ACCESS NATIONAL CORP
Form 10-Q
May 10, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 2016

or

¨ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from __________ to __________

Commission File Number: 000-49929

ACCESS NATIONAL CORPORATION

(Exact name of registrant as specified in its charter)

Virginia **82-0545425**

(State or other jurisdiction of (I.R.S. Employer

incorporation or organization) Identification No.)

1800 Robert Fulton Drive, Suite 300, Reston, Virginia 20191

(Address of principal executive offices) (Zip Code)

(703) 871-2100

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨	Accelerated filer x
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

The number of shares outstanding of Access National Corporation's common stock, par value $0.835, as of May 6, 2016 was 10,576,431 shares.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

ACCESS NATIONAL CORPORATION

Consolidated Balance Sheets

(In Thousands, Except for Share and Per Share Data)

	March 31, 2016 (Unaudited)	**December 31, 2015**
ASSETS		
Cash and due from banks	$ 14,522	$ 11,291
Interest-bearing balances and federal funds sold	27,110	24,598
	41,632	35,889
Investment securities:		
Available-for-sale, at fair value	162,720	160,162
Held-to-maturity, at amortized cost (fair value of $9,487 and $14,314)	9,295	14,287
Total investment securities	172,015	174,449
Restricted stock, at amortized cost	7,159	7,259
Loans held for sale - at fair value	49,977	44,135
Loans	914,682	887,478
Allowance for loan losses	(13,614)	(13,563)
Net loans	901,068	873,915
Premises, equipment, and land, net	6,852	6,689
Accrued interest receivable	3,430	3,290
Other assets	34,902	32,922
Total assets	$ 1,217,035	$ 1,178,548
LIABILITIES AND SHAREHOLDERS’ EQUITY		
Deposits		
Noninterest-bearing deposits	$ 335,219	$ 307,797
Savings and interest-bearing deposits	308,986	293,711
Time deposits	316,252	312,236
Total deposits	960,457	913,744
Other liabilities		

Short-term borrowings	77,467	91,129
Long-term borrowings	55,000	55,000
Other liabilities and accrued expenses	10,070	9,537
Total liabilities	$1,102,994	$1,069,410
SHAREHOLDERS’ EQUITY		
Common stock $0.835 par value; 60,000,000 authorized; issued and outstanding, 10,570,056 and 10,544,751 shares, respectively	$8,826	$8,805
Additional paid in capital	20,386	19,953
Retained earnings	83,897	81,385
Accumulated other comprehensive income (loss), net	932	(1,005)
Total shareholders’ equity	114,041	109,138
Total liabilities and shareholders’ equity	$1,217,035	$1,178,548

See accompanying notes to consolidated financial statements (unaudited).

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ACCESS NATIONAL CORPORATION

Consolidated Statements of Income

(In Thousands, Except for Share and Per Share Data)

(Unaudited)

	Three Months Ended March 31,	
	2016	2015
Interest and Dividend Income		
Interest and fees on loans	$10,876	$9,434
Interest on federal funds sold and bank balances	70	27
Interest and dividends on securities	1,035	815
Total interest and dividend income	11,981	10,276
Interest Expense		
Interest on deposits	1,150	733
Interest on short-term borrowings	127	99
Interest on long-term borrowings	154	2
Total interest expense	1,431	834
Net interest income	10,550	9,442
Provision for loan losses	-	-
Net interest income after provision for loan losses	10,550	9,442
Noninterest Income		
Service charges and fees	260	197
Gain on sale of loans	3,830	3,571
Other income	2,729	2,537
Total noninterest income	6,819	6,305
Noninterest Expense		
Salaries and benefits	7,668	6,717
Occupancy and equipment	761	754
Other operating expenses	2,700	2,775
Total noninterest expense	11,129	10,246
Income before income taxes	6,240	5,501
Income tax expense	2,145	1,928
NET INCOME	$4,095	$3,573
Earnings per common share:		

Basic	$0.39	$0.34
Diluted	$0.39	$0.34
Average outstanding shares:		
Basic	10,553,150	10,473,366
Diluted	10,606,359	10,517,222

See accompanying notes to consolidated financial statements (unaudited).

ACCESS NATIONAL CORPORATION

Consolidated Statements of Comprehensive Income

(In Thousands)

(Unaudited)

	Three Months Ended March 31,	
	2016	2015
Net income	$4,095	$3,573
Other comprehensive income:		
Unrealized gains on securities		
Unrealized holding gains arising during period	3,037	1,075
Less: reclassification adjustment for gains included in net income	57	-
Tax effect	(1,043)	(377)
Net of tax amount	1,937	698
Comprehensive income	$6,032	$4,271

See accompanying notes to consolidated financial statements (unaudited).

ACCESS NATIONAL CORPORATION

Consolidated Statements of Changes in Shareholders' Equity

(In Thousands, Except for Share and Per Share Data)

(Unaudited)

	Common Stock	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2015	$ 8,805	$ 19,953	$ 81,385	$ (1,005)	$ 109,138
Net income	-	-	4,095	-	4,095
Other comprehensive income	-	-	-	1,937	1,937
Stock options exercised (19,100 shares)	16	226	-	-	242
Issuance of restricted common stock (6,205 shares)	5	123	-	-	128
Cash dividend ($0.15 per share)	-	-	(1,583)	-	(1,583)
Stock-based compensation expense recognized in earnings	-	84	-	-	84
Balance, March 31, 2016	$ 8,826	$ 20,386	$ 83,897	$ 932	$ 114,041
Balance, December 31, 2014	$ 8,742	$ 18,538	$ 72,168	$ (544)	$ 98,904
Net income	-	-	3,573	-	3,573
Other comprehensive income	-	-	-	698	698
Stock options exercised (3,100 shares)	3	33	-	-	36
Issuance of restricted common stock (7,500 shares)	6	122	-	-	128
DRSPP shares issued from reserve (37,707)	31	607	-	-	638
Cash dividend ($0.14 per share)	-	-	(1,465)	-	(1,465)
Stock-based compensation expense recognized in earnings	-	78	-	-	78
Balance, March 31, 2015	$ 8,782	$ 19,378	$ 74,276	$ 154	$ 102,590

See accompanying notes to consolidated financial statements (unaudited).

ACCESS NATIONAL CORPORATION

Consolidated Statements of Cash Flows

(In Thousands)

(Unaudited)

	Three Months Ended March 31,	
	2016	2015
Cash Flows from Operating Activities		
Net income	$4,095	$3,573
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Provision for off balance sheet losses	-	10
Income from bank-owned life insurance	(114)	(117)
Gain on sale of securities	(57)	-
Deferred tax benefit	(9)	(6)
Stock-based compensation	84	78
Valuation allowance on derivatives	(256)	(302)
Net amortization (accretion) on securities	(137)	235
Depreciation and amortization	120	119
Changes in assets and liabilities:		
Increase in valuation of loans held for sale carried at fair value	(407)	(325)
Originations of loans held for sale	(106,489)	(114,541)
Proceeds from sales of loans held for sale	101,054	102,741
Increase in other assets	(2,195)	(1,251)
Increase (decrease) in other liabilities	64	(3,207)
Net cash used in operating activities	(4,247)	(12,993)
Cash Flows from Investing Activities		
Proceeds from prepayments of securities available-for-sale	1,747	3,897
Proceeds from sales of available-for-sale securities	8,033	-
Purchases of securities available-for-sale	(9,171)	-
Proceeds from maturities and calls of securities held-to-maturity	5,000	-
Purchases of Federal Reserve and Federal Home Loan Bank stock	(3,853)	(1,985)
Proceeds from redemption of Federal Reserve and Federal Home Loan Bank stock	3,953	2,625
Net increase in loans	(27,282)	(17,680)
Purchases of premises and equipment	(274)	(75)
Net cash used in investing activities	(21,847)	(13,218)
Cash Flows from Financing Activities		
Net increase in demand, interest-bearing demand and savings deposits	42,696	50,453
Net increase (decrease) in time deposits	4,016	(19,576)
Decrease in securities sold under agreement to repurchase	(8,662)	(5,106)
Net decrease in other short-term borrowings	(5,000)	(20,000)

Net increase in long-term borrowings	-	10,000
Proceeds from issuance of common stock	370	802
Dividends paid	(1,583)	(1,465)
Net cash provided by financing activities	31,837	15,108
Increase (decrease) in cash and cash equivalents	5,743	(11,103)
Cash and Cash Equivalents		
Beginning	35,889	56,029
Ending	$41,632	$44,926
Supplemental Disclosures of Cash Flow Information		
Cash payments for interest	$1,409	$786
Cash payments for income taxes	$237	$393
Supplemental Disclosures of Noncash Investing Activities		
Unrealized gain on securities available-for-sale	$2,980	$1,075
Transfers of loans held for investment to other real estate owned	$129	$-

See accompanying notes to consolidated financial statements (unaudited).

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Notes to Consolidated Financial Statements (Unaudited)

NOTE 1 – BASIS OF PRESENTATION

Access National Corporation (the "Corporation") is a bank holding company incorporated under the laws of the Commonwealth of Virginia. The Corporation owns all of the stock of its subsidiary, Access National Bank (the "Bank"), which is an independent commercial bank chartered under federal laws as a national banking association. The Bank has three active wholly owned subsidiaries: Access Real Estate LLC ("Access Real Estate"), a real estate company; ACME Real Estate LLC, a real estate holding company of foreclosed property; and Access Capital Management Holding LLC ("ACM"), a holding company for Capital Fiduciary Advisors, L.L.C., Access Investment Services, L.L.C., and Access Insurance Group, L.L.C.

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with rules and regulations of the Securities and Exchange Commission ("SEC"). The statements do not include all of the information and footnotes required by GAAP for complete financial statements. All adjustments have been made which, in the opinion of management, are necessary for a fair presentation of the results for the interim periods presented. Such adjustments are all of a normal and recurring nature. All significant inter-company accounts and transactions have been eliminated in consolidation. Certain prior period amounts have been reclassified to conform to the current period presentation. The results of operations for the three months ended March 31, 2016 are not necessarily indicative of the results that may be expected for the entire year ending December 31, 2016. These consolidated financial statements should be read in conjunction with the Corporation's audited financial statements and the notes thereto as of December 31, 2015, included in the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2015.

The Corporation has evaluated subsequent events for potential recognition and/or disclosure in this Quarterly Report on Form 10-Q through the date these consolidated financial statements were issued.

NOTE 2 – STOCK-BASED COMPENSATION PLANS

During the first three months of 2016, the Corporation granted 115,050 stock options to officers, directors, and employees under the 2009 Stock Option Plan (the "Plan"). Options granted under the Plan have an exercise price equal to the fair market value as of the grant date. Options granted vest over various periods ranging from two and one-half years to four years and expire one year after the full vesting date. Stock–based compensation expense recognized in other operating expense during the first three months of 2016 and 2015 was $84 thousand and $78 thousand, respectively. The fair value of options is estimated on the date of grant using a Black Scholes option-pricing model with the assumptions noted below.

The total unrecognized compensation cost related to non-vested share based compensation arrangements granted under the Plan as of March 31, 2016 was $748,882. The cost is expected to be recognized over a weighted average period of 1.41 years.

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NOTE 2 – STOCK-BASED COMPENSATION PLANS (continued)

A summary of stock option activity under the Plan for the three months ended March 31, 2016 and 2015 is presented as follows:

	Three Months Ended March 31, 2016	
Expected life of options granted, in years	4.81	
Risk-free interest rate	1.28	%
Expected volatility of stock	30	%
Annual expected dividend yield	3	%
Fair Value of Granted Options	$405,646	
Non-Vested Options	298,976	

	Number of Options	Weighted Avg. Exercise Price	Weighted Avg. Remaining Contractual Term, in years	Aggregate Intrinsic Value
Outstanding at beginning of year	407,832	$ 15.33	2.81	$2,091,196
Granted	115,050	18.32	4.81	-
Exercised	(19,100)	12.70	1.63	98,889
Lapsed or Canceled	(7,650)	16.16	3.16	-
Outstanding at March 31, 2016	496,132	$ 16.12	3.11	$1,845,492
Exercisable at March 31, 2016	197,156	$ 14.15	2.08	$1,120,324

	Three Months Ended March 31, 2015	
Expected life of options granted, in years	4.81	
Risk-free interest rate	1.06	%
Expected volatility of stock	30	%

Annual expected dividend yield		3	%
Fair value of granted options	$	342,570	
Non-vested options		310,344	

	Number of Options	Weighted Avg. Exercise Price	Weighted Avg. Remaining Contractual Term, in years	Aggregate Intrinsic Value
Outstanding at beginning of year	316,423	$ 14.02	3.20	$917,215
Granted	121,434	17.95	4.81	-
Exercised	(3,100)	11.50	2.32	20,771
Lapsed or canceled	(450)	15.55	3.27	-
Outstanding at March 31, 2015	434,307	$ 15.14	3.48	$1,564,733
Exercisable at March 31, 2015	123,963	$ 13.26	2.70	$679,184

NOTE 3 – SECURITIES

The following table provides the amortized cost and fair value for the categories of available-for-sale securities and held-to-maturity securities at March 31, 2016 and December 31, 2015. Held-to-maturity securities are carried at amortized cost, which reflects historical cost, adjusted for amortization of premiums and accretion of discounts. Available-for-sale securities are carried at estimated fair value with net unrealized gains or losses reported on an after tax basis as a component of accumulated other comprehensive income in shareholders' equity. The estimated fair value of available-for-sale securities is impacted by interest rates, credit spreads, market volatility, and liquidity.

NOTE 3 – SECURITIES (continued)

	March 31, 2016				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)		Estimated Fair Value
		(In Thousands)			
Available-for-sale:					
U.S. Government agencies	$15,119	$117	$ -		$15,236
Mortgage-backed securities	100,793	1,378	(342	)	101,829
Corporate bonds	8,884	72	(1	)	8,955
Asset backed securities	15,940	56	(270	)	15,726
Municipals	6,659	225	-		6,884
Municipals - nontaxable	12,391	292	(18	)	12,665
CRA Mutual fund	1,500	-	(75	)	1,425
	$161,286	$2,140	$ (706	)	$162,720
Held-to-maturity:					
U.S. Government agencies	$5,000	$110	$ -		$5,110
Municipals	2,612	105	(7	)	2,710
Municipals - nontaxable	1,683	-	(16	)	1,667
	$9,295	$215	$ (23	)	$9,487

	December 31, 2015				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)		Estimated Fair Value
		(In Thousands)			
Available-for-sale:					
U.S. Government agencies	$19,124	$5	$ (225	)	$18,904
Mortgage-backed securities	97,270	31	(1,224	)	96,077
Corporate bonds	8,967	20	(28	)	8,959
Asset backed securities	16,288	18	(308	)	15,998
Municipals - nontaxable	11,885	152	(32	)	12,005
Municipals	6,674	135	-		6,809
CRA Mutual fund	1,500	-	(90	)	1,410
	$161,708	$361	$ (1,907	)	$160,162
Held-to-maturity:					
U.S. Government agencies	$9,987	$50	(32	)	$10,005
Municipals	4,300	43	(34	)	4,309
	$14,287	$93	$ (66	)	$14,314

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NOTE 3 – SECURITIES (continued)

The amortized cost and estimated fair value of securities available-for-sale and held-to-maturity as of March 31, 2016 and December 31, 2015 by contractual maturity are shown below. Actual maturities may differ from contractual maturities because some of the securities may be called or prepaid without any penalties.

	March 31, 2016		December 31, 2015	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	(In Thousands)			
Available-for-sale:				
US Government agencies:				
Due after one through five years	$4,998	$5,040	$4,000	$4,005
Due after five through ten years	10,121	10,196	15,124	14,898
Mortgage backed securities:				
Due after one through five years	16,304	16,593	10,913	10,845
Due after five through ten years	31,690	32,518	41,313	40,901
Due after ten through fifteen years	14,245	14,229	14,796	14,511
Due after fifteen years	38,554	38,489	30,248	29,819
Corporate bonds:				
Due after one through five years	8,884	8,955	8,967	8,959
Asset backed securities:				
Due after one through five years	1,976	2,011	1,976	1,967
Due after five through ten years	3,096	2,968	3,101	3,002
Due after fifteen years	10,868	10,747	11,211	11,029
Municipals:				
Due after ten through fifteen years	2,320	2,408	2,327	2,383
Due after fifteen years	4,339	4,476	4,347	4,427
Municipals - nontaxable:				
Due after five through ten years	4,130	4,219	3,607	3,633
Due after ten through fifteen years	6,001	6,204	4,882	4,980
Due after fifteen years	2,260	2,242	3,396	3,393
CRA Mutual fund	1,500	1,425	1,500	1,410
Total	$161,286	$162,720	$161,708	$160,162
Held-to-maturity:				
US Government agencies:				
Due after one through five years	$5,000	$5,110	$5,000	$5,050
Due after five through ten years	-	-	4,987	4,954
Municipals:				
Due after five through ten years	1,485	1,536	1,486	1,499

Due after ten through fifteen years	1,127	1,174	1,129	1,145
Municipals - nontaxable:				
Due after ten through fifteen years	1,402	1,387	1,404	1,387
Due after fifteen years	281	280	281	279
Total	$9,295	$9,487	$14,287	$14,314

The estimated fair value of securities pledged to secure public funds, securities sold under agreements to repurchase, credit lines with the Federal Reserve Bank (“FRB”), and debtor-in-possession accounts amounted to $138.9 million at March 31, 2016 and $147.9 million at December 31, 2015.

NOTE 3 – SECURITIES (continued)

Securities available-for-sale and held-to-maturity that have an unrealized loss position at March 31, 2016 and December 31, 2015 are as follows:

March 31, 2016	Securities in a loss Position for less than 12 Months		Securities in a loss Position for 12 Months or Longer		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
	(In Thousands)					
Investment securities available-for-sale:						
Mortgage backed securities	$27,028	$ (234)	$11,836	$ (108)	$38,864	$ (342)
Municipals - nontaxable	2,242	(18)	-	-	2,242	(18)
Corporate bonds	4,279	(1)	-	-	4,279	(1)
Asset backed securities	6,607	(256)	1,156	(14)	7,763	(270)
CRA Mutual fund	-	-	1,425	(75)	1,425	(75)
Total	$40,156	$ (509)	$14,417	$ (197)	$54,573	$ (706)
Investment securities held-to-maturity:						
Municipals	$550	$ (7)	$-	$ -	$550	$ (7)
Municipals - nontaxable	1,667	(16)	-	-	1,667	(16)
Total	$2,217	$ (23)	$-	$ -	$2,217	$ (23)

December 31, 2015	Securities in a loss Position for less than 12 Months		Securities in a loss Position for 12 Months or Longer		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
	(In Thousands)					
Investment securities available-for-sale:						
Mortgage backed securities	$63,327	$ (774)	$29,375	$ (450)	$92,702	$ (1,224)
U.S. Government agencies	5,040	(85)	9,858	(140)	14,898	(225)
Municipals - nontaxable	1,452	(13)	2,244	(19)	3,696	(32)
Corporate bonds	-	-	7,066	(28)	7,066	(28)
Asset backed securities	1,967	(9)	9,531	(299)	11,498	(308)
CRA Mutual fund	-	-	1,410	(90)	1,410	(90)

Total	$71,786	$ (881)	$59,484	$ (1,026)	$131,270	$ (1,907)
Investment securities held-to-maturity:						
U.S. Government agencies	$-	$ -	$4,954	$ (32)	$4,954	$ (32)
Municipals - nontaxable	-	-	3,266	(34)	3,266	(34)
Total	$-	$ -	$8,220	$ (66)	$8,220	$ (66)

The Corporation evaluates securities for other than temporary impairment ("OTTI") on a quarterly basis and more frequently when economic or market conditions warrant such evaluation. Consideration is given to various factors in determining whether the Corporation anticipates a recovery in fair value such as: the length of time and extent to which the fair value has been less than cost, and the financial condition and underlying credit quality of the issuer. When analyzing an issuer's financial condition, the Corporation may consider whether the securities are issued by the federal government or its agencies, the sector or industry trends affecting the issuer, and whether any recent downgrades by bond rating agencies have occurred.

NOTE 3 – SECURITIES (continued)

Mortgage-backed securities

The Corporation's unrealized losses on mortgage backed securities were caused by interest rate fluctuations. At March 31, 2016, fifteen securities had unrealized losses of $342 thousand. As these securities are Ginnie Mae and government sponsored entity securities backed by the United States Government, the Corporation's intent to hold these securities until a market price recovery or maturity, and the determination that it is more-likely-than not that the Corporation will not be required to sell these securities before their anticipated recoveries, the Corporation does not consider these investments other than temporarily impaired.

Asset-backed Securities

The Corporation's unrealized loss on its other investments was caused by interest rate fluctuations. At March 31, 2016, four securities had unrealized losses of $270 thousand. Based on the credit quality of the issuers, the Corporation's intent to hold these securities until a market price recovery, and the determination that it is more likely than not that the Corporation will not be required to sell the securities before their anticipated recoveries, the Corporation does not consider these investments other than temporarily impaired.

Mutual fund

The Corporation's unrealized loss on its mutual fund investment was caused by interest rate fluctuations. At March 31, 2016, this one security had an unrealized loss of $75 thousand. Based on the credit quality of the issuer, the Corporation's intent to hold this security until a market price recovery, and the determination that it is more-likely-than not that the Corporation will not be required to sell this security before its anticipated recovery, the Corporation does not consider this investment other than temporarily impaired.

Corporate bonds

The Corporation's unrealized loss on a corporate obligation was caused by interest rate fluctuations. At March 31, 2016, one security had an unrealized loss of $1 thousand. Based on the credit quality of the issuer, the Corporation's intent to hold this security until a market price recovery, and the determination that it is more-likely-than not that the Corporation will not be required to sell this security before its anticipated recovery, the Corporation does not consider this investment other than temporarily impaired.

Municipal securities

The Corporation’s unrealized losses on its municipal investments were caused by interest rate fluctuations. At March 31, 2016, three held-to-maturity securities had unrealized losses of $23 thousand while one available-for-sale municipal investment had an unrealized loss of $18 thousand. Based on the credit quality of the issuer, the Corporation’s intent to hold this security until a market price recovery, and the determination that it is more-likely-than not that the Corporation will not be required to sell this security before its anticipated recovery, the Corporation does not consider this investment other than temporarily impaired.

Restricted Stock

The Corporation’s restricted stock consists of Federal Home Loan Bank of Atlanta (“FHLB”) stock and FRB stock. The amortized costs of the restricted stock as of March 31, 2016 and December 31, 2015 are as follows:

	March 31, 2016	December 31, 2015
Restricted Stock:	(In Thousands)	
Federal Reserve Bank stock	$999	$ 999
FHLB stock	6,160	6,260
	$7,159	$ 7,259

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NOTE 3 – SECURITIES (continued)

Securities Sold Under Agreements to Repurchase (Repurchase Agreements)

The Corporation enters into agreements under which it sells securities subject to an obligation to repurchase the same or similar securities. Under these arrangements, the Corporation may transfer legal control over the assets but still retain effective control through an agreement that both entitles and obligates the Corporation to repurchase the assets. As a result, these repurchase agreements are accounted for as collateralized financing agreements (i.e., secured borrowings) and not as a sale and subsequent repurchase of securities. The obligation to repurchase the securities is reflected as a liability in the Corporation's consolidated balance sheets, while the securities underlying the repurchase agreements remain in the respective investment securities asset accounts. In other words, there is no offsetting or netting of the investment securities assets with the repurchase agreement liabilities. In addition, as the Corporation does not enter into reverse repurchase agreements, there is no such offsetting to be done with the repurchase agreements.

The right of setoff for a repurchase agreement resembles a secured borrowing, whereby the collateral would be used to settle the fair value of the repurchase agreement should the Corporation be in default (e.g., fails to make an interest payment to the counterparty). The collateral is held by a third-party financial institution in the Corporation's custodial account. The Corporation has the right to sell or repledge the investment securities. The risks and rewards associated with the investment securities pledged as collateral (e.g. a decline or rise in the fair value of the investments) remains with the Corporation. As of March 31, 2016 and December 31, 2015, the obligations outstanding under these repurchase agreements totaled $12.5 million and $21.1 million, respectively, and were comprised of overnight sweep accounts. The fair value of the securities pledged in connection with these repurchase agreements at March 31, 2016 was $23.0 million in total and consisted of $4.9 million in mortgage-backed securities, $4.5 million in asset-backed securities, $6.2 million in corporate bonds, $6.0 million in municipal securities, and $1.4 million in mutual funds. The fair value of the securities pledged in connection with these repurchase agreements at December 31, 2015 was $25.7 million in total and consisted of $4.9 million in mortgage-backed securities, $6.5 million in asset-backed securities, $6.2 million in corporate bonds, $6.7 million in municipal securities, and $1.4 million in mutual funds.

NOTE 4 – LOANS AND THE ALLOWANCE FOR LOAN LOSSES

The following table presents the composition of the loans held for investment portfolio at March 31, 2016 and December 31, 2015:

	March 31, 2016	December 31, 2015

	Amount	Percentage of Total		Amount	Percentage of Total	
Commercial real estate-owner occupied	$217,954	23.83	%	$219,877	24.77	%
Commercial real estate-non owner occupied	153,433	16.77		147,580	16.63	
Residential real estate	202,858	22.18		201,447	22.70	
Commercial	258,520	28.26		242,527	27.33	
Real estate construction	72,055	7.88		66,003	7.44	
Consumer	9,862	1.08		10,044	1.13	
Total loans	$914,682	100.00	%	$887,478	100.00	%
Less allowance for loan losses	13,614			13,563		
	$901,068			$873,915		

Unearned income and net deferred loan fees and costs totaled $2.1 million and $2.0 million at March 31, 2016 and December 31, 2015, respectively. Loans pledged to secure borrowings at the FHLB totaled $270.1 million and $247.9 million at March 31, 2016 and December 31, 2015, respectively.

NOTE 4 – LOANS AND THE ALLOWANCE FOR LOAN LOSSES (continued)

Allowance for Loan Losses

The allowance for loan losses totaled $13.6 million at March 31, 2016 and December 31, 2015. The allowance for loan losses was equivalent to 1.49% and 1.53% of total loans held for investment at March 31, 2016 and December 31, 2015, respectively. Adequacy of the allowance is assessed and the allowance is increased by provisions for loan losses charged to expense no less than quarterly. Charge-offs are taken when a loan is identified as uncollectible.

The methodology by which we systematically determine the amount of our allowance is set forth by the Board of Directors in our Loan Policy and implemented by management. The results of the analysis are documented, reviewed, and approved by

the Board of Directors no less than quarterly.

The level of the allowance for loan losses is determined by management through an ongoing, detailed analysis of historical loss rates and risk characteristics. During each quarter, management evaluates the collectability of all loans in the portfolio and ensures an accurate risk rating is assigned to each loan. The risk rating scale and definitions commonly adopted by the Federal Banking Agencies is contained within the framework prescribed by the Bank's Loan Policy. Any loan that is deemed to have potential or well defined weaknesses that may jeopardize collection in full is then analyzed to ascertain its level of weakness. If appropriate, the loan may be charged-off or a specific reserve may be assigned if the loan is deemed to be impaired.

During the risk rating verification process, each loan identified as inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged is considered impaired and is placed on non-accrual status. On these loans, management analyzes the potential impairment of the individual loan and may set aside a specific reserve. Any amounts deemed uncollectible during that analysis are charged-off.

For the remaining loans in each segment, the Bank calculates the probability of loss as a group using the risk rating for each of the following loan types: Commercial Real Estate - Owner Occupied, Commercial Real Estate - Non-Owner Occupied, Residential Real Estate, Commercial, Real Estate Construction, and Consumer. Management calculates the historical loss rate in each group by risk rating using a period of at least six years. This historical loss rate may then be adjusted based on management's assessment of internal and external environmental factors. While management may consider other factors, the analysis generally includes factors such as unemployment, office vacancy rates, and any concentrations that exist within the portfolio. This adjustment is meant to account for changes between the historical economic environment and current conditions and for changes in the ongoing management of the portfolio which affects the loans' potential losses.

Once complete, management compares the condition of the portfolio using several different characteristics, as well as its experience, to the experience of other banks in its peer group in order to determine if it is directionally consistent with others' experience in our area and line of business. Based on that analysis, management aggregates the probabilities of loss of the remaining portfolio based on the specific and general allowances and may provide additional amounts to the allowance for loan losses as needed. Since this process involves estimates, the allowance for loan losses may also contain an amount that is non-material which is not allocated to a specific loan or to a group of loans but is deemed necessary to absorb additional losses in the portfolio.

Management and the Board of Directors subject the reserve adequacy and methodology to a review on a regular basis by internal auditors, external auditors and bank regulators, and such reviews have not resulted in any material adjustment to the allowance.

NOTE 4 – LOANS AND THE ALLOWANCE FOR LOAN LOSSES (continued)

The following tables provide detailed information about the allowance for loan losses as of and for the periods indicated.

Three months ended March 31, 2016	Allowance for Loan Losses Commercial real estate - owner occupied (In Thousands)	Commercial real estate - non-owner occupied	Residential real estate	Commercial	Real estate construction	Consumer	Total
Allowance for credit losses:							
Beginning Balance	$3,042	$ 1,862	$ 2,862	$ 4,612	$ 1,056	$ 129	$13,563
Charge-offs	-	-	-	-	-	-	-
Recoveries	-	-	11	40	-	-	51
Provisions	(89)	58	(42)	17	58	(2)	-
Ending Balance	$2,953	$ 1,920	$ 2,831	$ 4,669	$ 1,114	$ 127	$13,614

Three months ended March 31, 2015	Commercial real estate - owner occupied (In Thousands)	Commercial real estate - non-owner occupied	Residential real estate	Commercial	Real estate construction	Consumer	Total
Allowance for credit losses:							
Beginning Balance	$3,229	$ 1,894	$ 3,308	$ 4,284	$ 596	$ 88	$13,399
Charge-offs	-	-	-	(114)	-	-	(114)
Recoveries	-	-	24	22	-	-	46
Provisions	109	(143)	(150)	146	40	(2)	-
Ending Balance	$3,338	$ 1,751	$ 3,182	$ 4,338	$ 636	$ 86	$13,331

March 31, 2016	Recorded Investment in Loans Commercial real estate - owner occupied (In Thousands)	Commercial real estate - non-owner occupied	Residential real estate	Commercial	Real estate construction	Consumer	Total

Allowance							
Ending balance:	$2,953	$ 1,920	$ 2,831	$ 4,669	$ 1,114	$ 127	$13,614
Ending balance: individually evaluated for impairment	$-	$ -	$ -		$ 185	$ -	$185
Ending balance: collectively evaluated for impairment	$2,953	$ 1,920	$ 2,831	$ 4,669	$ 929	$ 127	$13,429
Ending balance: loans acquired with deteriorated credit quality	$-	$ -	$ -	$ -	$ -	$ -	$-
Loans							
Ending balance	$217,954	$ 153,433	$ 202,858	$ 258,520	$ 72,055	$ 9,862	$914,682
Ending balance: individually evaluated for impairment	$348	$ 5,486	$ 214	$ 1,327	$ 1,031	$ -	$8,406
Ending balance: collectively evaluated for impairment	$217,606	$ 147,947	$ 202,644	$ 257,193	$ 71,024	$ 9,862	$906,276
Ending balance: loans acquired with deteriorated credit quality	$-	$ -	$ -	$ -	$ -	$ -	$-

December 31, 2015	Commercial real estate - owner occupied	Commercial real estate - non-owner occupied	Residential real estate	Commercial	Real estate construction	Consumer	Total
	(In Thousands)						
Allowance							
Ending balance:	$3,042	$ 1,862	$ 2,862	$ 4,612	$ 1,056	$ 129	$13,563
Ending balance: individually evaluated for impairment	$-	$ -	$ -	$ -	$ 200	$ -	$200
Ending balance: collectively evaluated for impairment	$3,042	$ 1,862	$ 2,862	$ 4,612	$ 856	$ 129	$13,363
Ending balance: loans acquired with deteriorated credit quality	$-	$ -	$ -	$ -	$ -	$ -	$-
Loans							
Ending balance:	$219,877	$ 147,580	$ 201,447	$ 242,527	$ 66,003	$ 10,044	$887,478
Ending balance: individually evaluated for impairment	$349	$ 5,487	$ 346	$ 1,389	$ 1,046	$ -	$8,617
Ending balance: collectively evaluated for impairment	$219,528	$ 142,093	$ 201,101	$ 241,138	$ 64,957	$ 10,044	$878,861
Ending balance: loans acquired with deteriorated credit quality	$-	$ -	$ -	$ -	$ -	$ -	$-

NOTE 4 – LOANS AND THE ALLOWANCE FOR LOAN LOSSES (continued)

Identifying and Classifying Portfolio Risks by Risk Rating

At origination, loans are categorized into risk categories based upon original underwriting. Subsequent to origination, management evaluates the collectability of all loans in the portfolio and assigns a proprietary risk rating. Ratings range from the highest to lowest quality based on factors including measurements of ability to pay, collateral type and value, borrower stability, management experience, and credit enhancements. These ratings are consistent with the bank regulatory rating

system.

A loan may have portions of its balance in one rating and other portions in a different rating. The Bank may use these "split ratings" when factors cause loan loss risk to exist for part but not all of the principal balance. Split ratings may also be used where cash collateral or a government agency has provided a guaranty that partially covers a loan.

For clarity of presentation, the Corporation's loan portfolio is profiled below in accordance with the risk rating framework that has been commonly adopted by the federal banking agencies. The definitions of the various risk rating categories are as follows:

Pass - The condition of the borrower and the performance of the loan is satisfactory or better.

Special mention - A special mention asset has one or more potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the institution's credit position at some future date.

Substandard - A substandard asset is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified must have a well-defined weakness, or weaknesses, that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the bank will sustain some loss if the deficiencies are not corrected.

Doubtful - An asset classified doubtful has all the weaknesses inherent in one classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loss - Assets classified loss are considered uncollectible and their continuance as bankable assets is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, and a partial recovery may be effected in the future.

The Bank did not have any loans classified as loss at March 31, 2016 or December 31, 2015. It is the Bank’s policy to charge-off any loan once the risk rating is classified as loss.

NOTE 4 – LOANS AND THE ALLOWANCE FOR LOAN LOSSES (continued)

The profile of the loan portfolio, as indicated by risk rating, as of March 31, 2016 and December 31, 2015 is shown below.

Credit Risk Profile by Regulatory Risk Rating	For the Period Ended, March 31, 2016 Pass	Special Mention	Substandard	Doubtful	Loss	Unearned Income	Total Loans
	(In Thousands)						
Commercial real estate - owner occupied	$212,367	$3,197	$ 2,871	$ -	$ -	$ (481)	$217,954
Commercial real estate - non-owner occupied	148,017	311	5,486	-	-	(381)	153,433
Residential real estate	202,068	953	34	-	-	(197)	202,858
Commercial	227,083	16,824	15,133	-	-	(520)	258,520
Real estate construction	71,499	-	1,031	-	-	(475)	72,055
Consumer	9,862	-	-	-	-	-	9,862
Total	$870,896	$21,285	$ 24,555	$ -	$ -	$ (2,054)	$914,682

Credit Risk Profile by Regulatory Risk Rating	For the Period Ended, December 31, 2015 Pass	Special Mention	Substandard	Doubtful	Loss	Unearned Income	Total Loans
	(In Thousands)						
Commercial real estate - owner occupied	$214,613	$2,506	$ 3,245	$ -	$ -	$ (487)	$219,877
Commercial real estate - non-owner occupied	142,146	316	5,487	-	-	(369)	147,580
Residential real estate	201,308	-	346	-	-	(207)	201,447
Commercial	213,559	11,653	17,732	-	-	(417)	242,527
Real estate construction	65,476	-	1,046	-	-	(519)	66,003
Consumer	10,042	-	-	-	-	2	10,044
Total	$847,144	$14,475	$ 27,856	$ -	$ -	$ (1,997)	$887,478

Loans listed as non-performing are also placed on non-accrual status. The accrual of interest is discontinued at the time a loan is 90 days delinquent or when the credit deteriorates and there is doubt that the credit will be paid as agreed, unless the credit is well-secured and in process of collection. Once the loan is on non-accrual status, all accrued but unpaid interest is also charged-off, and all payments are used to reduce the principal balance. Once the principal balance is repaid in full, additional payments are taken into income. A loan may be returned to accrual status if the borrower shows renewed willingness and ability to repay under the term of the loan agreement. The risk profile based upon payment activity is shown below.

Credit Risk Profile Based on Payment Activity	For the Period Ended, March 31, 2016		
	Performing	Non-Performing	Total Loans
	(In Thousands)		
Commercial real estate - owner occupied	$217,954	$ -	$217,954
Commercial real estate - non-owner occupied	147,947	5,486	153,433
Residential real estate	202,824	34	202,858
Commercial	257,851	669	258,520
Real estate construction	71,024	1,031	72,055
Consumer	9,862	-	9,862
Total	$907,462	$ 7,220	$914,682

Credit Risk Profile Based on Payment Activity	For the Period Ended, December 31, 2015		
	Performing	Non-Performing	Total Loans
	(In Thousands)		
Commercial real estate - owner occupied	$219,877	$ -	$219,877
Commercial real estate - non-owner occupied	142,094	5,486	147,580
Residential real estate	201,284	163	201,447
Commercial	241,805	722	242,527
Real estate construction	64,957	1,046	66,003
Consumer	10,044	-	10,044
Total	$880,061	$ 7,417	$887,478

NOTE 4 – LOANS AND THE ALLOWANCE FOR LOAN LOSSES (continued)

Loans are considered past due if a contractual payment is not made by the calendar day after the payment is due. However, for reporting purposes loans past due 1 to 29 days are excluded from loans past due and are included in the total for current loans in the table below. The delinquency status of the loans in the portfolio is shown below as of March 31, 2016 and December 31, 2015. Loans that were on non-accrual status are not included in any past due amounts.

Age Analysis of Past Due Loans

	March 31, 2016						
	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days	Total Past Due	Non-accrual Loans	Current Loans	Total Loans
	(In Thousands)						
Commercial real estate - owner occupied	$-	$ -	$ -	$-	$ -	$217,954	$217,954
Commercial real estate - non-owner occupied	-	-	-	-	5,486	147,947	153,433
Residential real estate	-	-	-	-	34	202,824	202,858
Commercial	-	-	-	-	669	257,851	258,520
Real estate construction	820	-	-	820	1,031	70,204	72,055
Consumer	-	-	-	-	-	9,862	9,862
Total	$820	$ -	$ -	$820	$ 7,220	$906,642	$914,682

	December 31, 2015						
	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days	Total Past Due	Non-accrual Loans	Current Loans	Total Loans
	(In Thousands)						
Commercial real estate - owner occupied	$-	$ -	$ -	$-	$ -	$219,877	$219,877
Commercial real estate - non-owner occupied	-	-	-	-	5,486	142,094	147,580
Residential real estate	-	-	-	-	163	201,284	201,447
Commercial	-	-	-	-	722	241,805	242,527
Real estate construction	-	-	-	-	1,046	64,957	66,003
Consumer	-	-	-	-	-	10,044	10,044
Total	$-	$ -	$ -	$-	$ 7,417	$880,061	$887,478

Troubled Debt Restructurings

A troubled debt restructuring ("TDR") is a formal restructure of a loan when the Bank, for economic or legal reasons related to the borrower's financial difficulties, grants a concession to a borrower. The Bank classifies these transactions as a TDR if the transaction meets the following conditions: an existing credit agreement must be formally renewed, extended and/or modified; the borrower must be experiencing financial difficulty; and the Bank has granted a concession that it would not otherwise consider.

Once identified as a TDR, a loan is considered to be impaired, and an impairment analysis is performed for the loan individually, rather than under a general loss allowance based on the loan type and risk rating. Any resulting shortfall is charged-off. This method is used consistently for all segments of the portfolio.

Normally, loans identified as TDRs would be placed on non-accrual status and considered non-performing until sufficient history of timely collection or payment has occurred that allows them to return to performing status, generally 6 months.

No loans were modified in connection with a troubled debt restructuring during the three month periods ended March 31, 2016 and March 31, 2015.

Other Real Estate Owned ("OREO")

At March 31, 2016, the Corporation was in possession of one OREO property with a carrying value of $129 thousand. The property is collateralized by residential real estate. The Corporation had no OREO property at December 31, 2015.

NOTE 4 – LOANS AND THE ALLOWANCE FOR LOAN LOSSES (continued)

Impaired Loans

A loan is classified as impaired when it is deemed probable by management's analysis that the Bank will be unable to collect all amounts due according to the contractual terms of the loan agreement, or the recorded investment in the impaired loan is greater than the present value of expected future cash flows, discounted at the loan's effective interest rate. In the case of an impaired loan, management conducts an analysis which identifies if a quantifiable potential loss exists, and takes the necessary steps to record that loss when it has been identified as uncollectible.

As the ultimate collectability of the total principal of an impaired loan is in doubt, the loan is placed on nonaccrual status with all payment applied to principal under the cost-recovery method. As such, the Bank did not recognize any interest income on its impaired loans for the three month periods ended March 31, 2016 and 2015.

The table below shows the results of management's analysis of impaired loans as of March 31, 2016 and December 31, 2015.

	Impaired Loans					
	March 31, 2016			December 31, 2015		
	Recorded investment	Unpaid principal balance	Related allowance	Recorded investment	Unpaid principal balance	Related allowance
	(In Thousands)					
With no specific related allowance recorded:						
Commercial real estate - owner occupied	$-	$ -	$ -	$-	$ -	$ -
Commercial real estate - non-owner occupied	5,486	5,783	-	5,486	5,783	-
Residential real estate	34	34	-	163	163	-
Commercial	669	1,686	-	722	1,743	-
Real estate construction	-	-	-	-	-	-
Consumer	-	-	-	-	-	-
With a specific related allowance recorded:						
Commercial real estate - owner occupied	-	-	-	-	-	-
Commercial real estate - non-owner occupied	-	-	-	-	-	-
Residential real estate	-	-	-	-	-	-
Commercial	-	-	-	-	-	-
Real estate construction	1,031	1,046	185	1,046	1,046	200
Consumer	-	-	-	-	-	-
Total:						

Commercial real estate - owner occupied	-	-	-	-	-	-
Commercial real estate - non-owner occupied	5,486	5,783	-	5,486	5,783	-
Residential real estate	34	34	-	163	163	-
Commercial	669	1,686	-	722	1,743	-
Real estate construction	1,031	1,046	185	1,046	1,046	200
Consumer	-	-	-	-	-	-
	$7,220	$ 8,549	$ 185	$7,417	$ 8,735	$ 200

The table below shows the average recorded investment in impaired loans for the periods presented.

	Three Months Ended March 31, 2016	March 31, 2015
	Average Recorded Investment	Average Recorded Investment
	(In Thousands)	
Commercial real estate - owner occupied	$-	$ 355
Commercial real estate - non-owner occupied	5,486	6,101
Residential real estate	34	403
Commercial	781	1,534
Real estate construction	1,041	-
Consumer	-	-
Total	$7,342	$ 8,393

NOTE 5 – SEGMENT REPORTING

The Corporation has three reportable segments: traditional commercial banking, mortgage banking, and wealth management. Revenues from commercial banking operations consist primarily of interest earned on loans and securities and fees from deposit services. Mortgage banking operating revenues consist principally of interest earned on mortgage loans held for sale, gains on sales of loans in the secondary mortgage market, and loan origination fee income. Wealth management operating revenues consist principally of transactional fees charged to clients as well as fees for portfolio asset management.

The commercial banking segment provides the mortgage banking segment(“Mortgage Division”) with the short-term funds needed to originate mortgage loans through a warehouse line of credit and charges the mortgage banking segment interest based on the prime rate. These transactions are eliminated in the consolidation process.

The “Other” column in the following table includes the operations of the Corporation and Access Real Estate. The primary source of income for the Corporation is derived from dividends from the Bank and its primary expense relates to costs incurred by the Corporation in connection with its annual audits and directors fees. The primary source of income for Access Real Estate is derived from rents received from the Bank.

The following table presents segment information as of and for the three months ended March 31, 2016 and 2015:

March 31, 2016	Commercial Banking	Mortgage Banking	Wealth Management	Other	Eliminations	Consolidated Totals
	(In Thousands)					
Revenues:						
Interest income	$11,756	$344	$ -	$4	$(123)	$11,981
Gain on sale of loans	-	3,830	-	-	-	3,830
Other revenues	936	1,247	778	347	(319)	2,989
Total revenues	12,692	5,421	778	351	(442)	18,800
Expenses:						
Interest expense	1,436	51	-	67	(123)	1,431
Salaries and employee benefits	3,923	3,185	560	-	-	7,668
Other expenses	1,840	1,069	291	580	(319)	3,461
Total operating expenses	7,199	4,305	851	647	(442)	12,560
Income (loss) before income taxes	$5,493	$1,116	$(73)	$(296)	$ -	$6,240

Total assets	$1,185,681	$32,716	$ 2,686	$17,283	$ (21,331)	$1,217,035

March 31, 2015	Commercial Banking	Mortgage Banking	Wealth Management	Other	Eliminations	Consolidated Totals
	(In Thousands)					
Revenues:						
Interest income	$10,080	$362	$ -	$3	$ (169)	$10,276
Gain on sale of loans	-	3,571	-	-	-	3,571
Other revenues	719	1,425	545	346	(301)	2,734
Total revenues	10,799	5,358	545	349	(470)	16,581
Expenses:						
Interest expense	838	95	-	64	(169)	828
Salaries and employee benefits	3,227	3,026	464	-	-	6,717
Other expenses	1,804	1,225	213	594	(301)	3,535
Total operating expenses	5,869	4,346	677	658	(470)	11,080
Income (loss) before income taxes	$4,930	$1,012	$ (132)	$(309)	$ -	$5,501
Total assets	$1,010,045	$60,042	$ 1,284	$15,741	$ (17,910)	$1,069,202

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NOTE 6 – EARNINGS PER SHARE

The following table shows the calculation of both basic and diluted earnings per share ("EPS") for the three months ended March 31, 2016 and 2015, respectively. The numerator of both the basic and diluted EPS is equivalent to net income. The weighted average number of shares outstanding used as the denominator for diluted EPS is increased over the denominator used for basic EPS by the effect of potentially dilutive common stock options utilizing the treasury stock method.

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
	(In Thousands, Except for Share and Per Share Data)	
BASIC EARNINGS PER SHARE:		
Net income	$ 4,095	$ 3,573
Weighted average shares outstanding	10,553,150	10,473,366
Basic earnings per share	$ 0.39	$ 0.34
DILUTED EARNINGS PER SHARE:		
Net income	$ 4,095	$ 3,573
Weighted average shares outstanding	10,553,150	10,473,366
Dilutive stock options	53,209	43,856
Weighted average diluted shares outstanding	10,606,359	10,517,222
Diluted earnings per share	$ 0.39	$ 0.34

NOTE 7 – DERIVATIVES

As part of its mortgage banking activities, the Mortgage Division enters into interest rate lock commitments, which are commitments to originate loans where the interest rate on the loan is determined prior to funding and the customers have locked into that interest rate. The Mortgage Division then locks in the loan and interest rate with an investor and commits to deliver the loan if settlement occurs ("best efforts") or commits to deliver the locked loan in a binding ("mandatory") delivery program with an investor. Certain loans under interest rate lock commitments are covered under forward sales contracts of mortgage-backed securities ("MBS"). Forward sales contracts of MBS are recorded at fair value with changes in fair value recorded in noninterest income. Interest rate lock commitments and commitments to deliver loans to investors are considered derivatives. The market value of interest rate lock commitments and best efforts contracts are not readily ascertainable with precision because they are not actively traded in stand-alone markets. The Mortgage Division determines the fair value of interest rate lock commitments and delivery contracts by measuring the fair value of the underlying asset, which is impacted by current interest rates, taking into consideration the probability that the interest rate lock commitments will close or will be funded.

Certain additional risks arise from these forward delivery contracts in that the counterparties to the contracts may not be able to meet the terms of the contracts. The Mortgage Division does not expect any counterparty to any MBS to fail to meet its obligation. Additional risks inherent in mandatory delivery programs include the risk that, if the Mortgage Division does not close the loans subject to interest rate risk lock commitments, it will still be obligated to deliver MBS to the counterparty under the forward sales agreement. Should this be required, the Mortgage Division could incur significant costs in acquiring replacement loans or MBS and such costs could have an adverse effect on mortgage banking operations in future periods.

Since the Mortgage Division’s derivative instruments are not designated as hedging instruments, the fair value of the derivatives are recorded as a freestanding asset or liability with the change in value being recognized in current earnings during the period of change. The Corporation has not elected to apply hedge accounting to the Mortgage Division’s derivative instruments as provided in Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 815, Derivatives and Hedging.

NOTE 7 – DERIVATIVES (continued)

At March 31, 2016 and December 31, 2015, the Mortgage Division had open forward contracts with a notional value of $69.3 million and $49.0 million, respectively. At March 31, 2016 and December 31, 2015, the Mortgage Division did not have any open mandatory delivery contracts. The open forward delivery contracts are composed of forward sales of MBS. The fair value of these open forward contracts was ($404) thousand and ($54) thousand at March 31, 2016 and December 31, 2015, respectively.

Interest rate lock commitments totaled $56.2 million and $26.6 million at March 31, 2016 and December 31, 2015, respectively, and included $4.7 million and $6.2 million that were made on a best efforts basis at March 31, 2016 and December 31, 2015, respectively. Fair values of these best efforts commitments were $32 thousand and $53 thousand at March 31, 2016 and December 31, 2015, respectively. The remaining hedged interest rate lock commitments totaling $51.4 million and $20.4 million at March 31, 2016 and December 31, 2015 had a fair value of $901 thousand and $275 thousand, respectively.

Included in other noninterest income for the three months ended March 31, 2016 and March 31, 2015 was a net gain of $324 thousand and a net gain of $439 thousand, respectively, relating to derivative instruments. The amount included in other noninterest income for the three months ended March 31, 2016 and March 31, 2015 pertaining to its hedging activities was a net realized loss of $596 thousand and a net realized loss of $513 thousand, respectively.

NOTE 8 – RECENT ACCOUNTING PRONOUNCEMENTS

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers: Topic 606". This ASU supersedes the revenue recognition requirements in Topic 605, "Revenue Recognition" as well as most industry-specific guidance. The amendments also create a new Subtopic 340-40 "Other Assets and Deferred Costs – Contracts with Customers". In summary, entities are to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Originally, the provisions of ASU 2014-09 were going to be effective for annual periods beginning after December 15, 2016 and interim periods within 2017; however, ASU 2015-14, "Revenue from Contracts with Customers: Topic 606 – Deferral of the Effective Date" deferred the effective date of ASU 2014-09 by one year to January 1, 2018. The adoption of this guidance should not have a material effect on the Corporation's financial condition or results of operations.

In June 2014, the FASB issued ASU 2014-12, "Compensation – Stock Compensation (Topic 718)". The amendments in this ASU require a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. The performance target should not be reflected in estimating the grant-date fair value of the award, and compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. The amendments in the ASU are effective for annual periods beginning after December 15, 2015. The adoption of this guidance did not have a material effect on the Corporation's financial condition or results of operations.

In January 2015, the FASB issued ASU 2015-01, "Income Statement – Extraordinary and Unusual Items (Subtopic 225-20)". This ASU eliminates extraordinary items from US GAAP and will align more closely with International Accounting Standards 1, "Presentation of Financial Statements". The amendments in the ASU are effective beginning after December 15, 2015. The adoption of this guidance did not have a material effect on the Corporation's financial condition or results of operations.

In February 2015, the FASB issued ASU 2015-02, "Consolidation (Topic 810)". This ASU focuses on the consolidation evaluation for reporting organizations that are required to evaluate consolidation of certain legal entities by reducing the number of consolidation models from four to two and is intended to improve current GAAP. The amendments in the ASU are effective beginning after December 15, 2016. The adoption of this guidance should not have a material effect on the Corporation's financial condition or results of operations.

NOTE 8 – RECENT ACCOUNTING PRONOUNCEMENTS (continued)

In April 2015, the FASB issued ASU 2015-03, "Interest – Imputation of Interest (Subtopic 835-30)". This ASU requires debt issuance costs be presented in the balance sheet as a direct deduction from the carrying amount of debt liability. The amendments in the ASU are effective beginning after December 15, 2015. The adoption of this guidance did not have a material effect on the Corporation's financial condition or results of operations.

In August 2015, the FASB issued ASU 2015-15, "Interest - Imputation of Interest (Subtopic 835-30)". This ASU adds language clarifying the Securities and Exchange Commission's views regarding the presentation and subsequent measurement of debt issuance costs associated with line-of-credit arrangements. The amendments in the ASU are effective beginning after December 15, 2015. The adoption of this guidance did not have a material effect on the Corporation's financial condition or results of operations.

In September 2015, the FASB issued ASU 2015-16, "Business Combinations (Topic 805)". This ASU requires an acquirer retrospectively adjust provisional amounts recognized in a business combination during the measurement period, in the reporting period in which the adjustment is determined as well as present separately on the face of the income statement or as a disclosure in the notes to the financial statements the portion of the amount recorded in current period earnings that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. The amendments in the ASU are effective beginning after December 15, 2015. The adoption of this guidance did not have a material effect on the Corporation's financial condition or results of operations.

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments – Overall (Subtopic 825-10)". This ASU requires all equity investments to be measured at fair value with changes in the fair value recognized through net income (other than those accounted for under equity method of accounting or those that result in consolidation of the investee). The amendments in this update also require an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. The amendments in the ASU are effective beginning after December 15, 2017. The adoption of this guidance should not have a material effect on the Corporation's financial condition or results of operations.

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)". This ASU specifies the accounting for leases in an effort to increase transparency and comparability among organizations. The amendments in the ASU are effective beginning after December 15, 2018. While the adoption of this guidance should not have a material effect on the Corporation's financial condition or results of operations, management has yet to quantify the impact of this ASU.

In March 2016, the FASB issued ASU 2016-05,"Derivatives and Hedging (Topic 815) Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships." This ASU clarifies that a change in the counterparty to a derivative instrument that has been designated as the hedging instrument under ASC Topic 815 does not, in and of itself, require dedesignation of that hedging relationship provided that all other hedge accounting criteria continue to be met. The amendments in the ASU are effective beginning after December 15, 2016 and for interim periods within that year. The adoption of this guidance should not have a material effect on the Corporation's financial condition or results of operations.

In March 2016, the FASB issued ASU 2016-07, "Investments - Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting." The amendments affect all entities that have an investment that becomes qualified for the equity method of accounting as a result of an increase in the level of ownership interest or degree of influence. This ASU simplifies the transition to the equity method of accounting by eliminating retroactive adjustment of the investment when an investment qualifies for use of the equity method, among other things. The amendments in the ASU are effective beginning after December 15, 2016 and for interim periods within that year. The adoption of this guidance should not have a material effect on the Corporation's financial condition or results of operations.

NOTE 8 – RECENT ACCOUNTING PRONOUNCEMENTS (continued)

In March 2016, the FASB issued ASU 2016-08, “Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net).” This ASU was issued to clarify certain principal versus agent considerations within the implementation guidance of ASC Topic 606, “Revenue from Contracts with Customers.” The effective date and transition of ASU 2016-08 is the same as the effective date and transition of ASU 2014-09, Revenue from Contracts with Customers (Topic 606), as discussed above. We are currently evaluating the potential impact of ASU 2016-08 on our financial statements.

In March 2016, the FASB issued ASU 2016-09, “Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting.” Under this ASU all excess tax benefits and tax deficiencies related to share-based payment awards should be recognized as income tax expense or benefit in the income statement during the period in which they occur. Previously, such amounts were recorded in the pool of excess tax benefits included in additional paid-in capital, if such pool was available. Because excess tax benefits are no longer recognized in additional paid-in capital, the assumed proceeds from applying the treasury stock method when computing earnings per share should exclude the amount of excess tax benefits that would have previously been recognized in additional paid-in capital. Additionally, excess tax benefits should be classified along with other income tax cash flows as an operating activity rather than a financing activity, as was previously the case. ASU 2016-09 also provides that an entity can make an entity-wide accounting policy election to either estimate the number of awards that are expected to vest (current GAAP) or account for forfeitures when they occur. ASU 2016-09 changes the threshold to qualify for equity classification (rather than as a liability) to permit withholding up to the maximum statutory tax rates (rather than the minimum as was previously the case) in the applicable jurisdictions. The amendments in the ASU are effective beginning after December 15, 2016 and for interim periods within that year. The adoption of this guidance should not have a material effect on the Corporation’s financial condition or results of operations.

In April 2016, the FASB issued ASU No. 2016-10, “Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing.” This ASU was issued to clarify ASC Topic 606, “Revenue from Contracts with Customers” related to (i) identifying performance obligations; and (ii) the licensing implementation guidance. The effective date and transition of ASU 2016-10 is the same as the effective date and transition of ASU 2014-09, “Revenue from Contracts with Customers (Topic 606),” as discussed above. We are currently evaluating the potential impact of ASU 2016-10 on our financial statements.

NOTE 9 – FAIR VALUE

Fair value pursuant to FASB ASC 820-10, Fair Value Measurements and Disclosures, is the exchange price, in an orderly transaction that is not a forced liquidation or distressed sale, between market participants to sell an asset or transfer a liability in the market in which the reporting entity would transact for the asset or liability, that is, the principal or most advantageous market for the asset or liability. The transaction to sell the asset or transfer the liability is a hypothetical transaction at the measurement date, considered from the perspective of a market participant that holds the asset or liability. FASB ASC 820-10 provides a consistent definition of fair value which focuses on exit price and prioritizes, within a measurement of fair value, the use of market-based inputs over entity specific inputs. In addition, FASB ASC 820-10 provides a framework for measuring fair value and establishes a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The standard describes three levels of inputs that may be used to measure fair values:

Level 1 - Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2 - Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.

Level 3 - Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Corporation used the following methods to determine the fair value of each type of financial instrument:

Investment securities: Fair values for securities available-for-sale are obtained from an independent pricing service. The prices are not adjusted. The independent pricing service uses industry-standard models to price U.S. Government agency obligations and mortgage backed securities that consider various assumptions, including time value, yield curves, volatility factors, prepayment speeds, default rates, loss severity, current market and contractual prices for the underlying financial instruments, as well as other relevant economic measures. Securities of obligations of state and political subdivisions are valued using a type of matrix, or grid, pricing in which securities are benchmarked against the treasury rate based on credit rating.

Substantially all assumptions used by the independent pricing service are observable in the marketplace, can be derived from observable data, or are supported by observable levels at which transactions are executed in the marketplace (Level 2).

Residential loans held for sale: The fair value of loans held for sale is determined using quoted prices for similar assets, adjusted for specific attributes of that loan (Level 2).

Derivative financial instruments: Derivative instruments are used to hedge residential mortgage loans held for sale and the related interest-rate lock commitments and include forward commitments to sell mortgage loans and mortgage-backed securities as further described in Note 7. The fair values of derivative financial instruments are based on derivative market data inputs as of the valuation date and the underlying value of mortgage loans for interest rate lock commitments (Level 3).

Impaired loans: The fair values of impaired loans are measured on a nonrecurring basis as the fair value of the loan's collateral for collateral-dependent loans. Collateral may be in the form of real estate or business assets including equipment, inventory, and accounts receivable. The use of discounted cash flow models and management's best judgment are significant inputs in arriving at the fair value measure of the underlying collateral (Level 3).

Other real estate owned: The fair value of other real estate owned, which consists of real estate that has been foreclosed, is recorded at the lower of fair value less selling expenses or the book balance prior to foreclosure. Write downs are provided for subsequent declines in value and are recorded in other operating expenses (Level 2).

NOTE 9 – FAIR VALUE (continued)

Assets and liabilities measured at fair value under FASB ASC 820-10 on a recurring and non-recurring basis, including financial assets and liabilities for which the Corporation has elected the fair value option as of March 31, 2016 and December 31, 2015, are summarized below:

Description	Fair Value Measurement at March 31, 2016 Using			
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(In Thousands)			
Financial Assets-Recurring				
Available-for-sale investment securities				
US Government agency	$15,236	$-	$ 15,236	$ -
Mortgage backed securities	101,829	-	101,829	-
Corporate bonds	8,955	-	8,955	-
Asset backed securities	15,726	-	15,726	-
Municipals - nontaxable	12,665	-	12,665	-
Municipals	6,884		6,884	
CRA Mutual fund	1,425	-	1,425	-
Total available-for-sale investment securities	162,720	-	162,720	-
Residential loans held for sale	49,977	-	49,977	-
Derivative assets	1,247	-	-	1,247
Total Financial Assets-Recurring	$213,944	$-	$ 212,697	$ 1,247
Financial Liabilities-Recurring				
Derivative liabilities	$718	$-	$ -	$ 718
Total Financial Liabilities-Recurring	$718	$-	$ -	$ 718
Financial Assets-Non-Recurring				
Impaired loans [1]	$7,220	$-	$ -	$ 7,220
Other real estate owned	129		129	
Total Financial Assets-Non-Recurring	$7,349	$-	$ 129	$ 7,220

(1)

Represents the carrying value of loans for which adjustments are based on the appraised value of the collateral, if collateral dependent, or the present value of expected future cash flows, discounted at the loan's effective interest rate.

NOTE 9 – FAIR VALUE (continued)

Description	Fair Value Measurement at December 31, 2015 Using Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(In Thousands)			
Financial Assets-Recurring				
Available-for-sale investment securities				
US Government agencies	$18,904	$ -	$ 18,904	$ -
Mortgage backed	96,077	-	96,077	-
Corporate bonds	8,959	-	8,959	-
Asset backed securities	15,998	-	15,998	-
Municipals - nontaxable	12,005	-	12,005	-
Municipals	6,809	-	6,809	-
CRA Mutual fund	1,410	-	1,410	-
Total available-for-sale investment securities	160,162	-	160,162	-
Residential loans held for sale	44,135	-	44,135	-
Derivative assets	523	-	-	523
Total Financial Assets-Recurring	$204,820	$ -	$ 204,297	$ 523
Financial Liabilities-Recurring				
Derivative liabilities	$250	$ -	$ -	$ 250
Total Financial Liabilities-Recurring	$250	$ -	$ -	$ 250
Financial Assets-Non-Recurring				
Impaired loans (1)	$7,417	$ -	$ -	$ 7,417
Total Financial Assets-Non-Recurring	$7,417	$ -	$ -	$ 7,417

(1) Represents the carrying value of loans for which adjustments are based on the appraised value of the collateral, if collateral dependent, or the present value of expected future cash flows, discounted at the loan's effective interest rate.

It is the Corporation's policy to recognize transfers between levels as of the actual date of the event or change in circumstances that caused the transfer. There were no transfers between Level 1 and Level 2 during the three month periods ended March 31, 2016 and 2015.

The changes in Level 3 net derivatives measured at fair value on a recurring basis are summarized as follows:

	Three Months Ended March 31,	
	2016	2015
	(In Thousands)	
Balance, beginning of period	$273	$(110)
Realized and unrealized gains included in earnings	256	302
Unrealized gains (losses) included in other comprehensive income	-	-
Purchases, settlements, paydowns, and maturities	-	-
Transfer into Level 3	-	-
Balance, end of period	$529	$192

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NOTE 9 – FAIR VALUE (Continued)

The following table presents qualitative information about level 3 fair value measurements for financial instruments measured at fair value at March 31, 2016 and December 31, 2015:

Description	March 31, 2016 Fair Value Estimate (In Thousands)	Valuation Techniques	Unobservable Input	Range (Weighted Average)
Financial Assets - Recurring				
Derivative assets	$1,247	Market pricing (3)	Estimated pullthrough	75% - 90% (89.6%)
Derivative liabilities	$718	Market pricing (3)	Estimated pullthrough	75% - 90% (89.6%)
Financial Assets - Non-recurring				
Impaired loans - Real estate secured	$6,552	Appraisal of collateral (1)	Liquidation expenses (2)	0% - 20% (14%)
Impaired loans - Non-real estate secured	$668	Cash flow basis	Liquidation expenses (2)	0% - 10% (0%)

(1) Fair value is generally determined through independent appraisals of the underlying collateral on real estate secured loans, which generally include various level 3 inputs which are not identifiable.

(2) Valuations of impaired loans may be adjusted by management for qualitative factors such as liquidation expenses. The range and weighted average of liquidation expense adjustments are presented as a percent of the appraisal.

(3) Market pricing on derivative assets and liabilities is adjusted by management for the anticipated percent of derivative assets and liabilities that will create a realized gain or loss. The range and weighted average of estimated pull-through is presented.

Description	December 31, 2015 Fair Value Estimate (In Thousands)	Valuation Techniques	Unobservable Input	Range (Weighted Average)
Financial Assets - Recurring				
Derivative assets	$523	Market pricing (3)	Estimated pullthrough	75% - 90% (86.2%)
Derivative liabilities	$250	Market pricing (3)	Estimated pullthrough	75% - 90% (86.2%)

Financial Assets - Non-recurring				
Impaired loans - Real estate secured	$6,695	Appraisal of collateral (1)	Liquidation expenses (2)	0% - 15% (14%)
Impaired loans - Non-real estate secured	$722	Cash flow basis	Liquidation expenses (2)	0% - 10% (4%)

(1) Fair value is generally determined through independent appraisals of the underlying collateral on real estate secured loans, which generally include various level 3 inputs which are not identifiable.

(2) Valuations of impaired loans may be adjusted by management for qualitative factors such as liquidation expenses. The range and weighted average of liquidation expense adjustments are presented as a percent of the appraisal.

(3) Market pricing on derivative assets and liabilities is adjusted by management for the anticipated percent of derivative assets and liabilities that will create a realized gain or loss. The range and weighted average of estimated pull-through is presented.

Financial instruments recorded using FASB ASC 825-10

Under FASB ASC 825-10, Financial Instruments, the Corporation may elect to report most financial instruments and certain other items at fair value on an instrument-by-instrument basis with changes in fair value reported in net income. After the initial adoption the election is made at the acquisition of an eligible financial asset, financial liability or firm commitment or when certain specified reconsideration events occur. The fair value election, with respect to an item, may not be revoked once an election is made.

The following table reflects the differences between the fair value carrying amount of residential mortgage loans held for sale at March 31, 2016, measured at fair value under FASB ASC 825-10, and the aggregate unpaid principal amount the Corporation is contractually entitled to receive at maturity.

(In Thousands)	Aggregate Fair Value	Difference	Contractual Principal
Residential mortgage loans held for sale	$ 49,977	$ 2,080	$ 47,897

NOTE 9 – FAIR VALUE (Continued)

The Corporation has elected to account for residential loans held for sale at fair value to eliminate the mismatch that would occur by recording changes in market value on derivative instruments used to hedge loans held for sale while carrying the loans at the lower of cost or market.

The following methods and assumptions not previously presented were used in estimating the fair value of financial assets and financial liabilities that are not measured and reported at fair value on a recurring basis or non-recurring basis:

Cash and Short-Term Investments

For those short-term instruments, the carrying amount is a reasonable estimate of fair value. As such they are classified as Level 1 for noninterest-bearing deposits and Level 2 for interest-bearing deposits due from banks or federal funds sold.

Restricted Stock

It is not practical to determine the fair value of restricted stock due to the restrictions placed on its transferability.

Loans, Net of Allowance

For certain homogeneous categories of loans, such as some residential mortgages, and other consumer loans, fair value is estimated using the quoted market prices for securities backed by similar loans, adjusted for differences in loan characteristics resulting in a Level 3 classification. The fair value of other types of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities resulting in a Level 3 classification.

Accrued Interest

The carrying amounts of accrued interest approximate fair value resulting in a Level 2 or Level 3 classification depending upon the level of the asset or liability, with which, the accrual is associated.

Deposits and Borrowings

The fair value of demand deposits, savings accounts, and certain money market deposits is the amount payable on demand at the reporting date resulting in a Level 1 classification. The fair value of fixed-maturity certificates of deposit is estimated using the rates currently offered for deposits of similar remaining maturities also resulting in a Level 1 classification. The fair value of all other deposits and borrowings is determined using the discounted cash flow method thereby resulting in a Level 2 classification. The discount rate was equal to the rate currently offered on similar products.

Off-Balance-Sheet Financial Instruments

The fair value of commitments to extend credit is estimated using the fees currently charged to enter similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed interest rates. The fair value of stand-by letters of credit is based on fees currently charged for similar agreements or on the estimated cost to terminate them or otherwise settle the obligations with the counterparties at the reporting date.

At March 31, 2016 and December 31, 2015, the majority of off-balance-sheet items are variable rate instruments or convert to variable rate instruments if drawn upon. Therefore, the fair value of these items is largely based on fees, which are nominal and immaterial.

NOTE 9 – FAIR VALUE (Continued)

The carrying amounts and estimated fair values of financial instruments at March 31, 2016 and December 31, 2015 were as follows:

	March 31, 2016		December 31, 2015	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(In Thousands)			
Financial assets:				
Cash and short-term investments	$41,632	$41,632	$35,889	$35,889
Securities available-for-sale	162,720	162,720	160,162	160,162
Securities held-to-maturity	9,295	9,487	14,287	14,314
Restricted stock	7,159	7,159	7,259	7,259
Loans, net of allowance	951,045	974,756	918,050	982,811
Derivatives	1,247	1,247	523	523
Total financial assets	$1,173,098	$1,197,001	$1,136,170	$1,200,958
Financial liabilities:				
Deposits	$960,457	$955,929	$913,744	$905,951
Short-term borrowings	77,467	76,508	91,129	90,269
Long-term borrowings	55,000	54,116	55,000	54,324
Derivatives	718	718	250	250
Total financial liabilities	$1,093,642	$1,087,271	$1,060,123	$1,050,794

NOTE 10 – FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

The Corporation is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments consist primarily of commitments to extend credit. These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheet. The contract or notional amounts of those instruments reflect the extent of involvement the Corporation has in particular classes of financial instruments.

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 by the customer. 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 Corporation evaluates each customer’s creditworthiness on a case-by-case basis. The amount of collateral, if any, deemed necessary by the

Corporation upon extension of credit is based on management's credit evaluation of the counterparty. Collateral normally consists of real property, liquid assets or business assets. The Corporation had $48.7 million and $53.2 million in outstanding commitments at March 31, 2016 and December 31, 2015, respectively.

The Corporation's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual notional amount of those instruments. The Corporation uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments. The Corporation had $320.3 million and $304.9 million in unfunded lines of credit whose contract amounts represent credit risk at March 31, 2016 and December 31, 2015, respectively.

NOTE 10 – FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK (continued)

Standby letters of credit are conditional commitments issued by the Corporation to guarantee the performance of a customer to a third party. Those letters of credit are primarily issued to support public and private borrowing arrangements. Essentially all letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Corporation generally holds collateral supporting those commitments if deemed necessary. The Corporation had standby letters of credit outstanding in the amount of $7.7 million and $7.6 million at March 31, 2016 and December 31, 2015, respectively.

The Bank maintains a reserve for potential off-balance sheet credit losses that is included in other liabilities on the balance sheet. At both March 31, 2016 and December 31, 2015 the balance in this account totaled $750 thousand.

The mortgage division of the Bank makes representations and warranties that loans sold to investors meet its program's guidelines and that the information provided by the borrowers is accurate and complete. In the event of a default on a loan sold, the investor may make a claim for losses due to document deficiencies, program compliance, early payment default, and fraud or borrower misrepresentations. The mortgage division maintains a reserve in other liabilities for potential losses on mortgage loans sold. At March 31, 2016 and December 31, 2015, the balance in this reserve totaled $1.0 million.

The following table shows the changes to the allowance for losses on mortgage loans sold.

	Allowance for Losses on Mortgage Loans Sold		
	Three Months ended March 31,		Year ended December 31,
	2016	2015	**2015**
	(In Thousands)		
Allowance for losses on mortgage loans sold - beginning of period	$1,029	$1,198	$ 1,198
Provision charged to (released from) operating expense	-	-	-
Recoveries	-	-	-
Charge-offs	-	(11)	(169)
Allowance for losses on mortgage loans sold - end of period	$1,029	$1,187	$ 1,029

NOTE 11 – BANK-OWNED LIFE INSURANCE POLICIES

The Corporation had $15.9 million and $15.8 million in bank-owned life insurance (“BOLI”) at March 31, 2016 and December 31, 2015, respectively. The Corporation recognized interest income, which is included in other noninterest income, of $114 thousand and $117 thousand for the three months ended March 31, 2016 and 2015, respectively.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis should be read in conjunction with Access National Corporation's ("Corporation", "we", "us") consolidated financial statements, and notes thereto, included in the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2015. Operating results for the three months ended March 31, 2016 are not necessarily indicative of the results for the year ending December 31, 2016 or any future period.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

In addition to historical information, this Quarterly Report on Form 10-Q contains forward-looking statements. For this purpose, any statements contained herein, including documents incorporated by reference, that are not statements of historical fact may be deemed to be forward-looking statements. Examples of forward-looking statements include discussions as to our expectations, beliefs, plans, goals, objectives and future financial or other performance or assumptions concerning matters discussed in this document. Forward-looking statements often use words such as "believes," "expects," "plans," "may," "will," "should," "projects," "contemplates," " anticipates," "forecasts," "intends" or otl similar meaning. Forward-looking statements in this Quarterly Report on Form 10-Q include, without limitation, statements regarding the Corporation's beliefs regarding the future strength of the economy and labor markets and anticipated interest rates and the effect of such rates on the Corporation's performance and net interest margin and the volume of future mortgage refinancing, as well as the Corporation's expectations concerning operating losses and the profitability of its mortgage segment. You can also identify them by the fact that they do not relate strictly to historical or current facts. Forward-looking statements are subject to numerous assumptions, risks and uncertainties, and actual results could differ materially from historical results or those anticipated by such statements. Factors that could have a material adverse effect on the operations and future prospects of the Corporation include, but are not limited to, changes in: collateral values, especially in the real estate market; stagnation; continued challenging conditions or deterioration in general business and economic conditions and in the financial markets; the impact of any policies or programs implemented pursuant to the Dodd-Frank Act or other legislation or regulation; unemployment levels; branch expansion plans; interest rates; general economic conditions; monetary and fiscal policies of the U.S. Government, including policies of the Office of the Comptroller of the Currency ("Comptroller"), the U.S. Department of the Treasury and the Board of Governors of the Federal Reserve System and the Federal Reserve Bank of Richmond; the economy of Northern Virginia, including governmental spending and real estate markets; the quality or composition of the loan or investment portfolios; demand for loan products; deposit flows; competition; the liquidity of the Corporation; and accounting principles, policies and guidelines. These risks and uncertainties should be considered in evaluating the forward-looking statements contained herein, and readers are cautioned not to place undue reliance on such statements. Any forward-looking statement speaks only as of the date on which it is made, and we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which it is made.

For additional discussion of risk factors that may cause our actual future results to differ materially from the results indicated within forward looking statements, please see "Item 1A – Risk Factors" of the Corporation's Annual Report on

Form 10-K for the fiscal year ended December 31, 2015.

CRITICAL ACCOUNTING POLICIES

The Corporation's consolidated financial statements have been prepared in accordance with GAAP. In preparing the Corporation's financial statements management makes estimates and judgments that affect the reported amounts of assets, liabilities, revenues, and expenses. Management believes that the most significant subjective judgments that it makes include the following:

Allowance for Loan Losses

The allowance for loan losses is an estimate of the losses that may be sustained in our loan portfolio. The allowance is based on two basic principles of accounting: (i) FASB ASC 450-10, which requires that losses be accrued when they are probable of occurring and can be estimated, and (ii) FASB ASC 310-10, which requires that losses be accrued based on the differences between the value of collateral, present value of future cash flows or values that are observable in the secondary market and the loan balance. An allowance for loan losses is established through a provision for loan losses based upon industry standards, known risk characteristics, management's evaluation of the risk inherent in the loan portfolio, and changes in the nature and volume of loan activity. Such evaluation considers, among other factors, the estimated market value of the underlying collateral and current economic conditions. For further information about our practices with respect to allowance for loan losses, please see Note 4 to the consolidated financial statements.

Other Than Temporary Impairment of Securities

Securities in the Corporation's securities portfolio are classified as either available-for-sale or held-to-maturity. At March 31, 2016, there were no non-agency mortgage-backed securities or trust preferred securities in the portfolio. The estimated fair value of the portfolio fluctuates due to changes in market interest rates and other factors. Changes in estimated fair value are recorded in shareholders' equity as a component of other comprehensive income. Securities are monitored to determine whether a decline in their value is other than temporary. Management evaluates the securities portfolio on a quarterly basis to determine the collectability of amounts due per the contractual terms of each security. A decline in the fair value of an investment below its amortized cost attributable to factors that indicate the decline will not be recovered over the anticipated holding period of the investment will cause the security to be considered other than temporarily impaired. Other than temporary impairments result in reducing the security's carrying value by the amount of the estimated credit loss. The credit component of the other than temporary impairment loss is realized through the statement of income and the remainder of the loss remains in other comprehensive income. At March 31, 2016, there were no securities with other than temporary impairment.

Income Taxes

The Corporation uses the liability method of accounting for income taxes. This method results in the recognition of deferred tax assets and liabilities that are reflected at currently enacted 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. The deferred provision for income taxes is the result of the net change in the deferred tax asset and deferred tax liability balances during the year. This amount combined with the current taxes payable or refundable results in the income tax expense for the current year. The Corporation's evaluation of the deductibility or taxability of items included in the Corporation's tax returns has not resulted in the identification of any material, uncertain tax positions.

Fair Value

Fair values of financial instruments are estimated using relevant market information and other assumptions. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates. The fair value estimates of existing on and off-balance sheet financial instruments do not include the value of anticipated future business or the values of assets and liabilities not considered financial instruments. For additional information about our financial assets carried at fair value, please see Note 9 to the consolidated financial statements.

FINANCIAL CONDITION

Executive Summary

At March 31, 2016, the Corporation's assets remained steady at $1.2 billion when compared to December 31, 2015. Loans held for investment increased by $27.2 million while loans held for sale increased by $5.8 million. These increases were offset by a decrease in investment securities of $2.4 million. The first quarter of 2016 reflected loan growth in the commercial real estate – non-owner occupied, residential real estate, commercial, and real estate construction categories of the loans held for investment portfolio. Overall, the portfolio of loans held for investment grew at an annualized rate of 12.3%. At March 31, 2016, loans secured by real estate collateral comprised 70.7% of our total loan portfolio, with loans secured by commercial real estate contributing 40.6% of our total loan portfolio, loans secured by residential real estate contributing 22.2% and real estate construction loans contributing 7.9%. Loans held for sale totaled $50.0 million at March 31, 2016, compared to $44.1 million at December 31, 2015. Loans held for sale fluctuates with the volume of loans originated during any given month and the length of time the loans are held prior to selling them in the secondary market. Deposits totaled $960.5 million at March 31, 2016, compared to $913.7 million at December 31, 2015, an increase of $46.8 million. Noninterest-bearing deposits increased $27.4 million from $307.8 million at December 31, 2015 to $335.2 million at March 31, 2016. Savings and interest-bearing deposits increased to $309.0 million at March 31, 2016 from $293.7 million at December 31, 2015, an increase of $15.3 million.

Net income for the first quarter of 2016 totaled $4.1 million compared to $3.6 million for the same period in 2015. Earnings per diluted share were $0.39 for the first quarter of 2016, compared to $0.34 per diluted share in the same period of 2015. First quarter 2016 pretax earnings increased $739 thousand or 13.4% when compared to first quarter 2015 pretax earnings. The increase was primarily due to an increase in pretax income for the banking segment from first quarter 2015. The banking segment's increase was due to an increase in net interest income over first quarter 2015 of $1.1 million and was partially offset by an increase in salaries and employee benefits of $696 thousand.

Non-performing assets ("NPA") totaled $7.3 million, or 0.60%, of total assets at March 31, 2016. The Bank's NPAs are comprised of non-accrual loans of $7.2 million and other real estate owned of $129 thousand at March 31, 2016. Access Real Estate, LLC had other real estate owned with a carrying value of $500 thousand. The allowance for loan loss was $13.6 million at March 31, 2016 and December 31, 2015, and represented 1.49% and 1.53% of loans held for investment at March 31, 2016 and December 31, 2015, respectively.

The unemployment rate for Fairfax County, Virginia was at 3.2% as of February 2016 and still well below the 4.0% for the state of Virginia at the end of March 2016 and 5.0% for the nation at the end of March 2016. Information reviewed at the Federal Open Market Committee's (FOMC) March 2016 meeting suggested the Committee's baseline expectations for economic activity, the labor market, and inflation have not changed much since December 2015.

Labor market indicators showed further strengthening with job gains and a lower unemployment rate. The labor force participation rate showed improvement in the first quarter of 2016 with more people actively looking for jobs. The FOMC reaffirmed its view that the current target rate for the federal funds rate remains appropriate. The continued low interest rate environment continues to negatively impact yields of variable loans and the securities portfolio. The Corporation's net interest margin for the three months ended March 31, 2016 decreased to 3.61% from the March 31, 2015 percentage of 3.72%. While there is no certainty to the magnitude of any impact, the continued extended period of low short-term interest rates, as presently forecasted by the Federal Reserve, will continue to have an adverse effect on the net interest margin.

The latest Case-Shiller Home Price data available shows home prices increased 5.4% in 20 U.S. cities for the twelve months ended February 2016. Consumer spending grew 1.9% in the first quarter 2016, and the Consumer Confidence Index increased in March 2016 to 96.2. While the aforementioned results are positive, there is no guarantee that these trends will continue. As such, we remain cautious as to the macro-economic risks, and, as a consequence, we have generally retained more cautious loan underwriting criteria established during the financial crisis period of 2007 – 2009. In spite of these challenges, we are proactive in seeking new client relationships driven by our target market profile: business-to-business and business-to-government companies with annual revenue of $1 million to $100 million and the various banking services needed by the business and the professionals associated with the businesses. The Corporation remains optimistic with a strong capital base that supports our goal of continued growth.

Securities

The Corporation’s securities portfolio is comprised of U.S. government agency securities, mortgage-backed securities, corporate bonds, a CRA mutual fund, and other asset backed securities as well as municipal bonds. The portfolio does not have any non-agency mortgage-backed securities or trust preferred securities.

At March 31, 2016 the fair value of the securities portfolio totaled $172.2 million, compared to $174.5 million at December 31, 2015. Included in the fair value totals are held-to-maturity securities with an amortized cost of $9.3 million (fair value of $9.5 million) and $14.3 million (fair value of $14.3 million) at March 31, 2016 and December 31, 2015, respectively. Securities classified as available-for-sale are accounted for at fair market value with unrealized gains and losses recorded directly to a separate component of shareholders’ equity, net of associated tax effect while held-to-maturity securities are carried at amortized cost. Investment securities are used to provide liquidity, to generate income, and to temporarily supplement loan growth as needed.

Restricted Stock

Restricted stock consists of FHLB stock and FRB stock. These stocks are classified as restricted stocks because their ownership is restricted to certain types of entities and they lack a market. Restricted stock is carried at cost on the Corporation’s financial statements. Dividends are paid semiannually on FRB stock and quarterly on FHLB stock.

Loans

The loan portfolio constitutes the largest component of earning assets and is comprised of commercial real estate – owner occupied, commercial real estate – non-owner occupied, residential real estate, commercial, real estate construction, and consumer loans. All lending activities of the Bank and its subsidiaries are subject to the regulations and supervision of the Comptroller. The loan portfolio does not have any pay option adjustable rate mortgages, loans with teaser rates or subprime loans or any other loans considered “high risk loans”. Loans totaled $914.7 million at March 31, 2016 compared to $887.5 million at December 31, 2015, an increase of $27.2 million or 3.1%. Comprising the majority of the growth, commercial loans increased $16.0 million, real estate construction loans increased $6.1 million, commercial real estate – non-owner occupied loans increased $5.9 million, and residential real estate loans increased $1.4 million. These increases were offset by a decrease in commercial real estate – owner occupied loans of $1.9 million and a decrease in consumer loans of $182 thousand. The overall increase in loans reflects results from our marketing outreach as well as continued improvement in loan demand by local businesses. Please see Note 4 to the consolidated financial statements for a table that summarizes the composition of the Corporation’s loan portfolio. The following is a summary of the loan portfolio at March 31, 2016.

Commercial Real Estate Loans – Owner Occupied: This category of loans represented the second largest segment of the loan portfolio and was comprised of owner occupied loans secured by the commercial property, totaling $218.0 million, representing 23.83% of the loan portfolio at March 31, 2016. Commercial real estate loans are secured by the subject property and underwritten to policy standards. Policy standards approved by the Board of Directors from time to time set forth, among other considerations, loan-to-value limits, cash flow coverage ratios, and the general creditworthiness of the obligors.

Commercial Real Estate Loans – Non-Owner Occupied: This category of loans represented the fourth largest segment of the loan portfolio and was comprised of loans secured by income producing commercial property, totaling $153.4 million and representing 16.77% of the loan portfolio at March 31, 2016. Commercial real estate loans are secured by the subject property and underwritten to policy standards as listed above.

Residential Real Estate Loans: This category represented the third largest segment of the loan portfolio and included loans secured by first or second mortgages on one to four family residential properties. This segment totaled $202.9 million and comprised 22.18% of the loan portfolio at March 31, 2016. Of this amount, the following sub-categories existed as a percentage of the whole residential real estate loan portfolio as of March 31, 2016: home equity lines of credit, 19.5%; first trust mortgage loans, 72.1%; and junior trust loans, 8.4%.

Home equity lines of credit are extended to borrowers in our target market. Real estate equity is often the largest component of consumer wealth in our marketplace. Once approved, this consumer finance tool allows the borrowers to access the equity in their homes or investment properties and use the proceeds for virtually any purpose. Home equity lines of credit are most frequently secured by a second lien on residential property. The proceeds of first trust mortgage loans are used to acquire or refinance the primary financing on owner occupied and residential investment properties. Junior trust loans are loans to consumers wherein the proceeds have been used for a stated consumer purpose. Examples of consumer purposes are education, refinancing debt, or purchasing consumer goods. The loans are generally extended in a single disbursement and repaid over a specified period of time. Loans in the residential real estate portfolio are underwritten to standards within a traditional consumer framework that is periodically reviewed and updated by management and the Board of Directors and takes into consideration repayment source and capacity, value of the underlying property, credit history, savings pattern, and stability.

Commercial Loans: Commercial Loans represented the largest segment of the loan portfolio, totaling $258.5 million and representing 28.26% of the loan portfolio at March 31, 2016. These loans are made to businesses or individuals within our target market for business purposes. Typically the loan proceeds are used to support working capital and the acquisition of fixed assets of an operating business. We underwrite these loans based upon our assessment of the obligor(s)' ability to generate operating cash flows in the future necessary to repay the loan. To address the risks associated with the uncertainties of future cash flows, these loans are generally well secured by assets owned by the business or its principal shareholders/owners and the principal shareholders/owners are typically required to guarantee the loan.

Real Estate Construction Loans: Real estate construction loans, also known as construction and land development loans represented the fifth largest segment of the loan portfolio and totaled $72.1 million and represented 7.88% of the loan portfolio at March 31, 2016. These loans generally fall into one of three categories: first, loans to individuals that are ultimately used to acquire property and construct an owner occupied residence; second, loans to builders for the purpose of acquiring property and constructing homes for sale to consumers; and third, loans to developers for the purpose of acquiring land that is developed into finished lots for the ultimate construction of residential or commercial buildings. Loans of these types are generally secured by the subject property within limits established by the Board of Directors based upon an assessment of market conditions and updated from time to time. The loans typically carry recourse to principal owners. In addition to the repayment risk associated with loans to individuals and businesses, loans in this category carry construction completion risk. To address this additional risk, loans of this type are subject to additional administration procedures designed to verify and ensure progress of the project in accordance with allocated funding, project specifications and time frames.

Consumer Loans: Consumer loans, which was the smallest segment of the loan portfolio, totaled $9.9 million and represented 1.08% of the loan portfolio at March 31, 2016. Most loans in this category are well secured with assets other than real estate, such as marketable securities or automobiles. Very few consumer loans are unsecured. As a matter of operation, management discourages unsecured lending. Loans in this category are underwritten to standards within a traditional consumer framework that is periodically reviewed and updated by management and the Board of Directors and takes into consideration repayment capacity, collateral value, savings pattern, credit history, and stability.

Loans Held for Sale (“LHFS”)

LHFS are residential mortgage loans originated by the mortgage division of the Bank to consumers and underwritten in accordance with standards set forth by an institutional investor to whom we expect to sell the loans for a profit. Loan proceeds are used for the purchase or refinance of the property securing the loan. Loans are sold with the servicing released to the investor. At March 31, 2016, LHFS at fair value totaled $50.0 million compared to $44.1 million at December 31, 2015.

The LHFS loans are closed by the Bank and held on average fifteen to thirty days pending their sale to government sponsored entities as well as mortgage banking subsidiaries of large financial institutions. During the first quarter of 2016 we originated $106.6 million of loans processed in this manner, compared to $114.5 million for the first quarter of 2015. Loans are sold without recourse and subject to industry standard representations and warranties that may require the repurchase by the Bank of loans previously sold. The repurchase risks associated with this activity center around early payment defaults and borrower fraud.

Allowance for Loan Losses

The allowance for loan losses totaled $13.6 million at March 31, 2016 and December 31, 2015. The allowance for loan losses was equivalent to 1.49% and 1.53% of total loans held for investment at March 31, 2016 and December 31, 2015, respectively. Adequacy of the allowance is assessed and increased by provisions for loan losses charged to expense no less than quarterly. Charge-offs are taken when a loan is identified as uncollectible. For additional information about the allowance for loan losses, please see Note 4 to the consolidated financial statements.

Non-performing Assets

At March 31, 2016 and December 31, 2015, the Bank had non-performing assets totaling $7.3 million and $7.4 million, respectively.

Non-performing assets at March 31, 2016 consist of non-accrual loans and other real estate owned. All non-performing loans are carried at the expected liquidation value of the underlying collateral.

The following table is a summary of the Bank's non-performing assets at March 31, 2016 and December 31, 2015.

	March 31, 2016	December 31, 2015
	(Dollars in Thousands)	
Non-accrual loans:		
Commercial real estate - owner occupied	$-	$ -
Commercial real estate - non-owner occupied	5,486	5,486
Residential real estate	34	163
Commercial	669	722
Real estate construction	1,031	1,046
Consumer	-	-
Total non-accrual loans	$7,220	$ 7,417
Other real estate owned ("OREO")	129	-
Total non-performing assets	$7,349	$ 7,417
Restructured loans included above in non-accrual loans	$1,031	$ 1,046
Ratio of non-performing assets to:		
Total loans plus OREO	0.80 %	0.84 %
Total Assets	0.60 %	0.63 %
Accruing Past due loans:		
90 or more days past due	$-	$ -

Not included in the table above is other real estate owned in the amount of $500 thousand. During 2014, Access Real Estate LLC (ARE) transferred an undeveloped commercial lot that was originally purchased for possible future banking center expansion to other assets available for sale when management listed the property for sale. The land, originally purchased for $1.2 million, was recorded at its appraised value less costs to sell.

At March 31, 2016 and December 31, 2015, the Bank had no loans past due 90 days or more and still accruing interest.

Deposits

Deposits are the primary sources of funding loan growth. At March 31, 2016, deposits totaled $960.5 million compared to $913.7 million on December 31, 2015, an increase of $46.8 million. Noninterest-bearing deposits increased $27.4 million from $307.8 million at December 31, 2015 to $335.2 million at March 31, 2016. Savings and interest-bearing deposits increased to $309.0 million at March 31, 2016 from $293.7 million at December 31, 2015, an increase of $15.3 million. Time deposits increased to $316.3 million at March 31, 2016 from $312.2 million at December 31, 2015, an increase of $4.1 million.

Shareholders' Equity

Shareholders' equity totaled $114.0 million at March 31, 2016 compared to $109.1 million at December 31, 2015. The increase in shareholders' equity is due mainly to retained earnings net of dividends paid. Banking regulators have defined minimum regulatory capital ratios that the Corporation and the Bank are required to maintain. These risk based capital guidelines take into consideration risk factors, as defined by the banking regulators, associated with various categories of assets, both on and off the balance sheet. Both the Corporation and Bank are classified as well capitalized, which is the highest rating.

Beginning January 1, 2015, the Corporation calculates its regulatory capital under the Basel III Final Rules which modified the definition of "well capitalized" and implemented changes in the risk weights of assets. The following table outlines the regulatory components of the Corporation's capital and risk based capital ratios under these new rules.

	March 31, 2016	December 31, 2015
	(In Thousands)	
Tier 1 Capital:		
Common stock	$8,826	$8,805
Capital surplus	20,386	19,953
Retained earnings	83,897	81,385
Less: Disallowed goodwill and intangibles net of associated deferred tax liabilities	(1,691)	(1,380)

Less: Net unrealized loss on available for sale equity securities	(49)	(280)	
Total Tier 1 capital	111,369	108,483	
Allowance for loan losses	12,596	12,200	
Total risk based capital	$123,965	$120,683	
Risk weighted assets	$1,006,494	$973,908	
Quarterly average assets	$1,050,484	$1,161,080	
			Regulatory Minimum
Risk-Based Capital Ratios:			
Common equity tier 1 capital ratio	11.07 %	11.14 %	5.125 %
Tier 1 capital ratio	11.07 %	11.14 %	6.625 %
Total capital ratio	12.32 %	12.39 %	8.625 %
Leverage Capital Ratios:			
Tier 1 leverage ratio	9.22 %	9.34 %	4.00 %

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RESULTS OF OPERATIONS

Summary

Net income for the first quarter of 2016 totaled $4.1 million or $0.39 diluted earnings per share. This compares to $3.6 million or $0.34 for the same quarter in 2015. First quarter 2016 pretax earnings increased $739 thousand or 13.4% when compared to first quarter 2015 pretax earnings. The increase was primarily due to an increase in pretax income for the banking segment from first quarter 2015 of $563 thousand. The banking segment's increase was due to an increase in net interest income over first quarter 2015 of $1.1 million and other income of $217 thousand due largely to returns on the Bank's investments in Small Business Investment Companies. This increase was partially offset by an increase in salaries and employee benefits of $696 thousand due to the addition of staffing throughout the third and fourth quarters of 2015.

Net Interest Income

Net interest income, the principal source of earnings, is the amount of income generated by earning assets (primarily loans and investment securities) less the interest expense incurred on interest-bearing liabilities (primarily deposits) used to fund earning assets. Net interest income before the provision for loan losses totaled $10.6 million for the three months ended March 31, 2016 and $9.4 million for the three months ended March 31, 2015. The annualized yield on earning assets was 4.10% for the quarter ended March 31, 2016 when compared to 4.05% for the quarter ended March 31, 2015. The cost of interest-bearing deposits and borrowings increased from 0.49% for the quarter ended March 31, 2015 to 0.73% for the quarter ended March 31, 2016 due mainly to the increase in interest rates for interest-bearing deposits and short-term FHLB borrowings. Net interest margin was 3.61% for the quarter ended March 31, 2016 compared to 3.72% for the same period in 2015.

Volume and Rate Analysis

The following tables present the dollar amount of changes in interest income and interest expense for each category of interest earning assets and interest-bearing liabilities.

	Three Months Ended March 31, 2016 compared to 2015

	Change Due To:		
	Increase / (Decrease)	Volume	Rate
	(In Thousands)		
Interest Earning Assets:			
Investments	$220	$167	$53
Loans held for sale	(18)	(34)	16
Loans	1,460	1,434	26
Interest-bearing deposits	43	4	39
Total increase (decrease) in interest income	1,705	1,571	134
Interest-Bearing Liabilities:			
Interest-bearing demand deposits	42	3	39
Money market deposit accounts	44	19	25
Savings accounts	40	35	5
Time deposits	291	128	163
Total interest-bearing deposits	417	185	232
FHLB Short-term borrowings	29	(57)	86
Securities sold under agreements to repurchase	(1)	(1)	-
FHLB Long-term borrowings	152	153	(1)
Total increase (decrease) in interest expense	597	280	317
Increase (decrease) in net interest income	$1,108	$1,291	$(183)

Average Balances, Net Interest Income, Yields Earned and Rates Paid

The following tables present for the periods indicated the total dollar amount of interest income from average interest earning assets and the resultant yields, as well as the interest expense on average interest-bearing liabilities, expressed in dollars and rates.

Yield on Average Earning Assets and Rates on Average Interest-Bearing Liabilities

Three Months Ended

	March 31, 2016			March 31, 2015		
	Average Balance	Income / Expense	Yield / Rate	Average Balance	Income / Expense	Yield / Rate
	(Dollars In Thousands)					
Assets:						
Interest-earning assets:						
Securities	$176,332	$1,035	2.35 %	$147,468	$815	2.21 %
Loans held for sale	34,607	344	3.98 %	38,065	362	3.80 %
Loans[(1)]	905,382	10,532	4.65 %	781,990	9,072	4.64 %
Interest-bearing balances and federal funds sold	52,862	70	0.53 %	46,828	27	0.23 %
Total interest-earning assets	1,169,183	11,981	4.10 %	1,014,351	10,276	4.05 %
Noninterest-earning assets:						
Cash and due from banks	11,707			9,906		
Premises, land and equipment	6,676			6,898		
Other assets	34,878			32,478		
Less: allowance for loan losses	(13,580)			(13,337)		
Total noninterest-earning assets	39,681			35,945		
Total Assets	$1,208,864			$1,050,296		
Liabilities and Shareholders’ Equity:						
Interest-bearing deposits:						
Interest-bearing demand deposits	$124,982	$107	0.34 %	$120,685	$65	0.22 %
Money market deposit accounts	142,221	98	0.28 %	110,503	54	0.20 %
Savings accounts	34,698	47	0.54 %	7,848	7	0.36 %
Time deposits	310,120	898	1.16 %	260,431	607	0.93 %
Total interest-bearing deposits	612,021	1,150	0.75 %	499,467	733	0.59 %
Borrowings:						
FHLB short-term borrowings	86,429	123	0.57 %	157,555	94	0.24 %
Securities sold under agreements to repurchase and federal funds purchased	17,442	4	0.09 %	22,695	5	0.09 %

FHLB long-term borrowings	64,615	154	0.95 %	556	2	1.44 %
Total borrowings	168,486	281	0.67 %	180,806	101	0.22 %
Total interest-bearing deposits and borrowings	780,507	1,431	0.73 %	680,273	834	0.49 %
Noninterest-bearing liabilities:						
Demand deposits	308,507			260,638		
Other liabilities	8,782			8,631		
Total liabilities	1,097,796			949,542		
Shareholders' Equity	111,068			100,754		
Total Liabilities and Shareholders' Equity:	$1,208,864			$1,050,296		
Interest Spread(2)			3.37 %			3.56 %
Net Interest Margin(3)		$10,550	3.61 %		$9,442	3.72 %

(1) Loans placed on nonaccrual status are included in loan balances.

(2) Interest spread is the average yield earned on earning assets, less the average rate incurred on interest-bearing liabilities.

(3) Net interest margin is net interest income, expressed as a percentage of average earning assets.

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Noninterest Income

Noninterest income consists of revenue generated from financial services and activities other than lending and investing. The mortgage segment provides the most significant contributions to noninterest income. Total noninterest income was $6.8 million for the first quarter of 2016 compared to $6.3 million for the same period in 2015. Gains on the sale of loans originated by the Banks's mortgage segment are the largest component of noninterest income. Gains on the sale of loans totaled $3.8 million for the three month period ended March 31, 2016, compared to $3.6 million for the same period of 2015. Gains on the sale of loans fluctuate with the volume of mortgage loans originated. During the three months ended March 31, 2016, the Bank's mortgage segment originated $106.6 million in mortgage and brokered loans, down slightly from $114.5 million for the same period in 2015. For the three months ended March 31, 2016, other income reflected an increase of $192 thousand over the three months ended March 31, 2015. Net losses on the hedging activity associated with the loans held for sale included in "Other Income" were $595 thousand and $513 thousand for the three months ended March 31, 2016 and 2015, respectively. Our hedging activities are designed to insulate the net gain on sale margins from movements of interest rates during the mortgage loan origination and delivery process. When gains are recognized on instruments used to hedge interest rate risk, the value of the loans being hedged decrease proportionately resulting in lower realized gains on sale income.

Noninterest Expense

Noninterest expense totaled $11.1 million for the three months ended March 31, 2016, compared to $10.2 million for the same period in 2015, an increase of $883 thousand. Salaries and employee benefits totaled $7.7 million for the three months ended March 31, 2016, compared to $6.7 million for the same period last year an increase of $1.0 million. Other operating expenses totaled $2.7 million for the three months ended March 31, 2016, compared to $2.8 million for the same period in 2015, a decrease of $75 thousand. This increase is due mainly to the addition of staffing to the Banking Segment during the third and fourth quarters of 2015.

The table below provides the composition of other operating expenses.

	Three Months Ended March 31,	
	2016	2015
	(In Thousands)	
Business and franchise tax	$239	$213
Advertising and promotional	200	226
Data processing	197	171
FDIC insurance	168	162
Accounting and auditing	153	153
Management fees	142	198
Investor fees	137	128
Consulting fees	109	106
Telephone	95	80
Director fees	93	111
Stock option	84	78
Publication and subscription	76	53
Regulatory examinations	69	60
Credit report	68	56
Disaster recovery	61	49
Office supplies-stationary print	61	45
Insurance	52	46
Early payoff	49	16
FRB and bank analysis charges	39	45
Travel	36	30
SBA guarantee fee	35	47
Business development and meals	29	25
Postage	28	18
Verification fees	27	23
Dues and memberships	25	28
Common stock	19	15
Education and training	16	52
Legal fees	15	171
Courier	15	14
Bank paid closing costs	15	6
Automotive	12	12
Conventions and meetings	11	11
Appraisal fee	10	12
Other	315	315
	$2,700	$2,775

Liquidity Management

Liquidity is the ability of the Corporation to meet current and future cash flow requirements. The liquidity of a financial institution reflects its ability to convert assets into cash or cash equivalents without significant loss and to raise additional funds by increasing liabilities. Liquidity management involves maintaining the Corporation’s ability to meet the daily cash flow requirements of both depositors and borrowers. Management monitors liquidity through a regular review of asset and liability maturities, funding sources, and loan and deposit forecasts.

Asset and liability management functions not only serve to assure adequate liquidity in order to meet the needs of the Corporation’s customers, but also to maintain an appropriate balance between interest sensitive assets and interest sensitive liabilities so that the Corporation can earn an appropriate return for its shareholders.

The asset portion of the balance sheet provides liquidity primarily through loan principal repayments and maturities of investment securities. Other short-term investments such as federal funds sold and interest-bearing deposits with other banks provide an additional source of liquidity funding. At March 31, 2016, overnight interest-bearing balances totaled $27.1 million and unpledged available-for-sale investment securities totaled approximately $32.1 million.

The Bank proactively manages a portfolio of time deposits issued to local municipalities and wholesale depositors in order to fund loans held for sale and investments. As of March 31, 2016, the portfolio of CDARS and wholesale time deposits totaled $208.9 million compared to $191.9 million at December 31, 2015.

The liability portion of the balance sheet provides liquidity through various interest-bearing and noninterest-bearing deposit accounts, federal funds purchased, securities sold under agreement to repurchase and other term borrowings. At March 31, 2016, the Bank had a line of credit with the FHLB totaling $353.4 million and had outstanding $65 million in short-term loans at fixed rates between 0.55% and 0.74% and $55 million in long-term loans at fixed rates between 0.72% and 1.54% leaving $183.3 million available on the line. In addition to the line of credit at the FHLB, the Bank issues repurchase agreements. As of March 31, 2016, outstanding repurchase agreements totaled $12.5 million. The interest rates on these instruments are variable and subject to change daily. The Bank also maintains federal funds lines of credit with its correspondent banks and, at March 31, 2016, these lines totaled $60.4 million and were available as an additional funding source.

The following table presents the composition of borrowings at March 31, 2016 and December 31, 2015 and for the periods indicated.

Borrowed Funds Distribution

	March 31, 2016	December 31, 2015
	(Dollars In Thousands)	
Borrowings:		
At Period End		
FHLB short-term borrowings	$65,000	$70,000
Securities sold under agreements to repurchase	12,467	21,129
FHLB long-term borrowings	55,000	55,000
Total at period end	$132,467	$146,129

	March 31, 2016	December 31, 2015
	(Dollars In Thousands)	

Borrowings:		
Average Balances		
FHLB short-term borrowings	$86,429	$91,992
Securities sold under agreements to repurchase	17,442	21,853
FHLB long-term borrowings	64,615	18,890
Federal funds purchased	-	164
Total average balance	$168,486	$132,899
Average rate paid on all borrowed funds	0.67 %	0.35 %

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Management believes the Corporation is well positioned with liquid assets, the ability to generate liquidity through liability funding and the availability of borrowed funds, to meet the liquidity needs of depositors and customers' borrowing needs. The Corporation's ability to maintain sufficient liquidity may be affected by numerous factors, including economic conditions nationally and in our markets. Depending on the Corporation's liquidity levels, its capital position, conditions in the capital markets and other factors, the Corporation may from time to time consider the issuance of debt, equity or other securities, or other possible capital markets transactions, the proceeds of which could provide additional liquidity for its operations.

Contractual Obligations

There have been no material changes outside the ordinary course of business to the contractual obligations disclosed in the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2015.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Corporation's market risk is composed primarily of interest rate risk. The Funds Management Committee is responsible for reviewing the interest rate sensitivity position and establishes policies to monitor and coordinate the Corporation's sources, uses and pricing of funds.

Interest Rate Sensitivity Management

The Corporation uses a simulation model to analyze, manage and formulate operating strategies that address net interest income sensitivity to movements in interest rates. The simulation model projects net interest income based on various interest rate scenarios over a twelve month period. The model is based on the actual maturity and re-pricing characteristics of rate sensitive assets and liabilities. The model incorporates certain assumptions which management believes to be reasonable regarding the impact of changing interest rates and the prepayment assumption of certain assets and liabilities. The table below reflects the outcome of these analyses at March 31, 2016 and December 31, 2015, assuming budgeted growth in the balance sheet. According to the model run for the three month period ended March 31, 2016, and projecting forward over a twelve month period, an immediate 100 basis point increase in interest rates would result in an increase in net interest income of 4.2%. Modeling for an immediate 100 basis point decrease in interest rates has been suspended due to the current rate environment. While management carefully monitors the exposure to changes in interest rates and takes actions as warranted to mitigate any adverse impact, there can be no assurance about the actual effect of interest rate changes on net interest income.

The following table reflects the Corporation's earnings sensitivity profile.

Increase in Federal Funds Target Rate	Hypothetical Percentage Change in Earnings March 31, 2016	Hypothetical Percentage Change in Earnings December 31, 2015
3.00%	13.5%	5.1%
2.00%	8.9%	3.4%
1.00%	4.2%	1.5%

The Corporation's net interest income and the fair value of its financial instruments are influenced by changes in the level of interest rates. The Corporation manages its exposure to fluctuations in interest rates through policies established by its Funds Management Committee. The Funds Management Committee meets periodically and has responsibility for formulating and implementing strategies to improve balance sheet positioning and earnings and reviewing interest rate sensitivity.

The Mortgage Division is party to mortgage rate lock commitments to fund mortgage loans at interest rates previously agreed (locked) by both the Mortgage Division and the borrower for specified periods of time. When the borrower locks his or her interest rate, the Mortgage Division effectively extends a put option to the borrower, whereby the borrower is not obligated to enter into the loan agreement, but the Mortgage Division must honor the interest rate for the specified time period. The Mortgage Division is exposed to interest rate risk during the accumulation of interest rate lock commitments and loans prior to sale. The Mortgage Division utilizes either a best efforts sell forward or a mandatory sell forward commitment to economically hedge the changes in fair value of the loan due to changes in market interest rates. Failure to effectively monitor, manage, and hedge the interest rate risk associated with the mandatory commitments subjects the Mortgage Division to potentially significant market risk.

Throughout the lock period the changes in the market value of interest rate lock commitments, best efforts and mandatory sell forward commitments are recorded as unrealized gains and losses and are included in the consolidated statement of income under other noninterest income. The Mortgage Division utilizes a third party and its proprietary simulation model to assist in identifying and managing the risk associated with this activity.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Corporation’s management evaluated, with the participation of the Chief Executive Officer and Chief Financial Officer, the effectiveness of the Corporation’s disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Corporation’s disclosure controls and procedures are effective as of the end of the period covered by this report to ensure that information required to be disclosed in the reports that the Corporation files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to the Corporation’s management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that the Corporation’s disclosure controls and procedures will detect or uncover every situation involving the failure of persons within the Corporation to disclose material information required to be set forth in the Corporation’s periodic and current reports.

Changes in Internal Control over Financial Reporting

The Corporation’s management is also responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). No changes in the Corporation’s internal control over financial reporting occurred during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Corporation’s internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

The Corporation, and the Bank are from time to time parties to legal proceedings arising in the ordinary course of business. Management is of the opinion that these legal proceedings will not have a material adverse effect on the Corporation’s financial condition or results of operations. From time to time the Bank and the Corporation may initiate legal actions against borrowers in connection with collecting defaulted loans. Such actions are not considered material by management unless otherwise disclosed.

Item 1A. Risk Factors

There have been no material changes in the risk factors faced by the Corporation from those disclosed in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2015.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table details the Corporation's purchases of its common stock during the first quarter of 2016 pursuant to a Share Repurchase Program announced on March 20, 2007. On June 22, 2010 the number of shares authorized for repurchase under the share repurchase program was increased from 2,500,000 to 3,500,000. The Share Repurchase Program does not have an expiration date.

Issuer Purchases of Equity Securities

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid Per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plan	(d) Maximum Number of Shares that may yet be Purchased Under the Plan
January 1 - January 31, 2016	-	$ -	-	768,781
February 1 - February 29, 2016	-	-	-	768,781
March 1 - March 31, 2016	-	-	-	768,781
	-	$ -	-	768,781

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

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Item 6. Exhibits

Exhibit No.	Description
3.1	Amended and Restated Articles of Incorporation of Access National Corporation (incorporated by reference to Exhibit 3.1 to Form 8-K filed July 18, 2006 (file number 000-49929))
3.1.1	Articles of Amendment to Amended and Restated Articles of Incorporation of Access National Corporation (incorporated by reference to Exhibit 3.1.1 to Form 10-Q filed August 15, 2011 (file number 000-49929))
3.2	Amended and Restated Bylaws of Access National Corporation (incorporated by reference to Exhibit 3.2 to Form 8-K filed October 24, 2007 (file number 000-49929))
	Certain instruments relating to long-term debt as to which the total amount of securities authorized thereunder does not exceed 10% of Access National Corporation's total assets have been omitted in accordance with Item 601(b)(4)(iii) of Regulation S-K. The registrant will furnish a copy of any such instrument to the Securities and Exchange Commission upon its request.
10.5+	Annual Compensation of Non-Employee Directors (incorporated by reference to Exhibit 10.5 to Form 10-K filed March 15, 2016 (file number 000-49929))
10.6+	Base Salaries for Named Executive Officers (incorporated by reference to Exhibit 10.6 to Form 10-K filed March 15, 2016 (file number 000-49929))
31.1*	CEO Certification Pursuant to Rule 13a-14(a)
31.2*	CFO Certification Pursuant to Rule 13a-14(a)
32*	CEO/CFO Certification Pursuant to § 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. § 1350)
101*	The following materials from Access National Corporation's Quarterly Report on Form 10-Q for the quarter ended March 31, 2016 formatted in XBRL (Extensible Business Reporting Language), filed herewith: (i) Consolidated Balance Sheets (unaudited), (ii) Consolidated Statements of Income (unaudited), (iii) Consolidated Statements of Comprehensive Income (unaudited), (iv) Consolidated Statements of Changes in Shareholders' Equity (unaudited), (v) Consolidated Statements of Cash Flows (unaudited), and (vi) Notes to Consolidated Financial Statements (unaudited).
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase

101.DEF* XBRL Taxonomy Extension Definition Linkbase

101.LAB* XBRL Taxonomy Extension Label Linkbase

101.PRE* XBRL Taxonomy Extension Presentation Linkbase

* filed herewith
+ indicates a management contract or compensatory plan or arrangement

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Access National Corporation
(Registrant)

Date:	May 10, 2016	By:	/s/ Michael W. Clarke Michael W. Clarke President and Chief Executive Officer (Principal Executive Officer)
Date:	May 10, 2016	By:	/s/ Margaret M. Taylor Margaret M. Taylor Executive Vice President and Chief Financial Officer (Principal Financial & Accounting Officer)