ACCESS NATIONAL CORP
Form 10-Q
August 14, 2009

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

þ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended June 30, 2009

or

o **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 incorporation or organization)	(I.R.S. Employer Identification Number)

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)

(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 þ No o

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 o No o

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 o	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company þ

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

The number of shares outstanding of Access National Corporation s common stock, par value $0.835, as of August 3, 2009 was 10,438,619 shares.

Table of Contents

ACCESS NATIONAL CORPORATION
FORM 10-Q
INDEX

Table of Contents

PART I FINANCIAL INFORMATION
Item 1. Financial Statements

ACCESS NATIONAL CORPORATION
Consolidated Balance Sheets
(In Thousands, Except for Share Data)

	June 30, 2009 (Unaudited)	December 31, 2008
ASSETS		
Cash and due from banks	$ 12,942	$ 8,785
Interest-bearing deposits in other banks	26,820	13,697
Securities available for sale, at fair value	68,699	91,015
Loans held for sale, at fair value	107,778	84,312
Loans	505,661	485,929
Allowance for loan losses	(8,077)	(7,462)
Net loans	497,584	478,467
Premises and equipment, net	8,983	9,211
Accrued interest	2,928	3,193
Other real estate owned	3,925	4,455
Other assets	10,905	9,189
Total assets	$ 740,564	$ 702,324
LIABILITIES AND SHAREHOLDERS EQUITY		
Deposits		
Noninterest-bearing deposits	$ 97,291	$ 75,000
Savings and interest-bearing deposits	143,730	95,730
Time deposits	303,885	314,671
Total deposits	544,906	485,401
Other liabilities		
Short-term borrowings	60,606	103,575
Long-term borrowings	53,270	41,107
Subordinated debentures	6,186	6,186
Other liabilities and accrued expenses	11,977	8,110
Total liabilities	676,945	644,379
SHAREHOLDERS EQUITY		
	8,716	8,551

Common stock, par value, $0.835; authorized, 60,000,000 shares; issued and outstanding,10,438,619 shares at June 30, 2009 and 10,240,747 shares at December 31, 2008				
Surplus		18,080		17,410
Retained earnings		36,386		31,157
Accumulated other comprehensive income, net		437		827
Total shareholders equity		63,619		57,945
Total liabilities and shareholders equity	$	740,564	$	702,324

See accompanying notes to consolidated financial statements (Unaudited).

2

Table of Contents

ACCESS NATIONAL CORPORATION
Consolidated Statements of Income
(In Thousands, Except for Share Data)
(Unaudited)

	Three Months Ended June 30, 2009	2008
Interest and Dividend Income		
Interest and fees on loans	$ 8,781	$ 8,626
Interest on deposits in other banks	46	96
Interest and dividends on securities	861	789
Total interest and dividend income	9,688	9,511
Interest Expense		
Interest on deposits	2,737	3,301
Interest on short-term borrowings	332	233
Interest on long-term borrowings	515	639
Interest on subordinated debentures	65	89
Total interest expense	3,649	4,262
Net interest income	6,039	5,249
Provision for loan losses	2,060	1,399
Net interest income after provision for loan losses	3,979	3,850
Non-interest Income		
Service fees on deposit accounts	130	113
Gain on sale of loans	14,550	6,239
Mortgage broker fee income	189	524
Other income	3,183	1,146
Total non-interest income	18,052	8,022
Non-interest Expense		
Salaries and employee benefits	7,929	5,508
Occupancy and equipment	648	568
Other operating expenses	8,972	4,139
Total non-interest expense	17,549	10,215
Income before income taxes	4,482	1,657

Income tax expense		1,712		595
NET INCOME	$	2,770	$	1,062
Earnings per common share:				
Basic	$	0.27	$	0.10
Diluted	$	0.27	$	0.10
Average outstanding shares:				
Basic		10,345,890		10,170,174
Diluted		10,403,850		10,315,127

See accompanying notes to consolidated financial statements (Unaudited).

Table of Contents

ACCESS NATIONAL CORPORATION
Consolidated Statements of Income
(In Thousands, Except for Share Data)
(Unaudited)

	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Interest and Dividend Income		
Interest and fees on loans	$ 17,448	$ 17,529
Interest on deposits in other banks	78	361
Interest and dividends on securities	1,841	1,640
Total interest and dividend income	19,367	19,530
Interest Expense		
Interest on deposits	5,818	7,569
Interest on short-term borrowings	648	539
Interest on long-term borrowings	991	1,189
Interest on subordinated debentures	128	202
Total interest expense	7,585	9,499
Net interest income	11,782	10,031
Provision for loan losses	3,429	1,807
Net interest income after provision for loan losses	8,353	8,224
Noninterest Income		
Service fees on deposit accounts	264	216
Gain on sale of loans	28,339	13,093
Mortgage broker fee income	329	1,086
Other income	4,280	2,069
Total noninterest income	33,212	16,464
Noninterest Expense		
Salaries and employee benefits	15,434	11,438
Occupancy and equipment	1,280	1,204
Other operating expenses	15,715	7,754
Total noninterest expense	32,429	20,396
Income before income taxes	9,136	4,292

Income tax expense		3,702		1,539
NET INCOME	$	5,434	$	2,753
Earnings per common share:				
Basic	$	0.53	$	0.26
Diluted	$	0.52	$	0.26
Average outstanding shares:				
Basic		10,306,638		10,395,002
Diluted		10,357,752		10,555,463

See accompanying notes to consolidated financial statements (Unaudited).

Table of Contents

ACCESS NATIONAL CORPORATION
Consolidated Statements of Changes in Shareholders Equity
For the Six Months Ended June 30, 2009 and 2008
(In Thousands, Except for Share Data)
(Unaudited)

	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2008	$ 8,551	$ 17,410	$ 31,157	$ 827	$ 57,945
Comprehensive income:					
Net income			5,434		5,434
Other comprehensive income, unrealized holdings gains (losses) arising during the period (net of tax, $201)				(390)	(390)
Total comprehensive income					5,044
Stock option exercises (148,452 shares)	124	377			501
Dividend reinvestment plan (74,550 shares)	62	290			352
Repurchased under share repurchase program (25,130 shares)	(21)	(95)			(116)
Cash dividend			(205)		(205)
Stock-based compensation expense recognized in earnings		98			98
Balance, June 30, 2009	$ 8,716	$ 18,080	$ 36,386	$ 437	$ 63,619

	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2007	$ 9,052	$ 21,833	$ 26,846	$ 230	$ 57,961
Comprehensive income:					
Net income			2,753		2,753
Other comprehensive income, unrealized holdings gains (losses) arising during the period (net of tax, $78)				(152)	(152)
Total comprehensive income					2,601

Stock option exercises (85,398 shares)	71	151			222
Repurchased under share repurchase program (808,411 shares)	(675)	(5,169)			(5,844)
Cash dividend			(230)		(230)
Stock-based compensation expense recognized in earnings		64			64
Balance, June 30, 2008	$ 8,448	$ 16,879	$ 29,369	$ 78	$ 54,774

See accompanying notes to consolidated financial statements (Unaudited).

Table of Contents

ACCESS NATIONAL CORPORATION
Consolidated Statements of Cash Flows
(In Thousands)
(Unaudited)

	Six Months Ended June 30, 2009	2008
Cash Flows from Operating Activities		
Net income	$ 5,434	$ 2,753
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Provision for loan losses- net of recoveries	3,429	1,807
Deferred tax benefit	(1,028)	(428)
Stock based compensation	98	64
Provision for hedging	27	(179)
Net premium amortization/discount accretion on securities	3	
Depreciation and amortization	306	385
Loss on Disposal of assets		5
Changes in assets and liabilities:		
Valuation of loans held for sale carried at fair value	1,386	1,271
Increase in loans held for sale	(24,852)	(5,440)
Decrease in other assets	237	83
Increase in other liabilities	3,867	1,341
Net cash (used in) provided by operating activities	(11,093)	1,662
Cash Flows from Investing Activities		
Proceeds from maturities and calls of securities available for sale	42,489	37,340
Purchases of securities available for sale	(20,766)	(27,311)
Net increase in loans	(22,546)	(19,854)
Proceeds from sale of equipment		35
Proceeds from sales of other real estate owned		187
Purchases of premises and equipment	(34)	(129)
Net cash used in investing activities	(857)	(9,732)
Cash Flows from Financing Activities		
Net increase in demand, interest-bearing demand and savings deposits	70,190	17,321
Net decrease in time deposits	(10,685)	(41,357)
Net decrease in securities sold under agreement to repurchase	(7,888)	(2,101)
Net (decrease) increase in short-term borrowings	(35,081)	33,180
Net increase in long-term borrowings	12,163	21,381
Proceeds from issuance of common stock	852	222
Purchase of common stock	(116)	(5,844)
Dividends Paid	(205)	(230)
Net cash provided by financing activities	29,230	22,572

Increase in cash and cash equivalents		17,280		14,502
Cash and Cash Equivalents				
Beginning		22,482		19,504
Ending	$	39,762	$	34,006
Supplemental Disclosures of Cash Flow Information				
Cash payments for interest	$	7,629	$	9,521
Cash payments for income taxes	$	3,550	$	2,150
Supplemental Disclosures of Noncash Investing Activities				
Unrealized (loss) gain on securities available for sale	$	(590)	$	(230)

See accompanying notes to consolidated financial statements (Unaudited).

Table of Contents

Notes to Consolidated Financial Statements (Unaudited)

NOTE 1 COMMENCEMENT OF OPERATIONS

Access National Corporation (the Corporation) is a bank holding company incorporated under the laws of the Commonwealth of Virginia. The Corporation has three wholly-owned subsidiaries, Access National Bank (the Bank), which is an independent commercial bank chartered under federal laws as a national banking association, Access Capital Trust I, and Access Capital Trust II. The Corporation does not have any significant operations and serves primarily as the parent company for the Bank. The Corporation s income is primarily derived from dividends received from the Bank. The amount of these dividends is determined by the Bank s earnings and capital position.

The Corporation acquired all of the outstanding stock of the Bank in a statutory exchange transaction on June 15, 2002, pursuant to an Agreement and Plan of Reorganization between the Corporation and the Bank.

The Bank opened for business on December 1, 1999 and has two active wholly-owned subsidiaries: Access National Mortgage Corporation (the Mortgage Corporation), a Virginia corporation engaged in mortgage banking activities, and Access Real Estate LLC. Access Real Estate LLC is a limited liability company established in July, 2003 for the purpose of holding title to the Corporation s headquarters building, located at 1800 Robert Fulton Drive, Reston, Virginia.

NOTE 2 BASIS OF PRESENTATION

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 six months ended June 30, 2009 are not necessarily indicative of the results that may be expected for the entire year ending December 31, 2009. These consolidated financial statements should be read in conjunction with the Corporation s audited financial statements and the notes thereto as of December 31, 2008, included in the Corporation s Annual Report on Form 10-K for the fiscal year ended December 31, 2008.

Table of Contents

NOTE 3 STOCK-BASED COMPENSATION PLANS

During the first six months of 2009, the Corporation granted 104,250 stock options to officers, directors, and employees under the 1999 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 have a vesting period of two and one half years and expire three and one half years after the issue date. Stock based compensation expense recognized in other operating expense during the first six months of 2009 was approximately $98 thousand and $64 thousand for the same period in 2008. The fair value of options is estimated on the date of grant using a Black-Scholes option-pricing model with the assumptions noted below.

A summary of stock option activity under the Plan for the six months ended June 30, 2009 is presented as follows:

	Six Months Ended June 30, 2009
Expected life of options granted	3.50
Risk-free interest rate	1.08%
Expected volatility of stock	47%
Annual expected dividend yield	1%
Fair Value of Granted Options	$ 179,771
Non-Vested Options	248,275

	Number of Options	Weighted Avg. Exercise Price	Weighted Avg. Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at beginning of year	589,617	$ 5.96	1.57	$ 284,885
Granted	104,250	$ 4.03	3.09	$
Exercised	148,452	$ 3.36	0.01	$
Lapsed or Canceled	42,586	$ 7.03	0.92	$
Outstanding at June 30, 2009	502,829	$ 6.23	1.85	$ 339,050
Exercisable June 30, 2009	254,554	$ 6.20	1.49	$ 139,590

Table of Contents

NOTE 4 SECURITIES

Amortized costs and fair values of securities available for sale as of June 30, 2009 and December 31, 2008 are as follows:

	June 30, 2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
U.S. Government Agencies	$ 60,091	$ 754	$ (36)	$ 60,809
Mortgage Backed Securities	1,204	4	(46)	1,162
Municipals taxable	690	2		692
CRA Mutual Fund	1,500		(17)	1,483
Restricted Securities:				
Federal Reserve Bank Stock	894			894
FHLB Stock	3,659			3,659
Total Securities	$ 68,038	$ 760	$ (99)	$ 68,699

	December 31, 2008			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
U.S. Treasury Notes	$ 999	$ 7	$	$ 1,006
U.S. Governmental Agencies	74,934	1,420		76,354
Mortgage Backed Securities	1,428	2	(39)	1,391
Municipals taxable	5,006	3	(89)	4,920
CRA Mutual Fund	1,500		(52)	1,448
Restricted Securities:				
Federal Reserve Bank Stock	894			894
FHLB Stock	5,002			5,002
Total Securities	$ 89,763	$ 1,432	$ (180)	$ 91,015

Table of Contents

NOTE 4 SECURITIES (continued)

The amortized cost and fair value of securities available for sale as of June 30, 2009 and December 31, 2008 by contractual maturity are shown below. Actual maturities may differ from contractual maturities because the securities may be called or prepaid without any penalties.

	June 30, 2009		December 31, 2008	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In Thousands)		(In Thousands)	
U.S. Treasury and Agencies				
Due in one year or less	$	$	$ 999	$ 1,006
Due after one through five years	10,190	10,198	25,000	25,121
Due after five through ten years	49,901	50,611	49,934	51,233
Municipals-taxable				
Due after one through five years	690	692	905	907
Due after five through ten years			4,101	4,013
Mortgage Backed Securities				
Due in one year or less	358	362	381	382
Due after one through five years			127	128
Due after fifteen years	846	800	920	881
CRA Mutual Fund	1,500	1,483	1,500	1,448
Restricted Securities:				
Federal Reserve	894	894	894	894
Bank stock FHLB stock	3,659	3,659	5,002	5,002
Total	**$ 68,038**	**$ 68,699**	**$ 89,763**	**$ 91,015**

10

Table of Contents

NOTE 4 SECURITIES (continued)

Investment securities available for sale that have an unrealized loss position at June 30, 2009 and December 31, 2008 are as follows:

June 30, 2009

	Securities in a Loss Position for Less than 12 Months		Securities in a Loss Position for 12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Investment securities available for sale:			(In Thousands)			
U.S. Government Agencies	$ 9,939	$ (36)	$	$	$ 9,939	$ (36)
Mortgage Backed Securities			800	(46)	800	(46)
CRA Mutual Fund			1,483	(17)	1,483	(17)
Total	$ 9,939	$ (36)	$ 2,283	$ (63)	$ 12,222	$ (99)

December 31, 2008

	Securities in a Loss Position for Less than 12 Months		Securities in a Loss Position for 12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Investment securities available for sale:			(In Thousands)			
Mortgage Backed Securities	$ 881	$ (39)	$	$	$ 881	$ (39)
Municipals-taxable	4,012	(89)			4,012	(89)
CRA Mutual Fund			1,448	(52)	1,448	(52)
Total	$ 4,893	$ (128)	$ 1,448	$ (52)	$ 6,341	$ (180)

Management does not believe that any individual unrealized loss as of June 30, 2009 and December 31, 2008 is other than a temporary impairment. These unrealized losses are primarily attributable to changes in interest rates. The Corporation has the ability to hold these securities for a time necessary to recover the amortized cost or until maturity when full repayment would be received.

Table of Contents

NOTE 5-LOANS

The following table presents the composition of the loan portfolio at June 30, 2009 and December 31, 2008:

	June 30, 2009	December 31, 2008
	(In Thousands)	
Loans secured by real estate:		
Construction and land development	$ 51,616	$ 42,600
Secured by residential real estate	148,872	151,993
Secured by multi-family residential	1,735	1,747
Secured by commercial real estate	223,691	218,539
Commercial and industrial loans	78,261	69,537
Consumer loans	1,486	1,513
Total loans	505,661	485,929
Less allowance for loan losses	8,077	7,462
Net loans	$ 497,584	$ 478,467

NOTE 6 SEGMENT REPORTING

The Corporation has two reportable segments: traditional commercial banking and a mortgage banking business. Revenues from commercial banking operations consist primarily of interest earned on loans and investment 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.

The commercial banking segment provides the mortgage segment 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.

Other includes the operations of the Corporation and Access Real Estate LLC. The primary source of income for the Corporation is derived from dividends from the Bank and its primary expense relates to interest on subordinated debentures. The primary source of income for Access Real Estate LLC is derived from rents received from the Bank and Mortgage Corporation.

Table of Contents

NOTE 6 SEGMENT REPORTING (continued)

The following table presents segment information for the three months ended June 30, 2009 and 2008:

2009 (In Thousands)	Commercial Banking	Mortgage	Other	Elimination	Consolidated Totals
Revenues:					
Interest income	$ 9,231	$ 1,015	$ 9	$ (567)	$ 9,688
Gain on sale of loans		14,550			14,550
Other revenues	1,240	2,228	288	(254)	3,502
Total revenues	10,471	17,793	297	(821)	27,740
Expenses:					
Interest expense	3,547	492	177	(567)	3,649
Salaries and employee benefits	1,966	5,963			7,929
Other	4,388	7,045	501	(254)	11,680
Total operating expenses	9,901	13,500	678	(821)	23,258
Income (loss) before income taxes	$ 570	$ 4,293	$ (381)	$	$ 4,482
Total assets	$ 707,227	$ 112,126	$ 45,568	$ (124,357)	$ 740,564

2008 (In Thousands)	Commercial Banking	Mortgage	Other	Elimination	Consolidated Totals
Revenues:					
Interest income	$ 9,246	$ 526	$ 9	$ (270)	$ 9,511
Gain on sale of loans		6,239			6,239
Other revenues	364	1,713	270	(564)	1,783
Total revenues	9,610	8,478	279	(834)	17,533
Expenses:					
Interest expense	4,068	262	202	(270)	4,262
Salaries and employee benefits	1,975	3,533			5,508
Other	2,531	3,647	492	(564)	6,106
Total operating expenses	8,574	7,442	694	(834)	15,876
Income (loss) before income taxes	$ 1,036	$ 1,036	$ (415)	$	$ 1,657

Total assets	$ 613,954	$ 45,711	$ 43,268	$ (53,979)	$ 648,954

13

Table of Contents

NOTE 6 SEGMENT REPORTING (continued)

The following table presents segment information for the six months ended June 30, 2009 and 2008:

2009 (In Thousands)	Commercial Banking	Mortgage	Other	Elimination	Consolidated Totals
Revenues:					
Interest income	$ 18,428	$ 1,930	$ 19	$ (1,010)	$ 19,367
Gain on sale of loans		28,339			28,339
Other revenues	1,616	3,486	596	(825)	4,873
Total revenues	20,044	33,755	615	(1,835)	52,579
Expenses:					
Interest expense	7,363	882	350	(1,010)	7,585
Salaries and employee benefits	3,814	11,620			15,434
Other	7,285	13,008	956	(825)	20,424
Total operating expenses	18,462	25,510	1,306	(1,835)	43,443
Income (loss) before income taxes	$ 1,582	$ 8,245	$ (691)	$	$ 9,136
Total assets	$ 707,227	$ 112,126	$ 45,568	$ (124,357)	$ 740,564

2008 (In Thousands)	Commercial Banking	Mortgage	Other	Elimination	Consolidated Totals
Revenues:					
Interest income	$ 19,083	$ 1,040	$ 46	$ (639)	$ 19,530
Gain on sale of loans		13,097		(4)	13,093
Other revenues	916	3,042	536	(1,123)	3,371
Total revenues	19,999	17,179	582	(1,766)	35,994
Expenses:					
Interest expense	9,097	613	429	(640)	9,499
Salaries and employee benefits	3,938	7,500			11,438
Other	4,290	6,725	876	(1,126)	10,765
Total operating expenses	17,325	14,838	1,305	(1,766)	31,702
Income (loss) before income taxes	$ 2,674	$ 2,341	$ (723)	$	$ 4,292

Total assets	$ 613,954	$ 45,711	$ 43,268	$ (53,979)	$ 648,954

Table of Contents

NOTE 7 EARNINGS PER SHARE (EPS)

The following tables show the calculation of both basic and diluted earnings per share (EPS) for the three and six months ended June 30, 2009 and 2008, 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 June 30, 2009	Three Months Ended June 30, 2008
	(In thousands except for share data)	
BASIC EARNINGS PER SHARE:		
Net income	$ 2,770	$ 1,062
Weighted average shares outstanding	10,345,890	10,170,174
Basic earnings per share	$ 0.27	$ 0.10
DILUTED EARNINGS PER SHARE:		
Net income	$ 2,770	$ 1,062
Weighted average shares outstanding	10,345,890	10,170,174
Stock options and warrants	57,960	144,953
Weighted average diluted shares outstanding	10,403,850	10,315,127
Diluted earnings per share	$ 0.27	$ 0.10

	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
	(In thousands except for share data)	
BASIC EARNINGS PER SHARE:		
Net Income	$ 5,434	$ 2,753
Weighted average shares outstanding	10,306,638	10,395,002
Basic earnings per share	$ 0.53	$ 0.26

DILUTED EARNINGS PER SHARE:		
Net Income	$ 5,434	$ 2,753
Weighted average shares outstanding	10,306,638	10,395,002
Stock options and warrants	51,114	160,461
Weighted average diluted shares outstanding	10,357,752	10,555,463
Diluted earnings per share	$ 0.52	$ 0.26

15

Table of Contents

NOTE 8 DERIVATIVES

As part of its mortgage banking activities, the Mortgage Corporation enters into interest rate lock commitments, which are commitments to originate loans whereby the interest rate on the loan is determined prior to funding and the customers have locked into that interest rate. The Mortgage Corporation then either locks the loan and rate in 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 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 non-interest 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 Corporation determines the fair value of rate lock commitments and delivery contracts by measuring the fair value of the underlying asset, which is impacted by current interest rates and takes into consideration the probability that the 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 Corporation does not expect any counterparty to fail to meet its obligation. Additional risks inherent in Mandatory delivery programs include the risk that if the Mortgage Corporation 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 Corporation could incur significant costs in acquiring replacement loans or MBS and such costs could have an adverse effect on mortgage banking operations.

Since the Mortgage Corporation 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 Mortgage Corporation has not elected to apply hedge accounting to its derivative instruments as provided in Statement of Financial Accounting Standards (SFAS) No. 133, Accounting for Derivative Instruments and Hedging Activities.

At June 30, 2009 and December 31, 2008, the Mortgage Corporation had derivative financial instruments with a notional value of $122.3 million and $131.8 million respectively. The fair value of these derivative instruments at June 30, 2009 and December 31, 2008 was $64 thousand and $91 thousand respectively and was included in other assets.

Included in other non-interest income for the six months ended June 30, 2009 and June 30, 2008 was a net gain of $213 thousand and $309 thousand, respectively, relating to derivative instruments.

NOTE 9 RECENT ACCOUNTING PRONOUNCEMENTS

In March 2008, the Financial Accounting Standards Board (FASB) issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB statement No. 133 . SFAS 161 requires enhanced disclosures about how and why an entity uses derivative instruments, how derivative instruments and related items are accounted for under SFAS 133, and how derivative instruments and related hedged items affect an entity s financial position, financial performance and cash flows. The new standard became effective for the Corporation on January 1, 2009. The adoption of SFAS 161 did not have an impact on the Corporation s consolidated financial statements.

In April 2009, the FASB issued FSP FAS 107-1 and APB 28-1, Interim Disclosures About Fair Value of Financial Instruments (FSP FAS 107-1) which amends SFAS No. 107, Disclosures about Fair Value of Financial Instruments to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This FSP also amends Accounting Principles Board Opinion No. 28, Interim Financial Reporting , to require those disclosures in summarized financial information at interim reporting periods. FSP FAS 107-1 is effective for interim reporting periods ending after June 15, 2009, and was effective for the Corporation on June 30, 2009 and did not have any effect on the Corporation s consolidated financial condition or results of operation.

In April 2009, the FASB issued FSP FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary-Impairment (FSP FAS 115-2) which amends the other-than-temporary impairment guidance under GAAP for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary

NOTE 9 RECENT ACCOUNTING PRONOUNCEMENTS (continued)

impairments on debt and equity securities in the financial statements. This FSP requires that the annual disclosures in FAS 115 and FSP FAS 115-1 and FAS 124-1 The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments be made for interim periods. This FSP does not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities. FSP FAS 115-2 is effective for interim and annual reporting periods ending after June 15, 2009 and was effective June 30, 2009, for the Corporation. The adoption did not have a material impact on the Corporation s consolidated financial condition or results of operations.

In April 2009, the FASB issued FSP FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability has Significantly Decreased and Identifying Transactions that are Not Orderly (FSP FAS 157-4) which provides additional guidance for estimating fair value in accordance with SFAS No. 157 Fair Value Measurement when the volume and level of activity for the asset or liability have significantly decreased. This FSP also includes guidance on identifying circumstances that indicate a transaction is not orderly. FSP FAS 157-4 is effective for interim and annual reporting periods ending after June 15, 2009 and became effective for the Corporation for the period ended June 30, 2009. The adoption of FSP FAS 157-4 did not have a material impact on the Corporation s consolidated financial condition or results of operations.

In June 2009, the FASB issued SFAS 166 Accounting for Transfers of Financial Assets, an amendment of FASB Statement No. 140. SFAS 166 removes the concept of a qualifying special-purpose entity (QSPE) from Statement 140, and eliminates the exception for QSPEs from the consolidation guidance of FASB Interpretation No. 46 (R), Consolidation of Variable Interest Entities (FIN 46 (R)). Concurrent with the issuance of SFAS 166, the FASB issued SFAS 167, Amendment to FASB Interpretation No. 46(R). SFAS 167 addresses the effect of eliminating the QSPE concept from Statement 140 and enhances the transparency of an entity s involvement in a variable interest entity (VIE). SFAS 166 is effective as of the beginning of the Corporation s first annual reporting period beginning after November 15, 2009. Earlier adoption is prohibited. The Corporation does not expect the adoption of the provisions of SFAS 166 to have a material effect on the Corporation s financial condition or results of operations.

In June 2009, the FASB issued SFAS No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles. SFAS 168 establishes the FASB Accounting Standards Codification (the Codification) as the single source of authoritative, nongovernmental GAAP. The Codification does not change GAAP. All existing accounting standard documents will be superseded and all other accounting literature not included in the Codification will be considered non-authoritative. SFAS 168 is effective for interim and annual periods ending after September 15, 2009. Accordingly, the Corporation will adopt the provision of SFAS 168 in the third quarter 2009. The Corporation does not expect the adoption of the provisions of SFAS 168 to have any effect on the Corporation s financial condition or results of operations.

In June 2009, the FASB issued SFAS No. 167, Amendments to FASB Interpretation No. 46(R). SFAS 167 replaces the quantitative-based risks and rewards calculation for determining which enterprise, if any, has a controlling financial interest in a variable interest entity with a qualitative approach focused on identifying which enterprise has both the power to direct the activities of the variable interest entity that most significantly impacts the entity s economic performance and has the obligation to absorb losses or the right to receive benefits that could be significant to the entity. In addition, SFAS 167 requires reconsideration of whether an entity is a variable interest entity when any changes in facts and circumstances occur such that the holders of the equity investment at risk, as a group, lose the power from voting rights or similar rights of those investments to direct the activities of the entity that most significantly impact the entity s economic performance. It also requires ongoing assessments of whether an enterprise is the primary beneficiary of a variable interest entity and additional disclosures about an enterprise s involvement in variable interest entities. SFAS 167 is effective for fiscal years beginning after November 15, 2009. Accordingly, the Corporation will adopt the provisions of SFAS 167 in the first quarter of 2010. The Corporation is currently evaluating the impact of the provisions of SFAS 167 on the Corporation s consolidated financial condition and results of operations.

NOTE 10 FAIR VALUE

Fair value pursuant to SFAS No. 157, Fair Value Measurements, 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

Table of Contents

NOTE 10 FAIR VALUE (continued)

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. SFAS 157 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, SFAS 157 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: The fair values for investment securities are determined by quoted market prices from active markets (Level 1).

Residential loans held for sale: The fair value of loans held for sale is determined using quoted prices for a similar asset, 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. 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 rate lock commitments (Level 3).

Impaired loans: The fair values of impaired loans are measured for impairment using the fair value of the collateral for collateral-dependent loans on a nonrecurring basis. 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 is included in other assets on the balance sheet, and 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 non-interest expense (Level 2).

Table of Contents

NOTE 10 FAIR VALUE (continued)

Assets and liabilities measured at fair value under SFAS 157 on a recurring and non-recurring basis, including financial assets and liabilities for which the Corporation has elected the fair value option, are summarized below:

Description	Carrying Value	Fair Value Measurement at June 30, 2009 Using: 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 (1)	$ 64,146	$64,146	$	$
Residential loans held for sale	107,778		107,778	
Derivative financial instruments	426			426
Financial Liabilities-Recurring				
Derivative financial instruments	362			362
Financial Assets-Non-Recurring				
Impaired loans (2)	6,885			6,885
Other real estate owned (3)	3,925		3,925	

(1) Excludes restricted stock.

(2) Represents the carrying value of loans for which adjustments are based on the appraised value of the collateral.

(3) Represents appraised value and realtor comparables less estimated selling expenses.

Table of Contents

NOTE 10 FAIR VALUE (continued)

The changes in Level 3 assets and liabilities measured at fair value on a recurring basis are summarized as follows for the three month period ended June 30, 2009.

	Net Derivatives
Balance March 31, 2009	$ 265
Realized and unrealized losses included in earnings	(201)
Unrealized gains (losses) included in other comprehensive income	
Purchases, settlements, paydowns, and maturities	
Transfer into Level 3	
Balance June 30, 2009	$ 64

The changes in Level 3 assets and liabilities measured at fair value on a recurring basis are summarized as follows for the six month peroid ended June 30, 2009.

	Net Derivatives (In Thousands)
Balance December 31, 2008	$ 91
Realized and unrealized gains (losses) included in earnings	(27)
Unrealized gains (losses) included in other comprehensive income	
Purchases, settlements, paydowns, and maturities	
Transfer into Level 3	
Balance June 30, 2009	$ 64

Financial instruments recorded using SFAS 159

Under SFAS 159, The Fair Value Option for Financial Assets and Financial Liabilities, 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 of SFAS 159, 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 June 30, 2009, measured at fair value under SFAS 159 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	$107,778	$1,386	$106,392

The Corporation elected to account for residential loans held for sale to eliminate the mismatch in 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 change to fair value accounting for loans held for sale resulted in a pre-tax increase in income of $612 thousand after considering loan origination fees and costs that were previously deferred in accordance with SFAS No. 91, Accounting for Nonrefundable Fees and Costs Associated with Originating or Acquiring Loans and Initial Direct Costs of Leases-an amendment of FASB Statements No. 13, 60, and 65 and a rescission of FASB Statement No. 17.

Table of Contents

NOTE 10 FAIR VALUE (continued)

SFAS No. 107, Disclosures about Fair Value of Financial Instruments, requires disclosure of the fair value of financial assets and financial liabilities, including those financial assets and financial liabilities that are not measured and reported at fair value on a recurring basis or non-recurring basis. The methodologies for estimating the fair value of financial assets and financial liabilities that are measured at fair value on a recurring or non-recurring basis are discussed above. The estimated fair value approximates carrying value for cash and cash equivalents, and accrued interest. The methodologies for other financial assets and financial liabilities are discussed below:

Cash and Short-Term Investments

For those short-term instruments, the carrying amount is a reasonable estimate of fair value.

Securities

For securities, fair values are based on quoted market prices or dealer quotes.

Loans Held for Sale

Loans held for sale and are recorded at fair value, determined individually, as of the balance sheet date.

Loans

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. 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.

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. The fair value of fixed-maturity certificates of deposit is estimated using the rates currently offered for deposits of similar remaining maturities. The fair value of all other deposits and borrowings is determined using the discounted cash flow method. The discount rate was equal to the rate currently offered on similar products.

Accrued Interest

The carrying amounts of accrued interest approximate fair value.

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 credit worthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed 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 June 30, 2009 and December 31, 2008, the majority of off-balance-sheet items are variable rate instruments or converts to variable rate instruments if drawn upon. Therefore, the fair value of these items is largely based on fees, which are nominal and immaterial.

Table of Contents

	June 30, 2009		December 31, 2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	Unaudited (In Thousands)			
Financial assets:				
Cash and due from banks	$ 39,762	$ 39,762	$ 22,482	$ 22,482
Securities available for sale	64,146	64,146	85,119	85,119
Restricted stock	4,553	4,553	5,896	5,896
Loans held for sale	107,778	107,778	84,312	84,312
Loans, net of allowance for loan losses	497,584	495,924	478,467	478,118
Derivatives	426	426	273	273
Total Financial Assets	$ 714,249	$ 712,589	$ 676,549	$ 676,200
Financial liabilities:				
Deposits	$ 544,906	$ 544,846	$ 485,401	$ 486,989
Securities sold under agreement to repurchase	23,499	23,491	31,388	31,613
Borrowings	90,377	90,321	113,294	114,928
Subordinated debentures	6,186	6,251	6,186	6,321
Derivatives	362	362	182	182
Total Financial Liabilities	$ 665,330	$ 665,271	$ 636,451	$ 640,033

Table of Contents

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

The following discussion should be read in conjunction with the Corporation s consolidated financial statements, and notes thereto, included in the Corporation s Annual Report on Form 10-K for the fiscal year ended December 31, 2008. Operating results for the six months ended June 30, 2009 are not necessarily indicative of the results for the year ending December 31, 2009 or any future period.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

In addition to historical information, this Quarterly Report on Form 10-Q may contain 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, forec other words of similar meaning. 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: continued deterioration in general business and economic conditions and in the financial markets, the impact of any policies or programs implemented pursuant to the Emergency Economic Stabilization Act of 2008 (the EESA), as amended by the American Recovery and Reinvestment Act of 2009 (the ARRA), 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 commercial and residential real estate markets, the quality or composition of the loan or investment portfolios, demand for loan products, deposit flows, competition, 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.

In addition, a continuation of the recent turbulence in significant portions of the global financial markets, particularly if it worsens, could impact our performance, both directly by affecting our revenues and the value of our assets and liabilities, and indirectly by affecting our counterparties and the economy generally. Dramatic declines in the commercial and residential real estate markets have resulted in significant write-downs of asset values by financial institutions in the United States. Concerns about the stability of the U.S. financial markets generally have reduced the availability of funding to certain financial institutions, leading to a tightening of credit, reduction of business activity, and increased market volatility. There can be no assurance that the EESA, the ARRA or other actions taken by the federal government will stabilize the U.S. financial system or alleviate the industry or economic factors that may adversely affect our business. In addition, our business and financial performance could be impacted as the financial industry restructures in the current environment, both by changes in the creditworthiness and performance of our counterparties and by changes in the competitive and regulatory landscape. 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, 2008.

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:

Table of Contents

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) SFAS No. 5 Accounting for Contingencies , which requires that losses be accrued when they are probable of occurring and estimatable, and (ii) SFAS No. 114, Accounting by Creditors for Impairment of a Loan , 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, and 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 the subsection Allowance for Loan Losses below.

Other-Than-Temporary Impairment of Investment Securities

The Bank s investment portfolio is classified as available-for-sale. 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 stockholders equity as a component of comprehensive income. Securities are monitored to determine whether a decline in their value is other-than-temporary. Management evaluates the investment portfolio on a quarterly basis to determine the collectability of amounts due per the contractual terms of the investment security. Once a decline in value is determined to be other than temporary, the value of the security is reduced and a corresponding charge to earnings is recognized. At June 30, 2009, 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.

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, refer to Note 10 of the accompanying notes to the consolidated financial statements.

Off-Balance Sheet Items

In the ordinary course of business, the Bank issues commitments to extend credit and, at June 30, 2009, these commitments amounted to $28.7 million. These commitments do not necessarily represent cash requirements, since many commitments are expected to expire without being drawn on.

At June 30, 2009, the Bank had approximately $73.0 million in unfunded lines of credit and letters of credit. These lines of credit, if drawn upon, would be funded from routine cash flows and short-term borrowings. As the Corporation continues

Off-Balance Sheet Items (continued)

the planned expansion of the loans held for investment portfolio, the volume of commitments and unfunded lines of credit are expected to increase accordingly. The Bank maintains a reserve for potential off-balance sheet credit losses that is included in other liabilities on the balance sheet. At June 30, 2009 and December 31, 2008 the balance in this account totaled $297 thousand. The Mortgage Corporation maintains a similar reserve for standard representations and warranties issued in connection with loans sold that totaled $3.5 million at June 30, 2009 and $1.4 million at December 31, 2008.

Subsequent Events

On June 30, 2009, the Corporation adopted FASB Statement No. 165, Subsequent Events . SFAS 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Specifically, SFAS 165 defines: (1) the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, (2) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and (3) the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. Management has reviewed events occurring through August 13, 2009, the date the second quarter financial statements were filed on Form 10Q and no subsequent events have occurred requiring accrual or disclosure.

FINANCIAL CONDITION (June 30, 2009 compared to December 31, 2008)

At June 30, 2009, the Corporation s assets totaled $740.6 million compared to $702.3 million at December 31, 2008, an increase of $38.3 million. Loans held for investment totaled $505.7 million up from $485.9 million at year end 2008 primarily due to increases in construction, commercial and industrial and commercial real estate loans. Loans held for sale totaled $107.8 million, up from $84.3 million at December 31, 2008, an increase of $23.5 million, primarily due to lower interest rates. Total deposits increased $59.5 million to $544.9 million, compared to $485.4 million at December 31, 2008.

Securities

The Corporation s securities portfolio is comprised of U.S. government agency securities, mortgage backed securities, taxable municipal securities, a CRA mutual fund and Federal Reserve Bank and Federal Home Loan Bank stock. At June 30, 2009 the securities portfolio totaled $68.7 million, down from $91.0 million on December 31, 2008. The decrease is due in part to the sale of $5 million in taxable municipal securities during the second quarter with a pre-tax gain of approximately $649 thousand. The remaining decrease is due to maturities and called securities that were not reinvested. All securities were classified as available for sale. 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. Investment securities are used to provide liquidity, to generate income, and to temporarily supplement loan growth as needed.

Loans

The loans held for investment portfolio constitutes the largest component of earning assets and is comprised of commercial and industrial loans, real estate loans, construction and land development loans, and consumer loans. All lending activities of the Bank and its subsidiaries are subject to the regulations and supervision of the Comptroller. During the six months ended June 30, 2009, we were able to increase loans held for investment while applying stricter credit standards and conservative loan-to-value requirements. Loans held for investment totaled $505.7 million, an increase of $19.8 million from $485.9 million at December 31, 2008. The increase in loans demonstrates the Bank s commitment to providing credit to small businesses, professionals and consumers in the greater Washington, D.C. metropolitan area. Commercial loans increased $8.7 million and residential real estate loans decreased $3.1 million. Commercial real estate loans increased $5.2 million and construction and land development loans increased $9.0 million. See Note 5 of the accompanying notes 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 loans held for investment portfolio at June 30, 2009.

Commercial Loans: Commercial Loans represent 15.5% of the loans held for investment portfolio as of June 30, 2009. 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 and the principal shareholders are typically required to guarantee the loan.

Commercial Real Estate Loans: Also known as commercial mortgages, loans in this category represent 44.2% of the loans held for investment portfolio as of June 30, 2009. These loans generally fall into one of three situations in order of magnitude: first, loans supporting an owner occupied commercial property; second, properties used by non-profit organizations such as churches or schools where repayment is dependent upon the cash flow of the non-profit organizations; and third, loans supporting a commercial property leased to third parties for investment. 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.

Real Estate Construction Loans**:** Real estate construction loans, also known as construction and land development loans, comprise 10.2% of the loans held for investment portfolio as of June 30, 2009. 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.

Residential Real Estate Loans: This category includes loans secured by first or second mortgages on one to four family residential properties and represents 29.8% of the loans held for investment portfolio as of June 30, 2009. Of this amount, the following sub-categories exist as a percentage of the whole residential real estate loan portfolio: home equity lines of credit, 15.3%; first trust mortgage loans, 70.1%; junior trust loans, 12.0%; and multi-family loans and loans secured by farmland 2.6%.

Home equity lines of credit are extended to borrowers in our target market. Real estate equity is the largest component of consumer wealth in our marketplace. Once approved, this consumer finance tool allows the borrowers to access the equity in their home or investment property 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 Board of Directors and takes into consideration repayment source and capacity, value of the underlying property, credit history, savings pattern and stability.

Consumer Loans: Consumer Loans make up approximately 0.3% of the loans held for investment portfolio as of June 30, 2009. Most loans 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 Corporation 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. The LHFS loans are closed by the Mortgage Corporation and carried on its books until the loan is delivered to and purchased by an investor. In the six months ended June 30, 2009 we originated $953.4 million of loans processed in this manner. Loans are sold without recourse and subject to industry standard representations and warranties that may require the repurchase, by the Mortgage Corporation, of loans previously sold. The repurchase risks associated with this activity center around early payment defaults and borrower fraud. There is also a risk that loans originated may not be purchased by our investors. The Mortgage Corporation attempts to manage these risks by the on-going maintenance of an extensive quality control program, an internal audit and verification program, and a selective approval process for investors and programs offered. At June 30, 2009, LHFS at fair value totaled $107.8 million compared to $84.3 million at December 31, 2008.

Brokered Loans

Brokered loans are underwritten and closed by a third party lender. The Mortgage Corporation is paid a fee for procuring and packaging brokered loans. For the first six months of 2009, $16.9 million in residential mortgage loans were originated under this type of delivery method, as compared to $51.6 million for the same period of 2008. Brokered loans accounted for 1.8% of the total loan volume for the first six months of 2009 compared to 11.4% for the same period of 2008. We typically broker loans that do not conform to the products offered by the Mortgage Corporation and for this reason the level of brokered loans is subject to wide fluctuations.

Allowance for Loan Losses

The allowance for loan losses totaled approximately $8.1 million at June 30, 2009 compared to $7.5 million at year end 2008. The allowance for loan losses is equivalent to approximately 1.6% of total consolidated loans held for investment at June 30, 2009. The level of the allowance for loan losses is determined by management through an ongoing detailed analysis of risk and loss potential within the portfolio as a whole and management has concluded the amount of our reserve and the methodology applied to arrive at the amount of the reserve is justified and appropriate. Outside of our own analysis, our reserve adequacy and methodology are reviewed on a regular basis by an internal audit program and bank regulators, and such reviews have not resulted in any material adjustment to the reserve. The table below, Allocation of the Allowance for Loan Losses, reflects the allocation by the different loan types. The methodology as to how the allowance was derived is a combination of specific allocations and percentage allocations of the allowance for loan losses, as discussed below.

The Bank has developed a comprehensive risk weighting system based on individual loan characteristics that enables the Bank to allocate the composition of the allowance for loan losses by types of loans. The methodology as to how the allowance was derived is detailed below. Adequacy of the allowance is assessed monthly and increased by provisions for loan losses charged to expense. Charge-offs are taken, no less frequently than at the close of each fiscal quarter. The methodology by which we systematically determine the amount of our allowance is set forth by the Board of Directors in our Credit Policy, pursuant to which our Chief Credit Officer is charged with ensuring that each loan is individually evaluated and the portfolio characteristics are evaluated to arrive at an appropriate aggregate reserve. The results of the analysis are documented, reviewed and approved by the Board of Directors no less than quarterly. The following elements are considered in this analysis: loss estimates on specific problem credits, individual loan risk ratings, lending staff changes, loan review and board oversight, loan policies and procedures, portfolio trends with respect to volume, delinquency, composition/concentrations of credit, risk rating migration, levels of classified credit, off-balance sheet credit exposure, any other factors considered relevant from time to time.

All loans are graded or Risk Rated individually for loss potential at the time of origination and as warranted thereafter, but no less frequently than quarterly. Loss potential factors are applied based upon a blend of the following criteria: our own direct experience at this Bank; our collective management experience in administering similar loan portfolios in the market; and peer data contained in statistical releases issued by both the Comptroller and the Federal Deposit Insurance Corporation (FDIC). Management s collective experience at this Bank and other banks is the most heavily weighted criterion, and the weighting is subjective and varies by loan type, amount, collateral,

27

Allowance for Loan Losses (continued)

structure, and repayment terms. Prevailing economic conditions generally and within each individual borrower s business sector are considered, as well as any changes in the borrower s own financial position and, in the case of commercial loans, management structure and business operations. When deterioration develops in an individual credit, the loan is placed on a watch list and is monitored more closely. All loans on the watch list are evaluated for specific loss potential based upon either an evaluation of the liquidated value of the collateral or cash flow deficiencies. If management believes that, with respect to a specific loan, an impaired source of repayment, collateral impairment or a change in a debtor s financial condition presents a heightened risk of loss, the loan is classified as impaired and the book balance of the loan is reduced to the expected liquidation value by charging the allowance for loan losses.

An analysis of the Bank s allowance for loan losses as of the dates and for the periods indicated is set forth in the following tables:

Allowance for Loan Losses	**Six months ended June 30,**	
(In Thousands)	**2009**	**2008**
Balance at beginning of period	$ 7,462	$ 7,462
Charge offs	(3,062)	(87)
Recoveries	248	128
Provision	3,429	1,807
Balance at the end of period	$ 8,077	$ 9,310

Allocation of the Allowance for Loan Losses

(Dollars In Thousands)

	June 30, 2009				**December 31, 2008**			
	Amount	Percentage	Allowance for Loan Loss	Percentage	Amount	Percentage	Allowance for Loan Loss	Percentage
Commercial and industrial	$ 78,261	15.48%	$ 1,806	22.36%	$ 69,537	14.31%	$ 1,816	24.34%
Commercial real estate	223,691	44.24	3,277	40.57	218,539	44.97	2,948	39.51
Real estate construction	51,616	10.21	936	11.59	42,600	8.77	805	10.79
Residential real estate	150,607	29.78	2,045	25.32	153,740	31.64	1,880	25.19
Consumer	1,486	0.29	13	0.16	1,513	0.31	13	0.17
	$ 505,661	100.00%	$ 8,077	100.00%	$ 485,929	100.00%	$ 7,462	100.00%

Non-performing Assets

At June 30, 2009, the Bank had non-performing assets totaling $10.8 million consisting of non-accrual loans and other real estate owned. Non-accrual loans totaled approximately $6.9 million at June 30, 2009 and are composed of commercial loans in the amount of $652 thousand, commercial real estate loans in the amount of $3.4 million, one residential construction loans totaling $1.8 million, and residential real estate first trust loans in the amount of $1.0 million. Other real estate owned consists of two commercial properties totaling $3.9 million.

Table of Contents

Deposits

Deposits are one of the primary sources of funding loan growth. At June 30, 2009, deposits totaled $544.9 million compared to $485.4 million on December 31, 2008, an increase of $59.5 million. Savings and interest-bearing deposits increased $48.0 million from December 31, 2008 as a result of increased core deposits. Time deposits decreased $10.8 million from $314.7 million at December 31, 2008 to $303.9 million at June 30, 2009 as maturing wholesale and rate sensitive deposits were not renewed. Non-interest-bearing deposits increased $22.3 million from $75.0 million at December 31, 2008 to $97.3 million at June 30, 2009. The increase in non-interest-bearing deposits is largely due to fluctuations in balances of commercial accounts and an increase in core deposit relationships.

Shareholders Equity

Shareholders equity was $63.6 million at June 30, 2009 compared to approximately $57.9 million at December 31, 2008. Shareholders equity increased by $5.7 million during the six month period ended June 30, 2009. The increase in shareholders equity is primarily due to retained earnings for the six months ended June 30, 2009.

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.

Table of Contents

The following table outlines the regulatory components of capital and risk based capital ratios.

Risk Based Capital Analysis

	June 30, 2009	December 31, 2008	
	(In Thousands)		
Tier 1 Capital:			
Common stock	$ 8,716	$ 8,551	
Capital surplus	18,080	17,411	
Retained earnings	36,386	31,157	
Less: Net unrealized loss on equity securities	(11)	(34)	
Subordinated debentures	6,000	6,000	
Total Tier 1 capital	69,171	63,085	
Subordinated debentures not included in Tier 1			
Allowance for loan losses	6,942	6,662	
Total risk based capital	$ 76,113	$ 69,747	
Risk weighted assets	$ 553,892	$ 532,195	
Quarterly average assets	$ 737,206	$ 649,817	
			Regulatory Minimum
Capital Ratios:			
Tier 1 risk based capital ratio	12.49%	11.85%	4.00%
Total risk based capital ratio	13.74%	13.11%	8.00%
Leverage ratio	9.38%	9.71%	4.00%

RESULTS OF OPERATIONS

Summary

Net income for the three months ended June 30, 2009 increased 160.8% and totaled $2.8 million compared to $1.1 million at June 30, 2008. Diluted earnings per share were $0.27 and $0.10 for the quarter ended June 30, 2009 and June 30, 2008 respectively. Contributing to the record earnings was an $8.3 million increase in gains on the sale of loans. Earnings were impacted during the second quarter of 2009 by a provision for loan losses of $2.1 million, up from $1.4 million for the same period in 2008 as a result of continuously conducting risk assessments of the loan portfolio. Also during the quarter we expensed $524 thousand and reduced the carrying value of OREO properties. FDIC insurance expense increased $540 thousand as a result of a special assessment. These expenses were partially offset by securities gains of $649 thousand.

Table of Contents

Net income for six months ended June 30, 2009 totaled $5.4 million compared to $2.8 million for the same period in 2008. Diluted earnings per share were $0.52 and $0.26 for the six months ended June 30, 2009 and 2008 respectively. Annualized return on average assets and average common equity for the six months ended June 30, 2009 were 1.48% and 16.94% respectively. Net income for the six months ended June 30, 2009 was enhanced due in part to a $15.2 million increase in gains on sale of loans, as lower interest rates contributed to a $498.4 million increase in mortgage loans originations of compared to the same period in 2008.

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 increased $787 thousand for the three months ended June 30, 2009 over the same period in 2008. Net interest margin was 3.41% for the second quarter of 2009 compared with 3.54% for the second quarter of 2008. The yield on interest earning assets decreased 94 basis points from 6.42% for the second quarter of 2008 to 5.48% for the same period in 2009. The cost of interest-bearing liabilities decreased 99 basis points from 3.51% for the second quarter of 2008 to 2.52% during the same period in 2009. Average earning assets for the three month period ending June 30, 2009 totaled $707.4 million compared to $593.1 million for the same period in 2008, an increase of $114.3 million. The increase in average earning assets is due to a $10.4 million increase in investment securities, a $64.9 million increase in loans, and a $39.1 million increase in interest-bearing balances.

Net interest income for the six months ended June 30, 2009 totaled $11.8 million, an increase of $1.8 million over $10.0 million recorded for the same period in 2008. The volume rate analysis table below details the change in net interest income. Net interest margin was 3.33% for the six month period ended June 30, 2009 compared to 3.36% for the same period in 2008. Net interest margin is impacted by $10.8 million in non-performing assets and the level of cash reserves. Average earning assets for the six month period ended June 30, 2009 totaled $707.9 million up from $598.4 million for the same period in 2008. Average loans outstanding increased approximately $60.0 million, largely due to an increase in the volume of loans held for sale. Average interest bearing balances increased approximately $40.6 million providing liquidity for increased loan production. Average investment securities increased $9.0 million over 2008 levels.

Table of Contents

The following table presents volume and rate analysis for the six months ended June 30, 2009 and 2008:

Volume and Rate Analysis

	Six Months Ended June 30, 2009 compared to 2008 Change Due To:		
	Increase / (Decrease)	**Volume**	**Rate**
		(In Thousands)	
Interest Earning Assets:			
Securities	$ 189	$ 222	$ (33)
Loans	(81)	1,963	(2,044)
Interest bearing deposits	(283)	233	(516)
Total Increase (Decrease) in Interest Income	**(175)**	**2,418**	**(2,593)**
Interest-Bearing Liabilities:			
Interest-bearing demand deposits	70	78	(8)
Money market deposit accounts	(943)	(419)	(524)
Savings accounts	(21)	24	(45)
Time deposits	(857)	1,716	(2,573)
Total interest- bearing deposits	**(1,751)**	**1,399**	**(3,150)**
FHLB Advances	298	287	11
Securities sold under agreements to repurchase	(75)	73	(148)
Other short-term borrowings	(114)	(3)	(111)
Long-term borrowings	(198)	(96)	(102)
Subordinated debentures	(74)		(74)
Total Increase (Decrease) in Interest Expense	**(1,914)**	**1,660**	**(3,574)**
Increase (Decrease) in Net Interest Income	**$ 1,739**	**$ 758**	**$ 981**

Table of Contents

The following tables present average balances, the yield on average earning assets and the rates on average interest-bearing liabilities for the three months and six months ended June 30, 2009 and 2008.

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

	Three Months Ended June 30,					
	2009			2008		
	Average Balance	**Income / Expense**	**Yield / Rate**	**Average Balance**	**Income / Expense**	**Yield / Rate**
	(Dollars In Thousands)					
Assets:						
Interest earning assets:						
Securities[1]	$ 71,915	$ 861	4.79%	$ 61,541	$ 792	5.15%
Loans held for sale	83,011	1,015	4.89%	31,246	526	6.73%
Loans[2]	493,395	7,766	6.30%	480,298	8,100	6.75%
Interest bearing balances	59,112	46	0.31%	20,025	96	1.92%
Total interest earning assets	**707,433**	**9,688**	5.48%	**593,110**	**9,514**	6.42%
Non-interest earning assets:						
Cash and due from banks	6,842			6,286		
Premises, land and equipment	13,312			9,539		
Other assets	17,426			6,007		
Less: allowance for loan losses	(7,806)			(8,061)		
Total non-interest earning assets	**29,774**			**13,771**		
Total Assets	**$ 737,207**			**$ 606,881**		
Liabilities and Shareholders Equity:						
Interest bearing liabilities:						
Interest-bearing demand deposits	$ 34,348	$ 96	1.12%	$ 8,396	$ 20	0.95%
Money market deposit accounts	90,225	393	1.74%	120,019	667	2.22%
Savings accounts	4,298	15	1.40%	2,632	11	1.67%
Time deposits	323,216	2,233	2.76%	235,578	2,603	4.42%
Total interest-bearing deposits	**452,087**	**2,737**	2.42%	**366,625**	**3,301**	3.60%
FHLB Advances	26,054	267	4.10%	9,742	65	2.67%
Securities sold under agreements to repurchase and federal fund purchased	24,252	28	0.46%	14,103	60	1.70%
Other short-term borrowings	15,923	37	0.93%	24,227	108	1.78%

FHLB Long-term borrowings	24,224	217	3.58%	65,030	639	3.93%
FDIC Term Note	29,996	297	3.96%			
Subordinated Debentures	6,186	66	4.27%	6,186	89	5.75%
Total interest-bearing liabilities	**578,722**	**3,649**	2.52%	**485,913**	**4,262**	3.51%
Non-interest bearing liabilities:						
Demand deposits	83,854			63,244		
Other liabilities	10,493			1,558		
Total liabilities	**673,069**			**550,715**		
Shareholders Equity	64,138			56,166		
Total Liabilities and Shareholders Equity:	**$ 737,207**			**$ 606,881**		
Interest Spread(3)			2.96%			2.91%
Net Interest Margin(4)		$ 6,039	3.41%		$ 5,252	3.54%

(1) Interest income and yields are presented on a fully taxable equivalent basis using 34% tax rate.

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

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

(4) Net interest margin is net interest income,

expressed as a percentage of average earning assets.

Table of Contents

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

	Six Months Ended June 30, 2009 Average Balance	2009 Income / Expense	2009 Yield / Rate	2008 Average Balance	2008 Income / Expense	2008 Yield / Rate
	(Dollars In Thousands)					
Assets:						
Interest earning assets:						
Securities[1]	$ 74,999	$ 1,841	4.91%	$ 65,983	$ 1,652	5.01%
Loans held for sale	77,008	1,930	5.01%	29,611	1,040	7.02%
Loans[2]	488,024	15,518	6.36%	475,436	16,489	6.94%
Interest bearing balances	67,909	78	0.23%	27,346	361	2.64%
Total interest earning assets	**707,940**	**19,367**	5.47%	**598,376**	**19,542**	6.53%
Non-interest earning assets:						
Cash and due from banks	6,159			6,568		
Premises, land and equipment	13,465			9,603		
Other assets	16,982			5,836		
Less: allowance for loan losses	(7,751)			(7,746)		
Total non-interest earning assets	**28,855**			**14,261**		
Total Assets	**$ 736,795**			**$ 612,637**		
Liabilities and Shareholders Equity:						
Interest bearing liabilities:						
Interest-bearing demand deposits	$ 23,108	$ 123	1.06%	$ 8,621	$ 53	1.23%
Money market deposit accounts	80,763	634	1.57%	119,430	1,577	2.64%
Savings accounts	4,480	32	1.43%	2,693	53	3.94%
Time deposits	344,529	5,029	2.92%	254,034	5,886	4.63%
Total interest-bearing deposits	**452,880**	**5,818**	2.57%	**384,778**	**7,569**	3.93%
FHLB Advances	24,963	488	3.91%	10,246	190	3.71%
Securities sold under agreements to repurchase and fed fund purchased	25,466	66	0.52%	13,591	141	2.07%
Other short-term borrowings	19,958	94	0.94%	20,292	208	2.05%

FHLB Long-term borrowings	29,395	522	3.55%	57,431	1,189	4.14%
FDIC Term Note	23,201	469	4.04%			
Subordinated Debentures	6,186	128	4.14%	6,186	202	6.53%
Total interest-bearing liabilities	**582,049**	**7,585**	2.61%	**492,524**	**9,499**	3.86%
Non-interest bearing liabilities:						
Demand deposits	83,094			60,936		
Other liabilities	9,269			1,626		
Total liabilities	**674,412**			**555,086**		
Shareholders Equity	62,383			57,551		
Total Liabilities and Shareholders Equity:	**$ 736,795**			**$ 612,637**		
Interest Spread(3)			2.86%			2.67%
Net Interest Margin(4)		$ 11,782	3.33%		$ 10,043	3.36%

(1) Interest income and yields are presented on a fully taxable equivalent basis using 34% tax rate.

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

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

(4) Net interest margin is net interest income,

expressed as a
percentage of
average earning
assets.

Table of Contents

Non-interest Income

Non-interest income consists of revenue generated from financial services and activities other than lending and investing. The Mortgage Corporation provides the most significant contributions to non-interest income. Total non-interest income was $33.2 million for the six month period ended June 30, 2009 compared to $16.5 million for the same period in 2008; the increase is primarily due to an increase in gains on sale of loans. Gains on the sale of loans originated by the Mortgage Corporation totaled $28.3 million for the six month period ended June 30, 2009, up from $13.1 million for the same period of 2008 as a result of an increase of $498.4 million in loans originated during the six months ended June 30, 2009.

Non-interest Expense

Non-interest expense totaled $32.4 million for the six months ended June 30, 2009, compared to $20.4 million for the same period in 2008. Salaries and employee benefits totaled $15.4 million for the six month period ended June 30, 2009, compared to $11.4 million for the same period last year, primarily due to a $4.0 million increase in salaries and commissions as a result of the increase in mortgage loan originations. Other operating expenses totaled $15.7 million for the six months ended June 30, 2009, up from $7.8 million for the same period in 2008, an increase of $7.9 million. The increase is primarily attributable to an increase of $3.1 million in management fees associated with the operation of certain offices of the Mortgage Corporation and the increase in loan production. Advertising expenses relating to the Mortgage Corporation increased $920 thousand and the provision for losses on loans sold increased $1.7 million. OREO expense totaled $696 thousand in 2009 as a result of writing down property values. FDIC insurance expense increased $541 thousand for the six months ended June 30, 2009, primarily as a result of a special assessment imposed by FDIC to replenish the FDIC Deposit Insurance Fund.

The table below provides the composition of other operating expenses.

	Six Months Ended June 30,	
	2009	**2008**
	(In Thousands)	
Advertising	$ 2,877	$ 1,957
Investor fees	902	516
Management fees	4,371	1,296
Provision for losses on loans sold	2,724	1,064
Buy down expense	261	171
Business and franchise tax	224	188
Accounting and auditing service	307	317
Consulting fees	178	182
OREO Expense	696	
Credit report expenses	265	142
Data processing	247	241
FDIC insurance	707	166
Other	1,956	1,514
	$ 15,715	$ 7,754

Table of Contents

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.

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 June 30, 2009, overnight interest-bearing balances totaled $26.8 million compared to $13.7 at December 31, 2008.

The liability portion of the balance sheet provides liquidity through various interest-bearing and non-interest-bearing deposit accounts, federal funds purchased, securities sold under agreement to repurchase and other short-term borrowings. At June 30, 2009, the Bank had $103.7 million available under a line of credit with the FHLB and had outstanding short-term loans of $24.7 million, and an additional $23.3 million in term loans at fixed rates ranging from 2.55% to 5.07% leaving $55.7 million available on the line. In addition to the line of credit at the FHLB, the Bank and the Mortgage Corporation also issue repurchase agreements and commercial paper. As of June 30, 2009, outstanding repurchase agreements totaled approximately $23.5 million and commercial paper issued and other short-term borrowings amounted to $12.4 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 June 30, 2009, these lines amounted to $21.5 million. The Corporation also has $6.2 million in subordinated debentures to support the growth of the organization.

On February 11, 2009 the Bank issued $30.0 million in long term debt that is backed by the full faith and credit of the United States under the FDIC s Temporary Liquidity Guarantee Program. The note bears interest at 2.74% plus a 1% guarantee fee and matures February 15, 2012. The proceeds were used to supplement traditional sources of liquidity and to provide funding for loans.

Table of Contents

The following table presents the composition of borrowings at June 30, 2009 and December 31, 2008.

Borrowed Funds Distribution

	June 30, 2009	December 31, 2008
	(Dollars In Thousands)	
At Period End		
FHLB advances	$ 24,702	$ 44,333
FHLB long-term borrowings	23,274	41,107
Securities sold under agreements to repurchase and federal funds purchased	23,499	31,388
Other short-term borrowings	12,404	27,854
Subordinated debentures	6,186	6,186
FDIC term note	29,996	
Total at period end	$ 120,061	$ 150,868

	Six Months Ended June 30, 2009	Year Ended December 31, 2008
	(Dollars In Thousands)	
Average Balances		
FHLB advances	$ 24,963	$ 13,524
FHLB long-term borrowings	29,395	54,173
Securities sold under agreements to repurchase and fed fund purchased	25,466	16,433
Other short-term borrowings	19,958	20,697
Subordinated debentures	6,186	6,186
FDIC term note	23,201	
Total average balance	$ 129,169	$ 111,013
Average rate paid on all borrowed funds	2.74%	3.32%

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, 2008.

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

Table of Contents

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 as of June 30, 2009. The table below reflects the outcome of these analyses at June 30, 2009, assuming budgeted growth in the balance sheet. According to the model run for the six month period ended June 30, 2009, 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 2.2%. 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 as of June 30, 2009.

Increase in Federal Funds Target Rate	**Hypothetical Percentage Change in Earnings**	**Hypothetical Percentage Change in Economic Value of Equity**
3.00%	8.54%	-2.70%
2.00%	5.10%	-2.40%
1.00%	2.20%	-1.71%

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 Corporation is party to mortgage rate lock commitments to fund mortgage loans at interest rates previously agreed to, as locked by both the Corporation and the borrower for specified periods of time. When the borrower locks its interest rate, the Corporation effectively extends a put option to the borrower, whereby the borrower is not obligated to enter into the loan agreement, but the Corporation must honor the interest rate for the specified time period. The Corporation is exposed to interest rate risk during the accumulation of interest rate lock commitments and loans prior to sale. The Corporation utilizes either a Best Efforts sell forward commitment 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 Corporation 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 statement of operations in other income. The Corporation s management has made complex judgments in the recognition of gains and losses in connection with this activity. The Corporation utilizes a third party and its proprietary simulation model to assist in identifying and managing the risk associated with this activity.

Item 4T. 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

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 our internal control over financial reporting occurred during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

The Bank is a party 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 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 our risk factors from those disclosed in the Corporation s Annual Report on Form 10-K for the fiscal year ended December 31, 2008.

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

The following table provides information with respect to purchases by the Corporation of its common shares during the quarter ended June 30, 2009:

	Issuer Purchases of Equity Securities (1)			
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
April 1- April 30, 2009	4,588	4.90	4,588	404,410
May 1- May 31, 2009				404,410
June 1- June 30, 2009				404,410
	4,588	$ 4.90	4,588	404,410

(1) This table details the Corporation s purchases of its common stock during the quarter ended June 30, 2009 pursuant to a

Share Repurchase Program announced on March 20, 2007. On April 22, 2008 the number of shares authorized for repurchase under the Share Repurchase Program was increased from 2,000,000 to 2,500,000 shares. The Share Repurchase Program does not have an expiration date.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

The 2009 Annual Meeting of Shareholders of the Corporation was held on May 19, 2009. At the 2009 Annual Meeting, the following persons were elected to serve as Class I Directors of the Corporation, to serve until the 2012 Annual Meeting, having received the following votes:

Name	For	Withheld
Michael W. Clarke	9,455,034	27,992
James L. Jadlos	8,551,839	931,637

The following Class II and III Directors, whose terms expire in 2010 and 2011, respectively, continued in office: Class II Thomas M. Kody and Robert C. Shoemaker; Class III John W. Edgemond and J. Randolph Babbitt.

Shareholders also approved the Access National Corporation 2009 Stock Option Plan with the following votes:

Name	For	Against	Abstain	Broker Non -Vote
Approval of the Access National Corporation 2009 Stock Option Plan	5,900,693	1,134,424	27,502	2,420,406

Item 5. Other Information

None.

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))
3.2	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))
4.0	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.
10.10	Access National Corporation 2009 Stock Option Plan, effective May 19, 2009 (incorporated by reference to Appendix A to Access National Corporation s Proxy Statement filed April 15, 2009)
10.10.1	Form of Stock Option Agreement for Employee under 2009 Stock Option Plan (incorporated by reference to Exhibit 10.10.1 to Form 8-K filed July 6, 2009)
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)

* filed herewith

Table of Contents

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: August 13, 2009	By: /s/ Michael W. Clarke Michael W. Clarke President and Chief Executive Officer (Principal Executive Officer)
Date: August 13, 2009	By: /s/ Charles Wimer Charles Wimer Executive Vice President and Chief Financial Officer (Principal Financial & Accounting Officer)

41