

ACCESS NATIONAL CORP

Form 10-K

April 02, 2007

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2006

or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

Commission File Number 000-49929

Access National Corporation

(Exact name of registrant as specified in its charter)

Organized under the laws of Virginia

82-0545425

(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer  
Identification Number)

1800 Robert Fulton Drive, Suite 310, Reston, Virginia 20191

(Address of principal executive office) (Zip Code)

(703) 871-2100

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class  
Common Stock \$.835 par value

Name of each exchange on which registered  
The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12 (g) of the Act:

(Title of class) None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.

Yes ☐ No ☒

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 ☒ No ☐

Indicate by checkmark if disclosure of delinquent filers in response to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K ☒

Indicate by checkmark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☒

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

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The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant, computed by reference to the price at which the stock was last sold as of the last business day of the registrant's most recently completed second fiscal quarter was approximately \$52,008,000.

As of March 15, 2007, there were 12,020,587 shares of Common Stock, par value \$.835 per share of Access National Corporation issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement for the Corporation's Annual Meeting of Shareholders to be held on May 22, 2007, are incorporated by reference in Part III of this Form 10-K.

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**Access National Corporation**  
**FORM 10-K**  
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## **PART I**

In addition to historical information, the following report contains forward looking statements that are subject to risks and uncertainties that could cause the Corporation's actual results to differ materially from those anticipated. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis only as of the date of the Report.

### **ITEM 1 BUSINESS**

Access National Corporation, (the Corporation) was organized June 15, 2002 under the laws of Virginia to operate as a bank holding company. The Corporation has three wholly owned subsidiaries: Access National Bank, Access National Capital Trust I and Access National Capital Trust II. Effective June 15, 2002, pursuant to an Agreement and Plan of Reorganization dated April 18, 2002 between the Corporation and Access National Bank (the Bank), the Corporation acquired all of the outstanding stock of the Bank in a statutory share exchange transaction. The Corporation does not have any significant operations and serves primarily as the parent company for the Bank. Access National Capital Trust I and Access National Capital Trust II were formed for the purpose of issuing redeemable capital securities. The Corporation's income is primarily derived from dividends received from the Bank. These dividends are determined by the Bank's earnings and capital position.

Access National Bank is the primary operating business of the Corporation. The Bank provides commercial credit, deposit and mortgage services to middle market businesses and associated professionals, primarily in the greater Washington, D.C. Metropolitan Area. The Bank was organized under federal law as a national banking association to engage in a general banking business to serve the communities in and around Northern Virginia. The Bank opened for business on December 1, 1999 at 14006 Lee-Jackson Memorial Highway in Chantilly, Virginia. The headquarters for the Corporation, Bank and Access National Mortgage Corporation (the Mortgage Corporation) is located at 1800 Robert Fulton Drive, Reston, Virginia. Deposits with the Bank are insured to the maximum amount provided by the Federal Deposit Insurance Corporation. The Bank offers a comprehensive range of financial services and products and specializes in providing customized financial services to small and medium sized businesses, professionals, and associated individuals. The Bank provides its customers with personal customized service utilizing the latest technology and delivery channels.

Bank revenues are derived from interest and fees received in connection with loans, deposits and investments. Interest paid on deposits and borrowings are the major expenses followed by administrative and operating expenses. Revenues from the Mortgage Corporation consist primarily of gains from the sale of loans and loan origination fees. Major expenses of the Mortgage Corporation consist of personnel, interest, advertising and other operating expenses. The economy, interest rates, monetary and fiscal policies of the federal government and regulatory policies have a significant influence on the banking industry.

The Bank has experienced consistent growth and profitability since inception. Our goal is to become a leading provider of financial services to small to medium sized businesses, and professionals in Northern Virginia. Our strategy is to know the needs of our clients and to deliver the corresponding financial services. We employ highly qualified personnel and emphasize the use of the latest technology in operations and the services we provide. Our marketing efforts are directed to prospective clients that value high quality service and that are, or have the potential to become, highly profitable.

Assets at year end totaled over \$644.8 million and net income amounted to \$7.6 million. The Bank operates from four banking centers located in Chantilly, Tysons Corner, Reston, and Leesburg, Virginia and online at [www.accessnationalbank.com](http://www.accessnationalbank.com). Additional offices may be added from time to time based upon management's constant analysis of the market and opportunities.

On December 1, 1999, the Bank acquired Access National Mortgage Corporation, formerly known as Mortgage Investment Corporation. The Mortgage Corporation is headquartered in Reston, Virginia. The Mortgage Corporation specializes in the origination of conforming and non-conforming residential mortgages primarily in the greater Washington, D.C. Metropolitan Area and the surrounding areas of its branch locations. The Mortgage Corporation has established offices throughout Virginia, in Fredericksburg, Reston, Roanoke, Richmond, Warrenton and Vienna. Offices outside the state of Virginia include Westminster and Bowie in Maryland, Clearwater in Florida, Nashville in Tennessee, Denver and Windsor in Colorado, and San Antonio, Texas.

On April 10, 2002 the Bank acquired Access National Leasing Corporation (the Leasing Corporation ), formerly known as Commercial Finance Corporation. The Leasing Corporation is presently inactive. However commercial and industrial lease financing is offered through and managed by the Bank.

On May 19, 2003 the Bank formed Access Real Estate LLC ( Access Real Estate ). The sole purpose of forming Access Real Estate was to acquire and hold title to real estate for the Corporation. On July 10, 2003, Access Real Estate acquired a 45,000 square foot, three story office building located at 1800 Robert Fulton Drive in Reston, Virginia at a cost of approximately \$7.1 million that serves as the corporate headquarters for the Corporation, Bank, and Mortgage Corporation.

On July 19, 2004, the Corporation's common stock commenced trading on the NASDAQ National Market system under the ticker symbol **ANCX**.

On August 17, 2004, the Bank acquired 100% of the common stock in United First Mortgage Corporation ( **UFM** ) from Community First Bank N.A of Bluefield, Virginia in a stock purchase transaction. The operations of UFM have been merged into that of the Mortgage Corporation and the corporate entity acquired is now inactive.

On July 25, 2005 Access Real Estate purchased Lot # 1 in the Fredericksburg Business Park at a cost of \$1.2 million. This property was purchased for future expansion of the Bank and Mortgage Corporation. The property is presently undeveloped.

On December 23, 2005, the Corporation issued a 2 for 1 stock split. The authorized shares of common stock increased from 30,000,000 to 60,000,000 and par value decreased from \$1.67 to \$.835. Prior periods have been restated to reflect the stock split.

In August 2006, the Corporation sold 2,300,000 shares of common stock at \$9.38 per share in a public offering and netted approximately \$20 million in new capital.

**Our Strategy   historical and prospective**

We consider our business to be a young and emerging enterprise that is well positioned to be an effective competitor in the financial services industry over the long term. Our view of the financial services market place is that community banks must be effective in select market niches that are under-served and stay clear of competing with large national competitors on a head to head basis for broad based consumer business. We started by organizing a de novo national bank in 1999. The focus of the bank was and is serving the small to middle market businesses and their associated professionals in the greater Washington, D.C. Metropolitan Area. We find that large national competitors are ineffective at addressing this market as it is difficult to distinguish where a business's financial needs stop and the personal financial needs of that business's professionals start. Emerging businesses and the finances of their owners are best served hand-in-hand.

Our core competency is judgmental discipline of commercial lending based upon personnel and practices that help our clients strategize and grow their businesses from a financial perspective. As financial success takes hold in the business, personal goals and wealth objectives of the business owners become increasingly important. Our second competency is a derivative of the first. We have the personnel and know how to provide private banking services, the skills and strategy that assist our individual clients to acquire assets, build wealth and manage their resources. Mortgage banking and the related activities in our model goes hand-in-hand with supplying effective private banking services. Unlike most banking companies, the heart of our Mortgage Corporation is ingrained into our commercial bank, serving the same clients side-by-side in a coordinated and seamless fashion. Lending is not enough in today's environment. The credit services must be backed up by competitive deposit and cash management products and operational excellence. We have made significant investments in skilled personnel and the latest technology to ensure we can deliver on these promises.

We generally expect to have fewer branch locations compared to similar size banking companies. We do not view our branch network as a significant determinant of our growth. Our marketing strategies focus on benefits other than branch location convenience.

The acquisition of the Mortgage Corporation in 1999 provided two key benefits to our strategy: 1) it solidified our second competency from a personnel and operational perspective that would have taken years to replicate with organic growth alone; and 2) it provided a fee income and overhead base from which to launch a new banking business. Strong profits and cash flow from the Mortgage Corporation in the early years subsidized the growth and development of the Bank and allowed for the acceleration of its growth plans and, in time, its profitability.

The long term goal was and is to generate 70-80% of the Corporation's earnings from the core business bank, with the rest of our consolidated earnings to be generated from related fee income activities. At the present time, the sole related fee income activity remains our Mortgage Corporation. We will consider entering other related fee income businesses that serve our target market as opportunities, market conditions and our capacity dictate. A detailed review of the Segment Reporting elements of the financial statements and analysis readily reveal that contribution from our Banking Segment has grown steadily.

We expect to grow our business bank by continuing to hire skilled personnel, train our own and provide a sound infrastructure that facilitates the success of businesses, their owners and key personnel, not only today but tomorrow and on into the ensuing decades.



### **Lending Activities**

The Bank's lending activities involve commercial loans, commercial real estate loans, commercial and residential real estate construction loans, residential mortgage loans, home equity loans, and consumer loans. These lending activities provide access to credit to small businesses, professionals and consumers in the greater Washington, D.C.

Metropolitan Area. Loans originated by the Bank are classified as loans held for investment. The Mortgage Corporation originates residential mortgages and home equity loans that are only held temporarily pending their sale to third parties and in some cases the Bank. The Mortgage Corporation also brokers loans that do not conform to existing products offered. Each of our principal loan types are described below.

At December 31, 2006 loans held for investment totaled \$433.6 million compared to \$369.7 million at year end 2005. The increase in loans is attributable to our customer base, referrals and new business. The Bank is predominantly a secured lender. Secured loans comprise over 99% of the total loan portfolio. Table 4, Loan Portfolio, reflects the composition of loans held for investment.

The Bank's lending activities are subject to a variety of lending limits imposed by federal law. While differing limits apply in certain circumstances based on the type of loan, in general, the Bank's lending limit to any one borrower on loans that are not fully secured by readily marketable or other permissible collateral is equal to 15% of the Bank's capital and surplus. The Bank has established relationships with correspondent banks to participate in loans when loan amounts exceed the Bank's legal lending limits or internal lending policies.

We have an established credit policy that includes procedures for underwriting each type of loan and lending personnel have been assigned specific authorities based upon their experience. Loans in excess of an individual loan officer's authority are presented to our Loan Committee for approval. The Loan Committee meets weekly to facilitate a timely approval process for our clients. Loans are approved based on the borrower's capacity for credit, collateral and sources of repayment. Loans are actively monitored to detect any potential performance issues. We manage our loans within the context of a risk grading system developed by management based upon extensive experience in administering loan portfolios in our market. Payment performance is carefully monitored for all loans. When loan repayment is dependent upon an operating business or investment real estate, periodic financial reports, site visits and select asset verification procedures are used to ensure that we accurately rate the relative risk of our assets. Based upon criteria that are established by management and the Board of Directors, the degree of monitoring is escalated or relaxed for any given borrower based upon our assessment of the future repayment risk.

**Loan Portfolio – Loans Held for Investment.** The composition of Loans Held for Investment is summarized in Table 4. The table and numbers discussed in this section do not reflect information regarding Loans Held for Sale.

**Commercial Loans:** Commercial Loans represent 11.9% of our held for investment portfolio as of December 31, 2006. These loans are 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. These loans are underwritten based upon our assessment of the obligor(s)' ability to generate operating cash flow in the future necessary to repay the loan. To address the risks associated with the uncertainties of future cash flow, 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.

**Real Estate Construction Loans:** Real Estate Construction Loans, also known as construction and land development loans, comprise 15.8% of our held for investment loan portfolio, as of December 31, 2006. These loans generally fall into one of three circumstances: 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 up-dated 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.

Commercial Real Estate Loans: Also known as Commercial Mortgages, loans in this category represent 36.9% of our loan portfolio held for investment, as of December 31, 2006. 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.

Residential Real Estate Loans: This category includes loans secured by first or second mortgages on one to four family residential

properties and represent 35.2% of the portfolio, as of December 31, 2006. Of this amount, the following sub-categories exist as a percentage of the whole Residential Real Estate Loan portfolio: Home Equity Lines of Credit 16.2%; First Trust Mortgage Loans 76.7%; Loans Secured by a Junior Trust 4.1%; Multi-family loans and loans secured by Farmland 3.0%.

Home Equity Loans 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 borrower to access the equity in their home or investment property and use the proceeds for virtually any purpose. Home Equity Loans are most frequently secured by a second lien on residential property. 1-4 Family Residential First Trust Loan, or First Mortgage Loan, proceeds are used to acquire or refinance the primary financing on owner occupied and residential investment properties. Junior Trust Loans, or Loans Secured by a Second Trust Loans, are 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 up-dated by our management and Board of Directors: repayment source and capacity, value of the underlying property, credit history, savings pattern and stability.

**Consumer Loans:** Consumer Loans make up less than 1% of our loan portfolio. Most loans are well secured with assets other than real estate, such as marketable securities or automobiles. Very few 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 up-dated by our management and Board of Directors: repayment source and capacity, collateral value, savings pattern, credit history and stability.

***Loans Held for Sale (LHFS)*** Loans Held for Sale are originated by Access National Mortgage Corporation, a wholly owned subsidiary of Access National Bank. Loans of these types are residential mortgage loans extended to consumers and underwritten in accordance with standards set forth by an institutional investor to whom we expect to sell the loan 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 in our name and carried on our books until the loan is delivered to and purchased by an investor. In 2006, we originated \$826.6 million of loans processed in this manner. Repayment risk of this activity is minimal since the loans are on our books for a short time period. Loans are sold without recourse and subject to industry standard representations and warranties. The risks associated with this activity center around borrower fraud and failure of our investors to purchase the loans. These risks are addressed by the on-going maintenance of an extensive quality control program, an internal audit and verification program, and a selective approval and monitoring process of the counterparty risk for investors. In the twenty one years that the Mortgage Corporation has been in the mortgage business it has been able to absorb the financial impact of these risks without material impact on its operating performance. At December 31, 2006 loans held for sale totaled \$65.3 million compared to \$45.0 million at year end 2005. The increase in loans held for sale at year end 2006 is due to the volume of loans closed during the month. In December 2006 the Mortgage Corporation closed \$90.4 million in mortgage loans compared to \$45.5 million in December 2005.

#### **Brokered Loans**

Brokered loans are underwritten and closed by a third party lender. We are paid a fee for procuring and packaging brokered loans. In 2006, we originated a total volume of \$222.5 million in residential mortgage loans under these types of delivery methods. Brokered loans accounted for 21.2% of the total loan volume of Access National Mortgage Corporation. The risks associated with this activity are limited to losses or claims arising from fraud. In our 7 years of mortgage banking we have been able to absorb the financial impact of these risks without material impact to our operating performance.

#### **Deposits**

Deposits are the primary source of funding loan growth. Average deposits totaled \$423.8 million up from \$337.4 million, a 25.6% increase over 2005. Deposits totaled \$438.9 million on December 31, 2006, compared to \$419.6 million on December 31, 2005, an increase of \$19.3 million. Table 7, Average Deposits and Average Rates

Paid, reflects the composition of deposits and interest rates.

**Market Area**

Access National Corporation, Access National Bank, and Access National Mortgage Corporation are headquartered in Fairfax County and serve the Northern Virginia region. Fairfax County is a diverse and thriving urban county. As the most populous jurisdiction in both Virginia and the Washington D.C. Metropolitan Area, the County's population exceeds that of seven states. The median household income of Fairfax County is the highest in the nation. Northern Virginia had a population of 2.16 million according to the 2000 Census. The proximity to Washington, D.C. and the influence of the federal government and its spending provides somewhat of a recession shelter.

### **Competition**

The Bank competes with virtually all banks and financial institutions which offer services in its market area. Much of this competition comes from large financial institutions headquartered outside the state of Virginia, each of which has greater financial and other resources to conduct large advertising campaigns and offer incentives. To attract business in this competitive environment, the Bank relies on personal contact by its officers and directors, local promotional activities, and the ability to provide personalized custom services to small businesses and professionals. In addition to providing full service banking, the Bank offers and promotes alternative and modern conveniences such as internet banking, automated clearinghouse transactions, remote deposit capture, and offers courier services for commercial clients.

### **Employees**

At December 31, 2006 the Corporation had 253 employees, 82 of whom were employed by the Bank and 171 of whom were employed by the Mortgage Corporation. The Bank recruits experienced and motivated personnel and emphasizes the use of technology. Employee relations have been good.

### **Supervision and Regulation**

Set forth below is a brief description of the material laws and regulations that affect the Corporation. The description of these statutes and regulations is only a summary and does not purport to be complete. This discussion is qualified in its entirety by reference to the statutes and regulations summarized below. No assurance can be given that these statutes or regulations will not change in the future.

**General.** The Corporation is subject to the periodic reporting requirements of the Securities and Exchange Act of 1934, as amended (the Exchange Act), which include, but are not limited to, the filing of annual, quarterly and other reports with the Securities and Exchange Commission (the SEC). As an Exchange Act reporting company, the Corporation is directly affected by the Sarbanes-Oxley Act of 2002 (the SOX), which aimed at improving corporate governance and reporting procedures and requires expanded disclosure of the Corporation's corporate operations and internal controls. The Corporation is already complying with new SEC and other rules and regulations implemented pursuant to the SOX and intends to comply with any applicable rules and regulations implemented in the future. Although the Corporation has incurred, and expects to continue to incur, additional expense in complying with the provisions of the SOX and the resulting regulations, such compliance has not had a material impact on the Corporation's financial condition or results of operations and the management does not expect it to in the future. The Corporation is a bank holding company within the meaning of the Bank Holding Company Act of 1956, and is registered as such with, and subject to the supervision of, the Board of Governors of the Federal Reserve System and the Federal Reserve Bank of Richmond (the FRB). Generally, a bank holding company is required to obtain the approval of the FRB before it may acquire all or substantially all of the assets of any bank, and before it may acquire ownership or control of the voting shares of any bank if, after giving effect to the acquisition, the bank holding company would own or control more than 5% of the voting shares of such bank. The FRB's approval is also required for the merger or consolidation of bank holding companies.

The Corporation is required to file periodic reports with the FRB and provide any additional information as the FRB may require. The FRB also has the authority to examine the Corporation and the Bank, as well as any arrangements between the Corporation and the Bank, with the cost of any such examinations to be borne by the Corporation. Banking subsidiaries of bank holding companies are also subject to certain restrictions imposed by Federal law in dealings with their holding companies and other affiliates. Subject to certain restrictions set forth in the Federal Reserve Act, a bank can loan or extend credit to an affiliate, purchase or invest in the securities of an affiliate, purchase assets from an affiliate or issue a guarantee, acceptance or letter of credit on behalf of an affiliate, as long as the aggregate amount of such transactions of a bank and its subsidiaries with its affiliates does not exceed 10% of the capital stock and surplus of the bank on a per affiliate basis or 20% of the capital stock and surplus of the bank on an aggregate affiliate basis. In addition, such transactions must be on terms and conditions that are consistent with safe and sound banking practices. In particular, a bank and its subsidiaries generally may not purchase from an affiliate a low-quality asset, as defined in the Federal Reserve Act. These restrictions also prevent a bank holding company and its other affiliates from borrowing from a banking subsidiary of the bank holding company unless the loans are secured by marketable collateral of designated amounts. Additionally, the Corporation and its subsidiary are

prohibited from engaging in certain tie-in arrangements in connection with any extension of credit, sale or lease of property or furnishing of services.

A bank holding company is prohibited from engaging in or acquiring direct or indirect ownership or control of more than 5% of the voting shares of any company engaged in non-banking activities. A bank holding company may, however, engage in or acquire an interest in a company that engages in activities which the FRB has determined by regulation or order are so closely related to banking as to be a proper incident to banking. In making these determinations, the FRB considers whether the performance of such activities by a bank holding company would offer advantages to the public that outweigh possible adverse effects.

As a national bank, the Bank is subject to regulation, supervision and regular examination by the Office of the Comptroller of the Currency (the Comptroller). Each depositor's account with the Bank is insured by the Federal Deposit Insurance Corporation (the FDIC) to the maximum amount permitted by law. The Bank is also subject to certain regulations promulgated by the FRB and applicable provisions of Virginia law, insofar as they do not conflict with or are not preempted by Federal banking law.

The regulations of the FDIC, the Comptroller and FRB govern most aspects of the Corporation's business, including deposit reserve requirements, investments, loans, certain check clearing activities, issuance of securities, payment of dividends, branching, deposit interest rate ceilings and numerous other matters. As a consequence of the extensive regulation of commercial banking activities in the United States, the Corporation's business is particularly susceptible to changes in state and Federal legislation and regulations, which may have the effect of increasing the cost of doing business, limiting permissible activities or increasing competition.

**Governmental Policies and Legislation.** Banking is a business that depends primarily on interest rate differentials. In general, the difference between the interest rates paid by the Bank on its deposits and its other borrowings and the interest rates received by the Bank on loans extended to its customers and securities held in its portfolio, comprise the major portion of the Corporation's earnings. These rates are highly sensitive to many factors that are beyond the Corporation's control. Accordingly, the Corporation's growth and earnings are subject to the influence of domestic and foreign economic conditions, including inflation, recession and unemployment.

The commercial banking business is affected not only by general economic conditions, but is also influenced by the monetary and fiscal policies of the Federal government and the policies of its regulatory agencies, particularly the FRB. The FRB implements national monetary policies (with objectives such as curbing inflation and combating recession) by its open-market operations in U.S. Government securities, by adjusting the required level of reserves for financial institutions subject to its reserve requirements and by varying the discount rates applicable to borrowings by depository institutions. The actions of the FRB in these areas influence the growth of bank loans, investments and deposits, and also affect interest rates charged on loans and paid on deposits. The nature and impact of any future changes in monetary policies cannot be predicted.

From time to time, legislation is enacted which has the effect of increasing the cost of doing business, limiting or expanding permissible activities or affecting the competitive balance between banks and other financial institutions. Proposals to change the laws and regulations governing the operations and taxation of bank holding companies, banks and other financial institutions are frequently made in Congress, in the Virginia Legislature and brought before various bank holding company and bank regulatory agencies. The likelihood of any major changes and the impact such changes might have are impossible to predict.

**Dividends.** There are both federal and state regulatory restrictions on dividend payments by both the Bank and the Corporation that may affect the Corporation's ability to pay dividends on its Common Stock. As a bank holding company, the Corporation is a separate legal entity from the Bank. Virtually all of the Corporation's income results from dividends paid to the Corporation by the Bank. The amount of dividends that may be paid by the Bank depends upon the Bank's earnings and capital position and is limited by federal and state law, regulations and policies. In addition to specific regulations governing the permissibility of dividends, both the FRB and the Virginia Bureau of Financial Institutions are generally authorized to prohibit payment of dividends if they determine that the payment of dividends by the Bank would be an unsafe and unsound banking practice. The Corporation meets all regulatory requirements and began paying dividends in February 2006. The Corporation paid dividends totaling \$179 thousand in 2006. See Item 5 Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

**Capital Requirements.** The FRB, the Comptroller and the FDIC have adopted risk-based capital adequacy guidelines for bank holding companies and banks. These capital adequacy regulations are based upon a risk-based capital determination, whereby a bank holding company's capital adequacy is determined in light of the risk, both on- and off-balance sheet, contained in the company's assets. Different categories of assets are assigned risk weightings and are counted at a percentage of their book value.

The regulations divide capital between Tier 1 capital (core capital) and Tier 2 capital. For a bank holding company, Tier 1 capital consists primarily of common stock, related surplus, non-cumulative perpetual preferred stock, minority

interests in consolidated subsidiaries and a limited amount of qualifying cumulative preferred securities. Goodwill and certain other intangibles are excluded from Tier 1 capital. Tier 2 capital consists of an amount equal to the allowance for loan and lease losses up to a maximum of 1.25% of risk weighted assets, limited other types of preferred stock not included in Tier 1 capital, hybrid capital instruments and term subordinated debt. Investments in and loans to unconsolidated banking and finance subsidiaries that constitute capital of those subsidiaries are excluded from capital. The sum of Tier 1 and Tier 2 capital constitutes qualifying total capital. The guidelines generally require banks to maintain a total qualifying capital to weighted risk assets level of 8% (the Risk-based Capital Ratio ). Of the total 8%, at least 4% of the total qualifying capital to weighted risk assets (the Tier 1 Risk-based Capital Ratio ) must be Tier 1 capital.



The FRB, the Comptroller and the FDIC have adopted leverage requirements that apply in addition to the risk-based capital requirements. Banks and bank holding companies are required to maintain a minimum leverage ratio of Tier 1 capital to average total consolidated assets (the Leverage Ratio ) of at least 3.0% for the most highly-rated, financially sound banks and bank holding companies and a minimum Leverage Ratio of at least 4.0% for all other banks. The FDIC and the FRB define Tier 1 capital for banks in the same manner for both the Leverage Ratio and the Risk-based Capital Ratio. However, the FRB defines Tier 1 capital for bank holding companies in a slightly different manner. An institution may be required to maintain Tier 1 capital of at least 4% or 5%, or possibly higher, depending upon the activities, risks, rate of growth, and other factors deemed material by regulatory authorities. As of December 31, 2006, the Corporation and Bank both met all applicable capital requirements imposed by regulation.

**Federal Deposit Insurance Corporation Improvement Act of 1991 ( FDICIA ).** There are five capital categories applicable to insured institutions, each with specific regulatory consequences. If the appropriate Federal banking agency determines, after notice and an opportunity for hearing, that an insured institution is in an unsafe or unsound condition, it may reclassify the institution to the next lower capital category (other than critically undercapitalized) and require the submission of a plan to correct the unsafe or unsound condition. The Comptroller has issued regulations to implement these provisions. Under these regulations, the categories are:

a. **Well Capitalized** The institution exceeds the required minimum level for each relevant capital measure. A well capitalized institution is one (i) having a Risk-based Capital Ratio of 10% or greater, (ii) having a Tier 1 Risk-based Capital Ratio of 6% or greater, (iii) having a Leverage Ratio of 5% or greater and (iv) that is not subject to any order or written directive to meet and maintain a specific capital level for any capital measure.

b. **Adequately Capitalized** The institution meets the required minimum level for each relevant capital measure. No capital distribution may be made that would result in the institution becoming undercapitalized. An adequately capitalized institution is one (i) having a Risk-based Capital Ratio of 8% or greater, (ii) having a Tier 1 Risk-based Capital Ratio of 4% or greater and (iii) having a Leverage Ratio of 4% or greater or a Leverage Ratio of 3% or greater if the institution is rated composite 1 under the CAMELS (Capital, Assets, Management, Earnings, Liquidity and Sensitivity to market risk) rating system.

c. **Undercapitalized** The institution fails to meet the required minimum level for any relevant capital measure. An undercapitalized institution is one (i) having a Risk-based Capital Ratio of less than 8% or (ii) having a Tier 1 Risk-based Capital Ratio of less than 4% or (iii) having a Leverage Ratio of less than 4%, or if the institution is rated a composite 1 under the CAMEL rating system, a Leverage Ratio of less than 3%.

d. **Significantly Undercapitalized** The institution is significantly below the required minimum level for any relevant capital measure. A significantly undercapitalized institution is one (i) having a Risk-based Capital Ratio of less than 6% or (ii) having a Tier 1 Risk-based Capital Ratio of less than 3% or (iii) having a Leverage Ratio of less than 3%.

e. **Critically Undercapitalized** The institution fails to meet a critical capital level set by the appropriate federal banking agency. A critically undercapitalized institution is one having a ratio of tangible equity to total assets that is equal to or less than 2%.

An institution which is less than adequately capitalized must adopt an acceptable capital restoration plan, is subject to increased regulatory oversight, and is increasingly restricted in the scope of its permissible activities. Each company having control over an undercapitalized institution must provide a limited guarantee that the institution will comply with its capital restoration plan. Except under limited circumstances consistent with an accepted capital restoration plan, an undercapitalized institution may not grow. An undercapitalized institution may not acquire another institution, establish additional branch offices or engage in any new line of business unless determined by the appropriate Federal banking agency to be consistent with an accepted capital restoration plan, or unless the FDIC determines that the proposed action will further the purpose of prompt corrective action. The appropriate Federal banking agency may take any action authorized for a significantly undercapitalized institution if an undercapitalized institution fails to submit an acceptable capital restoration plan or fails in any material respect to implement a plan accepted by the agency. A critically undercapitalized institution is subject to having a receiver or conservator appointed to manage its affairs and for loss of its charter to conduct banking activities.

An insured depository institution may not pay a management fee to a bank holding company controlling that institution or any other person having control of the institution if, after making the payment, the institution, would be undercapitalized. In addition, an institution cannot make a capital distribution, such as a dividend or other distribution that is in substance a distribution of capital to the owners of the institution if following such a distribution the institution would be undercapitalized. Thus, if payment of such a management fee or the making of such would cause the Bank to become undercapitalized, it could not pay a management fee or dividend to the Corporation.

As of December 31, 2006, both the Corporation and the Bank were considered well capitalized.

**Deposit Insurance Assessments.** The Bank's deposits are insured up to applicable limits by the Deposit Insurance Fund (the DIF) of the FDIC. The DIF is the successor to the Bank Insurance Fund and the Savings Association Insurance Fund, which were merged in 2006. The FDIC recently amended its risk-based assessment system for 2007 to implement authority granted by the Federal Deposit Insurance Reform Act of 2005 (FDIRA). Under the revised system, insured institutions are assigned to one of four risk categories based on supervisory evaluations, regulatory capital levels and certain other factors. An institution's assessment rate depends upon the category to which it is assigned. Unlike the other categories, Risk Category I, which contains the least risky depository institutions, contains further risk differentiation based on the FDIC's analysis of financial ratios, examination component ratings and other information. Assessment rates are determined by the FDIC and currently range from five to seven basis points for the healthiest institutions (Risk Category I) to 43 basis points of assessable deposits for the riskiest (Risk Category IV). The FDIC may adjust rates uniformly from one quarter to the next, except that no single adjustment can exceed three basis points. FDIRA also provided for the possibility that the FDIC may pay dividends to insured institutions if the DIF reserve ratio equals or exceeds 1.35% of estimated insured deposits.

**Gramm-Leach-Bliley Act of 1999.** The Gramm-Leach-Bliley Act of 1999 (the GLBA) implemented major changes to the statutory framework for providing banking and other financial services in the United States. The GLBA, among other things, eliminated many of the restrictions on affiliations among banks and securities firms, insurance firms and other financial service providers. A bank holding company that qualifies as a financial holding company will be permitted to engage in activities that are financial in nature or incidental or complimentary to financial activities. The activities that the GLBA expressly lists as financial in nature include insurance underwriting, sales and brokerage activities, providing financial and investment advisory services, underwriting services and limited merchant banking activities.

To become eligible for these expanded activities, a bank holding company must qualify as a financial holding company. To qualify as a financial holding company, each insured depository institution controlled by the bank holding company must be well-capitalized, well-managed and have at least a satisfactory rating under the CRA (discussed below). In addition, the bank holding company must file with the Federal Reserve a declaration of its intention to become a financial holding company. While the Corporation satisfies these requirements, the Corporation has not elected for various reasons to be treated as a financial holding company under the GLBA.

We do not believe that the GLBA has had a material adverse impact on the Corporation's or the Bank's operations. To the extent that it allows banks, securities firms and insurance firms to affiliate, the financial services industry may experience further consolidation. The GLBA may have the result of increasing competition that we face from larger institutions and other companies offering financial products and services, many of which may have substantially greater financial resources.

The GLBA and certain other regulations issued by federal banking agencies also provide new protections against the transfer and use by financial institutions of consumer nonpublic personal information. A financial institution must provide to its customers, at the beginning of the customer relationship and annually thereafter, the institution's policies and procedures regarding the handling of customers' nonpublic personal financial information. These privacy provisions generally prohibit a financial institution from providing a customer's personal financial information to unaffiliated third parties unless the institution discloses to the customer that the information may be so provided and the customer is given the opportunity to opt out of such disclosure.

**Community Reinvestment Act.** The Bank is subject to the requirements of the Community Reinvestment Act (the CRA). The CRA imposes on financial institutions an affirmative and ongoing obligation to meet the credit needs of their local communities, including low and moderate-income neighborhoods, consistent with the safe and sound operation of those institutions. A financial institution's efforts in meeting community credit needs currently are evaluated as part of the examination process pursuant to three performance tests. These factors also are considered in evaluating mergers, acquisitions and applications to open a branch or facility.

**Federal Home Loan Bank (FHLB) of Atlanta.** The Bank is a member of the FHLB of Atlanta, which is one of twelve regional FHLBS that provide funding to their members for making housing loans as well as for affordable housing and community development lending. Each FHLB serves as a reserve or central bank for its members within

its assigned region. It is funded primarily from proceeds derived from the sale of consolidated obligations of the FHLB System. It makes loans to members (i.e., advances) in accordance with policies and procedures established by the Board of Directors of the FHLB. As a member the Bank is required to purchase and maintain stock in the FHLB in an amount equal to 4.5% of aggregate outstanding advances in addition to the membership stock requirement of 0.2% of the Bank's total assets.

**Mortgage Banking Regulation.** The Bank's mortgage banking subsidiary is subject to the rules and regulations of, and examination by the Department of Housing and Urban Development ( HUD ), the Federal Housing Administration, the Department of Veterans Affairs and state regulatory authorities with respect to originating, processing and selling mortgage loans. Those rules and regulations, among other things, establish standards for loan origination, prohibit discrimination, provide for inspections and appraisals of

property, require credit reports on prospective borrowers and, in some cases, restrict certain loan features, and fix maximum interest rates and fees. In addition to other federal laws, mortgage origination activities are subject to the Equal Credit Opportunity Act, Truth-in-Lending Act, Home Mortgage Disclosure Act, Real Estate Settlement Procedures Act, and Home Ownership Equity Protection Act, and the regulations promulgated there under. These laws prohibit discrimination, require the disclosure of certain basic information to mortgagors concerning credit and settlement costs, limit payment for settlement services to the reasonable value of the services rendered and require the maintenance and disclosure of information regarding the disposition of mortgage applications based on race, gender, geographical distribution and income level.

**USA PATRIOT Act.** The USA PATRIOT Act became effective on October 26, 2001 and provides for the facilitation of information sharing among governmental entities and financial institutions for the purpose of combating terrorism and money laundering. Among other provisions, the USA PATRIOT Act permits financial institutions, upon providing notice to the United States Treasury, to share information with one another in order to better identify and report to the federal government concerning activities that may involve money laundering or terrorists' activities. The USA PATRIOT Act is considered a significant banking law in terms of information disclosure regarding certain customer transactions. Certain provisions of the USA PATRIOT Act impose the obligation to establish anti-money laundering programs, including the development of a customer identification program, and the screening of all customers against any government lists of known or suspected terrorists. Although it does create a reporting obligation and a cost of compliance, the Bank does not expect the USA PATRIOT Act to materially affect its products, services or other business activities.

**Reporting Terrorist Activities.** The Federal Bureau of Investigation ( FBI ) has sent, and will send, our banking regulatory agencies lists of the names of persons suspected of involvement in terrorist activities. The Bank has been requested, and will be requested, to search its records for any relationships or transactions with persons on those lists. If the Bank finds any relationships or transactions, it must file a suspicious activity report and contact the FBI. The Office of Foreign Assets Control ( OFAC ), which is a division of the Department of the Treasury is responsible for helping to insure that United States entities do not engage in transactions with enemies of the United States, as defined by various Executive Orders and Acts of Congress. OFAC has sent, and will send, our banking regulatory agencies lists of names of persons and organizations suspected of aiding, harboring or engaging in terrorist acts. If the Bank finds a name on any transaction, account or wire transfer that is on an OFAC list, it must freeze such account, file a suspicious activity report and notify the FBI. The Bank has appointed an OFAC compliance officer to oversee the inspection of its accounts and the filing of any notifications. The Bank actively checks high-risk OFAC areas such as new accounts, wire transfers and customer files. The Bank performs these checks utilizing software, which is updated each time a modification is made to the lists provided by OFAC and other agencies of Specially Designated Nationals and Blocked Persons.

**Consumer Laws and Regulations.** The Bank is also subject to certain consumer laws and regulations that are designed to protect consumers in transactions with banks. While the list set forth herein is not exhaustive, these laws and regulations include the Truth in Lending Act, the Truth in Savings Act, the Electronic Funds Transfer Act, the Expedited Funds Availability Act, the Equal Credit Opportunity Act, the Fair Credit Reporting Act and the Fair Housing Act, among others. These laws and regulations mandate certain disclosure requirements and regulate the manner in which financial institutions transact business with customers. The Bank must comply with the applicable provisions of these consumer protection laws and regulations as part of its ongoing customer relations.

## **ITEM 1A RISK FACTORS**

### **Our profitability depends on interest rates generally, and changes in monetary policy may impact us.**

Our profitability depends in substantial part on our net interest margin, which is the difference between the rates we receive on loans and investments and the rates we pay for deposits and other sources of funds. Our net interest margin depends on many factors that are partly or completely outside of our control, including competition, federal economic, monetary and fiscal policies, and economic conditions generally. Our net interest income will be adversely affected if market interest rates change so that the interest we pay on deposits and borrowings increases faster than the interest we earn on loans and investments. Changes in interest rates also affect the value of our loans. An increase in interest rates could adversely affect borrowers' ability to pay the principal or interest on existing loans or reduce their desire to

borrow more money. This may lead to an increase in our nonperforming assets or a decrease in loan originations, either of which could have a material and negative effect on our results of operations. We try to minimize our exposure to interest rate risk, but we are unable to completely eliminate this risk. Fluctuations in market rates are neither predictable nor controllable and may have a material and negative effect on our business, financial condition and results of operations.

**Our performance depends substantially upon our credit quality.**

As a lender, we are exposed to the risk that our loan customers may not repay their loans according to their terms and any collateral securing payment may be insufficient to fully compensate us for the outstanding balance of the loan plus the costs we incur disposing of the collateral. Although we have collateral for most of our loans, that collateral can fluctuate in value and may not always cover the outstanding balance on the loan. We devote substantial management attention to setting reserves that we believe are adequate to cover potential credit quality problems.

If we are wrong in our assessment, or events occur that reduce the likelihood of loan repayment, our reserves may not be adequate. If it becomes necessary to make material additions to our reserves, our net income could be materially decreased. In general, if the quality of our loans and the underlying collateral decreases, that may reduce our earnings and damage our financial condition.

**Our allowance for loan losses could become inadequate.**

We maintain an allowance for loan losses that we believe is adequate for absorbing any potential losses in our loan portfolio. Management conducts a periodic review and consideration of the loan portfolio to determine the amount of the allowance for loan losses based upon general market conditions, credit quality of the loan portfolio and performance of our customers relative to their financial obligations with us. The amount of future losses, however, is susceptible to changes in economic and other market conditions, including changes in interest rates and collateral values that are beyond our control, and these future losses may exceed our current estimates. Although we believe the allowance for loan losses is adequate to absorb probable losses in our loan portfolio, we cannot predict such losses or that our allowance will be adequate in the future. Excessive loan losses could have a material impact on our financial performance.

**Our profitability depends significantly on local economic conditions.**

Our success depends primarily on the general economic conditions of the markets in which we operate. Unlike larger banks that are more geographically diversified, we provide banking and financial services to customers primarily in the Northern Virginia region. The local economic conditions in this area have a significant impact on our business, real estate and construction loans, the ability of the borrowers to repay these loans, the value of the collateral securing these loans and could decrease the demand for loans and other banking services. A significant decline in general economic conditions, caused by inflation, recession, acts of terrorism, an outbreak of hostilities or other international or domestic calamities, unemployment or other factors beyond our control could impact these local economic conditions and could negatively affect the financial results of our banking operations.

**Our focus on commercial and real estate loans may increase the risk of credit losses.**

We offer a variety of loans including commercial lines of credit, commercial term loans, real estate, construction, home equity, consumer and other loans. Many of these loans are secured by real estate (both residential and commercial) in the greater Washington, D.C. metropolitan area. Although we believe our credit underwriting adequately considers the underlying collateral in the evaluation process, a major change in the real estate market could have an adverse effect on our customer's ability to repay their loans, which in turn could adversely affect our credit quality and our net income. If the value of real estate serving as collateral for the loan portfolio were to decline materially, a significant part of the loan portfolio could become under-collateralized. If the loans that are secured by real estate become troubled when real estate market conditions are declining or have declined, in the event of foreclosure, we may not be able to realize the amount of collateral that we anticipated at the time of originating the loan. In that event, we might have to increase the provision for loan losses, which could have a material adverse effect on our operating results and financial condition. Risk of loan defaults, foreclosures and under-collateralization is unavoidable in the banking industry, and we try to limit our exposure to this risk by monitoring our extensions of credit carefully. We cannot, however, fully eliminate credit risk and credit losses may occur in the future.

**Our small to medium-sized business target market may have fewer financial resources to weather a downturn in the economy.**

We target our commercial development and marketing strategy primarily to serve the banking and financial services needs of small and medium-sized businesses. These businesses generally have fewer financial resources in terms of capital or borrowing capacity than larger entities. If general economic conditions negatively impact this major economic sector in the markets in which we operate, our results of operations and financial condition may be adversely affected.

**We may be adversely affected by changes in government monetary policy.**

As a bank holding company, our business is affected by the monetary policies established by the Board of Governors of the Federal Reserve System, which regulates the national money supply in order to mitigate recessionary and inflationary pressures. In setting its policy, the Federal Reserve may utilize techniques such as the following:

Engaging in open market transactions in United States government securities;

Setting the discount rate on member bank borrowings; and

Determining reserve requirements.

These techniques may have an adverse effect on our deposit levels, net interest margin, loan demand or our business and operations.



**We may be adversely affected by unanticipated changes in government regulations.**

We and our wholly-owned subsidiary, Access National Bank, are subject to extensive regulation and supervision by the Federal Reserve Bank, the FDIC and the Virginia State Corporation Commission. Any of these agencies, or other governmental or regulatory authorities, could revise existing regulations or adopt new regulations at any time. We cannot predict whether or what form of proposed statute or regulation will be adopted or the extent to which such adoption may affect our business. Regulatory changes may increase our costs, limit the types of financial services and products we may offer and/or increase the ability of non-banks to offer competing financial services and products and thus place other entities that are not subject to similar regulation in stronger, more favorable competitive positions, which could adversely affect our growth. Failure to comply with existing or new laws, regulations or policies could result in sanctions by regulatory agencies, civil money penalties and/or reputation damage, which could have an adverse effect on our business, financial condition and results of operations.

**Our future success will depend on our ability to compete effectively in the highly competitive financial services industry.**

We face substantial competition in all phases of our operations from a variety of different competitors. In particular, there is very strong competition for financial services in the areas of Virginia in which we conduct a substantial portion of our business. Our future growth and success will depend on our ability to compete effectively in this highly competitive financial services environment. Many of our competitors offer products and services which we do not, and many have substantially greater resources, name recognition and market presence that benefit them in attracting business. In addition, larger competitors may be able to price loans and deposits more aggressively than we do. If we have to raise interest rates paid on deposits to compete effectively, our net interest margin and income could be decreased. Some of the financial services organizations with which we compete are not subject to the same degree of regulation as is imposed on bank holding companies and federally insured state chartered banks. As a result, these non-bank competitors have certain advantages over us in accessing funding and in providing various services. Failure to compete effectively to attract new, or to retain existing, customers may reduce or limit our net income and our market share and may adversely affect our results of operations and financial condition.

**We depend on the services of key personnel, and a loss of any of those personnel would disrupt our operations and result in reduced revenues.**

Our success depends upon the continued service of our senior management team and upon our ability to attract and retain qualified financial services personnel. Competition for qualified employees is intense. In our experience, it can take a significant period of time to identify and hire personnel with the combination of skills and attributes required in carrying out our strategy. If we lose the services of our key personnel, or are unable to attract additional qualified personnel, our business, financial condition, results of operations and cash flows could be materially adversely affected.

**Our common stock has substantially less liquidity than the average trading market for many other publicly traded common stock.**

Although our common stock is listed for trading on the NASDAQ Global Market, the trading market in our common stock has substantially less liquidity than the average trading market for many other publicly traded companies, including many companies quoted on the NASDAQ Global Market or traded on the New York Stock Exchange. A public trading market having the desired characteristics of depth, liquidity and orderliness depends on the presence in the market place of willing buyers and sellers of our common stock at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which we have no control.

**Although the Corporation commenced quarterly dividend payments beginning in the first quarter of 2006, we cannot guarantee that we will continue to pay dividends to shareholders in the future.**

Dividend payments are subject to determination and declaration by our board of directors, which takes into account many factors. The declaration of dividends by us on our common stock is subject to the discretion of our board and to applicable federal regulatory limitations. We cannot guarantee that dividends will not be reduced or eliminated in future periods. Our ability to pay dividends on our common stock depends on our receipt of dividends from our wholly-owned subsidiary bank, Access National Bank.

**Virginia law and our charter documents contain anti-takeover provisions that may make it more difficult or expensive to acquire us in the future or may adversely affect our stock price.**

Virginia corporate law and our charter documents contain several provisions that may make it more difficult for a third party to acquire control of us without the approval of our board of directors and may make it more difficult or expensive for a third party to acquire a majority of our outstanding common stock. They may also delay, prevent or deter a merger, acquisition, tender offer, proxy contest or other transaction that might otherwise result in our shareholders receiving a premium over the market price for their common stock. Our stock price could also be negatively affected as a result of these anti-takeover provisions.

**ITEM 1B UNRESOLVED STAFF COMMENTS**

None

**ITEM 2 PROPERTIES**

The Bank and the Mortgage Corporation leases offices that are used in the normal course of business. The principal executive office of the Corporation, Bank and Mortgage Corporation is owned by Access Real Estate, a subsidiary of the Bank, and is located at 1800 Robert Fulton Drive, Reston, Virginia. The Bank leases offices in Chantilly, Tysons Corner, and Leesburg, Virginia. The Mortgage Corporation leases offices in Vienna, Richmond, Fredericksburg, Warrenton and Roanoke in Virginia. The Mortgage Corporation leases two offices in Maryland located at Bowie and Westminster in addition to the offices in Florida, Tennessee, Texas and Colorado. On July 25, 2005, Access Real Estate purchased Lot 1 in the Fredericksburg Business Park at a cost of \$1.2 million for future expansion of the Bank and Mortgage Corporation. At present the lot is undeveloped.

All of the owned and leased properties are in good operating condition and are adequate for the Corporation's present and anticipated future needs.

**ITEM 3 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 4 SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

There were no matters submitted to a vote of security holders during the quarter ended December 31, 2006.

**PART II****ITEM 5 MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

In July 2004, Access National Corporation's common stock became listed on the NASDAQ Global Market of the NASDAQ Stock Market LLC and is quoted under the symbol of "ANCX".

Set forth below is certain financial information relating to the Corporation's common stock price history. Prices reflect transactions executed on NASDAQ.

	2006			2005		
	High	Low	Dividends	High	Low	Dividends
First Quarter	\$15.10	\$9.84	\$0.005	\$ 7.16	\$6.35	\$
Second Quarter	11.30	8.40	0.005	7.19	6.50	
Third Quarter	10.39	8.75	0.005	9.72	7.10	
Fourth Quarter	10.05	9.10	0.005	14.25	8.75	

Prices have been adjusted for all stock splits and dividends.

As of March 15, 2007, the Corporation had 12,020,587 outstanding shares of Common Stock, par value \$.835 per share, held by approximately 383 shareholders of record and the closing price for the Corporation's common stock on the NASDAQ Global Market was \$9.58.

On December 23, 2005, the Corporation issued a 2 for 1 stock split. The authorized shares of common stock increased from 30,000,000 to 60,000,000 and par value decreased from \$1.67 to \$.835.

At December 31, 2005, there were 1,018,000 outstanding Series A warrants. The Series A warrants were issued by the Bank in December 1999 to the organizing shareholders of the Bank (in conjunction with the organization of the Bank) and the shareholders of Mortgage Investment Company (in conjunction with the acquisition by the Bank of Mortgage Investment Company). Each Series A warrant is exercisable for one share of common stock at an exercise price of \$1.67. As of December 31, 2005, 1,018,000 of the Series A warrants had vested and were exercisable.

On February 1, 2006, the Corporation established a Dividend Reinvestment and Stock Purchase Plan ( Plan ). Under the Plan, shareholders may elect to purchase common stock of the Corporation with automatically reinvested dividends or optional cash payments at a discount of 5% from the market price.

The Corporation concluded a public stock offering on August 2, 2006 after selling 2,300,000 shares of common stock at \$9.38 per share and netted approximately \$20 million after expenses associated with the offering. The new capital will be used to support continued growth.

The Corporation paid its fifth consecutive quarterly cash dividend and increased the amount from \$.005 to \$.01 per share on February 23, 2007 to shareholders of record as of February 13, 2007. Payment of dividends is at the discretion of the Corporation's Board of Directors, is subject to various federal and state, regulatory limitations. Future dividends are dependent upon the overall performance and capital requirements of the Corporation. See Item 1 Business Supervision and Regulation Dividends for a discussion of regulatory requirements related to dividends.

#### **Issuer Purchases of Equity Securities for the Quarter Ended December 31, 2006**

The Corporation did not purchase any of its common stock in the fourth quarter of 2006.

#### **Stock Performance**

The following graph compares the Corporation's cumulative total shareholder return on its common stock for the five year period ended December 31, 2006 with the cumulative return of a broad equity market index, the Standard & Poor's 500 Index, and a peer group constructed by the Corporation (the Peer Group ). This presentation assumes \$100 was invested in shares of the Corporation and each of the indices on December 31, 2001, and that dividends, if any, were immediately reinvested in additional shares. The graph plots the value of the initial \$100 investment at one-year intervals from December 31, 2001 through December 31, 2006.

The Peer Group consists of five companies that, in the opinion of management, are similar to the Corporation in ways relevant to a comparison of stock performance. Specifically, each company in the Peer Group provides commercial banking services in the Mid-Atlantic Region, has existed for a reasonably similar time period as has the Corporation; and is considered by management to be in an expansion mode. In calculating the relative index, the stock values of the Peer Group are re-balanced at the beginning of each year by the weighted market capitalization. The Peer Group consists of:

Company, Headquarters	Exchange	Trading Symbol	Established
Cardinal Financial Corporation Fairfax, Virginia	NASDAQ-NM	CFNL	1998
Eagle Bancorp. Inc. Bethesda, Maryland	NASDAQ-SC	EGBN	1998
Towne Bank Portsmouth, Virginia	OTC-BB	TOWN	1999
Valley Financial Corp of VA Roanoke, Virginia	OTC-BB	VYFC	1995
Virginia National Bank	OTC-BB	VABK	1998

Charlottesville, Virginia

There can be no assurance the Corporation's future stock performance will continue with the same or similar trend as illustrated in the graph below.

*Access National Corp.*

<i>Index</i>	<i>Period Ending</i>					
	<b>12/31/01</b>	<b>12/31/02</b>	<b>12/31/03</b>	<b>12/31/04</b>	<b>12/31/05</b>	<b>12/31/06</b>
Access National Corp.	100.00	102.08	223.26	209.48	422.23	283.82
Peer Group Index*	100.00	117.67	181.21	232.90	238.91	240.71
S&P 500	100.00	77.90	100.24	111.14	116.59	135.00

\* *Access National Corporation's peer group consists of the following:*  
*Cardinal Financial Corporation (CFNL), Eagle Bancorp, Inc. (EGBN), Towne Bank (TOWN), Valley Financial Corporation (VYFC), Virginia National Bank (VABK)*

**ITEM 6 SELECTED FINANCIAL DATA**

Information relating to selected financial data is in Table 1.

**ITEM 7 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION**

The following discussion and analysis is intended to provide an overview of the significant factors affecting the financial condition and the results of operations of Access National Corporation and subsidiary (the Corporation) for the twelve months ended December 31, 2006 and 2005. The consolidated financial statements and accompanying notes should be read in conjunction with this discussion and analysis.

### **Forward-Looking Statements**

In addition to historical information, this Annual Report on Form 10-K 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, forecasts, intend, 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: 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, U.S. Treasury and the FRB, the economy of Northern Virginia, including governmental spending and real estate markets, the quality or composition of the loan or investment portfolios, demand for loan products, deposit flows, competition, and accounting principles, policies and guidelines. These risks and uncertainties should be considered in evaluating the forward-looking statements contained herein, and readers are cautioned not to place undue reliance on such statements. Any forward-looking statement speaks only as of the date on which it is made, and we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which it is made. For additional discussion of risk factors that may cause our actual future results to differ materially for the results indicated within forward looking statements, please see Item 1A Risk Factors herein.

### **CRITICAL ACCOUNTING POLICIES**

#### **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 principals of accounting: (i) Statement of Financial Accounting Standards (SFAS) No. 5 Accounting for Contingencies, which requires that losses be accrued when they are probable of occurring and estimatable and (ii) SFAS 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, 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 Loans below.

#### **Derivative Financial Instruments**

Access National Mortgage Corporation carries all derivative instruments at fair value as either assets or liabilities in the consolidated balance sheets. SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities as amended (Statement 133), provides specific accounting provisions for derivative instruments that qualify for hedge accounting. The Mortgage Corporation has not elected to apply hedge accounting to its derivative instruments as provided in Statement 133.

See Notes 1, 10 and 11 to the financial statements for additional information on derivatives.

### **FINANCIAL CONDITION**

#### **Summary**

The Corporation completed its seventh year of operation and achieved record net income of \$7.6 million and significant asset growth. Total assets at December 31, 2006 were \$644.8 million compared to \$537.1 million in 2005, an increase of \$107.7 million. The growth in assets is comprised of a \$63.9 million increase in loans held for investment, and a \$20.3 million increase in loans held for sale, and a \$17.4 million increase in investment securities. Total assets averaged \$589.8 in 2006 compared to \$457.3 in 2005, an increase of approximately \$132.5 million.





The growth in assets was funded by a \$19.3 million increase in deposits. Short term borrowings increased \$36.8 million and long term borrowings increased \$20.8 million. Shareholders equity increased \$31.1 million resulting from net income of \$7.6 million and \$23.4 million from our public stock offering and the exercise of options and warrants.

In February, 2007 we opened our fourth banking center in the town of Leesburg, which is located in Loudoun County, Virginia. Loudoun County is one of the areas fastest growing counties in the area. We are also looking to expand in Prince William County near the City of Manassas in the second quarter of 2007. These two new offices will make banking more convenient for our existing clients in these areas and provide us the opportunity for additional growth in deposits and loans.

Management is committed to building a stable base of core deposits through strategic growth opportunities and expansion of our sales staff. This will be accomplished by maintaining and expanding our base of business in our market area.

The following discussions by major categories explain the changes in financial condition in more detail.

#### **Cash and Cash Equivalents**

Cash and cash equivalents consisting of cash and due from banks and interest bearing deposits in other banks totaled \$27.4 million, up from \$23.2 million at December 31, 2005. The increase is due to an increase of \$2.1 million in interest bearing accounts and a \$2.1 million increase in due from banks.

#### **Investment Securities**

The Corporation's securities portfolio is comprised of U.S. Treasury securities, U.S. Government Agency securities, municipal securities, CRA mutual fund, mortgage backed securities, Federal Reserve and Federal Home Loan Bank stock. The investment portfolio is used to provide liquidity and as a tool for managing interest sensitivity in the balance sheet, while generating a reasonable return. At December 31, 2006 the securities portfolio totaled \$105.2 million, up from \$87.8 million, in 2005. The increase in investments is due to the increase in deposits and short term borrowings. All securities were classified as available for sale. The Financial Accounting Standards Board requires that securities classified as available for sale be accounted for at fair market value. Unrealized gains and losses are recorded directly to a separate component of stockholders' equity. The Corporation's securities classified as available for sale had an unrealized loss net of deferred taxes of \$529 thousand on December 31, 2006. Table 3, Securities Available for Sale presents the types, amounts and maturity distribution of the securities portfolio.

#### **Loans**

Loans held for investment totaled \$433.6 at December 31, 2006 up from \$369.7 million at December 31, 2005, an increase of \$63.9 million. The Bank concentrates on providing banking services to the small to medium sized businesses and professionals in our market area. Our loan officers maintain a professional relationship with our clients and are responsive to their financial needs. They are directly involved in the community and it is this involvement and commitment that leads to referrals and continued growth. Commercial loans increased by approximately \$13.3 million from last year. Loans secured by commercial real estate increased \$22.6 million, a 16.4% increase over 2005. The growth in commercial real estate loans reflects our commitment to local owner occupied commercial financing. Real estate construction loans increased \$31.5 million, an 85% increase over last year. This loan category is comprised of construction and land development loans. During 2006, we took advantage of the opportunity to expand this portfolio as pricing, terms and conditions tilted in favor of the lender as compared to prior periods. Many lenders in our market withdrew or decreased exposure in this segment while we had capacity to increase our portfolio. The growth in this category is somewhat cyclical and highly competitive. Residential real estate loans decreased \$3.5 million as a result of payoffs of adjustable rate mortgages.. Consumer loans totaled \$555 thousand in 2006 and 2005. The Bank offers a complete line of consumer lending products, primarily as a service to the affiliates of our commercial and professional clients. The Bank does not actively market its consumer products at this time, which accounts for the nominal amount of consumer type loans.

Loans held for sale totaled \$65.3 million at December 31, 2006 compared to \$45.0 million at December 31, 2005, an increase of \$20.3 million. The increase in loans held for sale is due to an increase in loan originations during the month of December, 2006 which resulted in a large number of loans held for sale being on our balance sheet at December 31, 2006 prior to their sale to third party investors. Loan origination volume was up \$58.6 million from

2005 to \$1.0 billion in 2006. The increase in loan originations is due to the relatively stable real estate market in our area and the expansion of our wholesale operation.

We look forward to continued growth in 2007 as we expand our base of business in the counties of Loudoun and Prince William. We are forecasting the Mortgage Corporation will generate a similar volume as experienced in 2006. Table 4 and 4A, The Loan Portfolio and Loan Maturity Distribution, respectively, presents the major classifications and maturity distribution of loans held for investment at December 31, 2006, 2005 and 2004.

### **Allowance for Loan Losses**

The allowance for loan loss totaled approximately \$5.5 million at December 31, 2006, up from \$5.2 million in 2005. The level of the allowance for loan losses is determined by an ongoing detailed analysis of risk and loss potential within the portfolio as a whole. Although actual loan losses have been insignificant, our senior credit management, with nearly 150 years in collective experience in managing similar portfolios in our marketplace, 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 Bank, after seven years of operations, does not have a meaningful history of charge offs with which to establish trends in loan losses by loan classifications. As of December 31, 2006 the total net charge offs for the seven years was less than \$14 thousand dollars. The overall allowance for loan losses is equivalent to approximately 1.26% of total loans held for investment. The schedule in Table 6, Allocation of the Allowance for Loan Losses, reflects the pro rata allocation by the different loan types. The methodology as to how the allowance was derived is a combination of specific allocations and percentages allocation of the unallocated portion 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. Unallocated amounts included in the allowance for loan losses have been applied to the loan classifications on a percentage basis.

Adequacy of the reserve is assessed, and appropriate expense and charge offs are taken, no less frequently than at the close of each fiscal quarter end. The methodology by which we systematically determine the amount of our reserve is set forth by the Board of Directors in our Credit Policy. Under this Policy, 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 (the Specific Reserve ), 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 (the General Reserve ) and, finally, an Unallocated Reserve to cover any unforeseen factors not considered above in the appropriate magnitude. Each of the reserve components, General, Specific and Unallocated are discussed in further detail below.

With respect to the General Reserve, 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 for nearly 150 years; and peer data contained in statistical releases issued by both the Office of the Comptroller of the Currency and the FDIC. Although looking only at peer data and the bank's historically low write-offs would suggest a lower loan loss allowance, our management's experience with similar portfolios in the same market combined with the fact that our portfolio is relatively unseasoned, justify a conservative approach in contemplating external statistical resources. Accordingly, 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, structure, and repayment terms. Prevailing economic condition 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. As of December 31, 2006 our evaluation of these factors supported approximately 89.3% of the total loss reserve. As our portfolio ages and we gain more direct experience, the direct experience will weigh more heavily in our evaluation.

When deterioration develops in an individual credit, the loan is placed on a Watch List and the loan 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 non-performance of a particular loan, a portion of the reserve may be specifically allocated to that individual loan. The aggregation of this loan by loan loss analysis comprises the Specific Reserve . As of December 31, 2006 there were no additional specific reserves assigned.

The Unallocated Reserve is maintained to absorb risk factors outside of the General and Specific Allocations.

Maximum and minimum target limits are established by us on a quarterly basis for the Unallocated Reserve. As of December 31, 2006 the maximum amount for this component was 0.15% of the total loan portfolio and accounted for approximately 10.7% of the total loss reserve.

In addition to the reserves discussed above the Mortgage Corporation maintains separate reserves for LHFS and potential early default penalties.

### **Nonperforming Loans And Past Due**

At December 31, 2006 there was one loan at the Mortgage Corporation in non accrual status and pending foreclosure totaling \$360 thousand. The loss potential for this loan has been evaluated and in managements opinion the risk of loss is adequately reserved against. Management actively works with the borrowers to maximize the potential for repayment and reports on the status to the Board of Directors, no less than on a monthly basis.

As of December 31, 2006 there was one loan in the amount of \$914 thousand past due more than 90 days with respect to which interest was still being accrued. This loan was subsequently paid off in January 2007.

### **Deposits**

Deposits totaled \$438.9 million at December 31, 2006 and were comprised of non-interest bearing demand deposits in the amount of \$79.2 million, savings and interest bearing deposits in the amount of \$120.3 million and time deposits in the amount of \$239.4 million. Total deposits increased \$19.3 million over December 31, 2005, an increase of 4.6 %. This modest increase in year over year growth in deposits is due to the composition of our transaction accounts. Our transaction accounts are predominately commercial and subject to wide fluctuations. Average deposits for 2006 totaled \$423.8 million compared to \$338.0 in 2005, an increase of \$85.8 million or 25.4%. The increase in average deposits is primarily due to the expansion of our customer base. We offer a full line of competitive deposit products that have varying rates and terms. Our deposits are primarily from our local market. Professional loan officers are responsible for marketing both loans and deposits. Our primary focus with respect to core deposit growth is upon the business deposits in our market. We plan to strengthen our sales staff by adding personnel, and continue to use direct marketing and traditional media advertising. The opening of our Leesburg office and the planned opening of our office in Manassas is expected to contribute to the growth in deposits in 2007. Our customer service focus is mainly on our business and professional customers, which usually generate more referrals for additional new business than do retail account holders.

Time deposits represent 54.5% of total deposits, up from 45.2% of total deposits on December 31, 2005. Time deposits increased by 26.3% over December 31, 2005 due to transfers from savings and interest bearing account and advertising of competitive interest rates. Savings and interest bearing deposits represent 27.4% of total deposits as compared to 35.5% on December 31, 2005. Non interest bearing demand deposits represent 18.0% of total deposits, down from 19.3% in 2005. This decrease is largely due to temporary balance fluctuations in commercial accounts. One segment of non-interest bearing accounts relating to real estate was down over \$15.6 million from December 2005.

Brokered or wholesale deposits included in time deposits totaled \$64.6 million at December 31, 2006 and represents 14.7% of total deposits compared to \$58.8 million and 14.0% of total deposits at December 31, 2005. Wholesale depositors are outside of the target market and place their deposit with us solely due to the interest rate paid. Together with other funding sources, we use these types of deposits for specific funding requirements and to fund the short term cash needs associated with the LHFS program discussed under Loans as well as to carry long term investments such as Mortgage Loans Held for Investment and our real estate.

Table 7, Average Deposits and Average Rates Paid, details the composition of deposits.

### **Borrowings**

Borrowed funds consist of advances from the Federal Home Loan Bank of Atlanta, subordinated debentures (trust preferred), securities sold under agreement to repurchase, federal funds purchased and commercial paper. At December 31, 2006 borrowed funds totaled \$137.8 million, compared to \$80.3 million at December 31, 2005. The Corporation utilizes short term advances for supplementing the Mortgage Corporation's funding requirements and other short term funding needs. Long term advances are used for match funding of Bank term loans and to lock in spreads. Table 9 provides a break down of all borrowed funds.

### **Shareholders Equity**

Shareholders equity increased \$31.1 million during 2006, primarily due to net proceeds of approximately \$20 million from a public stock offering that concluded in August 2006, an increase in retained earnings as a result of current year net income of \$7.6 million and \$3.5 million from the exercise of stock options and warrants.

Banking regulators have defined minimum regulatory capital ratio 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 10 Risk Based Capital Analysis, outlines the regulatory components of capital and risk based capital ratios.

## **RESULTS OF OPERATIONS**

### **Summary**

Net income totaled \$7.6 million for the year ended December 31, 2006, an increase of \$1.7 million over \$5.9 million in 2005. Return on average assets remained unchanged from 2005 at 1.29%. Return on average equity decreased to 17.15% from 20.63% in 2005 as a result of the increase in capital. Diluted earnings per share for 2006 were \$.72 compared to \$.63 in 2005. See Table 1 Summary Financial Data.

In 2005, net income increased \$2.6 million from \$3.3 million in 2004 to \$5.9 million. The increase was due to a 36.2% increase in average earning assets

### **Net Interest Income**

Net interest income, the principal source of Bank 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. During 2006 our net interest margin decreased 28 basis points from 3.49% in 2005 to 3.21%. The weighted average yield on earning assets increased .67%, reflecting increases in the Prime rate during the year. The weighted average rate paid on interest bearing liabilities increased 1.02% and contributed to the narrowing of our net interest margin. Table 2 Yield on Average Earning Assets and Rates on Average Interest Bearing Liabilities summarizes the major components of net interest income for the past three years and also provides yields and average balances.

Net interest income increased in 2006 to \$18.3 million compared to \$15.3 million in 2005. Net interest income depends upon the volume of earning assets and interest bearing liabilities and the associated rates. Average interest earning assets increased \$131.8 million to \$569.5 million over \$437.7 million in 2005. See Table 2A Volume and Rate Analysis for the past three years.

Interest expense totaled \$21.7 million, an increase of approximately \$9.2 million over 2005. Total interest bearing deposits averaged \$362.3 million in 2006 compared to \$270.5 million in 2005. Borrowed funds averaged \$117.7 million, up from \$87.2 million in 2005. The increase in deposits and borrowings funded the growth in earning assets. The average cost of interest bearing liabilities was 4.5% in 2006 compared to 3.5% in 2005.

Net interest income increased 30.8% in 2005 up from \$11.7 million in 2004 to \$15.3 million. The increase was due to an \$116.4 million increase in average interest earning assets. Net interest margin decreased 15 basis points in 2005 to 3.49% due to increased interest rates on deposits and borrowings.

### **Provision for Loan Losses**

The provision for loan losses charged to operating expense was \$232 thousand down from \$1.2 million in 2005. The decrease in the provision for loan losses is due to the reallocation of \$811 thousand in specific reserves relating to non performing loans that were upgraded to performing loan status in 2006. Management believes the allowance for loan losses is adequate to absorb inherent losses in the loan portfolio based on the evaluation as of December 31, 2006.

### **Non-Interest Income**

Non-interest income consists of revenue generated from a broad range of financial services and activities. The Mortgage Corporation provides the most significant contributions towards non-interest income. Total non-interest income was \$27.6 million in 2006, down \$3.4 million from \$31.0 million in 2005 primarily due to a decrease in gains on the sale of loans originated by the Mortgage Corporation. Gains on the sale of loans totaled \$19.3 million in 2006 compared to \$22.4 million in 2005. This decrease is due to a general compression of margins available in the market place as well as an increase in wholesale loan originations which generally have lower margins than retail loan originations. Mortgage broker fees amounted to \$5.3 million in 2006 down from \$5.6 million in 2005, as fewer loans were brokered.

The volume of our Mortgage Corporation is subject to many cyclical risks against which we actively manage. Volume and the accompanying non-interest income are subject to the risks associated with the general interest rate environment as well as the new home and resale activity of the residential real estate market in the communities we serve. Our ability to recruit and retain professional mortgage loan officers also impacts our volume and margins. Non interest income totaled \$31.5 million in 2005, up \$5.5 million from \$26.0 million in 2004. The increase was primarily due to an increase in gains on the sale of mortgage loans.





### **Non Interest Expense**

Non interest expense totaled \$34.2 million in 2006 down \$1.6 million from \$35.8 million in 2005. Salaries and benefits totaled \$19.4 million, a decrease of \$1.1 million over \$20.5 million in 2005. The decrease in salaries and benefits is due to a decrease in commissions at the Mortgage Corporation as a result of margin compression on retail loans and the increase in loans originated by the Wholesale Division. Broker fees are paid to non-employees for wholesale loan originations. Approximately 67.2% of the total salaries expense is attributable to the Mortgage Corporation and 32.8% is attributable to the Bank. The majority of compensation expense for the Mortgage Corporation is variable with loan origination volume. Mortgage loan originations increased from \$990 million in 2005 to \$1 billion in 2006.

Other operating expense decreased approximately \$500 thousand from \$13.4 million in 2005 to \$12.9 in 2006. Note 18 to the financial statements details the changes in other operating expense.

Non-interest expense totaled \$36.3 million in 2005 compared to \$31.6 million in 2004, an increase of \$4.7 million. This increase was largely due to increased salary and commission expense at the Mortgage Corporation as a result of increased loan production. Other operating expense increased \$2.8 million in 2005 and is attributable to advertising and marketing expense, settlement fees, management fees and investor fees.

### **Income Taxes**

Income tax expense totaled approximately \$3.9 million compared to \$3.3 million in 2005. Note 8 to the financial statements show the components of federal Income tax.

We expect to continue to accrue and pay taxes in accordance with all applicable tax laws and regulations. Many of our competitors, primarily federal and state credit unions, are exempt from the taxation against which we are subjected

### **Quarterly Results**

Net income and per share information on a quarterly basis for 2006 and 2005 is reflected in Table 1A. The increase in net income is due to increases in earning assets funded by deposit growth and short term borrowings.

### **Liquidity Management**

Liquidity is the ability of the Corporation 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 maturing interest bearing deposits with other banks are additional sources of liquidity funding. At December 31, 2006, overnight interest bearing balances totaled \$15.4 million and securities available for sale net of restricted stock totaled \$99.3 million.

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 December 31, 2006, the Corporation had a line of credit with the Federal Home Loan Bank of Atlanta totaling \$177.6 million and outstanding variable rate loans of \$45 million, and an additional \$42.6 million in term loans at fixed rates ranging from 2.70% to 5.21% leaving \$90.1 million available on the line. In addition to the line of credit at the Federal Home Loan Bank, the Bank and its mortgage bank subsidiary also issue repurchase agreements and commercial paper. As of December 31, 2006, outstanding repurchase agreements totaled \$14.5 million and commercial paper issued amounted to \$39.9 million. The interest rate on these instruments is variable and subject to change daily. The Bank also maintains Federal Funds lines of credit with its correspondent banks and, at December 31, 2006, these lines amounted to \$22.6 million. The Corporation also has \$10.3 million in subordinated debentures to support the growth of the organization. The table below presents the Corporation's contractual obligation and scheduled payment amounts due at various intervals over the next three years and beyond, as of December 31, 2006. Table 9, Borrowed Funds Distribution, outlines the composition of borrowed funds for 2006, 2005 and 2004.

**Contractual Obligations**

	Payments Due By Period			
	December 31, 2006			
	Less Than 1 Year	1 - 3 Years	More Than 3 Years	Total
	(In Thousands)			
FHLB Advances	\$ 45,000	\$	\$	\$ 45,000
Securities sold under agreements to repurchase	14,541			14,541
FHLB long term Borrowings		36,500	6,071	42,571
Other short term borrowings	20,599			20,599
Subordinated debentures			10,311	10,311
Leases	308	575	689	1,572
Total interest-bearing liabilities	\$ 80,448	\$ 37,075	\$ 17,071	\$ 134,594

The Corporation funded the growth in interest earning assets through a combination of deposits, retention of earnings and borrowed funds. The Corporation expects its short and long term sources of liquidity and capital to remain adequate to support expected growth. The Bank relies on a variety of short and long term resources for liquidity from a variety of sources that substantially reduces reliance upon any single provider.

**Off Balance Sheet Items**

During the ordinary course of business, the Bank issues commitments to extend credit and, at December 31, 2006, these commitments amounted to \$17 million. These commitments do not necessarily represent cash requirements, since many commitments are expected to expire without being drawn on.

At December 31, 2006 the Bank had approximately \$88 million in unfunded lines of credit. These lines of credit, if drawn upon, would be funded from routine cash flows. Cash flows from financing activities, which includes deposit growth and borrowing, generated over \$100.1 million.

### **Recent Accounting Pronouncements**

In September 2006, the Securities and Exchange Commission (the SEC) released Staff Accounting Bulletin No. 108 (SAB 108), which provides detail in the quantification and correction of financial statement misstatements. SAB 108 specifies that companies should apply a combination of the rollover and iron curtain methodologies when making determinations of materiality. The rollover method quantifies a misstatement based on the amount of the error originating in the current year income statement. The iron curtain approach quantifies misstatements based on the effects of correcting the misstatement existing in the balance sheet at the end of the current year, regardless of the year(s) of origination. SAB 108 instructs companies to quantify the misstatement under both methodologies and, if either method results in the determination of a material error, the Company must adjust its financial statements to correct the error. SAB 108 also reminds preparers that a change from an accounting principle that is not generally accepted to a principle that is generally accepted is a correction of an error. SAB 108 is effective for annual financial statements covering the first fiscal year ending after November 15, 2006. The adoption of SAB 108 did not have a material effect on the Corporation's financial condition or results of operations.

In February 2006, FASB issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments an amendment of FASB Statements No. 133 and 140. This statement amends Statements No. 133 and 140 by: permitting fair value remeasurement for any hybrid financial instrument with an embedded derivative that otherwise would require bifurcation; clarifying which interest-only strips and principal-only strips are not subject to the requirements of Statement No. 133; establishing a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation; clarifying that concentrations of credit risk in the form of subordination are not embedded derivatives; and amending Statement No. 140 to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. The statement is effective for fiscal years beginning after September 15, 2006. The adoption of this standard is not anticipated to have a material impact on financial condition, results of operations or cash flows.

In July 2006, the FASB issued FASB Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement 109, which provides guidance on the measurement, recognition, and disclosure of tax positions taken or expected to be taken in a tax return. The interpretation also provides guidance on de-recognition, classification, interest and penalties, and disclosure. FIN 48 prescribes that a tax position should only be recognized if it is more-likely-than-not that the position will be sustained upon examination by the appropriate taxing authority. A tax position that meets this threshold is measured as the largest amount of benefit that is more likely than not (greater than 50 percent) realized upon ultimate settlement. The cumulative effect of applying FIN 48 is to be reported as an adjustment to the beginning balance of retained earnings in the period of adoption. FIN 48 is effective for fiscal years beginning after December 15, 2006. The adoption of this standard is not anticipated to have a material impact on financial condition, results of operations or cash flows.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. SFAS 157 establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. While the Statement applies under other accounting pronouncements that require or permit fair value measurements, it does not require any new fair value measurements. SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. In addition, the Statement establishes a fair value hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. Lastly, SFAS No. 157 requires additional disclosures for each interim and annual period separately for each major category of assets and liabilities. The Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Management does not expect the adoption of this Statement to have a material impact on the Corporation's financial statements.

In February 2007, the FASB issued SFAS 159 The Fair Value Option for Financial Assets and Financial Liabilities including an amendment of FASB Statement No. 115. This Statement permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets

and liabilities differently without having to apply complex hedge accounting provisions. This Statement is expected to expand the use of fair value measurement, which is consistent with the Board's long-term measurement objectives for accounting for financial instruments. This Statement is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provisions of FASB Statement No. 157, Fair Value Measurements. The Corporation does not believe the adoption of this statement to have a material effect on the Corporation's consolidated financial statements.

**Statistical Information**

The following statistical information is provided pursuant to the requirements of Guide 3, promulgated by the Securities Act of 1933:

Table 1

**Summary Financial Data**

	Year Ended December 31				
	2006	2005	2004	2003	2002
	(In Thousands, Except Per Share Data)				
<b>Income Statement Data:</b>					
Net interest income	\$ 18,256	\$ 15,273	\$ 11,694	\$ 9,138	\$ 5,848
Provision for loan losses	232	1,196	1,462	526	841
Non-interest income	27,633	30,955	25,952	33,765	22,494
Non-interest expense	34,211	35,830	31,580	36,432	23,447
Income taxes	3,853	3,305	1,619	2,129	1,359
Net income before extra-ordinary items	7,593	5,897	2,985	3,816	2,695
Extra-ordinary income, net of income tax			330		
Net Income	\$ 7,593	\$ 5,897	\$ 3,315	\$ 3,816	\$ 2,695
<b>Per Share Data:</b>					
Earnings per share					
Basic, before extra-ordinary income	\$ 0.81	\$ 0.75	\$ 0.40	\$ 0.55	\$ 0.41
Basic	0.81	0.75	0.44	0.55	0.41
Diluted, before extra-ordinary-income	0.72	0.63	0.33	0.44	0.36
Diluted	0.72	0.63	0.36	0.44	0.36
Cash dividends declared	0.02				
Book value at period end	5.27	3.92	3.29	2.84	2.32
<b>Balance Sheet Data:</b>					
Total assets	\$ 644,782	\$ 537,050	\$ 420,098	\$ 257,390	\$ 240,348
Loans held for sale	65,320	45,019	36,245	29,756	93,852
Total loans	433,594	369,733	292,594	189,320	114,835
Total securities	105,163	87,771	51,378	23,178	15,637
Total deposits	438,932	419,629	317,393	198,183	178,251
Shareholders equity	62,295	31,185	25,998	19,755	16,291
Average shares outstanding, basic	9,429,074	7,867,135	7,509,536	6,986,680	6,594,000
Average shares outstanding, diluted	10,541,873	9,423,087	9,155,778	8,822,372	7,478,064
<b>Performance Ratios:</b>					
Return on average assets	1.29%	1.29%	0.97%	1.45%	1.64%

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Return on average equity	17.15%	20.63%	14.48%	20.48%	20.17%
Net interest margin <sup>(1)</sup>	3.21%	3.49%	3.64%	3.58%	3.73%

**Efficiency Ratios:**

Access National Bank	48.67%	52.21%	56.40%	50.71%	56.97%
Access National Mortgage Corp.	92.42%	89.13%	94.18%	89.66%	85.23%
Access National Corporation	75.06%	80.09%	87.61%	84.26%	82.20%

**Asset Quality Ratios:**

Allowance to period end loans	1.26%	1.41%	1.37%	1.35%	1.78%
Allowance to nonperforming loans	1514%	397.78%	185.07%	310.93%	
Net charge-offs to average loans					

**Capital Ratios:**

Tier I risk-based capital	15.01%	10.78%	10.97%	12.54%	12.09%
Total risk-based capital	16.18%	12.11%	12.80%	15.47%	13.33%
Leverage capital ratio	11.53%	7.60%	8.83%	10.28%	8.12%

(1) Net interest  
income divided  
by total average  
earning assets.

Table 1A

The following is a summary of the results of operations for each quarter of 2006 and 2005.

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(In Thousands, Except Per Share Data)			
<b>2006</b>				
Total interest income	\$ 8,645	\$ 9,776	\$ 10,570	\$ 10,947
Total interest expense	4,548	5,371	5,740	6,023
Net interest income	4,097	4,405	4,830	4,924
Provision for loan losses	124	49		59
Net interest income after provision for loan losses	3,973	4,356	4,830	4,865
Total noninterest income	6,231	6,486	7,252	7,664
Total noninterest expense	7,744	8,065	9,286	9,117
Income tax expense	837	971	895	1,150
Net income	\$ 1,623	\$ 1,806	\$ 1,901	\$ 2,262
Earnings Per Share:				
Basic	\$ 0.20	\$ 0.22	\$ 0.19	\$ 0.20
Diluted	0.17	0.19	0.17	0.19
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(In Thousands, Except Per Share Data)			
<b>2005</b>				
Total interest income	\$ 5,619	\$ 6,368	\$ 7,561	\$ 8,245
Total interest expense	2,435	2,801	3,350	3,936
Net interest income	3,184	3,567	4,211	4,309
Provision for loan losses	114	383	325	374
Net interest income after provision for loan losses	3,070	3,184	3,886	3,935
Total noninterest income	6,153	9,147	9,375	6,792
Total noninterest expense	7,655	10,000	10,641	8,044
Income tax expense	533	827	911	1,034
Net income	\$ 1,035	\$ 1,504	\$ 1,709	\$ 1,649
Earnings Per Share:				
Basic	\$ 0.13	\$ 0.19	\$ 0.22	\$ 0.21
Diluted	0.12	0.16	0.18	0.17

Table 2

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

	Period Ended December 31,								
	<b>2006</b>	<b>2005</b>	<b>2004</b>						
	<b>Average</b>	<b>Income</b>	<b>Yield</b>	<b>Average</b>	<b>Income</b>	<b>Yield</b>	<b>Average</b>	<b>Income</b>	<b>Yield</b>
	<b>Balance</b>	<b>/</b>	<b>/</b>	<b>Balance</b>	<b>/</b>	<b>/</b>	<b>Balance</b>	<b>/</b>	<b>/</b>
	<b>Expense</b>	<b>Rate</b>		<b>Expense</b>	<b>Rate</b>		<b>Expense</b>	<b>Rate</b>	
(Dollars In Thousands)									
<b>Assets:</b>									
<b>Interest earning assets:</b>									
Securities	\$ 107,165	\$ 4,687	4.37%	\$ 64,862	\$ 2,489	3.84%	\$ 25,385	\$ 905	3.57%
Loans <sup>(3)</sup>	454,146	34,899	7.68%	364,126	25,043	6.88%	289,225	17,228	5.96%
Interest bearing deposits & federal funds sold	8,193	400	4.88%	8,739	279	3.19%	6,715	92	1.37%
<b>Total interest earning assets</b>	<b>569,504</b>	<b>39,986</b>	<b>7.02%</b>	<b>437,727</b>	<b>27,811</b>	<b>6.35%</b>	<b>321,325</b>	<b>18,225</b>	<b>5.67%</b>
<b>Non-interest earning assets:</b>									
Cash and due from banks	10,546			10,579			8,169		
Premises, land and equipment	9,616			9,260			8,466		
Other assets	5,531			4,118			6,138		
Less: allowance for loan losses	(5,363)			(4,433)			(2,945)		
<b>Total non-interest earning assets</b>	<b>20,330</b>			<b>19,524</b>			<b>19,828</b>		
<b>Total Assets</b>	<b>\$ 589,834</b>			<b>\$ 457,251</b>			<b>\$ 341,153</b>		
<b>Liabilities and Shareholders Equity:</b>									
<b>Interest bearing liabilities:</b>									
Interest-bearing demand deposits	\$ 10,691	\$ 224	2.10%	\$ 10,630	\$ 200	1.88%	\$ 9,075	\$ 93	1.02%
Money market deposit accounts	118,548	4,859	4.10%	130,147	4,256	3.27%	40,506	838	2.07%
Savings accounts	2,147	88	4.10%	450	4	0.89%	470	4	0.85%
Time deposits	230,896	10,605	4.59%	129,314	4,560	3.53%	109,453	3,420	3.12%



<b>Total interest-bearing deposits</b>	<b>362,282</b>	<b>15,776</b>	4.35%	<b>270,541</b>	<b>9,020</b>	3.33%	<b>159,504</b>	<b>4,355</b>	2.73%
FHLB Advances	61,066	3,161	5.18%	43,375	1,610	3.71%	44,598	662	1.48%
Securities sold under agreements to repurchase	4,643	166	3.58%	925	19	2.05%	2,290	25	1.09%
Other short-term borrowings	18,005	738	4.10%	8,520	250	2.93%	4,741	121	2.55%
Long-term borrowings	23,722	962	4.06%	24,028	917	3.82%	17,801	854	4.80%
Subordinated Debentures	10,311	879	8.52%	10,311	706	6.85%	10,311	514	4.98%
<b>Total interest-bearing liabilities</b>	<b>480,029</b>	<b>21,682</b>	4.52%	<b>357,700</b>	<b>12,522</b>	3.50%	<b>239,245</b>	<b>6,531</b>	2.73%
<b>Non-interest bearing liabilities:</b>									
Demand deposits	61,506			66,862			75,883		
Other liabilities	4,029			4,103			3,124		
<b>Total liabilities</b>	<b>545,564</b>			<b>428,665</b>			<b>318,252</b>		
Shareholders Equity	44,270			28,586			22,901		
<b>Total Liabilities and Shareholders Equity:</b>	<b>\$ 589,834</b>			<b>\$ 457,251</b>			<b>\$ 341,153</b>		
Interest Spread <sup>(1)</sup>			2.50%			2.85%			2.94%
Net Interest Margin <sup>(2)*</sup>		\$ 18,304	3.21%		\$ 15,289	3.49%		\$ 11,694	3.64%

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

(2) Net interest margin is net

interest income,  
expressed as a  
percentage of  
average earning  
assets.

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

\* Note: Interest  
income and  
yields are  
presented on a  
fully taxable  
equivalent basis  
using 34% tax  
rate.

Table 2A

**Volume and Rate Analysis**

	<b>2006 compared to 2005</b>			<b>Years Ended December 31 2005 compared to 2004</b>			<b>2004 compared to 2003</b>		
	Change Due To:			Change Due To:			Change Due To:		
	Increase / (Decrease)	Volume	Rate	Increase / (Decrease)	Volume	Rate	Increase / (Decrease)	Volume	Rate
<b>Interest Earning Assets:</b>									
Investments	\$ 2,197	1,814	\$ 383	\$1,584	\$1,511	\$ 73	\$ 527	\$ 369	\$ 158
Loans	9,856	6,713	3,143	7,815	4,897	2,918	3,706	3,699	7
Interest bearing deposits	121	(18)	139	187	35	152	(52)	(93)	41
Federal funds sold	1	1			0		2		2
Total Increase (Decrease) in Interest Income	12,175	8,510	3,665	9,586	6,443	3,143	4,183	3,976	208
<b>Interest Bearing Liabilities:</b>									
Interest-bearing demand deposits	24	0	24	107	18	89	25	30	(5)
Money market deposit accounts	603	(406)	1,009	3,418	2,709	709	569	410	159
Savings accounts	84	43	41				1		1
Time deposits	6,045	4,376	1,669	1,140	662	478	(206)	(253)	47
Total interest-bearing deposits	6,756	4,013	2,743	4,665	3,389	1,276	389	187	202
FHLB Advances	1,551	785	766	948	(19)	967	487	503	(16)
Securities sold under agreements to repurchase	147	124	23	(6)	(20)	14	16	8	8
Other short-term borrowings	488	359	129	129	109	20	82	2	80
Long-term borrowings	45	(12)	57	63	260	(197)	433	147	286
Trust Preferred	173	1	172	192		192	220	236	(16)
Total Increase (Decrease) in	9,160	5,270	3,890	5,991	3,719	2,272	1,627	1,083	544

Interest Expense

**Increase**

**(Decrease) in Net**

<b>Interest Income</b>	\$ 3,015	\$3,240	\$ (225)	\$3,595	\$2,724	\$ 871	\$2,556	\$2,892	\$(336)
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Table 3

**Investment Securities Available for Sale**

	<b>Year Ended December 31,</b>		
	<b>2006</b>	<b>2005</b>	<b>2004</b>
	<b>(In Thousands)</b>		
Investment Securities available for sale:			
US Treasury Securities	\$ 996	\$ 1,602	\$ 1,638
US Government Agency Securities	91,609	75,260	44,261
Mortgage Backed Securities	1,040	1,393	2,235
Tax Exempt Municipals	2,888	2,840	
Taxable Municipals	1,275	1,466	
Mutual Fund	1,468	1,471	
Other	5,887	3,739	3,244
<b>Total Securities</b>	<b>\$ 105,163</b>	<b>\$ 87,771</b>	<b>\$ 51,378</b>

**Investment Securities Available for Sale 2006**

Table 3A

	<b>Maturing</b>									
	<b>Within</b>		<b>After One Year</b>		<b>After Five</b>		<b>After</b>		<b>Total</b>	
	<b>One Year</b>		<b>But Within</b>		<b>But Within</b>		<b>Ten Years</b>		<b>Amount</b>	
	<b>Amount</b>	<b>Yield</b>	<b>Amount</b>	<b>Yield</b>	<b>Amount</b>	<b>Yield</b>	<b>Amount</b>	<b>Yield</b>	<b>Amount</b>	<b>Yield</b>
	<b>(In Thousands)</b>									
Investment Securities Available for Sale (1)										
US Treasury Securities	\$		\$ 996	4.99%	\$		\$		\$ 996	4.99%
US Government Agency Securities	34,690	3.60%	55,446	4.65%	1,473	5.15%			91,609	4.26%
Mortgage Backed Securities	49	4.64%	991	4.79%					1,040	4.78%
Tax Exempt Municipals					2,888	5.34%			2,888	5.34%
Taxable Municipals					1,275	4.30%			1,275	4.30%
<b>Total</b>	<b>\$ 34,739</b>	<b>3.60%</b>	<b>\$ 57,433</b>	<b>4.65%</b>	<b>\$ 5,636</b>	<b>5.06%</b>	<b>\$</b>		<b>\$ 97,808</b>	<b>4.30%</b>

(1) Excludes CRA  
Mutual Fund,  
Federal Reserve  
Bank Stock and

FHLB Stock

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Table 4

<b>Loan Portfolio</b>										
<b>Year Ended December 31,</b>										
	2006		2005		2004		2003		2002	
	<b>Amount</b>	<b>Percentage of Total</b>	<b>Amount</b>	<b>Percentage of Total</b>	<b>Amount</b>	<b>Percentage of Total</b>	<b>Amount</b>	<b>Percentage of Total</b>	<b>Amount</b>	<b>Percentage of Total</b>
(In Thousands)										
Commercial	\$ 51,825	11.95%	\$ 38,516	10.42%	\$ 48,427	16.55%	\$ 31,759	16.78%	\$ 17,324	15.09%
Commercial real estate	159,996	36.90%	137,423	37.17	96,939	33.13	69,128	36.51	41,081	35.77
Real estate construction	68,570	15.81%	37,054	10.02	33,073	11.30	13,766	7.27	10,057	8.76
Residential real estate	152,648	35.21%	156,185	42.24	113,432	38.77	73,846	39.01	45,591	39.70
Consumer	555	0.13%	555	0.15	723	0.25	821	0.43	782	0.68
<b>Total loans</b>	<b>\$433,594</b>	<b>100.00%</b>	<b>\$369,733</b>	<b>100.00%</b>	<b>\$292,594</b>	<b>100.00%</b>	<b>\$189,320</b>	<b>100.00%</b>	<b>\$114,835</b>	<b>100.00%</b>

**Loan Maturity Distribution**

Table 4A

<b>December 31, 2006</b>					
	<b>Three Months or Less</b>	<b>Over Three Months Through One Year</b>	<b>Over One Year Through Five Years</b>	<b>Over Five Years</b>	<b>Total</b>
(In Thousands)					
Commercial	\$ 19,433	\$ 15,947	\$ 15,711	\$ 734	\$ 51,825
Commercial real estate	19,565	22,860	98,668	18,903	159,996
Real estate construction	16,834	37,610	10,182	3,944	68,570
Residential real estate	33,788	19,399	87,257	12,204	152,648
Consumer	39	231	214	71	555
<b>Total</b>	<b>\$ 89,659</b>	<b>\$ 96,047</b>	<b>\$ 212,032</b>	<b>\$ 35,856</b>	<b>\$ 433,594</b>

Table 5

**Allowance for Loan Losses**

	<b>Year Ended December 31,</b>				
	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>
	(In Thousands)				
Balance, beginning of period	\$ 5,215	\$ 4,019	\$ 2,565	\$ 2,048	\$ 1,192
Provision for loan losses	232	1,196	1,462	526	841
Chargeoffs:					
Commerical			8	11	
Real estate					
Consumer					
Total chargeoffs			8	11	
Recoveries:					
Commerical	5			2	15
Real estate					
Consumer					
Total recoveries	5			2	15
Net chargeoffs			8	9	(15)
<b>Balance, end of period</b>	<b>\$ 5,457</b>	<b>\$ 5,215</b>	<b>\$ 4,019</b>	<b>\$ 2,565</b>	<b>\$ 2,048</b>

Table 6

**Allocation of the Allowance for Loan Losses**

	<b>Year Ended December 31,</b>									
	<b>2006</b>	<b>Percentage of total</b>	<b>2005</b>	<b>Percentage of total</b>	<b>2004</b>	<b>Percentage of total</b>	<b>2003</b>	<b>Percentage of total</b>	<b>2002</b>	<b>Percentage of total</b>
	(In Thousands)									
Commercial	\$ 802	14.71%	\$ 1,546	29.64%	\$ 1,475	36.70%	\$ 508	19.81%	\$ 311	15.19%
Commercial										
real estate	2,296	42.11	1,896	36.36	1,235	30.73	1,054	41.09	797	38.92
Real estate										
construction	1,055	19.35	499	9.58	438	10.90	220	8.58	158	7.71
Residential										
real estate	1,293	23.72	1,267	24.30	862	21.45	772	30.10	768	37.50
Consumer	6	0.11	6	0.12	9	0.22	11	0.42	14	0.68
Total	\$5,452	8543.71%	\$5,215	100.00%	\$4,019	100.00%	\$2,565	100.00%	\$2,048	100.00%



Table 7

**Average Deposits and Average Rates Paid**

	Year Ended December 31								
	2006			2005			2004		
	Average	Income	Yield	Average	Income	Yield	Average	Income	Yield
	Balance	/	/	Balance	/	/	Balance	/	/
		Expense	Rate		Expense	Rate		Expense	Rate
Interest bearing liabilities:									
Interest-bearing demand deposits	\$ 10,691	\$ 224	2.10%	\$ 10,630	\$ 200	1.88%	\$ 9,075	\$ 93	1.02%
Money market deposit accounts	118,548	4,859	4.10%	130,147	4,256	3.27%	40,506	838	2.07%
Savings accounts	2,147	88	4.10%	450	4	0.89%	470	4	0.85%
Time deposits	230,896	10,605	4.59%	129,314	4,560	3.53%	109,453	3,420	3.12%
Total interest-bearing deposits	362,282	15,776	4.35%	270,541	9,020	3.33%	159,504	4,354	2.73%
Non-interest bearing demand deposits	61,506			66,862			75,883		
Total deposits	\$ 423,788			\$ 337,403			\$ 235,387		

Table 7A

**Certificate of Deposit Maturity Distribution**

	December 31, 2006				
	Three months or less	Over three months through six months	Over six through twelve months	Over twelve months	Total
			(In Thousands)		
Less than \$100,000	\$ 26,775	\$ 14,387	\$ 28,558	\$ 12,115	\$ 81,835
Greater than or equal to \$100,000	32,407	36,841	39,100	49,217	157,565
	\$ 59,182	\$ 51,228	\$ 67,658	\$ 61,332	\$ 239,400

Table 8

**Return on Average Assets and Return on Average Equity**

	<b>Year Ended December 31,</b>		
	<b>2006</b>	<b>2005</b>	<b>2004</b>
	(In Thousands)		
Average total assets	\$ 589,834	\$ 457,251	\$ 341,153
Average shareholders' equity	\$ 44,270	\$ 28,586	\$ 22,901
Net income	\$ 7,593	\$ 5,897	\$ 3,315
Cash dividends declared	\$ 179	\$	\$
Return on average assets	1.29%	1.29%	0.97%
Return on average shareholders' equity	17.15%	20.63%	14.48%
Average shareholders' equity to average total assets	7.51%	6.25%	6.71%

Table 9

**Borrowed Funds Distribution**

	<b>Year Ended December 31</b>		
	<b>2006</b>	<b>2005</b>	<b>2004</b>
	(Dollars In Thousands)		
<b>At Period End</b>			
FHLB Advances	\$ 45,000	\$ 36,000	\$ 27,000
Securities sold under agreements to repurchase	14,541	977	2,862
Other short term borrowings	20,599	11,219	7,217
FHLB Long Term Borrowings	42,572	21,786	27,000
Subordinated debentures	10,311	10,311	10,311
Fed Funds Purchased	4,811		
 Total at period end	 \$ 137,834	 \$ 80,293	 \$ 74,390
 <b>Average Balances</b>			
FHLB Advances	\$ 61,066	\$ 43,375	\$ 44,598
Securities sold under agreements to repurchase	4,644	925	2,290
Other Short term borrowings	17,586	8,520	4,741
FHLB Long Term Borrowings	23,722	24,028	17,801
Subordinated debentures	10,311	10,311	10,311
Fed Funds Purchased	419		
 Total average balance	 \$ 117,748	 \$ 87,159	 \$ 79,741
 Average rate paid on all borrowed funds	 5.02%	 4.02%	 2.73%

Table 10

**Risk Based Capital Analysis**

	<b>Year Ended December 31</b>		
	<b>2006</b>	<b>2005</b>	<b>2004</b>
	<b>(In Thousands)</b>		
<b>Tier 1 Capital:</b>			
Common stock	\$ 9,867	\$ 6,644	\$ 6,608
Capital surplus	29,316	9,099	9,067
Retained earnings	23,620	16,227	10,330
Subordinated Debt (Trust Preferred Debenture)	10,000	10,000	8,500
<b>Total tier 1 capital</b>	<b>72,803</b>	<b>41,970</b>	<b>34,505</b>
Subordinated debt not included in Tier I		311	1,811
Allowance for loan losses	5,688	4,874	3,934
<b>Total Risk Based Capital</b>	<b>\$ 78,491</b>	<b>\$ 47,155</b>	<b>\$ 40,250</b>
<b>Risk weighted assets</b>	<b>\$ 484,987</b>	<b>\$ 389,381</b>	<b>\$ 314,494</b>
<b>Quarterly average assets</b>	<b>\$ 631,378</b>	<b>\$ 552,292</b>	<b>\$ 390,735</b>
<b>Capital Ratios:</b>			
Tier 1 risk based capital ratio	15.01%	10.78%	10.97%
Total risk based capital ratio	16.18%	12.11%	12.80%
Leverage ratio	11.53%	7.60%	8.83%

**ITEM 7A QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

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

**Interest Rate Sensitivity Management**

The Corporation uses a simulation model to analyze, manage and formulate operating strategies that address net interest income sensitivity to movements in interest rates. The simulation model projects net interest income based on various interest rate scenarios over a twelve month period. The model is based on the actual maturity and re-pricing characteristics of rate sensitive assets and liabilities. The model incorporates certain assumptions which management believes to be reasonable regarding the impact of changing interest rates and the prepayment assumption of certain assets and liabilities as of December 31, 2006. The model assumes changes in interest rates without any management intervention to change the composition of the balance sheet. The table below reflects the outcome of these analyses at December 31, 2006. According to the model run for the period ended December 31, 2006 over a twelve month period, an immediate 100 basis points increase in interest rates would result in a decrease in net interest income by 3.16%. An immediate 200 basis points decline in interest rates would result in a increase in net interest income by 4.88%. While management carefully monitors the exposure to changes in interest rates and takes actions as warranted to decrease any adverse impact, there can be no assurance about the actual effect of interest rate changes on net interest income.

	<b>December 31, 2006</b>	
Change in Federal Funds Target Rate	Hypothetical Percentage Change In Earnings	Hypothetical Percentage Change In Economic Value of Equity
3.00%	-9.55%	-1.77%
2.00%	-6.34%	-4.29%
1.00%	-3.16%	-6.67%
-1.00%	2.79%	3.17%
-2.00%	4.88%	5.17%
-3.00%	4.66%	6.76%

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 (locked) by both the Corporation and the borrower for specified periods of time. When the borrower locks their 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 mortgage revenue. 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.



**Impact of Inflation and Changing Prices**

A bank's asset and liability structure is substantially different from that of a non financial company in that virtually all assets and liabilities of a bank are monetary in nature. The impact of inflation on financial results depends upon the Bank's ability to react to changes in interest rates and, by such reaction, reduce the inflationary impact on performance. Interest rates do not necessarily move in the same direction, or at the same magnitude, as the prices of other goods and services. Management seeks to manage the relationship between interest-sensitive assets and liabilities in order to protect against wide interest rate fluctuations, including those resulting from inflation.

**ITEM 8 FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

**Report of Independent Registered Public Accounting Firm**

Board of Directors and Stockholders

Access National Corporation

Reston, Virginia

We have audited the accompanying consolidated balance sheets of Access National Corporation and subsidiaries as of December 31, 2006 and 2005 and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2006. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Corporation is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Access National Corporation and subsidiaries at December 31, 2006 and 2005, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

/s/ BDO Seidman, LLP

BDO Seidman, LLP

February 23, 2007



**ACCESS NATIONAL CORPORATION****Consolidated Balance Sheets**

December 31, 2006 and 2005

(In Thousands, Except for Per Share Data)

	<b>2006</b>	<b>2005</b>
<b>Assets</b>		
Cash and due from banks	\$ 11,974	\$ 9,854
Interest-bearing deposits in other banks	15,391	13,329
Securities available for sale, at fair value	105,163	87,771
Loans held for sale	65,320	45,019
Loans, net of allowance for loan losses 2006, \$5,452; 2005, \$5,215	428,142	364,518
Premises and equipment, net	9,598	9,650
Other assets	9,194	6,909
 Total assets	 \$ 644,782	 \$ 537,050
 <b>Liabilities and Shareholders' Equity</b>		
<b>Liabilities</b>		
Deposits		
Noninterest-bearing demand deposits	\$ 79,223	\$ 81,034
Savings and interest-bearing deposits	120,309	149,094
Time deposits	239,400	189,501
 Total deposits	 438,932	 419,629
 Short term borrowings	 84,951	 48,196
Long term borrowings	42,572	21,786
Subordinated debentures	10,311	10,311
Other liabilities and accrued expenses	5,721	5,943
 Total liabilities	 582,487	 505,865
 <b>Shareholders' Equity</b>		
Common stock, par value, \$0.835, authorized 60,000,000 shares, issued and outstanding, 11,816,929 in 2006 and 7,956,556 in 2005	9,867	6,644
Surplus	29,316	9,099
Retained earnings	23,641	16,227
Accumulated other comprehensive income (loss), net	(529)	(785)
 Total shareholders' equity	 62,295	 31,185
 Total liabilities and shareholders' equity	 \$ 644,782	 \$ 537,050

See accompanying notes to consolidated financial statements.

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

	<b>Year Ended December 31</b>		
	<b>2006</b>	<b>2005</b>	<b>2004</b>
<b>Interest and Dividend Income</b>			
Interest and fees on loans	\$ 34,898	\$ 25,043	\$ 17,228
Interest on deposits in other banks & federal funds sold	400	279	92
Interest and dividends on securities	4,640	2,471	905
Total interest and dividend income	39,938	27,793	18,225
<b>Interest Expense</b>			
Interest on deposits	15,776	9,018	4,355
Interest on short-term borrowings	4,065	1,879	808
Interest on long-term borrowings	962	917	854
Interest on trust preferred capital notes	879	706	514
Total interest expense	21,682	12,520	6,531
Net interest income	18,256	15,273	11,694
Provision for loan losses	232	1,196	1,462
Net interest income after provision for loan losses	18,024	14,077	10,232
<b>Noninterest Income</b>			
Service fees on deposit accounts	359	260	145
Gain on sale of loans	19,309	22,362	17,768
Mortgage broker fee income	5,280	5,634	4,601
Other income	2,685	2,699	3,438
Total noninterest income	27,633	30,955	25,952
<b>Noninterest Expense</b>			
Salaries and employee benefits	19,403	20,537	18,627
Occupancy expense	845	712	1,367
Furniture and equipment expense	1,014	1,204	1,048
Other operating expenses	12,949	13,377	10,538
Total noninterest expense	34,211	35,830	31,580
Income before income taxes	11,446	9,202	4,604

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Income tax expense	3,853	3,305	1,619
Net income before extra-ordinary items	7,593	5,897	2,985
Extra-ordinary Income			
Gain on acquisition of subsidiary, net of income tax			330
<b>Net Income</b>	<b>\$ 7,593</b>	<b>\$ 5,897</b>	<b>\$ 3,315</b>
Earnings per common share:			
Basic, before extra-ordinary income	\$ 0.81	\$ 0.75	\$ 0.40
Basic	\$ 0.81	\$ 0.75	\$ 0.44
Diluted, before extra-ordinary income	\$ 0.72	\$ 0.63	\$ 0.33
Diluted	\$ 0.72	\$ 0.63	\$ 0.36
Average outstanding shares:			
Basic	9,429,074	7,867,135	7,509,536
Diluted	10,541,873	9,423,087	9,155,778

See accompanying notes to consolidated financial statements.

**ACCESS NATIONAL CORPORATION**  
**Consolidated Statements of Changes in Shareholders' Equity**  
(In Thousands, Except for Per Share Data)

	<b>Common</b>		<b>Retained</b>	<b>Accumulated Other Compre- hensive Income (Loss)</b>	<b>Compre- hensive Income</b>	<b>Total</b>
	<b>Stock</b>	<b>Surplus</b>	<b>Earnings</b>			
<b>Balance, December 31, 2003</b>	\$ 5,796	\$ 6,856	\$ 7,015	\$ 88	\$	\$ 19,755
Issuance of common stock	854	2,529				3,383
Repurchase of common stock	(42)	(318)				(360)
Comprehensive income:						
Net income			3,315		3,315	3,315
Other comprehensive income, unrealized holdings losses arising during the period (net of tax, \$4)				(95)	(95)	(95)
Total comprehensive income					\$ 3,220	
<b>Balance, December 31, 2004</b>	6,608	9,067	10,330	(7)		25,998
Issuance of common stock	38	55				93
Repurchase of common stock	(2)	(23)				(25)
Comprehensive income:						
Net income			5,897		5,897	5,897
Other comprehensive income, unrealized holdings losses arising during the period (net of tax, \$405)				(778)	(778)	(778)
Total comprehensive income					\$ 5,119	
<b>Balance, December 31, 2005</b>	6,644	9,099	16,227	(785)		31,185

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Issuance of common stock	3,229	20,262			23,491
Repurchase of common stock	(6)	(45)			(51)
Cash dividend			(179)		(179)
Comprehensive income:					
Net income			7,593	7,593	7,593
Other comprehensive income, unrealized holdings gains arising during the period (net of tax, \$132)				256	256
				256	256
Total comprehensive income				\$ 7,849	
<b>Balance, December 31, 2006</b>	\$ 9,867	\$ 29,316	\$ 23,641	\$ (529)	\$ 62,295

See accompanying notes to consolidated financial statements.

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

	<b>Year Ended December 31,</b>		
	<b>2006</b>	<b>2005</b>	<b>2004</b>
<b>Cash Flows from Operating Activities</b>			
Net income	\$ 7,593	\$ 5,897	\$ 3,315
Adjustments to reconcile net income to net cash (used in) provided by operating activities:			
Provision for loan losses	237	1,196	1,462
Deferred tax benefit	(576)	(908)	(538)
Stock based compensation	46		
Provision for hedging	(24)	30	
Net amortization on securities	(5)		71
Depreciation and amortization	846	697	553
Loss on disposal of assets	2	81	
Changes in assets and liabilities:			
Increase in loans held for sale	(20,065)	(9,010)	(6,489)
Increase in other assets	(1,922)	(904)	(932)
Increase (decrease) in other liabilities	(221)	3,626	(215)
Net cash (used in) provided by operating activities	(14,089)	705	(2,773)
<b>Cash Flows from Investing Activities</b>			
Proceeds from maturities and calls of securities available for sale	21,591	25,523	24,878
Purchases of securities available for sale	(38,590)	(63,095)	(53,294)
Net increase in loans	(64,098)	(76,902)	(103,282)
Proceeds from sale of equipment		7	
Purchases of premises and equipment	(692)	(1,793)	(1,382)
Net cash used in investing activities	(81,789)	(116,260)	(133,080)
<b>Cash Flows from Financing Activities</b>			
Net increase (decrease) in demand, interest-bearing demand and savings deposits	(30,596)	32,746	108,635
Net increase in time deposits	49,899	69,490	10,575
Increase (decrease) in securities sold under agreement to repurchase	13,564	(1,885)	1,059
Net increase in other short-term borrowings	24,191	12,002	24,964
Net increase (decrease) in long term borrowings	19,786	(4,215)	12,035
Proceeds from issuance of common stock	23,446	93	3,383
Repurchase of common stock	(51)	(25)	(360)
Dividends paid	(179)		
Net cash provided by financing activities	100,060	108,206	160,291
Increase (decrease) in cash and cash equivalents	4,182	(7,349)	24,438
<b>Cash and Cash Equivalents</b>			

Beginning	23,183	30,532	6,094
Ending	\$ 27,365	\$ 23,183	\$ 30,532

**Supplemental Disclosures of Cash Flow Information**

Cash payments for interest	\$ 21,660	\$ 12,553	\$ 6,071
Cash payments for income taxes	\$ 3,532	\$ 3,830	\$ 1,739

**Supplemental Disclosures of Noncash Investing Activities**

Unrealized gain (loss) on securities available for sale	\$ 388	\$ (1,180)	\$ (145)
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See accompanying notes to consolidated financial statements.



## ACCESS NATIONAL CORPORATION

### Notes to Consolidated Financial Statements

#### Note 1. Summary of Significant Accounting Policies

**Nature of Operations** - Access National Corporation is a bank holding company incorporated under the laws of the Commonwealth of Virginia. The holding company was formed on June 15, 2002. The Corporation owns all of the stock of its subsidiaries including Access National Bank, Access National Capital Trust I and Access National Capital Trust II. Access National Bank is an independent commercial bank chartered under federal laws as a national banking association. The Trust subsidiaries were formed for the purpose of issuing redeemable capital securities.

Access National Bank has four wholly-owned subsidiaries: Access National Mortgage Corporation (Mortgage Corporation), a mortgage banking company, Access Leasing, a leasing company, Access Real Estate, L.L.C., a real estate company and United First Mortgage, a mortgage banking company.

**Principles of Consolidation** - The accompanying consolidated financial statements include the accounts of Access National Corporation and its wholly-owned subsidiaries, Access National Bank, Access National Capital Trust I and Access National Capital Trust II. All significant inter-company accounts and transactions have been eliminated in consolidation. The accounting and reporting policies of Access National Corporation and subsidiaries (the Corporation ) conform to accounting principles generally accepted in the United States of America and to predominant practices within the banking industry.

**Securities** - Debt securities that management has both the positive intent and ability to hold to maturity are classified as held to maturity and are recorded at amortized cost. Securities not classified as held to maturity, including equity securities with readily determinable fair values, are classified as available for sale and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income. Restricted stock, such as Federal Reserve Bank and FHLB stock, is carried at cost.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Declines in the fair value of held to maturity and available for sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method. All securities were classified as available for sale at December 31, 2006 and 2005.

**Loans** - The Corporation grants commercial, real estate, and consumer loans to customers in the community in and around Northern Virginia. The loan portfolio is well diversified and generally is collateralized by assets of the customers. The loans are expected to be repaid from cash flow or proceeds from the sale of selected assets of the borrowers. The ability of the Corporation's debtors to honor their contracts is dependent upon the real estate and general economic conditions in the Corporation's market area.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding unpaid principal balances less the allowance for loan losses, and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the interest method.

The accrual of interest on mortgage and commercial loans is discontinued at the time the loan is 90 days delinquent unless the credit is well-secured and in process of collection. Consumer loans and other loans are typically charged off no later than 180 days past due. In all cases, loans are placed on non-accrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on non-accrual or charged-off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all of the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

**Loans Held for Sale** All one to four unit residential loans originated and intended for sale in the secondary market do not qualify for hedging under SFAS No. 133 and are carried at the lower of aggregate cost or fair market value as determined by aggregate outstanding commitments from investors or current investor yield requirements. Net

unrealized losses are recognized in a valuation allowance by charges to income. Substantially all loans originated by Access National Mortgage Corporation are held for sale to outside investors. The Bank does not retain the servicing upon the sale of these loans.

**Allowance for Loan Losses** - The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

### Notes to Consolidated Financial Statements

The allowance represents an amount that, in management's judgment, will be adequate to absorb any losses on existing loans that may become uncollectible. Management's judgment in determining the adequacy of the allowance is based on evaluations of the collectibility of loans while taking into consideration such factors as changes in the nature and volume of the loan portfolio, current economic conditions which may affect a borrower's ability to repay, overall portfolio quality, and review of specific potential losses. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as doubtful, substandard or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

A loan is considered impaired when, based on current information and events, it is probable that the Corporation will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

Impairment is measured on a loan by loan basis for commercial and construction loans by either the present value of the expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Corporation does not separately identify individual consumer and residential loans for impairment disclosures.

**Derivative Financial Instruments** The Mortgage Corporation enters into commitments to fund residential mortgage loans with the intention of selling them in the secondary market. The company also enters into forward sales agreements for certain funded loans and loan commitments. The company records unfunded commitments intended for loans held for sale and forward sales agreements at fair value with changes in fair value recorded as a component of other income. Loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value in the aggregate.

For pipeline loans which are not pre-sold to an investor, the Mortgage Corporation manages the interest rate risk on rate lock commitments by entering into forward sale contracts of mortgage backed securities, whereby the Mortgage Corporation obtains the right to deliver securities to investors in the future at a specified price. Such contracts are accounted for as derivatives and are recorded at fair value in derivative assets or liabilities, with changes in fair value recorded in other income.

The Corporation has determined these derivative financial instruments do not meet the hedging criteria required by FASB 133 and has not designated these derivative financial instruments as hedges. Accordingly, changes in fair value are recognized currently in income.

**Premises and Equipment** - Premises and equipment are stated at cost less accumulated depreciation. Premises and equipment are depreciated over their estimated useful lives; leasehold improvements are amortized over the lives of the respective leases or the estimated useful life of the leasehold improvement, whichever is less. Depreciation is computed using the straight-line method over the estimated useful lives of 39 years for office buildings and 3 to 15 years for furniture, fixtures, and equipment. Costs of maintenance and repairs are expensed as incurred; improvements and betterments are capitalized. When items are retired or otherwise disposed of, the related costs and accumulated depreciation are removed from the accounts and any resulting gains or losses are included in the

determination of net income.

**Income Taxes** - Deferred income tax assets and liabilities are determined using the balance sheet method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

**Notes to Consolidated Financial Statements**

**Goodwill and Other Intangibles** - The Corporation adopted Statement of Financial Standards No. 142, Goodwill and Other Intangible Assets ( SFAS 142 ), effective January 1, 2002. Accordingly, goodwill is no longer subject to amortization over its estimated useful life, but is subject to at least an annual assessment for impairment by applying a fair value based test. Additionally, under SFAS 142, acquired intangible assets (such as core deposit intangibles) are separately recognized if the benefit of the asset can be sold, transferred, licensed, rented, or exchanged, and amortized over their useful life.

**Notes to Consolidated Financial Statements**

**Stock-Based Compensation Plans** Beginning January 1, 2006 the Corporation adopted SFAS No. 123R, which recognizes share-based compensation expense for stock option grants. Prior to 2006 the Corporation applied Accounting Principles Bulletin (APB) Opinion 25, Accounting for Stock Issued to Employees, and related Interpretations to account for employee stock compensation plans, and accordingly, did not recognize compensation expense for stock options granted when the option price was greater than or equal to the underlying stock price on the date of grant. The Corporation transitioned to fair-value based accounting for stock-based compensation using the modified prospective application. Under the modified prospective application as it is applicable to the Corporation, SFAS 123R applies to all new option grants and to awards that are cancelled after January 1, 2006. Compensation cost for options outstanding on January 1, 2006 that were not fully vested will be recognized over the remaining vesting periods after the adoption of SFAS 123R. The following table illustrates the effect on net income if the fair-value-based method per 123R had been applied to all outstanding grants for the years ended December 2005 and 2004.

(In Thousands, Except for Per Share Data)	<b>2005</b>	<b>2004</b>
Net income, as reported	\$ 5,897	\$ 3,315
Total stock-based compensation expense determined under fair value based method for all awards, net of related tax effects	(285)	(209)
Pro forma net income	\$ 5,612	\$ 3,106
Earnings per share:		
Basic as reported	\$ 0.75	\$ 0.44
Basic pro forma	\$ 0.71	\$ 0.41
Diluted as reported	\$ 0.63	\$ 0.36
Diluted pro forma	\$ 0.60	\$ 0.34

Prior periods have been adjusted for stock split effective December 12, 2005.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes Model with the following weighted-average assumptions:

	<b>Year Ended December 31</b>	
	<b>2005</b>	<b>2004</b>
Expected life	6.78 years	7 years
Risk-free interest rate	4.70%	3.52%
Volatility	18.37%	19.50%
Dividend yield		

## Notes to Consolidated Financial Statements

**Earnings Per Share** - Basic earnings per share represents income available to common shareholders divided by the weighted-average number of shares outstanding during the period. Diluted earnings per share reflect additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Common equivalent shares are excluded from the computation if their effect is antidilutive.

During the year ended December 31, 2004, the Corporation realized a gain from the excess of the fair value of net assets acquired over the purchase price of United First Mortgage Inc. upon the acquisition of a subsidiary.

**Cash and Cash Equivalents** - For purposes of the statements of cash flows, cash and cash equivalents consists of cash and due from banks and interest-bearing deposits in other banks.

**Advertising Costs** The Corporation follows the policy of charging the production costs of advertising to expense as incurred.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses and the valuation of deferred tax assets.

**Shareholders Equity** In August 2006, the Corporation sold 2,300,000 shares of common stock at \$9.38 per share in a public stock offering which netted approximately \$20 million in new capital after expenses. In December 2005, the Corporation declared a 2 for 1 stock split. The authorized shares of common stock increased from 30,000,000 to 60,000,000 and par value per share decreased from \$1.67 to \$0.835.

**Recent Accounting Pronouncements** In September 2006, the Securities and Exchange Commission (the SEC) released Staff Accounting Bulletin No. 108 (SAB 108), which provides detail in the quantification and correction of financial statement misstatements. SAB 108 specifies that companies should apply a combination of the rollover and iron curtain methodologies when making determinations of materiality. The rollover method quantifies a misstatement based on the amount of the error originating in the current year income statement. The iron curtain approach quantifies misstatements based on the effects of correcting the misstatement existing in the balance sheet at the end of the current year, regardless of the year(s) of origination. SAB 108 instructs companies to quantify the misstatement under both methodologies and, if either method results in the determination of a material error, the Company must adjust its financial statements to correct the error. SAB 108 also reminds preparers that a change from an accounting principle that is not generally accepted to a principle that is generally accepted is a correction of an error. The Bulletin is effective for annual financial statements covering the first fiscal year ending after November 15, 2006. The adoption of this Bulletin did not have a material effect on the Corporation's financial condition or results of operations.

### Currently Effective in Future Years

In February 2006, The FASB issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments an amendment of FASB Statements No. 133 and 140. This statement amends Statements No. 133 and 140 by: permitting fair value remeasurement for any hybrid financial instrument with an embedded derivative that otherwise would require bifurcation; clarifying which interest-only strips and principal-only strips are not subject to the requirements of Statement No. 133; establishing a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation; clarifying that concentrations of credit risk in the form of subordination are not embedded derivatives; and amending Statement No. 140 to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument. The statement is effective for fiscal years beginning after September 15, 2006. The adoption of this standard is not anticipated to have a material impact on financial condition, results of operations or cash flows.

In July 2006, the FASB issued FASB Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement 109, which provides guidance on the measurement, recognition, and disclosure of tax positions taken or expected to be taken in a tax return. The interpretation also provides guidance on

de-recognition, classification, interest and penalties, and disclosure. FIN 48 prescribes that a tax position should only be recognized if it is more-likely-than-not that the position will be sustained upon examination by the appropriate taxing authority. A tax position that meets this threshold is measured as the largest amount of benefit that is more likely than not (greater than 50 percent) realized upon ultimate settlement.



### **Notes to Consolidated Financial Statements**

The cumulative effect of applying FIN 48 is to be reported as an adjustment to the beginning balance of retained earnings in the period of adoption. FIN 48 is effective for fiscal years beginning after December 15, 2006. The adoption of this standard is not anticipated to have a material impact on financial condition, results of operations or cash flows.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements. SFAS 157 establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. While the Statement applies under other accounting pronouncements that require or permit fair value measurements, it does not require any new fair value measurements. SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. In addition, the Statement establishes a fair value hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. Lastly, SFAS No. 157 requires additional disclosures for each interim and annual period separately for each major category of assets and liabilities. The Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Management does not expect the adoption of this Statement to have a material impact on the Corporation's financial statements.

In February 2007, the FASB issued SFAS 159 The Fair Value Option for Financial Assets and Financial Liabilities including an amendment of FASB Statement No. 115. This Statement permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This Statement is expected to expand the use of fair value measurement, which is consistent with the Board's long-term measurement objectives for accounting for financial instruments. This Statement is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provisions of FASB Statement No. 157, Fair Value Measurements. The Corporation does not believe the adoption of this statement to have a material effect on the Corporation's consolidated financial statements.

**Reclassifications** - Certain reclassifications have been made to prior period amounts to conform to the current year presentation.

## Notes to Consolidated Financial Statements

## Note 2. Securities

Amortized costs and fair values of the securities available for sale as of December 31, 2006 and 2005 are as follows:

		December 31, 2006		
		Gross	Gross	
		Unrealized	Unrealized	
	Amortized			
	Cost	Gains	(Losses)	Fair Value
		( In Thousands)		
U.S. Treasury Notes	\$ 990	\$ 6	\$	\$ 996
U.S. Governmental Agencies	92,352	5	(748)	91,609
Mortgage Backed Securities	1,037	4	(1)	1,040
Tax Exempt Municipals	2,893	5	(10)	2,888
Taxable Municipals	1,305		(30)	1,275
Mutual Fund	1,500		(32)	1,468
Restricted Stock -				
Federal Reserve Bank Stock	873			873
FHLB Stock	5,014			5,014
	\$ 105,964	\$ 20	\$ (821)	\$ 105,163

		December 31, 2005		
		Gross	Gross	
		Unrealized	Unrealized	
	Amortized			
	Cost	Gains	(Losses)	Fair Value
		( In Thousands)		
U.S. Treasury Notes	\$ 1,606	\$	\$ (4)	\$ 1,602
U.S. Governmental Agencies	76,329		(1,069)	75,260
Mortgage Backed Securities	1,392	3	(2)	1,393
Tax Exempt Municipals	2,895		(55)	2,840
Taxable Municipals	1,500		(34)	1,466
Mutual Fund	1,500		(29)	1,471
Restricted Stock -				
Federal Reserve Bank Stock	300			300
FHLB Stock	3,439			3,439
	\$ 88,961	\$ 3	\$ (1,193)	\$ 87,771

**Notes to Consolidated Financial Statements**

The amortized cost and fair value of securities available for sale as of December 31, 2006 by contractual maturities are shown below. Maturities may differ from contractual maturities because the securities may be called or prepaid without any penalties.

	<b>Amortized Cost</b>	<b>Fair Value</b>
	(In Thousands)	
US Treasury & Agencies		
Due in one year or less	\$ 34,994	\$ 34,690
Due after one through five years	56,850	56,442
Due after five through ten years	1,498	1,473
Municipals		
Due after one through five years		
Due after five through ten years	4,198	4,163
Mortgage Backed Securities:		
Due in one year or less	48	49
Due after one through five years	989	991
Mutual Fund	1,500	1,468
Restricted Stock:		
Federal Reserve Bank stock	873	873
FHLB stock	5,014	5,014
	\$ 105,964	\$ 105,163

For the years ended December 31, 2006 and 2005, there were no sales of securities available for sale.

The fair value of securities pledged to secure securities sold under agreement to repurchase and for other purposes amounted to \$48,950,000 at December 31, 2006 and \$41,439,000 at December 31, 2005.

**Notes to Consolidated Financial Statements**

Investment securities available for sale that have an unrealized loss position at December 31, 2006 and December 31, 2005 are detailed below

<b>December 31, 2006</b>	<b>Securities in a loss Position for less than 12 Months</b>		<b>Securities in a loss Position for 12 Months or Longer</b>		<b>Total</b>	
	<b>Fair Value</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	<b>Unrealized Losses</b>
			<b>(In Thousands)</b>			
<b>Investment securities available for sale:</b>						
U.S. Treasury Security	\$	\$	\$	\$	\$	\$
Mortgage Backed Security			378	(1)	378	(1)
U.S. Government Agencies	24,936	(64)	56,668	(684)	81,604	(748)
Municipals-Taxable			1,275	(30)	1,275	(30)
Municipals-Tax Exempt	458	(2)	1,408	(9)	1,866	(11)
CRA Mutual Fund			1,468	(32)	1,468	(32)
<b>Total</b>	<b>\$ 25,394</b>	<b>\$ (66)</b>	<b>\$ 61,197</b>	<b>\$ (756)</b>	<b>\$ 86,591</b>	<b>\$ (822)</b>

<b>December 31, 2005</b>	<b>Securities in a loss Position for less than 12 Months</b>		<b>Securities in a loss Position for 12 Months or Longer</b>		<b>Total</b>	
	<b>Fair Value</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	<b>Unrealized Losses</b>
			<b>(In Thousands)</b>			
<b>Investment securities available for sale:</b>						
U.S. Treasury Security	\$ 1,602	\$ (4)			\$ 1,602	\$ (4)
Mortgage Backed Security	485	(2)			485	(2)
U.S. Government Agencies	28,950	(378)	29,309	(691)	58,259	(1,069)
Municipals-Taxable	1,465	(34)			1,465	(34)
Municipals-Tax Exempt	2,840	(55)			2,840	(55)
CRA Mutual Fund	1,471	(29)			1,471	(29)
<b>Total</b>	<b>\$ 36,813</b>	<b>\$ (502)</b>	<b>\$ 29,309</b>	<b>\$ (691)</b>	<b>\$ 66,122</b>	<b>\$ (1,193)</b>

Management does not believe that any individual unrealized loss as of December 31, 2006 is other than 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.

# Notes to Consolidated Financial Statements

## Note 3. Loans

Net loans are summarized as follows:

	<b>December 31,</b>	
	<b>2006</b>	<b>2005</b>
	(In Thousands)	
Loans secured by real estate:		
Construction and land development	\$ 68,570	\$ 37,054
Residential properties	152,648	156,185
Secured by commercial properties	159,996	137,423
Commercial and industrial loans	51,825	38,516
Consumer loans	555	555
Total loans	433,594	369,733
Less allowance for loan losses	5,452	5,215
Net loans	\$ 428,142	\$ 364,518

## Note 4. Allowance for Loan Losses

Changes in the allowance for loan losses were as follows:

	<b>December 31,</b>		
	<b>2006</b>	<b>2005</b>	<b>2004</b>
	(In Thousands)		
Balance at beginning of year	\$ 5,215	\$ 4,019	\$ 2,565
Provision charged to operating expense	232	1,196	1,462
Loan recoveries	5		
Loan charge-offs			(8)
Balance at end of year	\$ 5,452	\$ 5,215	\$ 4,019

Non-accrual loans amounted to \$360,000 at December 31, 2006 and \$1,311,000 at December 31, 2005. If interest had been accrued, such income would have been approximately \$17,000 and \$189,000 respectively. There were no impaired loans for the above periods.

**Notes to Consolidated Financial Statements**

**Note 5. Premises and Equipment, net**

Premises and equipment, net are summarized as follow:

	<b>December 31,</b>	
	<b>2006</b>	<b>2005</b>
	(In Thousands)	
Land	\$ 2,549	\$ 2,549
Premises	6,162	6,162
Leasehold improvements	447	386
Furniture & Equipment	2,772	2,182
	11,930	11,279
Less accumulated depreciation	(2,332)	(1,629)
	\$ 9,598	\$ 9,650

Depreciation and amortization expense included in operating expenses for the years ended December 31, 2006, 2005 and 2004 was \$846,000, \$697,000 and \$553,000 respectively.

**Notes to Consolidated Financial Statements****Note 6. Deposits**

The aggregate amount of time deposits with a minimum denomination of \$100,000 was \$157,565,000 and \$129,224,000 at December 31, 2006 and 2005, respectively.

At December 31, 2006, the scheduled maturities of time deposits were as follows:

Year	Amount (In Thousands)
2007	\$ 178,067
2008	35,276
2009	18,765
2010	4,066
2011	562
Later years	2,664
	\$ 239,400

Brokered deposits totaled \$64,587,000 and \$58,773,000 at December 31, 2006 and 2005 respectively.

**Note 7. Borrowings**

Short-term borrowings consist of the following at December 31, 2006 and 2005:

	<b>December 31,</b>	
	<b>2006</b>	<b>2005</b>
	(Dollars In Thousands)	
Securities sold under agreements to repurchase	\$ 14,541	\$ 977
Commercial paper arrangements	20,599	11,219
FHLB borrowings	45,000	36,000
Fed Funds Purchased	4,811	
Total	\$ 84,951	\$ 48,196
Weighted interest rate	4.84%	4.21%
Average for the year ended December 31:		
Outstanding	\$ 83,715	\$ 52,820
Interest rate	4.86%	3.54%
Maximum month-end outstanding	\$ 111,629	\$ 87,519

### Notes to Consolidated Financial Statements

Short-term borrowings consist of securities sold under agreements to repurchase, which are secured transactions with customers and generally mature the day following the date sold. Short-term borrowings also include short-term advances from the Federal Home Loan Bank of Atlanta, which are secured by mortgage-related loans and U.S. Government Agencies securities. The carrying value of the loans pledged as collateral for FHLB advances total \$184,829,000 at December 31, 2006. In addition, the Corporation engaged in commercial paper arrangements with investors payable on demand.

At December 31, 2006, the Corporation's fixed-rate long-term debt with the Federal Home Loan Bank totals \$42,572,000 and matures through 2014. The interest rate on the fixed-rate notes payable ranges from 2.70% to 5.21%. The contractual maturities of long-term debt at December 31, 2006 are as follows:

	<b>Amount</b> (In Thousands)
Due in 2008	\$ 6,500
Due in 2009	30,000
Due in 2010	2,322
Due in 2014	3,750
<b>Total Due</b>	<b>\$ 42,572</b>

The Company has remaining lines of credit available with Federal Home Loan Bank which totaled \$90,068,000 at December 31, 2006.

During 2002, Access National Capital Trust I, a wholly-owned subsidiary of the Corporation, was formed for the purpose of issuing redeemable Capital Securities. On July 30, 2002, \$4.1 million of trust preferred securities were issued. The securities have a LIBOR-indexed floating rate of interest. The interest rate as of December 31, 2006 was 9.5%. Interest is payable quarterly. The securities have a mandatory redemption date of July 30, 2032, and are subject to varying call provisions beginning September 30, 2007. The principal asset of the Trust is \$4.1 million of the Corporation's junior subordinated debt securities with the like maturities and like interest rates to the Capital Securities.

During 2003, Access National Capital Trust II, a wholly-owned subsidiary of the Corporation was formed for the purpose of issuing redeemable Capital Securities. On September 29, 2003, \$6.2 million of trust preferred securities were issued. The securities have a LIBOR-indexed floating rate of interest. The interest rate at December 31, 2006 was 8.57%. Interest is payable quarterly. The securities have a mandatory redemption date of September 29, 2034 and are subject to varying call provisions beginning January 7, 2009. The principal asset of the Trust is \$6.2 million of the Corporation's junior subordinated debt securities with the like maturities and like interest rates to the Capital securities. The Trust Preferred Securities may be included in Tier 1 capital for regulatory capital adequacy determination purposes up to 25% of Tier I capital after its inclusion. The portion of the Trust Preferred not considered as Tier I capital may be included in Tier II capital.

The obligations of the Corporation with respect to the issuance of the Capital Securities constitute a full and unconditional guarantee by the Corporation of the Trust's obligations with respect to the Capital Securities.



**Notes to Consolidated Financial Statements**

Subject to certain exceptions and limitations, the Corporation may elect from time to time to defer interest payments on the junior subordinated debt securities, which would result in a deferral of distribution payments on the related Capital Securities.

**Note 8. Income Taxes**

Net deferred tax assets consisted of the following components as of December 31, 2006 and 2005:

	<b>2006</b>	<b>2005</b>
	(In Thousands)	
Deferred tax assets:		
Allowance for loan losses	1,424	1,344
Accrual to cash basis adjustment		28
Securities Available for Sale	273	405
Deferred fees	426	408
Other	937	588
	3,060	2,773
Deferred tax liability:		
Depreciation	135	216
	135	216
Net deferred tax assets included in other assets	\$ 2,925	\$ 2,557

The provision for income taxes charged to operations for the years ended December 31, 2006, 2005 and 2004 consisted of the following:

	<b>2006</b>	<b>2005</b>	<b>2004</b>
	(In Thousands)		
Current tax expense	\$ 4,429	\$ 4,213	\$ 2,327
Deferred tax (benefit)	(576)	(908)	(538)
	\$ 3,853	\$ 3,305	\$ 1,789

**Notes to Consolidated Financial Statements**

The income tax provision differs from the amount of income tax determined by applying the U.S. Federal income tax rate to pretax income for the years ended December 31, 2006, 2005 and 2004 as follows:

	<b>Year Ended December 31</b>		
	<b>2006</b>	<b>2005</b>	<b>2004</b>
	(In Thousands)		
Computed expected tax expense	\$ 3,888	\$ 3,078	\$ 1,565
Increase (decrease) in income taxes resulting from:			
State income taxes	12	150	110
Other	(47)	77	(56)
Increase due to tax resulting from gain on acquisition of subsidiary			170
	\$ 3,853	\$ 3,305	\$ 1,789

**Note 9. Commitments and Contingent Liabilities**

The Corporation was committed under non-cancelable and month-to-month operating leases for its office locations. Rent expense associated with these operating leases for the years ended December 31, 2006, 2005 and 2004 totaled \$253,000, \$160,000 and \$223,000.

The following is a schedule of future minimum lease payments required under operating leases that have initial or remaining lease terms in excess of one year.

<b>Year</b>	<b>Amount</b>
	(In Thousands)
2007	308
2008	316
2009	258
2010	183
2011	158
	\$ 1,223

In the normal course of business, there are outstanding various commitments and contingent liabilities, which are not reflected in the accompanying financial statements. The Corporation does not anticipate any material loss as a result of these transactions. See Note 11 for additional information.

As a member of the Federal Reserve System, the Bank is required to maintain certain average reserve balances. Those balances include usable vault cash and amounts on deposit with the Federal Reserve. At December 31, 2006 and 2005, the amount of daily average required balances were approximately \$1,521,000 and \$4,980,000 respectively.

### **Notes to Consolidated Financial Statements**

#### **Note 10. Derivatives**

During 2006 and 2005, the Mortgage Corporation entered 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 also has corresponding forward sales commitments related to these interest rate lock commitments, which are recorded at fair value with changes in fair value recorded in non-interest income. The market value of rate lock commitments and best efforts contracts is not readily ascertainable with precision because rate lock commitments and best efforts contracts are not actively traded in stand-alone markets. The Mortgage Corporation determines the fair value of rate lock commitments and best efforts contracts by measuring the change in the value of the underlying asset while taking into consideration the probability that the rate lock commitments will close.

For derivative instruments not designated as hedging instruments, the derivative is recorded as a freestanding asset or liability with the change in value being recognized in current earnings during the period of change.

At December 31, 2006 and 2005 the Mortgage Corporation had open forward contracts with a notional value of \$119,254,000 and \$50,000,000 respectively. The fair value of these open forward contracts was \$119,551,000 and \$49,760,000 respectively.

### Notes to Consolidated Financial Statements

#### Note 11. Financial Instruments with Off-Balance-Sheet Risk

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

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Corporation evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral, if deemed necessary by the Corporation upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral normally consists of real property, liquid assets or business assets. The Corporation had approximately \$17,000,000 and \$5,000,000 in outstanding commitments at December 31, 2006 and 2005, respectively.

The Corporation's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual notional amount of those instruments. The Corporation uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments. The Corporation had approximately \$83,700,000 and \$71,995,000 in unfunded lines of credit whose contract amounts represent credit risk at December 31, 2006 and 2005, respectively.

The Mortgage Corporation had locked rate commitments to originate mortgage loans amounting to approximately \$76,567,000 and \$46,809,000 at December 31, 2006 and 2005 respectively. Loans held for sale totaled \$65,320,000 and \$45,019,000 at December 31, 2006 and 2005 respectively. The Mortgage Corporation had entered into commitments, on a best-effort basis to sell loans of approximately \$19,168,000 at December 31, 2006 and \$17,264,000 at December 31, 2005. The Mortgage Corporation had entered into forward loan sale commitments totaling \$7,003,000 and \$4,077,000 as of December 31, 2006 and 2005 respectively. Risks arise from the possible inability of counterparties to meet the terms of their contracts. The Mortgage Corporation does not expect any counterparty to fail to meet its obligations.

Standby letters of credit are conditional commitments issued by the Corporation to guarantee the performance of a customer to a third party. Those letters of credit are primarily issued to support public and private borrowing arrangements. Essentially all letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Corporation generally holds collateral supporting those commitments if deemed necessary. The Corporation had standby letters of credit outstanding in the amount of \$4,592,000 and \$3,847,000 at December 31, 2006 and 2005, respectively.

The Corporation has cash accounts in other commercial banks. The amount of deposit at these banks at December 31, 2006 and 2005 exceeded the insurance limits of the Federal Deposit Insurance Corporation by approximately \$15,342,000 and \$13,279,000 respectively.

### **Notes to Consolidated Financial Statements**

#### **Note 12. Related Party Transactions**

The Corporation has had, and may be expected to have in the future, banking transactions in the ordinary course of business with directors, principal officers, their immediate families and affiliated companies in which they are principal shareholders (commonly referred to as related parties), on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with others. These persons and firms were indebted to the Corporation for loans totaling \$4,180,000 and \$4,215,000 at December 31, 2006 and 2005, respectively. During 2006, total principal additions were \$2,415,000 and total principal payments were \$3,833,000. The aggregate amount of deposits at December 31, 2006 and 2005 from directors and officers was \$14,445,000 and \$6,556,000 respectively.

#### **Stock Option Plan**

The Corporation's shareholders approved the Corporation's 1999 Stock Option Plan at the 2000 Annual Meeting of Shareholders. The plan reserves 975,000 shares of Common Stock. The Stock Plan allows for incentive stock options to be granted with an exercise price equal to the fair market value at the date of grant. Option expiration dates range from three to seven years from the date of grant. All shares have been restated to reflect the 10 for 1 stock split declared in April 2001, the 3 for 1 stock split of June 1, 2003 and the 2 for 1 stock split of December 2005.

Total compensation cost for share-based payment arrangements recognized in income during 2006 was \$46,000. The total income tax benefit recognized in the income statement for share-based compensation arrangements was \$17,000 for 2006.

Cash received from option exercise under share based payment arrangements for 2006, 2005 and 2004 was \$759,000, \$40,000 and \$161,000 respectively. No tax deductions from option exercise of the share-based payment arrangements were received in 2006, 2005 and 2004; accordingly, no actual tax benefit was realized for said years.

The fair value of options granted in 2006 is estimated on the date of grant using the Black-Scholes-Model with the following weighted-average assumptions; Expected life-3years; Risk-free interest rate- 4.76%; Volatility-18.70%; Dividend yield-0%.

Changes in the stock options outstanding under the Stock Plan are summarized as follows:

## Notes to Consolidated Financial Statements

## Year Ended December 31

	2006			2005		2004	
	Number of	Weighted	Aggregate	Number of	Weighted	Number of	Weighted
	Options	Average	Intrinsic	Options	Average	Options	Average
		Exercise	Value		Exercise		Exercise
		Price			Price		Price
Outstanding at beginning of year	1,277,408	\$ 3.76		1,121,818	\$ 2.85	1,104,136	\$ 2.47
Granted	250	8.95		182,458	9.52	137,414	7.35
Exercised	(446,286)	1.70		(13,854)	2.91	(51,500)	3.12
Forfeited	(16,128)	8.40		(13,014)	7.02	(68,232)	5.38
Outstanding at end of year	815,244	\$ 4.80	\$3,879,755	1,277,408	\$ 3.76	1,121,818	\$ 2.85
Options exercisable at year-end	727,020	\$ 4.63	\$3,587,439	1,159,598	\$ 3.59	777,174	\$ 2.43
Weighted average fair value per option granted during year		\$ 3.11			\$ 3.44		\$ 2.26

The total intrinsic value of options exercised during the years ended December 31, 2006, 2005 and 2004 was \$3,885,204, \$94,077, and \$315,754, respectively.

A summary of the status of the Company's nonvested shares as of December 31, 2006, and changes during the year ended December 31, 2006, is presented below:

	Number of	Weighted
	Options	Average
		Grant
		Date
		Fair
		Value
<b>Nonvested Shares</b>		
Nonvested at January 1, 2006	117,810	\$1.70
Granted	250	3.11
Vested	(22,336)	0.65
Forfeited	(7,500)	2.18
Nonvested at December 31, 2006	88,224	\$1.93

As of December 31, 2006, there was \$41,864 of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the Plan. That cost is expected to be recognized over a weighted-average period of 1.1 years. The total fair value of shares vested during the years ended December 31, 2006, 2005, and 2004, was \$14,514, \$622,789, and \$344,254, respectively.

### **Notes to Consolidated Financial Statements**

#### **Note 13. Capital Requirements**

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

Quantitative measures established by regulation to ensure capital adequacy require the Corporation and Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2006 and 2005, that the Corporation and the Bank meet all capital adequacy requirements to which they are subject.

At December 31, 2006 the Corporation and Bank exceeded the minimum required ratios for well capitalized as defined by the federal banking regulators. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table. There are no conditions or events that management believes have changed the institution's category.

**Notes to Consolidated Financial Statements**

The Corporation's and Bank's actual capital amounts and ratios as of December 31, 2006 and 2005, in thousands, are also presented in the table:

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(In Thousands)					
December 31, 2006:						
Total Capital						
(to Risk Weighted Assets)						
Corporation	\$78,491	16.18%	\$38,799	8.00%	\$48,499	10.00%
Bank	\$58,493	12.09%	\$38,705	8.00%	\$48,382	10.00%
Tier 1 Capital						
(to Risk-Weighted Assets)						
Corporation	\$72,803	15.01%	\$19,399	4.00%	\$29,099	6.00%
Bank	\$52,805	10.91%	\$19,353	4.00%	\$29,029	6.00%
Tier 1 Capital						
(to Average Assets)						
Corporation	\$72,803	11.53%	\$25,255	4.00%	\$31,569	5.00%
Bank	\$52,805	8.37%	\$25,229	4.00%	\$31,536	5.00%
December 31, 2005:						
Total Capital						
(to Risk Weighted Assets)						
Corporation	\$47,155	12.11%	\$31,151	8.00%	\$38,939	10.00%
Bank	\$45,238	11.63%	\$31,110	8.00%	\$38,887	10.00%
Tier 1 Capital						
(to Risk-Weighted Assets)						
Corporation	\$41,970	10.78%	\$15,576	4.00%	\$23,363	6.00%
Bank	\$40,371	10.38%	\$15,555	4.00%	\$23,332	6.00%
Tier 1 Capital						
(to Average Assets)						
Corporation	\$41,970	7.60%	\$22,092	4.00%	\$27,615	5.00%
Bank	\$40,371	7.32%	\$22,070	4.00%	\$27,587	5.00%
December 31, 2004:						
Total Capital						
(to Risk Weighted Assets)						
Corporation	\$40,250	12.80%	\$25,160	8.00%	\$31,449	10.00%
Bank	\$35,084	11.17%	\$25,120	8.00%	\$31,401	10.00%
Tier 1 Capital						
(to Risk-Weighted Assets)						
Corporation	\$34,505	10.97%	\$12,580	4.00%	\$18,870	6.00%
Bank	\$31,156	9.92%	\$12,560	4.00%	\$18,841	6.00%



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Tier 1 Capital  
(to Average Assets)

Corporation	\$34,505	8.83%	\$15,629	4.00%	\$19,537	5.00%
Bank	\$31,156	7.99%	\$15,603	4.00%	\$19,504	5.00%
		62				

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### Notes to Consolidated Financial Statements

#### Note 14. Dividend Restrictions

Federal regulations limit the amount of dividends that the Corporation can pay without obtaining prior approval and additionally require that the Corporation maintain a ratio of total capital to assets, as defined by regulatory authorities.

#### Note 15. Earnings Per Share

The following shows the weighted average number of shares used in computing earnings per share and the effect on weighted average number of shares of diluted potential common stock. Potential dilutive common stock has no effect on income available to common shareholders. All shares and per share amounts have been restated to reflect a 2 for 1 stock split declared in December 2005

	Year Ended December 31								
	2006			2005			2004		
	Net Income	Shares	Per Share Amount	Net Income	Shares	Per Share Amount	Net Income	Shares	Per Share Amount
	(In Thousands, Except Per Share Data)								
Earnings per share									
Basic, before extra-ordinary income	\$ 7,593	9,429	\$ 0.81	\$ 5,897	7,867	\$ 0.75	\$ 2,985	7,510	\$ 0.40
Basic	\$ 7,593		\$ 0.81	\$ 5,897		\$ 0.75	\$ 3,315		\$ 0.44
Effect of dilutive securities:									
Stock options and warrants		1,113			1,556			1,646	
Diluted, before extra-ordinary income			\$ 0.72			\$ 0.63			\$ 0.33
Diluted			\$ 0.72			\$ 0.63			\$ 0.36
Diluted earnings per share	\$ 7,593	10,542	\$ 0.72	\$ 5,897	9,423	\$ 0.63	\$ 3,315	9,156	\$ 0.36

#### Note 17. Employee Benefits

The Corporation maintains a Defined Contribution 401(k) Profit Sharing Plan, which authorizes a maximum voluntary salary deferral of up to IRS limitations. All full-time employees are eligible to participate after 6 months of employment. The Corporation reserves the right for an annual discretionary contribution to the account of each eligible employee based in part on the Corporation's profitability for a given year, and on each participant's yearly earnings. Approximately \$245,000, \$495,000, and \$187,000 were charged to expense under the Plan for 2006, 2005, and 2004 respectively.

**Notes to Consolidated Financial Statements****Note 18. Other Expenses**

The Corporation had the following other expenses as of December 31, 2006, 2005, 2004:

	<b>Year Ended December 31,</b>		
	<b>2006</b>	<b>2005</b>	<b>2004</b>
	(In Thousands)		
Advertising and promotional expense	\$ 4,190	\$ 3,969	\$ 2,048
Investor fees	663	864	595
Broker Fees	2,688		
Other settlement fees	164	295	718
Management fees	1,227	1,957	1,824
Branch Expense	(266)	680	327
Business & Franchise Tax	251	120	147
Audit and Accounting	402	341	120
Consulting Fees	416	323	288
Early Payoff Penalties	320	431	
Other	2,894	4,397	4,471
	<b>\$ 12,949</b>	<b>\$ 13,377</b>	<b>\$ 10,538</b>

**Note 19. Fair Value of Financial Instruments and Interest Rate Risk**

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

**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**

Fair values are based on quoted market prices of similar loans sold on the secondary market.

**Loan Receivables**

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.

**Notes to Consolidated Financial Statements****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 December 31, 2006 and 2005, the majority of off-balance-sheet items is 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.

	<b>December 31,</b>			
	<b>2006</b>		<b>2005</b>	
	<b>Carrying</b>	<b>Fair</b>	<b>Carrying</b>	<b>Fair</b>
	<b>Amount</b>	<b>Value</b>	<b>Amount</b>	<b>Value</b>
	<b>(In Thousands)</b>			
Financial assets:				
Cash and short-term investments	\$ 27,365	\$ 27,365	\$ 23,183	\$ 23,183
Securities available for sale	105,163	105,163	87,771	87,771
Loans held for sale	65,320	65,320	45,019	45,019
Loans, net of allowance	428,142	431,043	364,518	365,911
<b>Total Financial Assets</b>	<b>\$ 625,990</b>	<b>\$ 628,891</b>	<b>\$ 520,491</b>	<b>\$ 521,884</b>
Financial liabilities:				
Deposits	\$ 438,932	\$ 435,823	\$ 419,629	\$ 418,249
Short-term borrowings	84,951	84,961	48,196	48,196
Long-term borrowings	42,572	42,657	21,786	21,410
Subordinated debentures	10,311	10,311	10,311	10,311
<b>Total Financial Liabilities</b>	<b>\$ 576,766</b>	<b>\$ 573,752</b>	<b>\$ 499,922</b>	<b>\$ 498,166</b>

### **Notes to Consolidated Financial Statements**

The Corporation assumes interest rate risk (the risk that general interest rate levels will change) as a result of its normal operations. As a result, the fair values of the Corporation's financial instruments will change when interest rate levels change and that change may be either favorable or unfavorable to the Corporation. Management attempts to match maturities of assets and liabilities to the extent believed necessary to minimize interest rate risk. However, borrowers with fixed rate obligations are less likely to prepay in a rising rate environment and more likely to prepay in a falling rate environment. Conversely, depositors who are receiving fixed rates are more likely to withdraw funds before maturity in a rising rate environment and less likely to do so in a falling rate environment. Management monitors rates and maturities of assets and liabilities and attempts to minimize interest rate risk by adjusting terms of new loans and deposits and by investing in securities with terms that mitigate the Corporation's overall interest rate risk.

#### **Note 20. Segment Reporting**

Access National 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 bank 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 a premium over their cost to borrow funds. These transactions are eliminated in the consolidation process.

**Notes to Consolidated Financial Statements**

The following table presents segment information for the years ended December 31, 2006, 2005 and 2004:

2006 (In Thousands)	Commercial Banking	Mortgage	Other	Elimination	Consolidated Totals
Revenues:					
Interest income	\$ 39,526	\$ 3,972	\$ 250	\$ (3,810)	\$ 39,938
Gain on sale of loans		19,361		(52)	19,309
Other	1,645	7,938	1,331	(2,590)	8,324
Total operating income	41,171	31,271	1,581	(6,452)	67,571
Expenses:					
Interest expense	20,092	4,053	1,352	(3,815)	21,682
Salaries and employee benefits	6,371	13,032			19,403
Other	4,120	12,123	1,434	(2,637)	15,040
Total operating expenses	30,583	29,208	2,786	(6,452)	56,125
Income before income taxes	\$ 10,588	\$ 2,063	\$ (1,205)	\$	\$ 11,446
Total assets	\$ 591,973	\$ 69,749	\$ 9,876	\$ (26,816)	\$ 644,782
Capital Expenditures	\$ 248	\$ 444	\$	\$	\$ 692
2005 (In Thousands)	Commercial Banking	Mortgage	Other	Elimination	Consolidated Totals
Revenues:					
Interest income	\$ 27,617	\$ 3,085	\$ 91	\$ (3,000)	\$ 27,793
Gain on sale of loans		22,465		(103)	22,362
Other	1,570	7,798	1,132	(1,907)	8,593
Total operating income	29,187	33,348	1,223	(5,010)	58,748
Expenses:					
Interest expense	11,575	2,760	1,188	(3,003)	12,520
Salaries and employee benefits	5,798	14,739			20,537
Other	4,594	12,525	1,377	(2,007)	16,489
Total operating expenses	21,967	30,024	2,565	(5,010)	49,546
Income before income taxes	\$ 7,220	\$ 3,324	\$ (1,342)	\$	\$ 9,202

Total assets	\$ 514,808	\$ 48,883	\$ 9,101	\$ (35,743)	\$ 537,050
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Capital Expenditures	\$ 428	\$ 121	\$ 1,244	\$	\$ 1,793
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2004 (In Thousands)	Commercial Banking	Mortgage	Other	Elimination	Consolidated Totals
Revenues:					
Interest income	\$ 17,401	\$ 2,195	\$ 89	\$ (1,460)	\$ 18,225
Gain on sale of loans		17,961		(193)	17,768
Other	1,013	7,233	1,081	(1,634)	7,693
Total operating income	18,414	27,389	1,170	(3,287)	43,686
Expenses:					
Interest expense	5,949	1,050	992	(1,460)	6,531
Salaries and employee benefits	3,959	14,634	34		18,627
Other	4,533	10,172	1,046	(1,827)	13,924
Total operating expenses	14,441	25,855	2,072	(3,287)	39,082

Income before income taxes	\$ 3,973	\$ 1,534	\$ (902)	\$	\$ 4,604
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Total assets	\$ 398,739	\$ 62,180	\$ 35,465	\$ (76,286)	\$ 420,098
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Capital Expenditures	\$ 616	\$ 492	\$ 274	\$	\$ 1,382
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**Notes to Consolidated Financial Statements****Note 21. Parent Only Statements**

**ACCESS NATIONAL CORPORATION**  
**(Parent Corporation Only)**  
**Balance Sheets**

	<b>December 31,</b>	
	<b>2006</b>	<b>2005</b>
	(In Thousands)	
<b>Assets</b>		
Cash	\$ 48	\$ 10
Other investments	19,339	1,825
Investment in subsidiaries	52,297	39,605
Other assets	1,182	590
 Total assets	 \$ 72,866	 \$ 42,030
 <b>Liabilities</b>		
Subordinated debentures	\$ 10,311	\$ 10,311
Other liabilities	260	534
	10,571	10,845
 <b>Shareholders' Equity</b>		
Common stock	9,867	6,644
Capital surplus	29,316	9,099
Retained earnings	23,641	16,227
Accumulated other comprehensive income (loss)	(529)	(785)
 Total shareholders' equity	 62,295	 31,185
 Total liabilities and shareholders' equity	 \$ 72,866	 \$ 42,030



**Notes to Consolidated Financial Statements**  
**ACCESS NATIONAL CORPORATION**  
**(Parent Corporation Only)**  
**Statements of Income**

	<b>Year Ended December 31,</b>		
	<b>2006</b>	<b>2005</b>	<b>2004</b>
	(In Thousands)		
<b>Income</b>			
Dividends from subsidiaries	\$ 1,005	\$ 1,014	\$ 795
Interest	250	91	88
Other	95	84	80
	1,350	1,189	963
<b>Expenses</b>			
Interest expense on subordinated debentures	879	706	514
Other expenses	832	845	421
Total expenses	1,711	1,551	935
Income (loss) before income taxes and undistributed income of subsidiaries	(361)	(362)	28
Income tax (benefit)	(518)	(525)	(289)
Income before undistributed income of subsidiaries	157	163	317
Undistributed income of subsidiaries	7,436	5,734	2,998
Net income	\$ 7,593	\$ 5,897	\$ 3,315

**Notes to Consolidated Financial Statements**  
**ACCESS NATIONAL CORPORATION**  
**(Parent Corporation Only)**  
**Statements of Cash Flows**

	<b>Year Ended December 31</b>		
	<b>2006</b>	<b>2005</b>	<b>2004</b>
	(In Thousands)		
<b>Cash Flows from Operating Activities</b>			
Net income	\$ 7,593	\$ 5,897	\$ 3,315
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Undistributed income of subsidiaries	(7,436)	(5,734)	(2,998)
(Increase) decrease in other assets	(593)	1,142	(730)
Increase (decrease) in other liabilities	(274)	241	(410)
Stock Based Compensation	46		
Net cash provided by (used in) operating activities	(664)	1,546	(823)
<b>Cash Flows from Investing Activities</b>			
Increase in investment in subsidiaries	(5,000)	(3,500)	
(Increase) decrease in other investments	(17,514)	1,888	(2,191)
Net cash (used in) investing activities	(22,514)	(1,612)	(2,191)
<b>Cash Flows from Financing Activities</b>			
Repurchase of common stock	(51)	(25)	(360)
Net proceeds from issuance of common stock	23,446	92	3,383
Dividend Paid	(179)		
Net cash provided by financing activities	23,216	67	3,023
Increase in cash and cash equivalents	38	1	9
<b>Cash and Cash Equivalents</b>			
Beginning	10	9	
Ending	\$ 48	\$ 10	\$ 9

**ITEM 9 CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

**ITEM 9A CONTROLS AND PROCEDURES**

The Corporation maintains a system of disclosure controls and procedures that is designed to ensure that material information relating to the Corporation and its consolidated subsidiaries is accumulated and communicated to management, including the Corporation's Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. As required, management, with the participation of the Corporation's Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of the Corporation's disclosure controls and procedures as of the end of the period covered by this report. Based on this evaluation, the Corporation's Chief Executive Officer and Chief Financial Officer concluded that the Corporation's disclosure controls and procedures were operating effectively to ensure that information required to be disclosed by the Corporation in reports that it files or submits under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the SEC.

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 otherwise required to be set forth in the Corporation's periodic and current reports.

The Corporation's management is also responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. 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.

**ITEM 9B OTHER INFORMATION**

None.

**PART III**

**ITEM 10 DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The information contained under the captions Election of Directors, Executive Officers Who Are Not Directors, Corporate Governance and the Board of Directors, Certain Relationships and Related Transactions and Section 16(a) Beneficial Ownership Reporting Compliance in the 2007 Proxy Statement that is required to be disclosed in this Item 10 is incorporated herein by reference.

**ITEM 11 EXECUTIVE COMPENSATION**

The information contained under the captions Executive Compensation in the 2007 Proxy Statement that is required to be disclosed in this Item 11 is incorporated herein by reference.

**ITEM 12 SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The information contained under the captions Security Ownership of Management and Security Ownership of Certain Beneficial Owners in the 2007 Proxy Statement that is required to be disclosed in this Item 12 is incorporated herein by reference.

**Equity Compensation Plan**

The following table sets forth information as of December 31, 2006 with respect to compensation plans under which equity securities of the Corporation are authorized for issuance:

**Equity Compensation Plan Information<sup>(1)</sup>**

<b>Plan category</b>	<b>(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights</b>	<b>(b) Weighted-average exercise price of outstanding options, warrants and rights</b>	<b>(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))</b>
Equity compensation plans approved by security holders <sup>(2)</sup>	815,244	\$ 4.81	622,916
Equity compensation plans not approved by security holders			
<b>Total</b>	815,244	\$ 4.81	622,916

(1) All share and dollar per share amounts have been adjusted to give effect to the 10-for-1 stock dividend distributed by the Corporation in April 2001, the 3-for-1 stock dividend distributed June 2003, and the 2-for-1 stock dividend distributed December 2005.

(2) All shares relate to the Corporation's 1999 Stock Option Plan, as amended in

2003.

**ITEM 13 CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDANCE**

The information regarding certain relationships between the Corporation and its directors and officers is contained under the captions Certain Relationships and Related Transactions and Corporate Governance and the Board of Directors in the 2007 Proxy Statement that is required to be disclosed in this Item 13 is incorporated herein by reference.

**ITEM 14 PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The information under the captions Audit and Non-Audit Fees and Audit Committee Pre-Approval Policies in the 2007 Proxy Statement that is required to be disclosed in this item 14 is incorporated herein by reference.

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**PART IV**

**ITEM 15 EXHIBITS, FINANCIAL STATEMENT SCHEDULES**

**(a) Exhibit Index:**

Exhibit No.	Description
3.1	Articles of Incorporation of Access National Corporation (incorporated by reference to Exhibit 3.1 to form 8K dated July 18, 2006 (file number 000-49929))
3.2	Bylaws of Access National Corporation (incorporated by reference to Exhibit 3.2 to Form 8-K dated August 1, 2005 (file number 000-49929))
4	Form of Common Stock Certificate (incorporated by reference to Exhibit 4.0 to Form 10-KSB filed March 31, 2003 (file number 000-49929))
	Certain instruments relating to trust preferred securities not being registered 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.
10.1+	Employment Letter Agreement between Access National Bank and Michael W. Clarke (incorporated by reference to Exhibit 10.1 to Form 10-K filed March 31, 2005)
10.2+	Employment Letter Agreement between Access National Bank and Robert C. Shoemaker (incorporated by reference to Exhibit 10.2 to Form 10-K filed March 31, 2005)
10.3+	Employment Letter Agreement between Access National Bank and Charles Wimer (incorporated by reference to Exhibit 10.3 to Form 10-KSB filed March 31, 2003)
10.4+	Employment Agreement between Access National Mortgage Corporation and Dean Hackemer (incorporated by reference to Exhibit 10.4 to Form 10-K filed March 31, 2005)
10.5*+	Schedule of Non-Employee Directors Annual Compensation
10.6*+	Base Salaries for Named Executive Officers
10.7+	Access National Bank 1999 Stock Option Plan (incorporated by reference to Exhibit 10.5 to Form 10-KSB filed March 31, 2003 (file number 000-49929))
10.7.1+	Form of Incentive Stock Option Agreement for Employee under 1999 Stock Option Plan (incorporated by reference to Exhibit 10.5.1 to Form 8-K filed January 31, 2007 (file number 000-49929))
10.7.2+	Form of Incentive Stock Option for Employee-Director under 1999 Stock Option Plan (incorporated by reference to Exhibit 10.5.2 to Form 8-K filed January 31, 2007 (file number 000-49929))
10.7.3+	Form of Non-Qualified Stock Option Agreement for Director under 1999 Stock Option Plan (incorporated by reference to Exhibit 10.5.3 to Form 8-K filed January 31, 2007 (file number 000-49929))
10.8	Lease agreement between Access National Bank and William and Blanca Spencer (incorporated by reference to Exhibit 10.6 to Form 10-KSB filed March 31, 2003 (file number 000-49929))

- 10.9 Lease agreement between Access National Mortgage Corporation and WJG, LLC (incorporated by reference to Exhibit 10.7 to Form 10-KSB filed March 31, 2003 (file number 000-49929))
- 14 Code of Ethics (incorporated by reference to Exhibit 14 to Form 10-KSB filed March 30, 2004 (file number 333-109125))
- 21\* Subsidiaries of Access National Corporation
- 23\* Consent of BDO Seidman, LLP
- 24 Power of Attorney (included on the signature page of this report)
- 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

+ indicates a  
management  
contract or  
compensatory  
plan or  
arrangement

**SIGNATURES**

**Pursuant to the requirements of Section 13 or 15(d) 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: March 28, 2007**

**By: /s/ Michael W. Clarke  
Michael W. Clarke  
President & CEO**

**Date: March 28, 2007**

**By: /s/ Charles Wimer  
Charles Wimer  
Executive Vice President & CFO**



**SIGNATURES  
POWER OF ATTORNEY**

Each person whose signature appears below constitutes and appoints Michael W. Clarke, his true and lawful attorney-in-fact as agent with full power of substitution and re-substitution for him and in his name, place and stead, in any and all capacities, to sign any or all amendments to this Form 10-K and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents full power and authority to do fully and to all intents and purposes as they might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, and their substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ J. Randolph Babbitt J. Randolph Babbitt	Director	March 28, 2007
/s/ Michael W. Clarke Michael W. Clarke	President / CEO & Director (Principal Executive Officer)	March 28, 2007
/s/ John W. Edgemon John W. (Skip) Edgemon	Director	March 28, 2007
/s/ James L. Jadlo James L. Jadlo	Director	March 28, 2007
/s/ Thomas M. Kody Thomas M. Kody	Director	March 28, 2007
/s/ Jacques Rebibo Jacques Rebibo	Chairman of the Board of Directors Director	March 28, 2007
/s/ Robert C. Shoemaker Robert C. Shoemaker	Executive Vice President, Chief Credit Officer & Director	March 28, 2007
/s/ Charles Wimer Charles Wimer	Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	March 28, 2007