31.6%	\$ 4,236	\$ 4,147	2.2%
Pretax Net Income	4,841	3,343	44.8%	\$ 2,510	\$ 2,331	7.6%
Income Tax Expense	1,899	1,371	38.5%	\$ 988	\$ 911	8.4%
Net Income	\$ 2,942	\$ 1,972	49.2%	\$ 1,522	\$ 1,420	7.2%
<b>Per-Share Data</b>						
Earnings per share	\$ 0.62	\$ 0.46	34.8%	\$ 0.29	\$ 0.33	-10.2%
Earnings per share - diluted	\$ 0.59	\$ 0.45	31.1%	\$ 0.28	\$ 0.31	-9.7%
Book value per share	\$ 13.07	\$ 11.19	16.8%	\$ 13.07	\$ 12.65	3.3%
<b>Selected Balance Sheet Data</b>						
Loans	\$ 657,236	\$ 490,555	34.0%	\$ 657,236	\$ 622,239	5.6%
Assets	\$ 748,699	\$ 558,558	34.0%	\$ 748,699	\$ 716,962	4.4%
Deposits	\$ 632,137	\$ 491,580	28.6%	\$ 632,137	\$ 614,277	2.9%
Stockholders' equity	\$ 69,826	\$ 48,133	45.1%	\$ 69,826	\$ 63,118	10.6%
<b>Performance Ratios</b>						
Return on Average Assets (annualized)	0.85%	0.77%	7	0.85%	0.84%	0
Return on Average Equity (annualized)	9.90%	8.42%	148	9.09%	10.95%	(186)
Net Interest Margin	3.99%	4.00%	(1)	3.93%	4.05%	(12)
Net Interest Yield	3.89%	3.89%	(0)	3.83%	3.95%	(12)
Efficiency Ratio	60.21%	61.99%	(179)	59.70%	60.74%	(104)
<b>Credit Quality Ratios</b>						
Loans past due more than 30 days to total loans	0.00%	0.00%	(0)	0.00%	0.00%	-
Non accrual loans to total loans	0.30%	0.01%	29	0.30%	0.32%	(2)
Allowance for loan loss to total loans	1.20%	1.29%	(9)	1.20%	1.21%	(1)
Non performing assets to total assets	0.26%	0.01%	25	0.26%	0.28%	(2)
<b>Regulatory Capital ratios</b>						
Core capital (leverage) ratio	9.70%	9.02%	68	9.70%	9.19%	51
Common equity tier 1 ratio	11.52%	n/a	-	11.52%	11.03%	-
Tier 1 risk-based capital ratio	11.52%	9.79%	173	11.52%	11.03%	49
Total risk-based capital ratio	12.77%	11.04%	173	12.77%	12.28%	49
<b>Number of Employees</b>						
	98	79	24.1%	98	92	6.5%



Financial Highlights  
Glossary of Select Terms

Operating Results

Net Interest Income	Interest income minus interest expense
Provision for Loan Loss	Current period expense for possible future problem loans

Per-Share Data

Earnings per share	Net income divided by YTD average shares outstanding
Earnings per share - diluted	Net income divided by the YTD average of shares outstanding plus potentially dilutive common shares under the Treasury Stock Method
Book value per share	Stockholders' equity divided by shares outstanding

Performance Ratios

Return on Average Assets (annualized)	Net income annualized divided by YTD average assets
Return on Average Equity (annualized)	Net income annualized divided by YTD average equity
Net Interest Margin	Net interest income divided by YTD average earning assets
Net Interest Yield	Net interest income divided by YTD average assets
Efficiency Ratio	Ratio of operating expense to net interest income plus non interest income

Credit Quality Ratios

Non accrual loans to total loans	Loans on which we no longer accrue interest due to credit concerns divided by period end total loans
Non performing assets to total assets	Investments on which we no longer accrue interest due to default concerns plus non accrual loans plus other real estate owned divided by period end total assets

Regulatory Capital ratios

Core capital (leverage) ratio	Period end equity divided by period end assets
Common Tier 1 Equity	Period end common tier 1 equity (as defined by the FDIC) divided by period end risk weighted assets (as defined by the FDIC)
Tier 1 risk-based capital ratio	Period end tier 1 capital (as defined by the FDIC) divided by period end assets
Total risk-based capital ratio	Period end total regulatory capital (as defined by the FDIC) divided by period end risk weighted assets (as defined by the FDIC)

Other

YoY Δ	Year over year change
YTD Δ	Year to date change
LQ Δ	Linked quarter change
BP	Basis point - A basis point is equivalent to 1 one hundred of 1 percent.