



February 14, 2014

Dear Fellow Shareholder:

We are very pleased to report our strong results during the fourth quarter and for all of 2013. During the quarter we had record pretax net income of \$1.58 million, loans grew by \$30.8 million or 7.5% and deposits grew by \$9.9 million or 2.4%. We maintained very high credit quality and our net interest margin improved nicely.

We closed the year with \$483.2 million in assets, \$442.7 million in loans and \$420.0 million in deposits. From December 2012 to December 2013 loans grew by 32.0% and deposits grew by 19.2%. We tightly managed our non-core certificates of deposit in the second half of 2013 as we balanced net income growth against balance sheet growth. Our pipelines and opportunities for continued growth in both loans and deposits are substantial as we enter 2014.

Our 2013 pretax net income of \$4.42 million was more than three times 2012's pretax net income of \$1.34 million. Net income of \$2.64 million in 2013 was less than 2012's due to a one-time net deferred tax asset benefit of \$2.23 million in 2012. Net interest income in 2013 was \$16.34 million, a 35.1% increase over 2012. The net interest margin was 3.74% versus 3.76% in 2012. After adjusting for a large temporary deposit account we held for about half of 2013, our net interest margin would have been 3.83% for the year.

As mentioned above, our credit quality remains very solid. We ended 2013 with no accruing loans past due more than 30 days. We incurred net charge-offs of only \$232 thousand for the year and had two loans on non accrual at year end totaling \$306 thousand. The resulting ratio of non performing assets to total assets stood at 0.06% at year end and remains among the very best in our peer group, our market and the nation. Our allowance for loan losses stood at 1.31% of loans outstanding at year end versus 1.34% at year end 2012.

We stated in early 2013 that as we matured in time, size and depth we would focus on both asset growth and accelerated profit growth. With 20% asset growth and 230% pretax net income growth we made favorable progress during the year. We expect similar asset growth in 2014 and significant growth in our net income. Increased profitability is heavily correlated with the net interest margin, loan quality and increasing the benefits of our economies of scale. The rise in interest rates over the past six months gives us the opportunity to be aggressive in acquiring deposits in 2014 and maintain our margin while funding our loans and growing our investment portfolio. We are committed to maintaining outstanding credit quality at all times—it is a critical success factor—and we significantly enhanced our credit team in 2013 to handle the growth and monitoring of our portfolio. And, by growing our revenue faster than expenses and spreading fixed costs over a larger revenue base, we continue to experience economies of scale reflected in a lower efficiency ratio (the lower the better).

We have no secret recipe for success and growth. What we do have is a great team of focused colleagues around us, helping us manage risk and taking care of our clients each and every day. We expect a lot from each other and understand each of our roles in creating future growth and robust returns for our shareholders. We will continue to support our growth by adding to our team of colleagues bankwide in 2014. And by early spring we will open our new Gaithersburg commercial location and branch, located at 820 West Diamond Avenue – look for our prominent sign on I-270 North.

We appreciate your loan and deposit referrals – they help us grow and likewise earn a return for you, our shareholders. Right now we are offering some of the highest deposit rates in the region. Call us today to learn more.

On behalf of our colleagues and directors, thank you for your continued support. We welcome your comments and questions and invite you to do all of your banking with us. Please contact either of us at anytime.

Sincerely,



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

	Twelve Months Ended		YoY Δ	Quarter Ended		LQ Δ
	12/31/13	12/31/12		12/31/13	09/30/13	
Operating Results						
Net Interest Income	\$ 16,343	\$ 12,097	35.1%	\$ 4,653	\$ 4,262	9.2%
Provision for Loan Loss	\$ 1,521	1,650	-7.8%	\$ 416	\$ 405	2.7%
Net Interest Income after Provision	\$ 14,822	10,447	41.9%	\$ 4,237	\$ 3,857	9.9%
Non-Interest Income	\$ 742	420	76.5%	\$ 173	\$ 191	-9.4%
Gain on sale of securities	\$ -	11		\$ -	\$ -	
Non-Interest Expense	\$ 11,141	9,538	16.8%	\$ 2,834	\$ 2,844	-0.4%
Pretax Net Income	\$ 4,423	1,340	230.1%	\$ 1,576	\$ 1,204	30.9%
Income Tax Expense	\$ 1,786	(2,225)	-180.3%	\$ 667	\$ 479	39.2%
Net Income	\$ 2,637	\$ 3,565	-26.0%	\$ 909	\$ 725	25.4%
Per-Share Data						
Earnings per share	\$ 0.632	\$ 1.112	-43.1%	\$ 0.218	\$ 0.176	24.1%
Earnings per share - diluted	\$ 0.581	\$ 1.112	-47.7%	\$ 0.200	\$ 0.161	24.2%
Book value per share	\$ 10.61	\$ 9.76	8.7%	\$ 10.61	\$ 10.41	1.9%
Book value per share - diluted	\$ 10.56	\$ 9.76	8.2%	\$ 10.56	\$ 10.38	1.8%
Selected Balance Sheet Data						
Loans	\$ 442,662	\$ 335,385	32.0%	\$ 442,662	\$ 411,903	7.5%
Assets	\$ 483,234	\$ 401,917	20.2%	\$ 483,234	\$ 470,515	2.7%
Deposits	\$ 420,006	\$ 352,453	19.2%	\$ 420,006	\$ 410,132	2.4%
Stockholders' equity	\$ 45,641	\$ 35,059	30.2%	\$ 45,641	\$ 44,755	2.0%
Performance Ratios						
Return on Average Assets (annualized)	0.58%	1.08%	(49)	0.76%	0.63%	13
Return on Average Equity (annualized)	6.12%	12.36%	(623)	7.90%	6.46%	144
Net Interest Margin	3.74%	3.76%	(2)	4.01%	3.85%	16
Net Interest Yield	3.62%	3.65%	(3)	3.90%	3.72%	18
Efficiency Ratio	65.21%	76.20%	(1,099)	58.72%	63.87%	(514)
Credit Quality Ratios						
Loans past due more than 30 days to total loans	0.00%	0.00%	-	0.00%	0.39%	(39)
Non accrual loans to total loans	0.07%	0.39%	(32)	0.07%	0.40%	(34)
Allowance for loan loss to total loans	1.31%	1.34%	(3)	1.31%	1.34%	(3)
Non performing assets to total assets	0.06%	0.32%	(26)	0.06%	0.35%	(29)
Net charge-offs to total loans	0.05%	0.00%	5	0.03%	0.02%	1
Regulatory Capital ratios						
Core capital (leverage) ratio	9.66%	8.82%	84	9.66%	9.84%	(18)
Tier 1 risk-based capital ratio	10.52%	10.01%	51	10.52%	11.25%	(73)
Total risk-based capital ratio	11.77%	11.26%	51	11.77%	12.51%	(74)
Number of Employees						
	76	61	24.6%	76	68	11.8%



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 total "in the money versus book value" stock options granted
Book value per share	Stockholders' equity divided by shares outstanding
Book value per share - diluted	Stockholders' equity plus cash derived from execution of all "in the money versus book value" stock options granted divided by shares outstanding plus total "in the money versus book value" stock options granted

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
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.