

ACCESS NATIONAL CORP

Form 10-Q

May 15, 2006

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

**FORM 10-Q**

**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
**For the quarterly period ended March 31, 2006**

**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 office) (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  No   
Indicate by checkmark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

The number of shares outstanding of Access National Corporation's common stock, par value \$.835, as of May 8, 2006 was 8,101,462 shares.

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**PART I FINANCIAL INFORMATION****Item 1. Financial Statements****ACCESS NATIONAL CORPORATION  
CONSOLIDATED BALANCE SHEETS**

(In Thousands, Except for Share Data)

|  | March 31,<br>2006<br>(Unaudited) | December<br>31,<br>2005 |
|--|----------------------------------|-------------------------|
| <b>ASSETS</b>  |                                  |                         |
| Cash and due from banks  | \$ 12,884                        | \$ 9,854                |
| Interest bearing deposits in other banks   | 3,475                            | 13,329                  |
| Securities available for sale, at fair value   | 110,243                          | 87,771                  |
| Loans held for sale  | 70,635                           | 45,019                  |
| Loans, net of allowance for loan losses of \$5,339 and \$5,215 respectively  | 378,268                          | 364,518                 |
| Premises and equipment   | 9,656                            | 9,650                   |
| Other assets   | 7,317                            | 6,909                   |
| Total assets   | \$ 592,478                       | \$ 537,050              |
| <b>LIABILITIES AND SHAREHOLDERS EQUITY</b>   |                                  |                         |
| Deposits   |                                  |                         |
| Non-interest bearing deposits  | \$ 86,037                        | \$ 81,034               |
| Savings and interest-bearing deposits  | 138,651                          | 149,094                 |
| Time deposits  | 198,424                          | 189,501                 |
| Total deposits   | 423,112                          | 419,629                 |
| Other liabilities  |                                  |                         |
| Short-term borrowings  | 101,767                          | 48,196                  |
| Long-term borrowings   | 20,732                           | 21,786                  |
| Subordinated debentures  | 10,311                           | 10,311                  |
| Other liabilities  | 3,511                            | 5,943                   |
| Total liabilities  | 559,433                          | 505,865                 |
| <b>SHAREHOLDERS EQUITY</b>   |                                  |                         |
| Common stock, par value, \$0.835; authorized, 60,000,000 shares; issued and outstanding, 8,100,724 shares in 2006 and 7,956,556 shares in 2005 | 6,764                            | 6,644                   |
| Surplus  | 9,427                            | 9,099                   |
| Retained earnings  | 17,810                           | 16,227                  |
| Accumulated other comprehensive income (loss), net   | (956)                            | (785)                   |
| Total shareholders equity  | 33,045                           | 31,185                  |
| Total liabilities and shareholders equity  | \$ 592,478                       | \$ 537,050              |

See accompanying notes to consolidated financial statements (Unaudited).

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**ACCESS NATIONAL CORPORATION**  
**CONSOLIDATED STATEMENT OF INCOME**

(In Thousands, Except for Share Data)

(Unaudited)

|   | <b>Three Months Ended March</b> |             |
|---|---------------------------------|-------------|
|   | <b>31,</b>                      |             |
|   | <b>2006</b>                     | <b>2005</b> |
| <b>Interest and Dividend Income</b>                     |                                 |             |
| Interest and fees on loans                              | \$ 7,495                        | \$ 5,060    |
| Interest on deposits in other banks                     | 99                              | 66          |
| Interest and dividends on securities                    | 1,051                           | 493         |
| <br>Total interest and dividend income                  | <br>8,645                       | <br>5,619   |
| <br><b>Interest Expense</b>                             |                                 |             |
| Interest on deposits                                    | 3,299                           | 1,807       |
| Interest on short-term borrowings                       | 846                             | 219         |
| Interest on long-term borrowings                        | 202                             | 252         |
| Interest on subordinated debentures                     | 201                             | 157         |
| <br>Total interest expense                              | <br>4,548                       | <br>2,435   |
| <br>Net interest income                                 | <br>4,097                       | <br>3,184   |
| Provision for loan losses                               | 124                             | 114         |
| <br>Net interest income after provision for loan losses | <br>3,973                       | <br>3,070   |
| <br><b>Noninterest Income</b>                           |                                 |             |
| Service fees on deposit accounts                        | 74                              | 34          |
| Gain on sale of loans                                   | 5,115                           | 4,634       |
| Mortgage broker fee income                              | 866                             | 931         |
| Other income  | 48                              | 554         |
| <br>Total noninterest income                            | <br>6,103                       | <br>6,153   |
| <br><b>Noninterest Expense</b>                          |                                 |             |
| Salaries and employee benefits                          | 4,706                           | 4,563       |
| Occupancy and equipment                                 | 526                             | 536         |
| Other operating expenses                                | 2,384                           | 2,556       |
| <br>Total noninterest expense                           | <br>7,616                       | <br>7,655   |
| <br>Income before income taxes                          | <br>2,460                       | <br>1,568   |

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|                             |           |           |
|-----------------------------|-----------|-----------|
| Income tax expense          | 837       | 533       |
| NET INCOME                  | \$ 1,623  | \$ 1,035  |
| Earnings per common share:  |           |           |
| Basic                       | \$ 0.20   | \$ 0.13   |
| Diluted                     | \$ 0.17   | \$ 0.11   |
| Average outstanding shares: |           |           |
| Basic                       | 8,018,133 | 7,917,998 |
| Diluted                     | 9,658,239 | 9,345,524 |

See accompanying notes to consolidated financial statements (Unaudited).

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**ACCESS NATIONAL CORPORATION**  
**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY**  
**For the Three Months Ended March 31, 2006 and 2005**

(In Thousands)  
(Unaudited)

|   | Common<br>Stock | Surplus  | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) | Comprehensive<br>Income | Total     |
|---|-----------------|----------|----------------------|---|-------------------------|-----------|
| <b>Balance, December 31, 2005</b>   | \$ 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 tax \$88  |                 |          |                      | (171)   | (171)                   | (171)     |
|   |                 |          |                      |   | \$ 1,452                |           |
| Cash Dividend   |                 |          | (40)                 |   |                         | (40)      |
| Common Stock issued for exercise of warrants, shares  | 120             | 328      |                      |   |                         | 448       |
| <b>Balance, March 31, 2006</b>  | \$ 6,764        | \$ 9,427 | \$ 17,810            | \$ (956)  |                         | \$ 33,045 |
| <b>Balance, December 31, 2004</b>   | \$ 6,608        | \$ 9,067 | \$ 10,330            | \$ (7)  | \$                      | \$ 25,998 |
| Comprehensive income:   |                 |          |                      |   |                         |           |
| Net income  |                 |          | 1,035                |   | 1,035                   | 1,035     |
| Other comprehensive income (loss), unrealized holdings losses arising during the period, net of tax \$242 |                 |          |                      | (471)   | (471)                   | (471)     |
|   |                 |          |                      |   | \$ 564                  |           |



|   |          |          |           |          |           |
|---|----------|----------|-----------|----------|-----------|
| Common Stock issued for<br>exercise of warrants, shares | 4        | 4        |           |          | 8         |
| <b>Balance, March 31, 2005</b>                          | \$ 6,612 | \$ 9,071 | \$ 11,365 | \$ (478) | \$ 26,570 |

See accompanying notes to consolidated financial statements (Unaudited).

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**ACCESS NATIONAL CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(unaudited)

|   | <b>Three Months Ended March</b> |             |
|---|---------------------------------|-------------|
|   | <b>31,</b>                      |             |
|   | <b>2006</b>                     | <b>2005</b> |
|   | (In Thousands)                  |             |
| <b>Cash Flows from Operating Activities</b>                                     |                                 |             |
| Net income  | \$ 1,623                        | \$ 1,035    |
| Adjustments to reconcile net income to net cash (used in) operating activities: |                                 |             |
| Provision for loan losses   | 124                             | 114         |
| Deferred tax (benefit)  | (77)                            |             |
| Stock Based Compensation  | 18                              |             |
| Gain (loss) on derivatives  | (28)                            | 26          |
| Net amortization (accretion) on securities                                      | (1)                             | 1           |
| Depreciation and amortization   | 197                             | 167         |
| Changes in assets and liabilities:  |                                 |             |
| (Increase) decrease in loans held for sale                                      | (25,380)                        | (12,572)    |
| (Increase) decrease in other assets   | (232)                           | (818)       |
| Increase (decrease) in other liabilities  | (2,432)                         | 372         |
| Net cash (used in) operating activities   | (26,188)                        | (11,675)    |
| <b>Cash Flows from Investing Activities</b>                                     |                                 |             |
| Proceeds from maturities and calls of securities available for sale             | 1,657                           | 4,127       |
| Purchases of securities available for sale                                      | (24,387)                        | (10,169)    |
| Net (increase) in loans   | (14,110)                        | (5,861)     |
| Purchases of premises and equipment   | (186)                           | (44)        |
| Net cash (used in) investing activities   | (37,026)                        | (11,947)    |
| <b>Cash Flows from Financing Activities</b>                                     |                                 |             |
| Net increase (decrease) in demand, interest-bearing demand and savings deposits | (5,439)                         | 46,877      |
| Net increase (decrease) in time deposits  | 8,922                           | 2,332       |
| Net increase (decrease) in securities sold under agreement to repurchase        | 250                             | (2,364)     |
| Net increase (decrease) in short-term borrowings                                | 54,321                          | (19,496)    |
| Net increase (decrease) in long term borrowings                                 | (2,054)                         | (1,054)     |
| Proceeds from issuance of common stock  | 430                             | 7           |
| Dividends Paid  | (40)                            |             |
| Net cash provided by financing activities                                       | 56,390                          | 26,302      |
| Increase (decrease) in cash and cash equivalents                                | (6,824)                         | 2,680       |
| <b>Cash and Cash Equivalents</b>  |                                 |             |
| Beginning   | 23,183                          | 30,532      |

|  |           |           |
|--|-----------|-----------|
| Ending   | \$ 16,359 | \$ 33,212 |
| <b>Supplemental Disclosures of Cash Flow Information</b>                 |           |           |
| Cash payments for interest   | \$ 4,530  | \$ 2,430  |
| Cash payments for income taxes   | \$ 1,477  | \$ 815    |
| <b>Supplemental Disclosures of Noncash Investing Activities</b>          |           |           |
| Unrealized gain (loss) on securities available for sale                  | (259)     | (713)     |
| See accompanying notes to consolidated financial statements (Unaudited). |           |           |

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**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 four wholly-owned subsidiaries: Access National Mortgage Corporation (the Mortgage Corporation) and United First Mortgage Corporation ( UFM ), both Virginia corporations engaged in mortgage banking activities, Access National Leasing Corporation, a Virginia corporation engaged in commercial and industrial leasing services, and Access Real Estate LLC. Access National Leasing was acquired in exchange for 7,500 shares of Access National Bank stock in the second quarter of 2002. The 7,500 shares were subsequently repurchased in 2003. The leasing subsidiary presently has no employees and its affairs are managed as a part of the Bank's commercial lending department. Access Real Estate LLC is a limited liability corporation established in July, 2003 for the purpose of holding title to the Corporation's headquarters building, located at 1800 Robert Fulton Drive, Reston, Virginia.

The Corporation formed Access Capital Trust I and Access Capital Trust II in 2002 and 2003 respectively for the purpose of issuing redeemable capital securities. On July 30, 2002 Access Capital Trust I, issued \$4 million of trust preferred securities and on September 30, 2003, Access Capital Trust II issued \$6 million of trust preferred securities. Trust preferred securities may be included in Tier 1 capital in an amount equal to 25% of Tier 1 capital and amounts in excess of 25% are includable as Tier 2 capital. As guarantor, the Corporation unconditionally guarantees payment of all distributions required to be paid on the Trust Preferred Securities.

In August 2004, Access National Bank acquired all of the common stock of UFM. The acquisition of UFM gave the company a new location in the Richmond, Virginia market plus entry into the Fredericksburg and Staunton markets. The new locations became branch offices of the Mortgage Corporation.

In July 2005 Access Real Estate LLC purchased an unimproved commercial building lot in Spotsylvania County, Virginia where the Corporation is contemplating the construction of a combined banking and mortgage center.

**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, 2006 are not necessarily indicative of the results that may be expected for the entire year ending December 31, 2006. These consolidated financial statements should be read in conjunction with the Corporation's audited financial statements and the notes thereto as of December 31, 2005, included in the Corporation's Annual Report for the fiscal year ended December 31, 2005.

**ACCESS NATIONAL CORPORATION**  
**Notes to Consolidated Financial Statements**  
(Unaudited)

**NOTE 3 STOCK BASED COMPENSATION PLANS**

**Stock-Based Compensation Plans** - On January 1, 2006, the Corporation adopted the provisions of Statement of Financial Accounting Standards ( SFAS ) No. 123(R), Share-Based Payment, which requires the measurement and recognition of compensation expense for all stock-based awards made to employees based on estimated fair values. SFAS No. 123(R) supersedes previous accounting under Accounting Principles Board ( APB ) Opinion No. 25, Accounting for Stock Issued to Employees for periods beginning in fiscal 2006. In March 2005, the SEC issued Staff Accounting Bulletin ( SAB ) No. 107, providing supplemental implementation guidance for SFAS 123(R). The Company has applied the provisions of SAB No. 107 in its adoption of SFAS No. 123(R). SFAS No. 123(R) requires companies to estimate the fair value of stock-based awards on the date of grant using an option pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as expense over the requisite service periods. The Company adopted SFAS No. 123(R) using the modified prospective application, which requires the application of the standard starting from January 1, 2006, the first day of the current fiscal year.

The Company's condensed consolidated financial statements for the three months ended March 31, 2006 reflect the impact of SFAS No. 123(R). Stock-based compensation expense related to employee stock options recognized under SFAS No. 123(R) for the three months ended March 31, 2006 was \$18 thousand and is included in other operating expenses. The total income tax benefit recognized for share-based compensation arrangements for the three months ended March 31, 2006 was \$6 thousand. As of March 31, 2006, total unamortized stock-based compensation cost related to non-vested stock options was \$99 thousand, net of expected forfeitures, which is expected to be recognized over a weighted-average period of 0.95 years.

Prior to the adoption of SFAS No. 123(R), the Company accounted for stock-based awards to employees using the intrinsic value method in accordance with APB No. 25, as allowed under SFAS No. 123, Accounting for Stock-Based Compensation. Under the intrinsic value method, no stock-based compensation expense for employee stock options had been recognized in the Company's consolidated statements of operations because the exercise price of the Company's stock options granted to employees equaled the fair market value of the underlying stock at the date of grant. In accordance with the modified prospective transition method the Company used in adopting SFAS No. 123(R), the Company's results of operations prior to fiscal 2006 have not been restated to reflect, and do not include, the impact of SFAS No. 123(R).

Stock-based compensation expense recognized during a period is based on the value of the portion of stock-based awards that is ultimately expected to vest during the period. Stock-based compensation expense recognized in the three months ended March 31, 2006 included compensation expense for stock-based awards granted prior to, but not yet vested as of December 31, 2005, based on the fair value on the grant date estimated in accordance with the pro forma provisions of SFAS No. 123. As stock-based compensation expense recognized for the first quarter of fiscal 2006 is based on awards ultimately expected to vest, it has been reduced for forfeitures.

The following table illustrates the pro forma net income and earnings per share for the three months ended March 31, 2005 as if compensation expense for stock options issued to employees had been determined consistent with SFAS No. 123:

**ACCESS NATIONAL CORPORATION**  
**Notes to Consolidated Financial Statements**  
(Unaudited)

**STOCK BASED COMPENSATION PLANS**

|  | <b>Three Month<br/>Period<br/>Ended March 31,<br/>2005</b> |
|--|--|
|  | (In Thousands<br>Except<br>for Share Data)                 |
| Net Income, as reported  | \$ 1,035   |
| Total stock-based compensation determined under fair value based method for all awards,<br>net of realized tax effects | \$ (159)   |
| Pro-forma Net Income   | <b>\$ 876</b>  |
| Earnings per Share:  |  |
| Basic as reported  | \$ 0.13  |
| Basic pro forma  | \$ 0.11  |
| Diluted as reported  | \$ 0.11  |
| Diluted pro forma  | \$ 0.10  |

**ACCESS NATIONAL CORPORATION**  
**Notes to Consolidated Financial Statements**  
(Unaudited)

**NOTE 4 SECURITIES**

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

|   | <b>March 31, 2006</b> |                              |                               |                  |
|---|-----------------------|------------------------------|-------------------------------|------------------|
|   | Amortized<br>Cost     | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value    |
|   |                       | (In Thousands)               |                               |                  |
| U.S. Treasury Securities                              | \$ 1,602              | \$                           | \$ (2)                        | \$ 1,600         |
| U.S. Government Agencies                              | 96,335                |                              | (1,292)                       | 95,043           |
| Mortgage Backed Securities                            | 1,309                 | 1                            | (4)                           | 1,306            |
| Tax Exempt Municipals                                 | 2,895                 |                              | (45)                          | 2,850            |
| Taxable Municipals                                    | 1,500                 |                              | (55)                          | 1,445            |
| Mutual Fund   | 1,500                 |                              | (52)                          | 1,448            |
| Restricted Securities -<br>Federal Reserve Bank Stock | 720                   |                              |                               | 720              |
| FHLB Stock  | 5,831                 |                              |                               | 5,831            |
| <b>Total Securities</b>                               | <b>\$111,692</b>      | <b>\$ 1</b>                  | <b>\$ (1,450)</b>             | <b>\$110,243</b> |

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

**ACCESS NATIONAL CORPORATION**  
**Notes to Consolidated Financial Statements**  
(Unaudited)

The amortized cost and fair value of securities available for sale as of March 31, 2006 and December 31, 2005 by contractual maturity are shown below. Expected maturities may differ from contractual maturities because the securities may be called or prepaid without any penalties.

|                                     | <b>March 31, 2006</b>     |                       | <b>December 31, 2005</b>  |                       |
|-------------------------------------|---------------------------|-----------------------|---------------------------|-----------------------|
|                                     | <b>Amortized<br/>Cost</b> | <b>Fair<br/>Value</b> | <b>Amortized<br/>Cost</b> | <b>Fair<br/>Value</b> |
|                                     | (In Thousands)            |                       | (In Thousands)            |                       |
| US Treasury & Agencies              |                           |                       |                           |                       |
| Due in one year or less             | \$ 15,625                 | \$ 15,488             | \$ 3,606                  | \$ 3,570              |
| Due after one through five years    | 80,814                    | 79,694                | 72,831                    | 71,808                |
| Due after five through ten years    | 1,498                     | 1,461                 | 1,498                     | 1,484                 |
| Municipals                          |                           |                       |                           |                       |
| Due after five through ten years    | 3,880                     | 3,783                 | 3,880                     | 3,796                 |
| Due after ten through fifteen years | 515                       | 512                   | 515                       | 510                   |
| Mortgage Backed Securities          |                           |                       |                           |                       |
| Due after one through five years    | 1,309                     | 1,306                 | 1,392                     | 1,393                 |
| Mutual Fund                         | 1,500                     | 1,448                 | 1,500                     | 1,471                 |
| Restricted Stock:                   |                           |                       |                           |                       |
| Federal Reserve Bank stock          | 720                       | 720                   | 300                       | 300                   |
| FHLB stock                          | 5,831                     | 5,831                 | 3,439                     | 3,439                 |
|                                     | <b>\$ 111,692</b>         | <b>\$ 110,243</b>     | <b>\$ 88,961</b>          | <b>\$ 87,771</b>      |



**ACCESS NATIONAL CORPORATION**  
**Notes to Consolidated Financial Statements**  
(Unaudited)

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

**March 31, 2006**

|  | Securities in a loss<br>Position for less than<br>12 Months |                      | Securities in a loss<br>Position for 12 Months<br>or Longer |                      | Total            |                      |
|--|---|----------------------|---|----------------------|------------------|----------------------|
|  | Fair<br>Value   | Unrealized<br>Losses | Fair<br>Value   | Unrealized<br>Losses | Fair<br>Value    | Unrealized<br>Losses |
|  |   |                      | (In Thousands)  |                      |                  |                      |
| <b>Investment securities<br/>available for sale:</b> |   |                      |   |                      |                  |                      |
| U.S. Treasury Security                               | \$ 1,600  | \$ (2)               |   |                      | \$ 1,600         | \$ (2)               |
| Mortgage Backed Security                             | 1,016   | (4)                  |   |                      | 1,016            | (4)                  |
| U.S. Government Agencies                             | 20,261  | (223)                | 69,781  | (1,069)              | 90,042           | (1,292)              |
| Municipals-Taxable                                   | 1,446   | (55)                 |   |                      | 1,446            | (55)                 |
| Municipals-Tax Exempt                                | 1,463   | (14)                 | 1,386   | (31)                 | 2,849            | (45)                 |
| CRA Mutual Fund                                      | 1,448   | (52)                 |   |                      | 1,448            | (52)                 |
| <b>Total</b>   | <b>\$ 27,234</b>  | <b>\$ (350)</b>      | <b>\$ 71,167</b>  | <b>\$ (1,100)</b>    | <b>\$ 98,401</b> | <b>\$ (1,450)</b>    |

**December 31, 2005**

|  | Securities in a loss<br>Position for less than<br>12 Months |                      | Securities in a loss<br>Position for 12 Months<br>or Longer |                      | Total            |                      |
|--|---|----------------------|---|----------------------|------------------|----------------------|
|  | Fair<br>Value   | Unrealized<br>Losses | Fair<br>Value   | Unrealized<br>Losses | Fair<br>Value    | Unrealized<br>Losses |
|  |   |                      | (In Thousands)  |                      |                  |                      |
| <b>Investment securities<br/>available for sale:</b> |   |                      |   |                      |                  |                      |
| U.S. Treasury Security                               | \$ 1,602  | \$ (4)               |   |                      | \$ 1,602         | \$ (4)               |
| Mortgage Backed Security                             | 485   | (2)                  |   |                      | 485              | (2)                  |
| U.S. Government Agencies                             | 28,950  | (377)                | 29,309  | (691)                | 58,259           | (1,068)              |
| Municipals-Taxable                                   | 1,465   | (35)                 |   |                      | 1,465            | (35)                 |
| Municipals-Tax Exempt                                | 2,840   | (55)                 |   |                      | 2,840            | (55)                 |
| CRA Mutual Fund                                      | 1,471   | (29)                 |   |                      | 1,471            | (29)                 |
| <b>Total</b>   | <b>\$ 36,813</b>  | <b>\$ (502)</b>      | <b>\$ 29,309</b>  | <b>\$ (691)</b>      | <b>\$ 66,122</b> | <b>\$ (1,193)</b>    |

Management does not believe that any individual unrealized loss as of March 31, 2006 and December 31, 2005 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.



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**NOTE 5 LOANS**

The following table presents the composition of the loan portfolio at March 31, 2006 and December 31, 2005.

|                                 | <b>March<br/>31, 2006</b> | <b>December 31,<br/>2005</b> |
|---------------------------------|---------------------------|------------------------------|
|                                 | <b>(In Thousands)</b>     |                              |
| Commercial and Industrial loans | \$ 43,751                 | \$ 38,516                    |
| Real Estate Non-Residential     | 143,461                   | 137,423                      |
| Real Estate Construction        | 37,463                    | 37,054                       |
| Real Estate Residential         | 157,732                   | 156,185                      |
| Consumer loans                  | 1,200                     | 555                          |
| <br>                            |                           |                              |
| Total loans                     | 383,607                   | 369,733                      |
| Less allowance for loan losses  | 5,339                     | 5,215                        |
| <br>                            |                           |                              |
| Net loans                       | \$ 378,268                | \$ 364,518                   |

**NOTE 6 SEGMENT REPORTING**

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

The commercial bank segment provides the mortgage segment with the short term funds needed to originate mortgage loans through a warehouse line of credit and charges the mortgage banking segment interest based on a premium over their cost to borrow funds. These transactions are eliminated in the consolidation process.

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 is derived from rents received from the Bank and Mortgage Corporation.

**ACCESS NATIONAL CORPORATION**  
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The following table presents segment information for the three months ended March 31, 2006 and 2005:

| <b>2006</b><br><b>(In Thousands)</b> | <b>Commercial<br/>Banking</b> | <b>Mortgage<br/>Banking</b> | <b>Other</b> | <b>Eliminations</b> | <b>Consolidated<br/>Totals</b> |
|--------------------------------------|-------------------------------|-----------------------------|--------------|---------------------|--------------------------------|
| Revenues:                            |                               |                             |              |                     |                                |
| Interest income                      | \$ 8,682                      | \$ 634                      | \$ 13        | \$ (684)            | \$ 8,645                       |
| Gain on sale of loans                |                               | 5,115                       |              |                     | 5,115                          |
| Other revenues                       | 400                           | 894                         | 562          | (868)               | 988                            |
| Total revenues                       | 9,082                         | 6,643                       | 575          | (1,552)             | 14,748                         |
| Expenses:                            |                               |                             |              |                     |                                |
| Interest expense                     | 4,233                         | 681                         | 318          | (684)               | 4,548                          |
| Salaries and employee benefits       | 1,531                         | 3,175                       |              |                     | 4,706                          |
| Other                                | 983                           | 2,251                       | 417          | (617)               | 3,034                          |
| Total expenses                       | 6,747                         | 6,107                       | 735          | (1,301)             | 12,288                         |
| Income before income taxes           | \$ 2,335                      | \$ 536                      | \$ (160)     | \$ (251)            | \$ 2,460                       |
| Total assets                         | \$ 560,877                    | \$ 72,756                   | \$ 37,405    | \$ (78,560)         | \$ 592,478                     |
| <b>2005</b><br><b>(In Thousands)</b> | <b>Commercial<br/>Banking</b> | <b>Mortgage<br/>Banking</b> | <b>Other</b> | <b>Elimination</b>  | <b>Consolidated<br/>Totals</b> |
| Revenues:                            |                               |                             |              |                     |                                |
| Interest income                      | \$ 5,579                      | \$ 507                      | \$ 21        | \$ (488)            | \$ 5,619                       |
| Gain on sale of loans                |                               | 4,666                       |              | (32)                | 4,634                          |
| Other                                | 458                           | 1,137                       | 459          | (535)               | 1,519                          |
| Total revenues                       | 6,037                         | 6,310                       | 480          | (1,055)             | 11,772                         |
| Expenses:                            |                               |                             |              |                     |                                |
| Interest expense                     | 2,238                         | 408                         | 277          | (488)               | 2,435                          |
| Salaries and employee benefits       | 1,394                         | 3,169                       |              |                     | 4,563                          |
| Other                                | 806                           | 2,509                       | 257          | (366)               | 3,206                          |
| Total expenses                       | 4,438                         | 6,086                       | 534          | (854)               | 10,204                         |
| Income before income taxes           | \$ 1,599                      | \$ 224                      | \$ (54)      | \$ (201)            | \$ 1,568                       |

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|              |            |           |           |             |            |
|--------------|------------|-----------|-----------|-------------|------------|
| Total assets | \$ 419,963 | \$ 78,897 | \$ 35,388 | \$ (86,903) | \$ 447,345 |
|--------------|------------|-----------|-----------|-------------|------------|

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**ACCESS NATIONAL CORPORATION**  
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**NOTE 7 EARNINGS PER SHARE (EPS):**

The following tables show the calculation of both Basic and Diluted earnings per share for the three months ended March 31, 2006 and 2005 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.

|   | <b>Three<br/>months<br/>Ended<br/>March 31,<br/>2006</b> | <b>Three months<br/>Ended<br/>March 31,<br/>2005</b> |
|---|--|--|
|   | (In thousands except for share data)                     |  |
| <b>BASIC EARNINGS PER SHARE:</b>            |  |  |
| Net Income                                  | \$ 1,623   | \$ 1,035   |
| Weighted average shares outstanding         | 8,018,133  | 7,917,998  |
| <br>  |  |  |
| Basic earnings per share                    | \$ 0.20  | \$ 0.13  |
| <br><b>DILUTED EARNINGS PER SHARE:</b>      |  |  |
| Net Income                                  | \$ 1,623   | \$ 1,035   |
| Weighted average shares outstanding         | 8,018,133  | 7,917,998  |
| Dilutive stock options and warrants         | 1,640,106  | 1,427,526  |
| <br>  |  |  |
| Weighted average diluted shares outstanding | 9,658,239  | 9,345,524  |
| <br>  |  |  |
| Diluted earnings per share                  | \$ 0.17  | \$ 0.11  |

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**NOTE 8 DERIVATIVES**

Access National 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, 2006 and December 31, 2005 the Mortgage Corporation had derivative financial instruments with a notional value of \$113,839,000 and \$96,809,000 respectively. The fair value of these derivative instruments at March 31, 2006 and December 31, 2005 was \$113,741,000 and \$96,731,000 respectively.

**NOTE 9 RECENT ACCOUNTING PRONOUNCEMENTS**

In May 2005, the FASB issued SFAS 154, Accounting Changes and Error Corrections, a Replacement of APB Opinion 20 and FASB Statement No. 3. SFAS 154 amends the existing guidance and applies to accounting for and reporting of a change in accounting principle. SFAS 154 also applies to changes required by accounting pronouncements when the pronouncement does not include explicit transition provisions. SFAS 154 is effective for accounting changes and error corrections made in fiscal years beginning after December 15, 2005. The adoption of SFAS 154 didn't have a material impact on the financial condition or the results of operation of the Corporation. In late 2005, the FASB's staff issued Staff Position (FSP) FAS 115-1, *The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments*. This FSP provides additional guidance on when an investment in a debt or equity security should be considered impaired and when that impairment should be considered other-than-temporary and recognized as a loss. Additionally, the FSP requires certain disclosures about unrealized losses which have not been recognized as other-than-temporary. The effect of this guidance did not have a material effect on the Bank's consolidated financial statements upon implementation on January 1, 2006.

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**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, 2006 and 2005. 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, fore, 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: interest rates, general economic conditions, monetary and fiscal policies of the U.S. Government, including policies of the Office of the Comptroller of the Currency, U.S. Treasury and the FRB, the economy of Northern Virginia, including governmental spending and real estate markets, the quality or composition of the loan or investment portfolios, demand for loan products, deposit flows, competition, and accounting principles, policies and guidelines. These risks and uncertainties should be considered in evaluating the forward-looking statements contained herein, and readers are cautioned not to place undue reliance on such statements. Any forward-looking statement speaks only as of the date on which it is made, and we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which it is made.

**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 principals 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** Access National 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**

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In the ordinary course of business, the Bank issues commitments to extend credit and, at March 31, 2006, these commitments amounted to \$25.5 million. These commitments do not necessarily represent cash requirements, since many commitments are expected to expire without being drawn on.

At March 31 2006, the Bank had approximately \$74.5 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.

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**FINANCIAL CONDITION (March 31, 2006 compared to December 31, 2005)**

The Corporation's assets totaled \$592.5 million at March 31, 2006, an increase of \$55.4 million from year end 2005. The Corporation continues to experience strong growth in assets. Net loans held for investment, originated by the Bank, increased \$13.8 million over year end. The growth in loans held for investment is due to continued strong loan demand in our area and increased market penetration. Loans held for sale totaled \$70.6 million, up \$25.6 million from December 31, 2005. The increase in loans held for sale is due to an increase in loan originations during the month of March 2006 and a build up of inventory to complete a bulk trade. Management continues to employ a strategy of attracting highly qualified professional lenders to support future growth in the loans held for investment. The future balances in the loans held for sale category will continue to experience volatility due to fluctuations of interest rates. The balances of this short term investment fluctuate daily as necessary to support loan origination and secondary market sales activities.

Asset growth during the period was supported by a combination of deposit growth and short term borrowings. Deposits totaled \$423.1 million at March 31, 2006 up from \$419.6 million at December 31, 2005. Short term borrowings increased by \$53.6 million during the first quarter of 2006. The increase in short term borrowings is due in part to the increase in loans held for sale. In addition, short term borrowings are used to compensate for fluctuations in core deposits. The Bank concentrates on commercial accounts and due to the nature of these accounts, balances can be subject to wide fluctuations. Management has expanded the business development and marketing staff to support future deposit growth necessary to fund loan growth. Management expects continued utilization of wholesale Certificates of Deposits and other borrowings as necessary to fund the loans held for sale activity and growth in financial investments.

**Securities**

The Corporation's securities portfolio is comprised of U.S. Treasury securities, U.S. Government Agency securities, obligations of States and Political subdivisions, mortgage backed securities, Federal Reserve and Federal Home Loan Bank stock. At March 31, 2006 the securities portfolio totaled \$110.2 million, up from \$87.8 million on December 31, 2005. 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 stockholders' equity, net of associated tax effect. The Corporation's securities classified as available for sale had an unrealized loss net of deferred taxes of \$956 thousand on March 31, 2006.

**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 Access National Bank (the Bank), Access National Mortgage Corporation (the Mortgage Corporation) and Access National Leasing Corporation (the Leasing Corporation) are subject to the regulations and supervision of the Office of the Comptroller of Currency.

At March 31, 2006, loans held for investment increased by \$13.9 million from December 31, 2005 and totaled \$383.6 million. The increase is due to a combination of factors, including direct solicitation, referrals, community involvement, expansion of the Bank's loan officer staffing, and increased name recognition and acceptance of the Bank's products and services within the marketplace. Management intends to continue to increase loan officer staffing and support in order to facilitate continued growth in the portfolio. The following is a summary of the Loan Portfolio Held for Investment at March 31, 2006.

**Commercial Loans:** Commercial Loans represent 11.4% 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. These loans are underwritten based upon our assessment of the obligor(s)' ability to generate operating cash flow in the future necessary to repay the loan. To address the risks associated with the uncertainties of future cash flow, these loans are generally well secured

by assets owned by the business or its principal shareholders and the principal shareholders are typically required to guarantee the loan.

Real Estate Construction Loans: Real Estate Construction Loans, also known as construction and land development loans, comprise 9.8% 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

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to additional administration procedures designed to verify and ensure progress of the project in accordance with allocated funding, project specifications and time frames.

**Real Estate Non-Residential Loans:** Also known as Commercial Mortgages, loans in this category represent 37.4% 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 41.1% 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 14.7%; First Trust Mortgage Loans 74.7%; Loans Secured by a Junior Trust 7.4%; Multi-family loans and loans secured by Farmland 3.2%.

Home Equity Loans are extended to borrowers in our target market. Real estate equity is the largest component of consumer wealth in our marketplace. Once approved, this consumer finance tool allows the borrower to access the equity in their home or investment property and use the proceeds for virtually any purpose. Home Equity Loans are most frequently secured by a second lien on residential property. 1-4 Family Residential First Trust Loan, or First Mortgage Loan, proceeds are used to acquire or refinance the primary financing on owner occupied and residential investment properties. Junior Trust Loans, or Loans Secured by a Second Trust Loans, are to consumers wherein the proceeds have been used for a stated consumer purpose. Examples of consumer purposes are education, refinancing debt, or purchasing consumer goods. The loans are generally extended in a single disbursement and repaid over a specified period of time.

Loans in the Residential Real Estate portfolio are underwritten to standards within a traditional consumer framework that is periodically reviewed and up-dated by our management and Board of Directors: repayment source and capacity, value of the underlying property, credit history, savings pattern and stability.

**Consumer Loans:** Consumer Loans make up less than 0.3% of our loan portfolio. Most loans are well secured with assets other than real estate, such as marketable securities or automobiles. Very few loans are unsecured. As a matter of operation, management discourages unsecured lending. Loans in this category are underwritten to standards within a traditional consumer framework that is periodically reviewed and 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 Access National Mortgage Corporation, a wholly owned subsidiary of Access National Bank. Loans of these types are residential mortgage loans extended to consumers underwritten in accordance with standards set forth by an institutional investor to whom we expect to sell the loan for a profit. Loan proceeds are used for the purchase or refinance of the property securing the loan. Loans are sold with the servicing released to the investor.

The LHFS loans are closed in our name and carried on our books until the loan is delivered to and purchased by an investor. In the three month period ending March 31, 2006 we originated \$155.4 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. To date we have been able to absorb the financial impact of these risks without material impact on our operating performance. At March 31, 2006 loans held for sale totaled \$70.6 million

compared to \$45.0 million at year end 2005. The increase in loans held for sale at is primarily due to an increase in inventory pending a bulk loan sale, which closed subsequent to March 31, 2006.

**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 first quarter of 2006, we originated a total volume of \$37.5 million in residential mortgage loans under this type of delivery method, as compared to \$41.7 million in the first quarter of 2005. Brokered loans accounted for 19.4% of the total loan volume for the first quarter of 2006.

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**Allowance for Loan Losses**

The allowance for loan losses increased by \$124 thousand and totaled \$5.3 million at March 31, 2006 compared to \$5.2 million at year end 2005. The allowance for loan losses at March 31, 2006 was 1.39% of total loans held for investment compared to 1.41% at year end 2005. The allowance for Commercial loans as a percent of the total Commercial loans amounted to 3.6%, compared to 4.0% at year end 2005. The allowance for Construction Loans was 1.3% at March 31, 2006 and December 31, 2005. The allowance for Commercial Real Estate loans was 1.4% of total Commercial Real Estate loans as of March 31, 2006 and 1.4% at year end 2005. The allowance for Residential Real Estate loans remained unchanged and was 0.8% as a percent of total Residential Real Estate loans at March 31, 2006 and December 31, 2005. 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, 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, 2006 the total net charge offs for the six years of operation was approximately \$19 thousand. The overall allowance for loan losses is equivalent to approximately 1.39% 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, 2006 our evaluation of these factors supported approximately 64.7% 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.



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When deterioration develops in an individual credit, the loan is placed on a Watch List and the loan is monitored more closely. All loans on the watch list are evaluated for specific loss potential based upon either an evaluation of the liquidated value of the collateral or cash flow deficiencies. If management believes that, with respect to a specific loan, an impaired source of repayment, collateral impairment or a change in a debtor's financial condition presents a heightened risk of non-performance of a particular loan, a portion of the reserve may be specifically allocated to that individual loan. The aggregation of this loan by loan loss analysis comprises the Specific Reserve and accounted for approximately 16.0% of the total loss reserve. For the first quarter of 2006, this Specific Reserve relates to three loans totaling \$2.1 million as of March 31, 2006 that were assigned additional reserves based on an evaluation of the established primary and secondary sources of repayment, which suggested a potential degradation in those sources of repayment.

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, 2006 the threshold range for this component was 0.00% to 0.15% of the total loan portfolio and accounted for approximately 19.3% of the total loss reserve.

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)

|                                 |          |
|---------------------------------|----------|
| Balance as of December 31, 2005 | \$ 5,215 |
| Charge offs                     |          |
| Recoveries                      |          |
| Provision                       | 124      |
| Balance as of March 31, 2006    | \$ 5,339 |

**Allocation of the Allowance for Loan Losses**

|                          | March 31, 2006 |            |                               |                                      | December 31, 2005 |            |                               |            |
|--------------------------|----------------|------------|-------------------------------|--------------------------------------|-------------------|------------|-------------------------------|------------|
|                          | Amount         | Percentage | Allowance<br>for Loan<br>Loss | Percentage<br>(Dollars In Thousands) | Amount            | Percentage | Allowance<br>for Loan<br>Loss | Percentage |
| Commercial               | \$ 43,751      | 11.40%     | \$ 1,588                      | 29.74%                               | \$ 38,516         | 10.42%     | \$ 1,546                      | 29.64%     |
| Commercial real estate   | 143,461        | 37.40%     | 1,958                         | 36.67                                | 137,423           | 37.17%     | 1,896                         | 36.36      |
| Real estate construction | 37,463         | 9.77%      | 504                           | 9.45                                 | 37,054            | 10.02%     | 499                           | 9.58       |
| Residential real estate  | 157,732        | 41.12%     | 1,274                         | 23.86                                | 156,185           | 42.24%     | 1,267                         | 24.30      |
| Consumer                 | 1,200          | 0.31%      | 15                            | 0.28                                 | 555               | 15.00%     | 6                             | 0.12       |
|                          | \$ 383,607     | 100.00%    | \$ 5,339                      | 100.00%                              | \$ 369,733        | 100.00%    | \$ 5,215                      | 100.00%    |

**Nonperforming Loans And Past Due**

At March 31, 2006 there were two loans in non accrual status totaling \$1.2 million. Non accrual loans are carefully monitored and specific reserves established as necessary to ensure any estimated loss can be absorbed by the designated reserve. Approximately \$811 thousand of the loss reserve was dedicated as specific reserve to these non-performing loans. In management's estimate the specific reserve for these loans will be adequate to absorb reasonably foreseeable losses. Management actively works with the borrowers to maximize potential for repayment and reports on the status of the same to the Board of Directors, no less than on a monthly basis.

**ACCESS NATIONAL CORPORATION**  
**Notes to Consolidated Financial Statements**  
(Unaudited)

**Deposits**

Deposits are the primary source of funding loan growth. At March 31, 2006 deposits totaled \$423.1 million compared to \$419.6 million on December 31, 2005, an increase of \$3.5 million. Non-Interest Bearing accounts increased \$5.0 million, Savings and Money Market accounts declined \$10.4 million and Time Deposits increased \$8.9 million. The decline in Savings and Money Market accounts is partially due to transfers into Time Deposits for higher interest rates. 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. At March 31, select core commercial non interest bearing accounts were down approximately \$8.7 million from December 2005 levels. These temporary fluctuations are typically offset by growth in deposits and short term borrowings.

We utilize our professional loan officers to market both loans and deposits. In addition, management has expanded the business development and marketing areas of the Bank to provide continued future growth.

**Shareholders' Equity**

Shareholders' equity was \$33.0 million at March 31, 2006. 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. Shareholders' equity increased by \$1.9 million during the three months ended March 31, 2006. The increase is due to the retention of \$1.6 million in earnings following a \$40 thousand dividend payment. Other comprehensive income (loss) representing unrealized losses on available for sale securities was \$956 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.

**ACCESS NATIONAL CORPORATION**  
**Notes to Consolidated Financial Statements**  
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**Risk Based Capital Analysis**

|  | <b>March<br/>31,<br/>2006</b> | <b>December<br/>31,<br/>2005</b> |                               |
|--|-------------------------------|----------------------------------|-------------------------------|
|  | (In Thousands)                |                                  |                               |
| <b>Tier 1 Capital:</b>                         |                               |                                  |                               |
| Common stock                                   | \$ 6,764                      | \$ 6,644                         |                               |
| Capital surplus                                | 9,427                         | 9,099                            |                               |
| Retained earnings                              | 17,810                        | 16,227                           |                               |
| Less: Net Unrealized loss on equity Securities | (34)                          | (19)                             |                               |
| Subordinated debentures                        | 10,311                        | 10,311                           |                               |
| <b>Total Tier 1 capital</b>                    | <b>44,278</b>                 | <b>42,262</b>                    |                               |
| Subordinated debentures not included in Tier I |                               |                                  |                               |
| Allowance for loan losses                      | 5,272                         | 4,874                            |                               |
| <br>   |                               |                                  |                               |
| Total Risk Based Capital                       | \$ 49,550                     | \$ 47,136                        |                               |
| <br>   |                               |                                  |                               |
| Risk weighted assets                           | \$ 421,491                    | \$ 389,381                       |                               |
| <br>   |                               |                                  |                               |
| Quarterly average assets                       | \$ 544,073                    | \$ 552,292                       |                               |
| <br>   |                               |                                  |                               |
|  |                               |                                  | <b>Regulatory<br/>Minimum</b> |
| <b>Capital Ratios:</b>                         |                               |                                  |                               |
| Tier 1 risk based capital ratio                | 10.51%                        | 10.85%                           | 4.00%                         |
| Total risk based capital ratio                 | 11.76%                        | 12.11%                           | 8.00%                         |
| Leverage ratio                                 | 8.14%                         | 7.65%                            | 4.00%                         |

**ACCESS NATIONAL CORPORATION**  
**Notes to Consolidated Financial Statements**  
(Unaudited)

**RESULTS OF OPERATIONS (MARCH 31, 2006)**

**Summary**

Pretax income for the three months ended March 31, 2006 was \$2.5 million compared to \$1.6 million for the corresponding period of 2005. Net income after taxes for the three months ended March 31, 2006 totaled \$1.6 million compared to \$1.0 million for the same period in 2005.

First quarter income before taxes in 2006 from the Banking segment was \$2.3 million versus \$1.6 million for the same period in 2005. Income from the banking segment increased approximately \$730 thousand over the same period last year and accounted for 70% of the increase in earnings. This increase in income is attributable to a focus on commercial lending, increased name recognition and the addition of experienced professional loan officers all of which expanded our base of business. Earnings were impacted by increased interest expense associated with an increase in short term borrowings and higher interest rates on deposits. Income from the Mortgage segment was \$536 thousand for the three months ended March 31, 2006, compared to \$224 thousand for the corresponding period in 2005. This increase was primarily due to the gain on sale of loans in the first quarter of 2006.

In the three months ended March 31, 2006 the banking segment accounted for 94.9% of the pretax consolidated earnings. The banking segment is the predominant contributor to growth and earnings. Revenue from the mortgage segment is subject to fluctuations as mortgage interest rates change.

Basic earnings per common share for the first quarter of 2006 amounted to \$0.20 per share, up from \$0.13 per share in 2005. Diluted earnings per share for the first quarter were \$0.17 up from \$0.11 per share in the first quarter of 2005. Interest and fees on loans increased by \$2.4 million in the three months ended March 31, 2006 over the same period of 2005 reflecting the \$85.1 million increase in loans held for investment from the first quarter of 2005. Interest on investment securities increased \$558 thousand due to a \$53.5 million increase in investment securities over March 31, 2005. Non interest income totaled \$6.1 million for the three months ended March 31, 2006 compared to \$6.2 million for the same period in 2005.

**Net Interest Income**

Net interest income, the principal source of bank earnings, is the amount of income generated by earning assets (primarily loans and investment securities) less the interest expense incurred on interest bearing liabilities (primarily deposits) used to fund earning assets. During the first quarter of 2006 our net interest margin decreased 6 basis points from 3.20% in 2005 to 3.14% in 2006. The decrease in net interest margin is due to the flat yield curve and increased rates on deposits.

Net interest income for three months ended March 31, 2006 increased to \$4.1 million compared to \$3.2 million for the same period in 2005. Net interest income depends upon the volume of earning assets and interest bearing liabilities and the associated rates. Average interest earning assets increased \$125.4 million from \$398.3 million at March 31, 2005 to \$523.7 million in 2006. The increase is attributed to the growth in average loans which increased by \$78.2 million and the growth in average investment securities which increased by \$46.6 million. The yield on earning assets increased from 5.64% in 2005 to 6.61% in 2006 reflecting an increase in yield on all earning asset categories and reflects the current rate environment.

Total interest expense for the first quarter of 2006 increased \$2.1 million over the total of \$2.4 million for the same period in 2005 as a result of increases in interest bearing deposits and increased interest expense on borrowings. Total interest bearing deposits averaged \$339.6 million at period ended March 31, 2006 compared to \$241.6 million at March 31, 2005. Borrowed funds for three months ended March 31, 2006 averaged \$107.3 million compared to \$73.9 million for the corresponding period in 2005. The increase in deposits and borrowings funded the growth in earning assets. The average cost of interest bearing liabilities at March 31, 2006 was 4.07% up 98 basis points from March 31, 2005.

**ACCESS NATIONAL CORPORATION**  
**Notes to Consolidated Financial Statements**  
(Unaudited)  
**Volume and Rate Analysis**

|  | <b>Three Months Ended March 31,<br/>2006 compared to 2005</b> |                                  |               |
|--|---|----------------------------------|---------------|
|  | <b>Change Due To:</b>   |                                  |               |
|  | <b>Increase /<br/>(Decrease)</b>                              | <b>Volume<br/>(In Thousands)</b> | <b>Rate</b>   |
| <b>Interest Earning Assets:</b>                      |   |                                  |               |
| Securities   | \$ 570  | \$ 488                           | \$ 82         |
| Loans  | 2,435   | 1,308                            | 1,127         |
| Interest bearing deposits                            | 33  | 4                                | 29            |
| <b>Total Increase (Decrease) in Interest Income</b>  | <b>3,038</b>  | <b>1,800</b>                     | <b>1,238</b>  |
| <b>Interest Bearing Liabilities:</b>                 |   |                                  |               |
| Interest-bearing demand deposits                     | 21  | 2                                | 19            |
| Money market deposit accounts                        | 390   | 124                              | 266           |
| Savings accounts                                     |   |                                  |               |
| Time deposits  | 1,081   | 772                              | 309           |
| <b>Total interest-bearing deposits</b>               | <b>1,492</b>  | <b>898</b>                       | <b>594</b>    |
| FHLB Advances  | 549   | 370                              | 179           |
| Securities sold under agreements to repurchase       | 4   | (3)                              | 7             |
| Other short-term borrowings                          | 74  | 10                               | 64            |
| Long-term borrowings                                 | (50)  | (46)                             | (4)           |
| Subordinated debentures                              | 44  |                                  | 44            |
| <b>Total Increase (Decrease) in Interest Expense</b> | <b>2,113</b>  | <b>1,229</b>                     | <b>884</b>    |
| <b>Increase in Net Interest Income</b>               | <b>\$ 925</b>   | <b>\$ 571</b>                    | <b>\$ 354</b> |

**ACCESS NATIONAL CORPORATION**  
**Notes to Consolidated Financial Statements**  
(Unaudited)

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

|  | <b>Three Month</b>            |              |                |                   |              |              |
|--|-------------------------------|--------------|----------------|-------------------|--------------|--------------|
|  | <b>Period Ended March 31,</b> |              |                |                   |              |              |
|  | <b>2006</b>                   | <b>Yield</b> |                | <b>2005</b>       | <b>Yield</b> |              |
| <b>Average</b>                                 | <b>Income</b>                 | <b>/</b>     | <b>Average</b> | <b>Income</b>     | <b>/</b>     |              |
| <b>Balance</b>                                 | <b>Expense</b>                | <b>Rate</b>  | <b>Balance</b> | <b>Expense</b>    | <b>Rate</b>  |              |
|  | (Dollars In Thousands)        |              |                |                   |              |              |
| <b>Assets:</b>                                 |                               |              |                |                   |              |              |
| <b>Interest earning assets:</b>                |                               |              |                |                   |              |              |
| Securities*                                    | \$ 99,572                     | \$ 1,063     | 4.27%          | \$ 52,947         | \$ 493       | 3.72%        |
| Loans <sup>(3)</sup>                           | 414,633                       | 7,495        | 7.23%          | 336,443           | 5,060        | 6.02%        |
| Interest bearing deposits                      | 9,504                         | 99           | 4.17%          | 8,950             | 66           | 2.95%        |
| <b>Total interest earning assets</b>           | <b>523,709</b>                | <b>8,657</b> | <b>6.61%</b>   | <b>398,340</b>    | <b>5,619</b> | <b>5.64%</b> |
| <b>Non-interest earning assets:</b>            |                               |              |                |                   |              |              |
| Cash and due from banks                        | 10,284                        |              |                | 11,202            |              |              |
| Premises, land and equipment                   | 9,683                         |              |                | 8,750             |              |              |
| Other assets                                   | 5,646                         |              |                | 5,600             |              |              |
| Less: allowance for loan losses                | (5,250)                       |              |                | (4,070)           |              |              |
| <b>Total non-interest earning assets</b>       | <b>20,363</b>                 |              |                | <b>21,482</b>     |              |              |
| <b>Total Assets</b>                            | <b>\$ 544,072</b>             |              |                | <b>\$ 419,822</b> |              |              |
| <b>Liabilities and Shareholders</b>            |                               |              |                |                   |              |              |
| <b>Equity:</b>                                 |                               |              |                |                   |              |              |
| <b>Interest bearing liabilities:</b>           |                               |              |                |                   |              |              |
| Interest-bearing demand deposits               | \$ 11,073                     | \$ 61        | 2.20%          | \$ 10,580         | \$ 40        | 1.51%        |
| Money market deposit accounts                  | 127,282                       | 1,221        | 3.84%          | 111,978           | 831          | 2.97%        |
| Savings accounts                               | 494                           | 1            | 0.81%          | 389               | 1            | 1.03%        |
| Time deposits                                  | 200,727                       | 2,016        | 4.02%          | 118,619           | 935          | 3.15%        |
| <b>Total interest-bearing deposits</b>         | <b>339,576</b>                | <b>3,299</b> | <b>3.89%</b>   | <b>241,566</b>    | <b>1,807</b> | <b>2.99%</b> |
| FHLB Advances                                  | 61,933                        | 719          | 4.64%          | 25,056            | 170          | 2.71%        |
| Securities sold under agreements to repurchase | 1,592                         | 13           | 3.27%          | 2,100             | 9            | 1.71%        |
| Other short-term borrowings                    | 11,768                        | 114          | 3.87%          | 9,788             | 40           | 1.63%        |
| Long-term borrowings                           | 21,668                        | 202          | 3.73%          | 26,618            | 252          | 3.79%        |
| Subordinated Debentures                        | 10,311                        | 201          | 7.80%          | 10,311            | 157          | 6.09%        |
| <b>Total interest-bearing liabilities</b>      | <b>446,848</b>                | <b>4,548</b> | <b>4.07%</b>   | <b>315,439</b>    | <b>2,435</b> | <b>3.09%</b> |
| <b>Non-interest bearing liabilities:</b>       |                               |              |                |                   |              |              |

|  |                   |                   |
|--|-------------------|-------------------|
| Demand deposits                                    | 60,302            | 74,335            |
| Other liabilities                                  | 4,482             | 3,641             |
| <b>Total liabilities</b>                           | <b>511,632</b>    | <b>393,415</b>    |
| Shareholders' Equity                               | 32,440            | 26,407            |
| <b>Total Liabilities and Shareholders' Equity:</b> | <b>\$ 544,072</b> | <b>\$ 419,822</b> |

|                                     |          |       |          |       |
|-------------------------------------|----------|-------|----------|-------|
| Interest Spread <sup>(1)</sup>      |          | 2.54% |          | 2.55% |
| Net Interest Margin <sup>(2)*</sup> | \$ 4,109 | 3.14% | \$ 3,184 | 3.20% |

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

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

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

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



**ACCESS NATIONAL CORPORATION**  
**Notes to Consolidated Financial Statements**  
(Unaudited)

**Non Interest Income**

Non-interest income consists of revenue generated from a broad range of financial services and activities. The Mortgage Corporation provides the most significant contributions towards non-interest income. Total non-interest income was \$6.1 million for the first quarter of 2006 compared to \$6.2 million for the same period in 2005, a decrease of \$100 thousand. Gains on the sale of loans originated by the Mortgage Corporation totaled \$5.1 million, compared to \$4.6 million in 2005. Mortgage broker fees amounted to \$866 thousand compared to \$931 thousand in 2005. Other income totaled \$48 thousand, down from \$554 thousand at March 31, 2005. The decrease in other income is primarily due to the decline in miscellaneous loan related fees.

**Non Interest Expense**

Non interest expense totaled \$7.6 million for the first quarter of 2006 compared to \$7.7 million for the same period in 2005. Salaries and benefits totaled \$4.7 million and comprised 61.8% of total non operating expense. Of the \$4.7 million, 67.5% of the expense is attributable to the Mortgage Corporation and 32.5% attributable to the Bank. The majority of compensation expense for the Mortgage Corporation is variable with loan origination volume. Other operating expenses totaled \$2.4 million at March 31, 2006, down from \$2.6 million at March 31, 2005. Advertising is the largest component of other operating expense and totaled \$1.0 million at March 31, 2006 compared to \$800 thousand at March 31, 2005.

**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, 2006, overnight interest bearing balances totaled \$3.5 million and securities available for sale totaled \$110.2 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, 2006, the Corporation had a line of credit with the Federal Home Loan Bank of Atlanta totaling \$157.8 million and outstanding variable rate loans of \$85.0 million, and an additional \$21.5 million in term loans at fixed rates ranging from 2.70% to 4.97% leaving \$53.7 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, 2006, outstanding repurchase agreements totaled \$1.2 million and commercial paper issued amounted to \$17.4 million. The interest rate on these instruments is variable and subject to change daily. The Bank also maintains Federal Funds lines of credit with its correspondent banks and, at March 31, 2006, these lines amounted to \$22.6 million. The Corporation also has \$10.3 million in subordinated debentures to support the growth of the organization.

**ACCESS NATIONAL CORPORATION**  
**Notes to Consolidated Financial Statements**  
(Unaudited)  
**Borrowed Funds Distribution**

|  | <b>March<br/>31,<br/>2006</b> | <b>December<br/>31,<br/>2005</b> |
|--|-------------------------------|----------------------------------|
| (Dollars In Thousands)                         |                               |                                  |
| <b>At Period End</b>                           |                               |                                  |
| FHLB Advances                                  | \$ 85,000                     | \$ 36,000                        |
| FHLB long term borrowings                      | 20,732                        | 21,786                           |
| Securities sold under agreements to repurchase | 1,227                         | 977                              |
| Other short term borrowings                    | 15,540                        | 11,219                           |
| Subordinated debentures                        | 10,311                        | 10,311                           |
| <br>Total at period end                        | <br>\$ 132,810                | <br>\$ 80,293                    |
| <br><b>Average Balances</b>                    |                               |                                  |
| FHLB Advances                                  | \$ 61,933                     | \$ 43,375                        |
| FHLB long term borrowings                      | 21,668                        | 24,028                           |
| Securities sold under agreements to repurchase | 1,592                         | 925                              |
| Other short term borrowings                    | 11,768                        | 8,520                            |
| Subordinated debentures                        | 10,311                        | 10,311                           |
| <br>Total average balance                      | <br>\$ 107,272                | <br>\$ 87,159                    |
| <br>Average rate paid on all borrowed funds    | <br>4.66%                     | <br>4.02%                        |

**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, 2005.

**ACCESS NATIONAL CORPORATION**  
**Notes to Consolidated Financial Statements**  
(Unaudited)

**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, 2006. The table below reflects the outcome of these analyses at March 31, 2006, assuming a flat balance sheet. According to the model run for the period ended March 31, 2006 over a twelve month period, an immediate 100 basis points increase in interest rates would result in a decline in net interest income by 3.00%. An immediate 100 basis points decline in interest rates would result in an increase in net interest income by 2.05%. 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, 2006.

| <b>Rate Shock Analysis</b>                |  |  |
|---|--|--|
| <b>March 31, 2006</b>                     |  |  |
| Change in<br>Federal Funds<br>Target Rate | Hypothetical<br>Percentage Change<br>In Earnings | Hypothetical Percentage<br>Change In Economic<br>Value of Equity |
| 3.00%                                     | -9.40%   | -19.00%  |
| 2.00%                                     | -6.17%   | -12.30%  |
| 1.00%                                     | -3.00%   | -6.20%   |
| -1.00%                                    | 2.05%  | 4.60%  |
| -2.00%                                    | 2.68%  | 7.75%  |
| -3.00%                                    | 2.49%  | 10.84%   |

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

The Mortgage Corporation is party to mortgage rate lock commitments to fund mortgage loans at interest rates previously agreed (locked) by both the Corporation and the borrower for specified periods of time. When the borrower locks their interest rate, the Corporation effectively extends a put option to the borrower, whereby the borrower is not obligated to enter into the loan agreement, but the Corporation must honor the interest rate for the specified time period. The Corporation is exposed to interest rate risk during the accumulation of interest rate lock commitments and loans prior to sale. The Corporation utilizes either a best efforts sell forward commitment or a mandatory sell forward 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.

**ACCESS NATIONAL CORPORATION**  
**Notes to Consolidated Financial Statements**  
(Unaudited)

**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.

**ACCESS NATIONAL CORPORATION**  
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(Unaudited)

**PART II OTHER INFORMATION**

**Item 1. Legal Proceedings**

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

**Item 1A. Risk Factors**

Please refer to the Corporation's Annual Report on Form 10-K for the year ended December 31, 2005 for disclosures with respect to the Corporation's risk factors. There have been no material changes since year-end 2005 in the specified risk factors disclosed in the Annual Report on Form 10-K.

**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

**ACCESS NATIONAL CORPORATION**  
**Notes to Consolidated Financial Statements**  
(Unaudited)

**Item 6. Exhibits**

| Exhibit No. | Description   |
|-------------|---|
| 3.1         | Articles of Incorporation of Access National Corporation (incorporated by reference to Exhibit 3.1 to Form 10-K filed March 31, 2006 (file number 000-49929)) |
| 3.2         | Bylaws of Access National Corporation (incorporated by reference to Exhibit 3.2 to Form 8-K dated August 1, 2005 (file number 000-49929))                     |
| 4           | Form of Common Stock Certificate (incorporated by reference to Exhibit 4.0 to Form 10-KSB filed March 31, 2003 (file number 000-49929))                       |
| 10.5+       | Schedule of Non-Employee Directors Annual Compensation (incorporated by reference to Exhibit 10.5 to Form 10-K filed March 31, 2006 (file number 000-49929))  |
| 10.6+       | Base Salaries for Named Executive Officers (incorporated by reference to Exhibit 10.6 to Form 10-K filed March 31, 2006 (file number 000-49929))              |
| 31.1*       | CEO Certification Pursuant to Rule 13a-14(a)  |
| 31.2*       | CFO Certification Pursuant to Rule 13a-14(a)  |
| 32*         | CEO/CFO Certification Pursuant to § 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. § 1350)  |

\* filed herewith

+ indicates a management contract or compensatory plan or arrangement

**ACCESS NATIONAL CORPORATION**  
**Notes to Consolidated Financial Statements**  
(Unaudited)

**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 12, 2006**

**By: /s/ Michael W. Clarke**

**Michael W. Clarke**  
**President & Chief Executive Officer**  
**(Principal Executive Officer)**

**Date: May 12, 2006**

**By: /s/ Charles Wimer**

**Charles Wimer**  
**Executive Vice President & Chief Financial**  
**Officer**  
**(Principal Financial & Accounting Officer)**