ACCESS NATIONAL CORP
Form 10-Q
May 15, 2007

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

FORM 10-Q

þ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended March 31, 2007

o **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the transition period from __________ to __________

Commission File Number: 000-49929
ACCESS NATIONAL CORPORATION
(Exact name of registrant as specified in its charter)

Virginia	**82-0545425**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

1800 Robert Fulton Drive, Suite 310, Reston, Virginia 20191
(Address of principal executive offices) (Zip Code)
(703) 871-2100
(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant 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 o Accelerated filer o Non-accelerated filer þ

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

The number of shares outstanding of Access National Corporation s common stock, par value $.835, as of May 11, 2007 was 11,997,487 shares.

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PART I FINANCIAL INFORMATION
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ACCESS NATIONAL CORPORATION
CONSOLIDATED BALANCE SHEETS
(In Thousands, Except for Share Data)

	March 31 2007 (Unaudited)	December 31, 2006 (a)
ASSETS		
Cash and due from banks	$ 9,511	$ 11,974
Interest bearing deposits in other banks	24,670	15,391
Securities available for sale, at fair value	93,593	105,163
Loans held for sale	67,429	65,320
Loans, net of allowance for loan losses of $5,746 and $5,452 respectively	451,919	428,142
Premises and equipment	9,842	9,598
Other assets	10,240	9,194
Total assets	$ 667,204	$ 644,782
LIABILITIES AND SHAREHOLDERS EQUITY		
Deposits		
Non-interest bearing deposits	$ 91,537	$ 79,223
Savings and interest-bearing deposits	114,282	120,309
Time deposits	254,868	239,400
Total deposits	460,687	438,932
Other liabilities		
Short-term borrowings	82,909	84,951
Long-term borrowings	44,435	42,572
Subordinated debentures	10,311	10,311
Other liabilities	4,554	5,721
Total liabilities	602,896	582,487
SHAREHOLDERS EQUITY		
Common stock, par value, $0.835; authorized, 60,000,000 shares; issued and outstanding,12,020,587 shares at March 31, 2007 and 11,816,929 shares at December 31, 2006	10,037	9,867
Surplus	29,796	29,316
Retained earnings	24,847	23,641
Accumulated other comprehensive income (loss), net	(372)	(529)
Total shareholders equity	64,308	62,295
Total liabilities and shareholders equity	$ 667,204	$ 644,782

(a) The condensed consolidated balance sheet at December 31, 2006 was derived from audited consolidated financial statements.

See accompanying notes to consolidated financial statements (unaudited).

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

	Three Months Ended March 31 2007	2006
Interest and Dividend Income		
Interest and fees on loans	$ 9,822	$ 7,495
Interest on deposits in other banks	188	99
Interest and dividends on securities	1,163	1,051
Total interest and dividend income	11,173	8,645
Interest Expense		
Interest on deposits	4,008	3,299
Interest on short-term borrowings	1,399	846
Interest on long-term borrowings	481	202
Interest on subordinated debentures	229	201
Total interest expense	6,117	4,548
Net interest income	5,056	4,097
Provision for loan losses	291	124
Net interest income after provision for loan losses	4,765	3,973
Noninterest Income		
Service fees on deposit accounts	102	74
Gain on sale of loans	5,393	4,678
Mortgage broker fee income	1,279	866
Other income	1,205	476
Total noninterest income	7,979	6,094
Noninterest Expense		
Salaries and employee benefits	5,219	4,706
Occupancy and equipment	613	518
Other operating expenses	4,953	2,383
Total noninterest expense	10,785	7,607
Income before income taxes	1,959	2,460

Income tax expense		633		837
NET INCOME	$	1,326	$	1,623
Earnings per common share:				
Basic	$	0.11	$	0.20
Diluted	$	0.11	$	0.17
Average outstanding shares:				
Basic		11,954,863		8,018,133
Diluted		12,255,330		9,658,239

See accompanying notes to consolidated financial statements (unaudited).

ACCESS NATIONAL CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY
For the Three Months Ended March 31, 2007 and 2006
(In Thousands)
(unaudited)

	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income	Total
Balance, December 31, 2006	$ 9,867	$ 29,316	$ 23,641	$ (529)	$	$ 62,295
Comprehensive income:						
Net income			1,326		1,326	1,326
Other comprehensive income (loss), unrealized holdings gains arising during the period, net of tax $81				157	157	157
Cash Dividend from DRSPP			(121)			(121)
					$ 1,483	
Common Stock issued for exercise of options and dividend reinvest	170	481				651
Balance, March 31, 2007	$ 10,037	$ 29,797	$ 24,846	$ (372)		$ 64,308
Balance, December 31, 2005	$ 6,644	$ 9,099	$ 16,227	$ (785)	$	$ 31,185
Comprehensive income:						
Net income			1,623		1,623	1,623
Other comprehensive income (loss), unrealized holdings losses arising during the period, net of				(171)	(171)	(171)

tax $88							
Cash Dividends			(40)				(40)
						$ 1,452	
Common Stock issued for exercise of options and dividend reinvest	120	328					448
Balance, March 31, 2006	$ 6,764	$ 9,427	$ 17,810	$	(956)		$ 33,045

See accompanying notes to consolidated financial statements (unaudited).

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

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
Cash Flows from Operating Activities		
Net income	$ 1,326	$ 1,623
Adjustments to reconcile net income to net cash (used in) operating activities:		
Provision for loan losses	291	124
Deferred tax (benefit)	(7)	(77)
Stock based compensation	21	18
Provision (benefit) from hedging	(1)	(28)
Net amortization (accretion) on securities	(6)	(1)
Depreciation and amortization	212	197
Changes in assets and liabilities:		
(Increase) decrease in loans held for sale	(1,579)	(25,380)
(Increase) decrease in other assets	(1,638)	(232)
Increase (decrease) in other liabilities	(1,167)	(2,432)
Net cash (used in) operating activities	(2,548)	(26,188)
Cash Flows from Investing Activities		
Proceeds from maturities and calls of securities available for sale	15,705	1,657
Purchases of securities available for sale	(3,891)	(24,387)
Net (increase) in loans	(24,068)	(14,110)
Purchases of premises and equipment	(467)	(186)
Net cash (used in) investing activities	(12,721)	(37,026)
Cash Flows from Financing Activities		
Net increase (decrease) in demand, interest-bearing demand and savings	6,187	(5,439)
Net increase in time deposits	15,568	8,922
Net increase in securities sold under agreement to repurchase	62	250
Net increase (decrease) in short-term borrowings	(2,104)	54,321
Net increase (decrease) in long term borrowings	1,863	(2,054)
Proceeds from issuance of common stock	630	430
Dividends paid	(121)	(40)
Net cash provided by financing activities	22,085	56,390
Increase (decrease) in cash and cash equivalents	6,816	(6,824)
Cash and Cash Equivalents		
Beginning	27,365	23,183
Ending	$ 34,181	$ 16,359

Supplemental Disclosures of Cash Flow Information				
Cash payments for interest	$	6,116	$	4,530
Cash payments for income taxes	$	2,115	$	1,477
Supplemental Disclosures of Noncash Investing Activities				
Unrealized gain (loss) on securities available for sale	$	238	$	(259)

See accompanying notes to consolidated financial statements (unaudited).

ACCESS NATIONAL CORPORATION
Notes to Consolidated Financial Statements
(Unaudited)

NOTE 1 COMMENCEMENT OF OPERATIONS

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

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

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

In August 2006, the corporation concluded a public stock offering of 2.3 million shares of common stock that provided approximately $20 million in new capital.

NOTE 2 BASIS OF PRESENTATION

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with rules and regulations of the Securities and Exchange Commission. The statements do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. All adjustments have been made, which, in the opinion of management, are necessary for a fair presentation of the results for the interim periods presented. Such adjustments are all of a normal and recurring nature. All significant inter-company accounts and transactions have been eliminated in consolidation. Certain prior period amounts have been reclassified to conform to the current period presentation. The results of operations for the three months ended March 31, 2007 are not necessarily indicative of the results that may be expected for the entire year ending December 31, 2007. These consolidated financial statements should be read in conjunction with the Corporation s audited financial statements and the notes thereto as of December 31, 2006, included in the Corporation s Annual Report on Form 10 K for the fiscal year ended December 31, 2006.

NOTE 3 STOCK BASED COMPENSATION PLANS

During the first quarter of 2007 the Corporation granted 78,100 stock options to officers, directors, and employees under the 1999 Stock Option Plan (the Plan). Options granted under the Plan have an exercise price equal to the fair market value as of the grant date. Options granted during the first quarter have a vesting period of two and one half years and expire in three and one half years after the issue date. There were no options granted during the first quarter of 2006.

Stock based compensation expense recognized in other operating expense during the first quarter of 2007 was approximately $21 thousand and $18 thousand for the same period in 2006. The fair value of options is estimated on the date of grant using a Black-Scholes option-pricing model with the assumptions noted below.

A summary of stock option activity under the Plan for the three months ended March 31, 2007 is presented as follows:

	3 Months ended March 31, 2007
Assumptions	
Expected life of option	3.33
Risk-free interest rate	4.72%
Expected volatility of stock	23%
Expected dividend yield	1%

	Number of Options	**Weighted Avg. Exercise Price**	**Weighted Avg. Remaining Contractual Term**	**Aggregate Intrinsic Value**
Outstanding at December 31, 2006	815,244	$ 4.80	2.296	$ 3,885,204
Granted	78,100	$ 9.58		
Exercised	(164,820)	$ 1.67		$ 1,297,787
Lapsed or Canceled	(200)	$ 14.05		
Outstanding at March 31, 2007	728,324	$ 6.03	2.693	
Exercisable at March 31, 2007	590,304		2.607	
Fair Value per share of Granted Options in 2007	$ 2.34			
Non-Vested Options as of March 31, 2007	138,020			
Non-Vested Options as of December 31, 2006	88,224			

NOTE 4 SECURITIES

Amortized costs and fair values of securities available for sale as of March 31, 2007 and December 31, 2006 are as follows:

	March 31, 2007			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
U.S. Treasury Securities	$ 991	$ 6		$ 997
U.S. Government Agencies	80,333	21	(537)	79,817
Mortgage Backed Securities	990	3	(1)	992
Tax Exempt Municipals	2,892	6	(9)	2,889
Taxable Municipals	1,305		(25)	1,280
Mutual Fund	1,500		(29)	1,471
Restricted Securities -				
Federal Reserve Bank Stock	873			873
FHLB Stock	5,274			5,274
Total Securities	$94,158	$ 36	$(601)	$93,593

	December 31, 2006			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized 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
Total Securities	$105,964	$ 20	$(821)	$105,163

The amortized cost and fair value of securities available for sale as of March 31, 2007 and December 31, 2006 by contractual maturity are shown below. Expected maturities may differ from contractual maturities because the securities may be called or prepaid without any penalties.

	March 31, 2007		**December 31, 2006**	
	Amortized Cost	**Fair Value**	**Amortized Cost**	**Fair Value**
	(In Thousands)		(In Thousands)	
US Treasury & Agencies				
Due in one year or less	$ 33,973	$ 33,748	$ 34,994	$ 34,690
Due after one through five years	45,853	45,585	56,850	56,442
Due after five through ten years	1,498	1,481	1,498	1,473
Municipals				
Due after five through ten years	4,197	4,169	4,198	4,163
Mortgage Backed Securities Due in one year or less	45	45	48	49
Due after one through five years	945	947	989	991
Mutual Fund	1,500	1,471	1,500	1,468
Restricted Stock:				
Federal Reserve Bank stock	873	873	873	873
FHLB stock	5,274	5,274	5,014	5,014
Total	**$ 94,158**	**$ 93,593**	**$ 105,964**	**$ 105,163**

Investment securities available for sale that have an unrealized loss position at March 31, 2007 and December 31, 2006 are detailed below
March 31, 2007

	Securities in a loss Position for less than 12 Months		Securities in a loss Position for 12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(In Thousands)			
Investment securities available for sale:						
Mortgage Backed Security	$	$	$ 362	$ (1)	$ 362	$ (1)
U.S. Government Agencies			64,795	(537)	64,795	(537)
Municipals-Taxable			1,280	(25)	1,280	(25)
Municipals-Tax Exempt			1,408	(9)	1,408	(9)
CRA Mutual Fund			1,471	(29)	1,471	(29)
Total	**$**	**$**	**$ 69,316**	**$ (601)**	**$ 69,316**	**$ (601)**

December 31, 2006

	Securities in a loss Position for less than 12 Months		Securities in a loss Position for 12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(In Thousands)			
Investment securities available for sale:						
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	(31)	1,468	(31)
Total	**$ 25,394**	**$ (66)**	**$ 61,197**	**$ (755)**	**$ 86,591**	**$ (821)**

Management does not believe that any individual unrealized loss as of March 31, 2007 and December 31, 2006 represents 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.

NOTE 5 LOANS

The following table presents the composition of the loan portfolio at March 31, 2007 and December 31, 2006.

	March 31 2007	Percent of Total	Dec 31 2006	Percent of Total
	(Dollars in thousands)			
Commercial	$ 59,101	12.91%	$ 51,825	11.95%
Real estate non-residential	178,910	39.09	159,996	36.90
Real estate construction	61,089	13.35	68,570	15.81
Residential real estate	157,815	34.48	152,648	35.21
Consumer	750	0.17	555	0.13
	$ 457,665	100.00%	$ 433,594	100.00%
Less allowance for loan losses	5,746		5,452	
	$ 451,919		$ 428,142	

NOTE 6 SEGMENT REPORTING

The Corporation has two reportable segments: traditional commercial banking and a mortgage banking business. Revenues from commercial banking operations consist primarily of interest earned on loans and investment securities and fees from deposit services. Mortgage banking operating revenues consist principally of interest earned on mortgage loans held for sale, gains on sales of loans in the secondary mortgage market and loan origination fee income.

The commercial 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 the prime rate. These transactions are eliminated in the consolidation process.

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

The following table presents segment information for the three months ended March 31, 2007 and 2006:

2007 (In Thousands)	**Commercial Banking**	**Mortgage**	**Other**	**Elimination**	**Consolidated Totals**
Revenues:					
Interest income	$ 11,033	$ 1,136	$ 199	$ (1,195)	$ 11,173
Gain on sale of loans		5,393			5,393
Other revenues	426	2,465	263	(568)	2,586
Total revenues	11,459	8,994	462	(1,763)	19,152
Expenses:					
Interest expense	5,696	1,273	344	(1,196)	6,117
Salaries and employee benefits	1,668	3,551			5,219
Other	1,347	4,708	369	(567)	5,857
Total operating expenses	8,711	9,532	713	(1,763)	17,193
Income (loss) before income taxes	$ 2,748	$ (538)	$ (251)	$	$ 1,959
Total assets	$ 609,145	$ 71,675	$ 9,891	$ (23,507)	$ 667,204

2006 (In Thousands)	**Commercial Banking**	**Mortgage Banking**	**Other**	**Eliminations**	**Consolidated Totals**
Revenues:					
Interest income	$ 8,682	$ 634	$ 13	$ (684)	$ 8,645
Gain on sale of loans		4,678			4,678
Other revenues	400	1,330	311	(625)	1,416
Total revenues	9,082	6,643	575	(1,309)	14,739
Expenses:					
Interest expense	4,233	681	318	(684)	4,548
Salaries and employee benefits	1,531	3,175			4,706
Other	982	2,251	417	(625)	3,025
Total operating expenses	6,746	6,107	735	(1,309)	12,279
Income (loss) before income taxes	$ 2,336	$ 536	$ (160)	$	$ 2,460
Total assets	$ 560,877	$ 72,756	$ 37,405	$ (78,560)	$ 592,478

NOTE 7 EARNINGS PER SHARE (EPS)

The following tables show the calculation of both Basic and Diluted earnings per share (EPS) for the three months ended March 31, 2007 and 2006 respectively. The numerator of both the Basic and Diluted EPS is equivalent to net income. The weighted average number of shares outstanding used in the denominator for Diluted EPS is increased over the denominator used for Basic EPS by the effect of potentially dilutive common stock options and warrants utilizing the treasury stock method.

	Three Months Ended March 31, 2007		Three Months Ended March 31, 2006	
	(In thousands, except per share data)			
BASIC EARNINGS PER SHARE:				
Net income	$	1,326	$	1,623
Weighted average shares outstanding		11,954,863		8,018,133
Basic earnings per share	$	0.11	$	0.20
DILUTED EARNINGS PER SHARE:				
Net income	$	1,326	$	1,623
Weighted average shares outstanding		11,954,863		8,018,133
Stock options and warrants		300,467		1,640,106
Weighted average diluted shares outstanding		12,255,330		9,658,239
Diluted earnings per share	$	0.11	$	0.17

NOTE 8 DERIVATIVES

The Mortgage Corporation carries all derivative instruments at fair value as either assets or liabilities in the consolidated balance sheets. Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities as amended (SFAS 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 SFAS 133.

The Mortgage Corporation enters into interest rate lock commitments, which are commitments to originate loans whereby the interest rate on the loan is determined prior to funding and the customers have locked into that interest rate. The Mortgage Corporation 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 March 31, 2007 and December 31, 2006 the Mortgage Corporation had derivative financial instruments with a notional value of $179.8 million and $195.8 million respectively. The fair value of these derivative instruments at March 31, 2007 and December 31, 2006 was $179.8 million and $195.7 million respectively.

NOTE 9 RECENT ACCOUNTING PRONOUNCEMENTS

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 SFAS 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 SFAS 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 SFAS 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 SFAS 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 157 requires additional disclosures for each interim and annual period separately for each major category of assets and liabilities. SFAS 157 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. Such election, which may be applied on an instrument by instrument basis, is typically irrevocable once elected. 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 is evaluating the impact of this new standard but currently does not believe the adoption of this statement will have a material effect on the Corporation s consolidated financial statements.

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

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 subsidiaries (the Corporation) for the three months ended March 31, 2007 and 2006. The consolidated financial statements and accompanying notes should be read in conjunction with this discussion and analysis.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

In addition to historical information, this Quarterly Report on Form 10-Q may contain forward-looking statements. For this purpose, any statements contained herein, including documents incorporated by reference, that are not statements of historical fact may be deemed to be forward-looking statements. Examples of forward-looking statements include discussions as to our expectations, beliefs, plans, goals, objectives and future financial or other performance or assumptions concerning matters discussed in this document. Forward-looking statements often use words such as believes, expects, plans, may, will, should, projects, contemplates, anticipates, forec other words of similar meaning. You can also identify them by the fact that they do not relate strictly to historical or current facts. Forward-looking statements are subject to numerous assumptions, risks and uncertainties, and actual results could differ materially from historical results or those anticipated by such statements. Factors that could have a material adverse effect on the operations and future prospects of the Corporation include, but are not limited to: changes in the Corporation s competitive position, competitive actions by other financial institutions and the competitive nature of the financial services industry and the Corporation s ability to compete effectively against other financial institutions in its banking markets; the Corporation s potential growth, including its entrance or expansion into new markets, the opportunities that may be presented to and pursued by it and the need for sufficient capital to support that growth; the Corporation s ability to manage growth; changes in government monetary policy, interest rates, deposit flow, the cost of funds, and demand for loan products and financial services; the strength of the economy in the Corporation s target market area, as well as general economic, market, or business conditions; changes in the quality or composition of the Corporation s loan or investment portfolios, including adverse developments in borrower industries, decline in real estate values in the Corporation s markets, or in the repayment ability of individual borrowers or issuers; an insufficient allowance for loan losses as a result of inaccurate assumptions; the Corporation s reliance on dividends from the Bank as a primary source of funds; the Corporation s reliance on secondary sources, such as Federal Home Loan Bank advances, sales of securities and loans, federal funds lines of credit from correspondent banks and out-of-market time deposits, to meet the Bank s liquidity needs; changes in laws, regulations and the policies of federal or state regulators and agencies; the Corporation s mortgage loan business and the offering of non-conforming mortgage loans; and other circumstances, many of which are beyond the Corporation s control. Standard representations and warranties issued in connection with Loans Held for Sale may impact earnings due to the potential need to repurchase loans due to early payment defaults and other reasons. The subsequent cost of liquidating these loans may adversely impact earnings. 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.

CRITICAL ACCOUNTING POLICIES

General

The Corporation s financial statements are prepared in accordance with accounting principles generally accepted in the United States (GAAP). The financial information contained within our statements is, to a significant extent, financial information that is based on measures of the financial effects of transactions and events that have already occurred. A variety of factors could affect the ultimate value that is obtained either when earning income, recognizing an expense, recovering an asset or relieving a liability. Actual losses could differ significantly from the historical factors that we monitor. Additionally, GAAP itself may change from one previously acceptable method to another method. Although the economics of our transactions would be the same, the timing of events that would impact our transactions could change.

Allowance for Loan Losses

The allowance for loan losses is an estimate of the losses that may be sustained in our loan portfolio. The allowance is based on two basic principles of accounting: (i) SFAS 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 Allowance for Loan Losses below.

Derivative Financial Instruments The Mortgage Corporation carries all derivative instruments at fair value as either assets or liabilities in the consolidated balance sheets. SFAS 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 SFAS 133.

Off-Balance Sheet Items

In the ordinary course of business, the Bank issues commitments to extend credit and, at March 31, 2007, these commitments amounted to $25.3 million. These commitments do not necessarily represent cash requirements, since many commitments are expected to expire without being drawn on.

At March 31, 2007, the Bank had approximately $108.0 million in unfunded lines of credit and letters of credit. These lines of credit, if drawn upon, would be funded from routine cash flows and short term borrowings. As the Corporation continues the planned expansion of the loan portfolio held for investment, the volume of commitments and unfunded lines of credit are expected to increase accordingly.

FINANCIAL CONDITION (March 31, 2007 compared to December 31, 2006)

The Corporation s assets increased $22.4 million from $644.8 million at December 31, 2006 to $667.2 million at March 31, 2007. The growth in assets occurred in loans held for investment, interest bearing balances and loans held for sale. Loans held for investment increased $24.1 million over year end. Investment securities decreased approximately $11.6 million due to maturities that were not reinvested. Interest bearing deposits increased $9.3 million and loans held for sale increased by $2.1 million. The growth in loans held for investment is due to our commitment to meeting the credit needs of our existing clients, and new clients. The volume of loans held for sale is primarily due to the expansion of the wholesale division. This category of loans is subject to volatility due to changes in interest rates and the general economic outlook for the housing market. Management continues to employ a strategy of attracting highly qualified professional lenders to support future growth in the loans held for investment.

Asset growth during the period was funded by a combination of deposit growth, and an increase in long-term borrowings. Deposits increased $21.8 million and totaled $460.7 million at March 31, 2007 up from $438.9 million at December 31, 2006. Long term borrowings at March 31, 2007 totaled $44.4 million, an increase of $1.9 million from December 31, 2006, and investment securities decreased $11.6 million.

Securities

The Corporation s securities portfolio is comprised of U.S. Treasury securities, U.S. Government Agency securities, mortgage backed securities, obligations of states and political subdivisions, and Federal Reserve and Federal Home Loan Bank stock. At March 31, 2007 the securities portfolio totaled $93.6 million, down from $105.2 million on December 31, 2006. All securities were classified as available for sale. Securities classified as available for sale are accounted for at fair market value with unrealized gains and losses recorded directly to a separate component of shareholders equity, net of associated tax effect. The Corporation s securities classified as available for sale had an unrealized loss net of deferred taxes of $0.4 million on March 31, 2007. Investment securities are used to provide liquidity, generate income, and to temporarily supplement loan growth as needed.

Loans

The loans held for investment portfolio constitutes the largest component of earning assets and is comprised of commercial loans, real estate loans, construction 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. All lending activities of the Bank and its subsidiaries are subject to the regulations and supervision of the Office of the Comptroller of Currency.

At March 31, 2007, loans held for investment increased by $24.1 million from December 31, 2006 and totaled $457.7 million.

Commercial loans increased $7.3 million, commercial real estate loans increased $18.9 million, construction loans decreased $7.5 million, and residential real estate loans increased $5.2 million compared to December 31, 2006. See Note 5 for a table that summarizes the composition of the Corporation s loan portfolio. The increase in loans is attributable to servicing the needs of existing clients and new business originating from, referrals, community involvement, and increased name recognition and acceptance of the Bank s products and services within the marketplace. Management intends to increase loan officer staffing and support to facilitate continued growth in the portfolio. The following is a summary of the Loan Portfolio Held for Investment at March 31, 2007.

Commercial Loans: Commercial Loans represent 12.9% of our held for investment portfolio. 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. We underwrite these loans based upon our assessment of the obligor(s) ability to generate operating cash flows in the future necessary to repay the loan. To address the risks associated with the uncertainties of future cash flows, these loans are generally well secured by assets owned by the business or its principal shareholders and the principal shareholders are typically required to guarantee the loan.

Real Estate Construction Loans**:** Real Estate Construction Loans, also known as construction and land development loans, comprise 13.4% of our held for investment loan portfolio. 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 39.1% of our loan portfolio held for investment. These loans generally fall into one of three situations in order of magnitude: first, loans supporting an owner occupied commercial property; second, properties used by non-profit organizations such as churches or schools where repayment is dependent upon the cash flow of the non-profit organizations; and third, loans supporting a commercial property leased to third parties for investment. Commercial Real Estate Loans are secured by the subject property and underwritten to policy standards. Policy standards approved by the Board of Directors from time to time set forth, among other considerations, loan to value limits, cash flow coverage ratios, and the general creditworthiness of the obligors.

Real Estate Residential Loans: This category includes loans secured by first or second mortgages on one to four family residential properties and represent 34.5% of the portfolio. Of this amount, the following sub-categories exist as a percentage of the whole Residential Real Estate Loan portfolio: Home Equity Lines of Credit 15.7%; First Trust Mortgage Loans 78.0%; Loans Secured by a Junior Trust 3.8%; Multi-family loans and loans secured by Farmland 2.5%.

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 loans to consumers wherein the proceeds have been used for a stated consumer purpose. Examples of consumer purposes are education, refinancing debt, or purchasing consumer goods. The loans are generally extended in a single disbursement and repaid over a specified period of time.

Loans in the Residential Real Estate portfolio are underwritten to standards within a traditional consumer framework that is periodically reviewed and 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 approximately 0.2% of our loan portfolio. Most loans are well secured with assets other than real estate, such as marketable securities or automobiles. Very few consumer loans are unsecured. As a matter of operation, management discourages unsecured lending. Loans in this category are underwritten to standards within a traditional consumer framework that is periodically reviewed and updated by our management and the Board of Directors: repayment capacity, collateral value, savings pattern, credit history and stability.

Loans Held for Sale (LHFS)

Loans Held for Sale are originated by the Mortgage Corporation and carried on our books at the lower of cost or market value. These loans

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 loans for a profit. Loan proceeds are used for the purchase or refinance of the property securing the loan. Loans are sold with the servicing released to the investor. The LHFS loans are closed in our name and carried on our books until the loan is delivered to and purchased by an investor. In the first quarter of 2007 we originated $309.8 million of loans processed in this manner. Repayment risk of this activity is minimal since the loans are on the 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 process for investors. At March 31, 2007 loans held for sale totaled $67.4 million compared to $65.3 million at year end 2006. The increase in loans held for sale that is primarily due to increase in loan originations during the month of March.

Brokered Loans

Brokered loans are underwritten and closed by a third party lender. We are paid a fee for procuring and packaging brokered loans. For the first three months of 2007, we originated a total volume of $59.7 million in residential mortgage loans under this type of delivery method, as compared to $33.7 million for the same period of 2006. Brokered loans accounted for 19.3% of the total loan volume for the first three months of 2007.

Allowance for Loan Losses

The Bank s allowance for loan losses increased by $294 thousand which includes a $3 thousand recovery on a previously charged off loan and totaled $5.7 million at March 31, 2007 compared to $5.5 million at year end 2006. The allowance for loan losses at March 31, 2007 and December 31, 2006 was 1.26% of total loans held for investment. The allowance for Commercial loans as a percent of the total Commercial loans amounted to 1.7%, compared to 1.5% at year end 2006. The allowance for Construction Loans was 1.5% of total Construction loans at March 31, 2007 and 1.5% at December 31, 2006. The allowance for Commercial Real Estate loans was 1.4% of total Commercial Real Estate loans as of March 31, 2007 and 1.4% at year end 2006. The allowance for Residential Real Estate loans was 0.8% of total Residential Real Estate loans at March 31, 2007 and December 31, 2006. Although actual loan losses have been insignificant, our senior credit management, with over 60 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 due to the lack of seasoning of the portfolio, the relatively large dollar amount of a relatively small number of loans, portfolio growth, staffing changes, volume, changes in individual risk ratings on new loans and trend analysis. Outside of our own analysis, our reserve adequacy and methodology are reviewed on a regular basis by, our internal audit program and bank regulators and such reviews have not resulted in any material adjustment to the reserve.

The Bank does not have a meaningful history of charge offs with which to establish trends in loan losses by loan classifications. As of March 31,2007 the total net charge offs for the seven years of operation was approximately $11 thousand. The overall allowance for loan losses is equivalent to approximately 1.26% of total loans held for investment. 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 loss risk of each loan within a particular classification, however, is not the same. The methodology for arriving at the allowance is not dictated by loan classification. 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 over 60 years; and peer data contained in statistical releases issued by both the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation.

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 March 31, 2007 our evaluation of these factors supported approximately 90.7% 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 analysis comprises the Specific Reserve and accounted for 0% of the total loss reserve at March 31, 2007.

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 March 31, 2007 the threshold range for this component was 0.00% to 0.15% of the total loan portfolio and accounted for approximately 9.3% of the total loss reserve. At March 31, 2007 the unallocated reserve amounted to $0.5 million and equaled 0.12% of total loans.

An analysis of the Corporation s allowance for loan losses as of and for the period indicated is set forth in the following tables:

Allowance for Loan Losses
(In Thousands)

	2006	**2005**
Balance as of December 31	$ 5,452	$ 5,215
Charge offs		
Recoveries	3	
Provision	291	124
Balance as of March 31	**$ 5,746**	**$ 5,339**

Allocation of the Allowance for Loan Losses

	March 31, 2007				**December 31, 2006**			
	Amount	Percentage	Allowance for Loan Loss	Percentage	Amount	Percentage	Allowance for Loan Loss	Percentage
				(Dollars In Thousands)				
Commercial	$ 59,101	12.91%	$ 997	17.35%	$ 51,825	11.95%	$ 802	14.71%
Commercial real estate	178,910	39.09	2,541	45.37	159,996	36.90	2,296	42.11
Real estate construction	61,089	13.35	889	17.76	68,570	15.81	1,055	19.35
Residential real estate	157,815	34.48	1,313	23.68	152,648	35.21	1,293	23.72
Consumer	750	0.17	6	0.27	555	0.13	6	0.11
	$457,665	100.00%	$5,746	100.00%	$433,594	100.00%	$5,452	100.00%

Reserve for Potential Loan Losses Loans Held for Sale (LHFS)

The Mortgage Corporation maintains a reserve separately from the Bank specifically for LHFS and is not included in the Bank s Allowance for Loan Losses.

The risks associated with the LHFS activity of the Mortgage Corporation differs from the risks associated with Loans Held for Investment and is therefore accounted for separately by the Mortgage Corporation. The risks associated with LHFS center around early payment defaults, borrower fraud and failure of our investors to purchase loans. Prior to the period ended March 31, 2007 the reserve for this activity was not material.

LHFS are added to a Reserve Schedule as soon as management is able to ascertain or substantiate a claim or loss potential related to a sold loan. In March, the Mortgage corporation expensed $913 thousand to other operating expense in response to an evaluation of approximately $6 million in loans previously sold. The balance in the Reserve for Potential Loan Losses was increased to approximately $1.2 million at March 31, 2007, up from $233 thousand at December 31, 2006. The amount of the Reserve for Potential Loan Losses is based on Management s estimate of the financial risks associated with each loan and the likely disposition action. Disposition may be in the form of collateral liquidation or resale to a third party at a discount.

Nonperforming Loans And Past Due

At March 31, 2007 the Bank had no loans in non-accrual status. There were three loans totaling $530 thousand in non-accrual status at the Mortgage Corporation There was one Bank loan past due more than 30 days amounting to $1.2 million.

Deposits

Deposits are the primary source of funding loan growth. At March 31, 2007 deposits totaled $460.7 million compared to $438.9 million on December 31, 2006, an increase of $21.8 million. Non-Interest Bearing accounts increased $12.3 million, savings and interest-bearing accounts declined $6.0 million and time deposits increased $15.5 million. The decline in savings and interest-bearing accounts was offset by the increase in higher yielding time deposits. The Bank s core deposit base is comprised primarily of commercial accounts and, due to the inherent nature of these accounts; balances can be subject to wide fluctuations.

In March 2007 the Bank opened a new banking office in Loudoun County and plans to open one in Prince William County during the third quarter. The new branches are expected to provide an opportunity to expand our deposit base.

Shareholders Equity

Shareholders equity was $64.3 million at March 31, 2007. A strong capital position is vital to the continued profitability of the Corporation. It also promotes depositor and investor confidence and provides a solid foundation for the future growth of the organization. Shareholder s equity increased by $2.0 million during the three months ended March 31, 2007. The increase is due to the retention of earnings and the exercise of stock options and dividends reinvested. Other comprehensive (loss), representing unrealized gains and losses on available for sale securities, decreased $157 thousand net of taxes.

Banking regulators have defined minimum regulatory capital ratios that the Corporation and the Bank are required to maintain. These risk based capital guidelines take into consideration risk factors, as defined by the banking regulators, associated with various categories of assets, both on and off the balance sheet. Both the Corporation and Bank are classified as Well Capitalized, which is the highest rating. The following Risk Based Capital Analysis table outlines the regulatory components of capital and risk based capital ratios.

Risk Based Capital Analysis

	March 31, 2007	December 31, 2006
	(In Thousands)	
Tier 1 Capital:		
Common stock	$ 10,037	$ 9,867
Capital surplus	29,796	29,317
Retained earnings	24,847	23,640
Less: Net unrealized loss on equity securities	(19)	(21)
Subordinated debentures	10,000	10,000
Total Tier 1 capital	**74,661**	**72,803**
Subordinated debentures not included in Tier 1		
Allowance for loan losses	5,990	5,688
Total risk based capital	$ 80,651	$ 78,491
Risk weighted assets	$ 509,158	$ 484,987
Quarterly average assets	$ 647,080	$ 631,378

Capital Ratios:			**Regulatory Minimum**
Tier 1 risk based capital ratio	14.66%	15.01%	4.00%
Total risk based capital ratio	15.84%	16.18%	8.00%
Leverage ratio	11.54%	11.53%	4.00%

RESULTS OF OPERATIONS (March 31, 2007)

Summary

Net income for the three months ended March 31, 2007 totaled $1.3 million compared to $1.6 million for the same period in 2006. Basic earnings per common share amounted to $0.11 per share for the three months ended March 31, 2007, compared to $0.20 per share for the same period in 2006. Diluted earnings per share were $0.11 and $0.17 for the three month period ended March 31 in 2007 and 2006 respectively. Earnings were impacted by a $913 thousand charge to other operating expense to increase the reserve for potential loan losses at the Mortgage Corporation. The increase in the Mortgage Corporation s reserve for potential loan losses was deemed prudent after analyzing the potential need to repurchase approximately $6.0 million in loans previously sold. The management of the Mortgage Corporation believes this repurchase activity is an isolated event based on current market conditions. Previous repurchase activity has not been material. Although there can be no assurance, future repurchase activity is not expected to be material.

Interest and fees on loans increased by $2.3 million in the first quarter ended March 31, 2007 over the same period of 2006 reflecting the $24.1 million increase in loans held for investment over year end. Non interest income totaled $8.0 million for the three months ended March 31, 2007 compared to $6.1 million for the same period in 2006. This increase is primarily due to the gains on mortgage loans held for sale.

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. Our net interest margin increased 9 basis points during the first three months from 3.14% in 2006 to 3.23% in 2007. The increase in net interest margin is due to a $104.5 million increase in earning assets over the first quarter of 2006.

Net interest income for the three months ended March 31, 2007 increased to $5.1 million compared to $4.1 million for the same period in 2006. Net interest income depends upon the volume of earning assets and interest bearing liabilities and the associated rates. The yield on earning assets increased from 6.61% in 2006 to 7.12% in 2007.

Total interest expense for the first three months of 2007 increased $1.6 million from $4.5 million in 2006 to $6.1 million. Total interest bearing deposits averaged approximately $353.0 million at period ended March 31, 2007 compared to $339.6 million at March 31, 2006. Borrowed funds for three months ended March 31, 2007 averaged $161.3 million compared to $107.2 million for the corresponding period in 2006. The increase in deposits and borrowings funded the growth in earning assets. The average cost of interest bearing liabilities at March 31, 2007 was 4.76%, up from 4.07% at March 31, 2006.

Volume and Rate Analysis

	Three Months Ended March 31, 2007 compared to 2006		
		Change Due To:	
	Increase / (Decrease)	Volume	Rate
		(In Thousands)	
Interest Earning Assets:			
Securities	$ 105	$ 59	$ 46
Loans	2,328	1,782	546
Interest-bearing deposits	96	66	30
Total Increase (Decrease) in Interest Income	**2,529**	**1,907**	**622**
Interest Bearing Liabilities:			
Interest-bearing demand deposits	(9)	(7)	(2)
Money market deposit accounts	(140)	(213)	73
Savings accounts	61	40	21
Time deposits	797	343	454
Total interest-bearing deposits	**709**	**163**	**546**
FHLB Advances	413	280	133
Securities sold under agreements to repurchase	48	45	3
Other short-term borrowings	92	82	10
Long-term borrowings	280	220	60
Subordinated debentures	28		28
Total Increase (Decrease) in Interest Expense	**1,570**	**790**	**780**
Increase (Decrease) in Net Interest Income	**$ 959**	**$ 1,117**	**$(158)**

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

	Three Month Period Ended March 31,					
	2007			2006		
	Average Balance	Income / Expense	Yield / Rate	Average Balance	Income / Expense	Yield / Rate
	(Dollars In Thousands)					
Assets:						
Interest earning assets:						
Securities[1]	$ 104,921	$ 1,168	4.45%	$ 99,572	$ 1,063	4.27%
Loans[2]	508,378	9,822	7.73%	414,633	7,495	7.23%
Interest bearing balances	14,922	188	5.04%	9,504	99	4.17%
Total interest earning assets	**628,221**	**11,178**	7.12%	**523,709**	**8,657**	**6.61%**
Non-interest earning assets:						
Cash and due from banks	6,634			10,284		
Premises, land and equipment	9,723			9,683		
Other assets	8,074			5,646		
Less: allowance for loan losses	(5,574)			(5,250)		
Total non-interest earning assets	**18,857**			**20,363**		
Total Assets	**$ 647,078**			**$ 544,072**		
Liabilities and Shareholders Equity:						
Interest bearing liabilities:						
Interest-bearing demand deposits	$ 9,770	$ 52	2.13%	$ 11,073	$ 61	2.20%
Money market deposit accounts	105,991	1,081	4.08%	127,282	1,221	3.84%
Savings accounts	5,146	62	4.82%	494	1	0.81%
Time deposits	232,066	2,813	4.85%	200,727	2,016	4.02%
Total interest-bearing deposits	**352,973**	**4,008**	4.54%	**339,576**	**3,299**	3.89%
FHLB Advances	83,674	1,132	5.41%	61,933	719	4.64%
Securities sold under agreements to repurchase	6,231	61	3.92%	1,592	13	3.27%
Other short-term borrowings	19,707	206	4.18%	11,768	114	3.87%
FHLB Long-term borrowings	41,401	481	4.65%	21,668	202	3.73%
Subordinated Debentures	10,311	229	8.88%	10,311	201	7.80%

Total interest-bearing liabilities	**514,297**	**6,117**	4.76%	**446,848**	**4,548**	4.07%
Non-interest bearing liabilities:						
Demand deposits	63,594			60,302		
Other liabilities	4,480			4,482		
Total liabilities	**582,371**			**511,632**		
Shareholders Equity	64,709			32,440		
Total Liabilities and Shareholders Equity:	**$ 647,080**			**$ 544,072**		
Interest Spread(3)			2.36%			2.54%
Net Interest Margin(4)		$ 5,061	3.22%		$ 4,109	3.14%

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

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

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

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

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Non-Interest Income

Non-interest income consists of revenue generated from other financial services and activities. The Mortgage Corporation provides the most significant contributions towards non-interest income. Total non-interest income was $8.0 million for the three month period ending March 31, 2007 compared to $6.1 million for the same period in 2006, an increase of $1.9 million. Gains on the sale of loans originated by the Mortgage Corporation totaled $5.4 million for the three months ending March 31, 2007, compared to $4.7 million for the same period in 2006. Mortgage broker fees amounted to $1.3 million for the three month period ended March 31, 2007, up from $0.9 million for the same period in 2006. Other income totaled $1.2 million, for the first three months of 2007 up from $0.4 million for the same period in 2006. The increase in other income is primarily due to a $400 thousand increase in settlement fees and an increase of approximately $400 thousand in other loan fees.

Non-Interest Expense

Non-interest expense totaled $10.8 million for the three months ended March 31, 2007 compared to $7.6 million for the same period in 2006. Salaries and benefits totaled $5.2 million for the first three months of 2007, compared to $4.7 million for the same period last year due to increases in staff at both the Bank and Mortgage Corporation. Other operating expenses totaled approximately $5.0 million at March 31, 2007, up from $2.4 million at March 31, 2006. The increase in other operating expenses is primarily attributable to a $1.2 million increases in broker fees and the $913 thousand increase in the provision for potential loan losses relating to loans held for sale. As with other non-interest income associated with the Mortgage Corporation non-interest expense also fluctuates with loan origination volumes.

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 March 31, 2007, overnight interest bearing balances totaled $24.7 million and securities available for sale totaled $93.6 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 March 31, 2007, the Bank had a line of credit with the Federal Home Loan Bank of Atlanta totaling $193.1 million and had outstanding variable rate loans of $45 million, and an additional $44.4 million in term loans at fixed rates ranging from 2.70% to 5.34% leaving $103.7 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 March 31, 2007, outstanding repurchase agreements totaled $14.6 million and commercial paper issued amounted to $23.3 million. The interest rates 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 March 31, 2007 these lines amounted to $22.6 million. The Corporation also has $10.3 million in subordinated debentures to support the growth of the organization.

Borrowed Funds Distribution

	March 31, 2007	December 31, 2006
	(Dollars In Thousands)	
At Period End		
FHLB Advances	$ 45,000	$ 45,000
FHLB long term borrowings	44,435	42,572
Securities sold under agreements to repurchase	14,603	14,541
Other short term borrowings	23,306	20,599
Subordinated debentures	10,311	10,311
Fed Funds Purchased		4,811
Total at period end	$ 137,655	$ 137,834
Average Balances		
FHLB Advances	$ 83,674	$ 61,066
FHLB long term borrowings	41,401	23,722
Securities sold under agreements to repurchase	6,231	4,644
Other short term borrowings	19,707	18,005
Subordinated debentures	10,311	10,311
Total average balance	$ 161,324	$ 117,748

Contractual Obligations

There have been no material changes outside the ordinary course of business to the contractual obligations disclosed in the Corporation s Annual Report on Form 10-K for the fiscal year ended December 31, 2006.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Interest Rate Sensitivity Management

The Corporation uses a simulation model to analyze, manage and formulate operating strategies that address net interest income sensitivity to movements in interest rates. The simulation model projects net interest income based on various interest rate scenarios over a twelve month period. The model is based on the actual maturity and re-pricing characteristics of rate sensitive assets and liabilities. The model incorporates certain assumptions which management believes to be reasonable regarding the impact of changing interest rates and the prepayment assumption of certain assets and liabilities as of March 31, 2007. The table below reflects the outcome of these analyses at March 31, 2007, assuming a flat balance sheet. According to the model run for the period ended March 31, 2007 projecting forward over a twelve month period, an immediate 100 basis points increase in interest rates would result in a decline in net interest income by 0.84%. An immediate 100 basis points decline in interest rates would result in an increase in net interest income by 1.55%. 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. The following table reflects the Corporation s earnings sensitivity profile as of March 31, 2007.

Rate Shock Analysis
March 31, 2007

Change in Federal Funds Target Rate	Hypothetical Percentage Change In Earnings	Hypothetical Percentage Change In Economic Value of Equity
3.00%	-2.61%	-17.52%
2.00%	-1.71%	-11.37%
1.00%	-0.84%	-5.76%
-1.00%	1.55%	5.36%
-2.00%	2.81%	10.48%
-3.00%	2.94%	16.27%

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

The Mortgage Corporation is party to mortgage rate lock commitments to fund mortgage loans at interest rates previously agreed to, as locked by both the Corporation and the borrower for specified periods of time. When the borrower locks its interest rate, the Corporation effectively extends a put option to the borrower, whereby the borrower is not obligated to enter into the loan agreement, but the Corporation must honor the interest rate for the specified time period. The Corporation is exposed to interest rate risk during the accumulation of interest rate lock commitments and loans prior to sale. The Corporation utilizes either a best efforts sell forward commitment or a mandatory sell forward commitments 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. The Corporation did not have a material gain or loss representing the amount of hedge ineffectiveness during the reporting periods contained in this report.

Item 4. Controls and Procedures

Evaluation of Disclosure 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.

Changes in Internal Controls

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.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

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 Fairfax County, Virginia and the entire Washington, D.C. metropolitan area in which we conduct a substantial portion of our business. We compete with commercial banks, credit unions, savings and loan associations, mortgage banking firms, consumer finance companies, securities brokerage firms, insurance companies, money market funds and other mutual funds, as well as other local and community, super-regional, national and international financial institutions that operate offices in our primary market areas and elsewhere. Our future growth and success will depend on our ability to compete effectively in this highly competitive financial services environment.

Many of our competitors are well-established, larger financial institutions and many offer products and services that we do not. Many have substantially greater resources, name recognition and market presence that benefit them in attracting business. Some of our competitors are not subject to the same regulation as is imposed on bank holding companies and federally-insured national banks, including credit unions which do not pay federal income tax, and, therefore, have regulatory advantages over us in accessing funding and in providing various services. While we believe we compete effectively with these other financial institutions in our primary markets, we may face a competitive disadvantage as a result of our smaller size, smaller asset base, lack of geographic diversification and inability to spread our marketing costs across a broader market. If we have to raise interest rates paid on deposits or lower interest rates charged on loans to compete effectively, our net interest margin and income could be negatively affected. Failure to compete effectively to attract new, or to retain existing, clients may reduce or limit our net income and our market share and may adversely affect our results of operations, financial condition and growth.

Our profitability depends on interest rates generally, and we may be adversely affected by changes in government monetary policy.

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, particularly by the Board of Governors of the Federal Reserve System, which implements national monetary policy in order to mitigate recessionary and inflationary pressures, also affect the value of our loans. In setting its policy, the Federal Reserve may utilize techniques such as: (i) engaging in open market transactions in United States government securities; (ii) setting the discount rate on member bank borrowings; and (iii) determining reserve requirements. These techniques may have an adverse effect on our deposit levels, net interest margin, loan demand or our business and operations. In addition, 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, a decrease in loan originations, or a reduction in the value of and income from our loans, any 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 and other market disruptions are neither predictable nor controllable and may have a material and negative effect on our business, financial condition and results of operations.

Our profitability depends significantly on local economic conditions.

As a lender, we are exposed to the risk that our loan clients 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. With most of our loans concentrated in Northern Virginia, a decline in local economic conditions could adversely affect the values of our real estate collateral. Consequently, a decline in local economic conditions may have a greater effect on our earnings and capital than on the earnings and capital of larger financial institutions whose real estate loan portfolios are geographically diverse.

In addition to the financial strength and cash flow characteristics of each of our borrowers, the bank often secures loans with real estate collateral. At March 31, 2007, approximately 86.9% of our bank s loans held for investment have real estate as a primary or secondary component of collateral. The real estate collateral in each case provides an alternate source of repayment in the event of default by the borrower and may deteriorate in value during the time the credit is extended. If we are required to liquidate the collateral securing a loan to satisfy the debt during a period of reduced real estate values, our earnings and capital could be adversely affected.

Our business strategy includes the continuation of our growth plans, and our financial condition and results of operations could be negatively affected if we fail to grow or fail to manage our growth effectively.

We intend to continue to grow in our existing banking markets (internally and through additional offices) and to expand into new markets as appropriate opportunities arise. Our prospects must be considered in light of the risks, expenses and difficulties frequently encountered by companies that are experiencing growth. We cannot assure you we will be able to expand our market presence in our existing markets or successfully enter new markets, or that any expansion will not adversely affect our results of operations. Failure to manage our growth effectively could have a material adverse effect on our business, future prospects, financial condition or results of operations, and could adversely affect our ability to successfully implement our business strategy. Also, if our growth occurs more slowly than anticipated or declines, our operating results could be materially affected in an adverse way.

Our ability to successfully grow will depend on a variety of factors, including the continued availability of desirable business opportunities, the competitive responses from other financial institutions in our market areas and our ability to manage our growth. While we believe we have the management resources and internal systems in place to successfully manage our future growth, there can be no assurance growth opportunities will be available or growth will be successfully managed.

We may face risks with respect to future acquisitions.

As a strategy, we have sought to increase the size of our franchise by pursuing business development opportunities, and we have grown rapidly since our incorporation. As part of that strategy, we have acquired three mortgage companies and a small equipment leasing company. We may acquire other financial institutions and mortgage companies, or parts of those entities, in the future. Acquisitions and mergers involve a number of risks, including:

- the time and costs associated with identifying and evaluating potential acquisitions and merger partners;
- the estimates and judgments used to evaluate credit, operations, management and market risks with respect to the target entity may not be accurate;
- the time and costs of evaluating new markets, hiring experienced local management and opening new offices, and the time lags between these activities and the generation of sufficient assets and deposits to support the costs of the expansion;
- our ability to finance an acquisition and possible ownership and economic dilution to our current shareholders and to investors purchasing common stock in this offering;
- the diversion of our management s attention to the negotiation of a transaction, and the integration of the operations and personnel of the combining businesses;
- entry into new markets where we lack experience;
- the introduction of new products and services into our business;
- the incurrence and possible impairment of goodwill associated with an acquisition and possible adverse short-term effects on our results of operations; and
- the loss of key employees and clients.

We may incur substantial costs to expand, and we can give no assurance such expansion will result in the levels of profits we seek. There can be no assurance that integration efforts for any future mergers or acquisitions will be successful. Also, we may issue equity securities, including common stock and securities convertible into shares of our common stock, in connection with future acquisitions, which could cause ownership and economic dilution to our current shareholders and to investors purchasing common stock in this offering. There is no assurance that, following any future merger or acquisition, our integration efforts will be successful or our company, after giving effect to the acquisition, will achieve profits comparable to or better than our historical experience.

Our allowance for loan losses could become inadequate and reduce our earnings and capital.

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 clients 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. Our allowance for loan losses at March 31, 2007 was $5.7 million. 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 and reduce our earnings and capital.

Liquidity needs could adversely affect our results of operations and financial condition.

We rely on dividends from our bank as our primary source of funds. The primary source of funds of our bank are client deposits and loan repayments. While scheduled loan repayments are a relatively stable source of funds, they are subject to the ability of borrowers to repay the loans. The ability of borrowers to repay loans can be adversely affected by a number of factors, including changes in economic conditions, adverse trends or events affecting business industry groups, reductions in real estate values or markets, business closings or lay-offs, inclement weather, natural disasters and international instability. Additionally, deposit levels may be affected by a number of factors, including rates paid by competitors, general interest rate levels, regulatory capital requirements, returns available to clients on alternative investments and general economic conditions. Accordingly, we may be required from time to time to rely on secondary sources of liquidity to meet withdrawal demands or otherwise fund operations. Such sources include Federal Home Loan Bank advances, sales of securities and loans, and federal funds lines of credit from correspondent banks, as well as out-of-market time deposits. While we believe that these sources are currently adequate, there can be no assurance they will be sufficient to meet future liquidity demands, particularly if we continue to grow and experience increasing loan demand. We may be required to slow or discontinue loan growth, capital expenditures or other investments or liquidate assets should such sources not be adequate.

We are subject to extensive regulation that could limit or restrict our activities and adversely affect our earnings.

We operate in a highly regulated industry, and both we and our wholly-owned bank are subject to extensive regulation and supervision by the Federal Reserve Bank, the Office of the Comptroller of the Currency and the FDIC. Our compliance with these regulations is costly and restricts certain of our activities, including payment of dividends, mergers and acquisitions, investments, loans and interest rates charged, interest rates paid on deposits and locations of offices. We are also subject to capitalization guidelines established by our regulators, which require us to maintain adequate capital to support our growth. Many of these regulations are intended to protect depositors and the FDIC s Deposit Insurance Fund rather than our shareholders.

The Sarbanes-Oxley Act of 2002, and the related rules and regulations promulgated by the Securities and Exchange Commission and Nasdaq that are applicable to us, have increased the scope, complexity and cost of corporate governance, reporting and disclosure practices, including the cost of completing our audit and maintaining our internal controls. As a result, we may experience greater compliance costs.

The laws and regulations that apply to us could change 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 and our ability to operate profitably. 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 recent results may not be indicative of our future results.

We may not be able to sustain our historical rate of growth or may not even be able to grow our business at all. In addition, our recent and rapid growth may distort some of our historical financial ratios and statistics. In the future, we may not have the benefit of several recently favorable factors, such as a generally stable interest rate environment, a strong real estate market, or the ability to find suitable expansion opportunities. Various factors, such as economic conditions, regulatory and legislative considerations and competition, may also impede or prohibit our ability to expand our market presence. If we experience a significant decrease in our historical rate of growth, our results of operations and financial condition may be adversely affected due to a high percentage of our operating costs being fixed expenses.

Our hedging strategies may not be successful in managing our risks associated with interest rates.

We use various derivative financial instruments to provide a level of protection against interest rate risks, but no hedging strategy can protect us completely. When rates change, we expect to record a gain or loss on derivatives that would be offset by an inverse change in the value of loans held for sale and mortgage-related securities. We cannot assure you, however, that our hedging strategy and use of derivatives will offset the risks related to changes in interest rates. See Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Quantitative and Qualitative Market Risk Disclosure.

The profitability of our mortgage company will be significantly reduced if we are not able to sell mortgages.

Currently, we sell all of the mortgage loans originated by our mortgage company. We only underwrite mortgages that we reasonably expect will have more than one potential purchaser. The profitability of our mortgage company depends in large part upon our ability to originate or purchase a high volume of loans and to quickly sell them in the secondary market. Thus, we are dependent upon (i) the existence of an active secondary market and (ii) our ability to sell loans into that market.

The mortgage company s ability to sell mortgage loans readily is dependent upon the availability of an active secondary market for single-family mortgage loans, which in turn depends in part upon the continuation of programs currently offered by Fannie Mae and Freddie Mac and other institutional and non-institutional investors. These entities account for a substantial portion of the secondary market in residential mortgage loans. Some of the largest participants in the secondary market, including Fannie Mae and Freddie Mac, are government-sponsored enterprises whose activities are governed by federal law, and while we do not actively participate in their programs, they do have substantial market influence. Any future changes in laws that significantly affect the activity of these government-sponsored enterprises and other institutional and non-institutional investors or any impairment of our ability to participate in such programs could, in turn, adversely affect our operations.

We may be exposed to greater risks from offering non-conforming mortgage loans.

We are an acquirer and originator of non-conforming residential mortgage loans for sale into the secondary market. These are residential mortgages that do not qualify for purchase by government sponsored agencies such as Fannie Mae and Freddie Mac. Our operations may be negatively affected due to our investments in non-conforming mortgage loans. Credit, liquidity and repurchase risks associated with non-conforming mortgage loans may be greater than those for conforming mortgage loans. We, therefore, may assume the risk of increased delinquency rates and/or credit losses as well as interest rate risk.

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 depend on the accuracy and completeness of information about clients and counterparties.

In deciding whether to extend credit or enter into other transactions with clients and counterparties, we may rely on information furnished to us by or on behalf of clients and counterparties, including financial statements and other financial information. We also may rely on representations of clients and counterparties as to the accuracy and completeness of that information and, with respect to financial statements, on reports of independent auditors. For example, in deciding whether to extend credit to clients, we may assume that a customer s audited financial statements conform with GAAP and present fairly, in all material respects, the financial condition, results of operations and cash flows of the customer. Our financial condition and results of operations could be negatively impacted to the extent we rely on financial statements that do not comply with GAAP or are materially misleading.

Negative public opinion could damage our reputation and adversely impact our earnings.

Reputation risk, or the risk to our business, earnings and capital from negative public opinion, is inherent in our business. Negative public opinion can result from our actual or alleged conduct in any number of activities, including lending practices, corporate governance and acquisitions, and from actions taken by government regulators and community organizations in response to those activities. Negative public opinion can adversely affect our ability to keep and attract clients and employees and can expose us to litigation and regulatory action. Because virtually all of our businesses operate under the Access National brand, actual or alleged conduct by one business can result in negative public opinion about our other businesses. Although we take steps to minimize reputation risk in dealing with our clients and communities, this risk will always be present given the nature of our business.

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 ability to pay dividends is subject to regulatory restrictions, and we may be unable to pay future dividends.

Our ability to pay dividends is subject to regulatory restrictions and the need to maintain sufficient consolidated capital. Also, our only source of funds with which to pay dividends to our shareholders is dividends we receive from our bank, and the bank s ability to pay dividends to us is limited by its own obligations to maintain sufficient capital and regulatory restrictions. If these regulatory requirements are not satisfied, we will be unable to pay dividends on our common stock. We paid our first cash dividends on February 24, 2006. We cannot guarantee that dividends will not be reduced or eliminated in future periods.

Holders of our junior subordinated debentures have rights that are senior to those of our common stockholders.

We have supported our continued growth by issuing trust preferred securities through two special purpose trusts and accompanying junior subordinated debentures. At March 31, 2007, we had outstanding trust preferred securities totaling $10.3 million. We unconditionally guaranteed payment of principal and interest on the trust preferred securities. Also, the junior subordinated debentures we issued to the special purpose trust that relate to those trust preferred securities are senior to our common stock. As a result, we must make payments on the junior subordinated debentures before we can pay any dividends on our common stock. In the event of our bankruptcy, dissolution or liquidation, holders of our junior subordinated debentures must be satisfied before any distributions can be made on our common stock. We do have the right to defer distributions on our junior subordinated debentures (and the related trust preferred securities) for up to five years, but during that time we would not be able to pay dividends on our common stock.

Certain provisions under our articles of incorporation and applicable law may make it difficult for others to obtain control of our corporation even if such a change in control may be favored by some shareholders.

In addition to the amount of common stock controlled by our chairman of the board and other principal shareholder as described below under Selling Shareholders, certain provisions in our articles of incorporation and applicable Virginia corporate and banking law may have the effect of discouraging a change of control of our company even if such a transaction is favored by some of our shareholders and could result in shareholders receiving a substantial premium over the current market price of our shares. The primary purpose of these provisions is to encourage negotiations with our management by persons interested in acquiring control of our corporation. These provisions may also tend to perpetuate present management and make it difficult for shareholders owning less than a majority of the shares to be able to elect even a single director.

Our securities are not FDIC insured.

Our common stock is not a savings or deposit account or other obligation of the bank, and is not insured by the FDIC s Deposit Insurance Fund or any other governmental agency and is subject to investment risk, including the possible loss of principal.

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

None

Item 3. Defaults Upon Senior Securities

None

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

None

Item 5. Other information

None

Item 6. Exhibits

Exhibit No.	Description
3.1	Amended and Restated Articles of Incorporation of Access National Corporation (incorporated by reference to Exhibit 3.1 to Form 8-K filed July 18, 2006 (file number 000-49929))
3.2	Bylaws of Access National Corporation (incorporated by reference to Exhibit 3.2 to Form 8-K dated August 1, 2005 (file number 000-49929))
10.2+*	Employment Agreement between Dean F. Hackemer and Access National Mortgage Corp. dated May 11, 2007
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 the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Access National Corporation
(Registrant)

Date: May 14, 2007	**By: /s/ Michael W. Clarke** **Michael W. Clarke** **President & Chief Executive Officer** **(Principal Executive Officer)**
Date: May 14, 2007	**By: /s/ Charles Wimer** **Charles Wimer** **Executive Vice President & Chief Financial Officer (Principal Financial & Accounting Officer)**