ACCESS NATIONAL CORP
Form 10-Q
November 09, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

<u>FORM 10-Q</u>

(Mark One)

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

For the quarterly period ended September 30, 2015

or

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

For the transition period from _______ to __________

Commission File Number: 000-49929

<u>ACCESS NATIONAL CORPORATION</u>

(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 No.)

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

(Address of principal executive offices) (Zip Code)

(703) 871-2100

(Registrant's telephone number, including area code)

N/A

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

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

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

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

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

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

The number of shares outstanding of Access National Corporation’s common stock, par value $0.835, as of November 6, 2015 was 10,544,126 shares.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

ACCESS NATIONAL CORPORATION

Consolidated Balance Sheets

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

	September 30, 2015 (Unaudited)	December 31, 2014
ASSETS		
Cash and due from banks	$ 11,085	$ 9,804
Interest-bearing balances and federal funds sold	33,781	46,225
Investment securities:		
Available-for-sale, at fair value	141,572	125,080
Held-to-maturity, at amortized cost (fair value of $14,487 and $14,378)	14,293	14,309
Total investment securities	155,865	139,389
Restricted stock, at amortized cost	4,071	8,961
Loans held for sale - at fair value	35,904	45,026
Loans	849,037	776,603
Allowance for loan losses	(13,474)	(13,399)
Net loans	835,563	763,204
Premises, equipment and land, net	6,811	6,926
Accrued interest receivable	3,004	2,907
Other assets	32,145	30,438
Total assets	$ 1,118,229	$ 1,052,880
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Noninterest-bearing deposits	$ 334,225	$ 252,875
Savings and interest-bearing deposits	278,050	233,773
Time deposits	319,160	268,795
Total deposits	931,435	755,443
Other liabilities		
Short-term borrowings	59,699	185,635
Long-term borrowings	10,000	-

Other liabilities and accrued expenses	9,466	12,898
Total liabilities	$ 1,010,600	$ 953,976
SHAREHOLDERS' EQUITY		
Common stock $0.835 par value; 60,000,000 authorized; issued and outstanding, 10,521,317 and 10,469,569 shares, respectively	$ 8,785	$ 8,742
Additional paid in capital	19,588	18,538
Retained earnings	79,048	72,168
Accumulated other comprehensive income (loss), net	208	(544)
Total shareholders' equity	107,629	98,904
Total liabilities and shareholders' equity	$ 1,118,229	$ 1,052,880

See accompanying notes to consolidated financial statements (unaudited).

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ACCESS NATIONAL CORPORATION

Consolidated Statements of Income

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

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Interest and Dividend Income				
Interest and fees on loans	$ 10,254	$ 9,133	$ 29,659	$ 26,446
Interest on federal funds sold and bank balances	34	27	95	72
Interest and dividends on securities	868	755	2,465	1,844
Total interest and dividend income	11,156	9,915	32,219	28,362
Interest Expense				
Interest on deposits	990	757	2,590	2,272
Interest on short-term borrowings	37	74	219	202
Interest on long-term borrowings	32	-	64	-
Total interest expense	1,059	831	2,873	2,474
Net interest income	10,097	9,084	29,346	25,888
Provision for loan losses	-	-	150	-
Net interest income after provision for loan losses	10,097	9,084	29,196	25,888
Noninterest Income				
Service charges and fees	236	167	651	525
Gain on sale of loans	5,834	4,799	15,110	10,314
Other income	342	247	4,037	2,946
Total noninterest income	6,412	5,213	19,798	13,785
Noninterest Expense				
Salaries and benefits	6,703	5,860	20,419	16,699
Occupancy and equipment	751	715	2,247	2,082
Other operating expenses	3,025	108	8,713	4,777
Total noninterest expense	10,479	6,683	31,379	23,558
Income before income taxes	6,030	7,614	17,615	16,115
Income tax expense	2,086	2,682	6,114	5,705
NET INCOME	$ 3,944	$ 4,932	$ 11,501	$ 10,410

Earnings per common share:				
Basic	$ 0.37	$ 0.47	$ 1.09	$ 0.99
Diluted	$ 0.37	$ 0.47	$ 1.09	$ 0.99
Average outstanding shares:				
Basic	10,519,954	10,440,986	10,504,086	10,414,384
Diluted	10,593,415	10,476,050	10,567,173	10,459,283

See accompanying notes to consolidated financial statements (unaudited).

ACCESS NATIONAL CORPORATION

Consolidated Statements of Comprehensive Income

(In Thousands)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income	$ 3,944	$ 4,932	$ 11,501	$ 10,410
Other comprehensive income (loss):				
Unrealized gains (losses) on securities				
Unrealized holding gains (losses) arising during period	1,177	(344)	1,337	1,491
Less: reclassification adjustment for gains included in net income	(180)	(57)	(180)	(45)
Tax effect	(348)	141	(405)	(506)
Net of tax amount	649	(260)	752	940
Comprehensive income	$ 4,593	$ 4,672	$ 12,253	$ 11,350

See accompanying notes to consolidated financial statements (unaudited).

ACCESS NATIONAL CORPORATION

Consolidated Statements of Changes in Shareholders' Equity

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

(Unaudited)

	Common Stock	Additional Paid in Capital	Retained Earnings	Accumulated Other Compre-hensive Income (Loss)	Total
Balance, December 31, 2014	$ 8,742	$ 18,538	$ 72,168	$ (544)	$ 98,904
Net income	-	-	11,501	-	11,501
Other comprehensive income	-	-	-	752	752
Stock options exercised (6,541 shares)	6	65	-	-	71
Issuance of restricted common stock (7,500 shares)	6	122	-	-	128
DRSPP shares issued from reserve (37,707)	31	607	-	-	638
Cash dividend ($0.44 per share)	-	-	(4,621)	-	(4,621)
Stock-based compensation expense recognized in earnings	-	256	-	-	256
Balance, September 30, 2015	$ 8,785	$ 19,588	$ 79,048	$ 208	$ 107,629
Balance, December 31, 2013	$ 8,659	$ 17,320	$ 67,121	$ (1,966)	$ 91,134
Net income	-	-	10,410	-	10,410
Other comprehensive income	-	-	-	940	940
Stock options exercised (55,382 shares)	46	398	-	-	444
Issuance of restricted common stock (24,017 shares)	20	365	-	-	385
Cash dividend ($0.36 per share)	-	-	(3,750)	-	(3,750)
Stock-based compensation expense recognized in earnings	-	177	-	-	177
Balance, September 30, 2014	$ 8,725	$ 18,260	$ 73,781	$ (1,026)	$ 99,740

See accompanying notes to consolidated financial statements (unaudited).

ACCESS NATIONAL CORPORATION

Consolidated Statements of Cash Flows

(In Thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2015	2014
Cash Flows from Operating Activities		
Net income	$ 11,501	$ 10,410
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Provision for loan losses	150	-
Release of provision for losses on mortgage loans sold	-	(3,250)
Provision for off balance sheet losses	109	-
Write down of other real estate owned	-	707
Income from bank-owned life insurance	345	217
Gain on sale of securities	89	47
Deferred tax (benefit) expense	(2)	1,190
Stock-based compensation	256	177
Purchases of loans held for sale	(379,619)	(294,748)
Sales of loans held for sale	388,320	277,575
Increase in valuation allowance on derivatives	(344)	(108)
Net amortization on securities	758	557
Depreciation and amortization	380	363
Loss on disposal of assets	-	1
Changes in assets and liabilities:		
Decrease (increase) in valuation of loans held for sale carried at fair value	421	(758)
Increase in other assets	(2,136)	(3,590)
(Decrease) increase in other liabilities	(3,640)	577
Net cash provided by (used in) operating activities	16,588	(10,633)
Cash Flows from Investing Activities		
Proceeds from maturities, calls, and prepayments of securities available for sale	11,586	5,979
Proceeds from sale of securities	31,057	24,606
Purchases of securities available for sale	(58,809)	(80,596)
Proceeds from maturities and calls of securities held to maturity	-	5,000
Purchase of securities held to maturity	-	(3,055)
Purchases of Federal Reserve and Federal Home Loan Bank stock	(7,043)	(13,950)
Proceeds from redemption of Federal Reserve and Federal Home Loan Bank stock	11,933	14,223
Purchase of bank owned life insurance	-	(15,000)
Net increase in loans	(72,510)	(39,949)

Purchases of premises and equipment	(237)	(253)
Net cash used in investing activities	(84,023)	(102,995)
Cash Flows from Financing Activities		
Net increase in demand, interest-bearing demand and savings deposits	125,627	124,609
Net increase in time deposits	50,365	34,491
Decrease in securities sold under agreement to repurchase	(5,936)	(7,263)
(Decrease) increase in other short-term borrowings	(120,000)	10,000
Increase in long-term borrowings	10,000	-
Proceeds from issuance of common stock	837	829
Dividends paid	(4,621)	(3,750)
Net cash provided by financing activities	56,272	158,916
Increase (decrease) in cash and cash equivalents	(11,163)	45,288
Cash and Cash Equivalents		
Beginning	56,029	23,419
Ending	$ 44,866	$ 68,707
Supplemental Disclosures of Cash Flow Information		
Cash payments for interest	$ 2,841	$ 2,343
Cash payments for income taxes	$ 6,517	$ 4,361
Supplemental Disclosures of Noncash Investing Activities		
Unrealized gain on securities available for sale	$ 1,157	$ 1,446

See accompanying notes to consolidated financial statements (unaudited).

Notes to Consolidated Financial Statements (Unaudited)

NOTE 1 – BASIS OF PRESENTATION

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

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with rules and regulations of the Securities and Exchange Commission ("SEC"). The statements do not include all of the information and footnotes required by GAAP for complete financial statements. All adjustments have been made which, in the opinion of management, are necessary for a fair presentation of the results for the interim periods presented. Such adjustments are all of a normal and recurring nature. All significant inter-company accounts and transactions have been eliminated in consolidation. Certain prior period amounts have been reclassified to conform to the current period presentation. The results of operations for the three and nine months ended September 30, 2015 are not necessarily indicative of the results that may be expected for the entire year ending December 31, 2015. These consolidated financial statements should be read in conjunction with the Corporation's audited financial statements and the notes thereto as of December 31, 2014, included in the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

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

NOTE 2 – STOCK-BASED COMPENSATION PLANS

During the nine months of 2015, the Corporation granted 121,934 stock options to officers, directors, and employees under the 2009 Stock Option Plan (the "Plan"). Options granted under the Plan have an exercise price equal to the fair market value as of the grant date. Options granted vest over various periods ranging from two and one-half years to four years and expire one year after the full vesting date. Stock–based compensation expense recognized in other operating expense during the first nine months of 2015 and 2014 was $256 thousand and $177 thousand, respectively.

The fair value of options is estimated on the date of grant using a Black Scholes option-pricing model with the assumptions noted below.

The total unrecognized compensation cost related to non-vested share based compensation arrangements granted under the Plan as of September 30, 2015 was $540,301. The cost is expected to be recognized over a weighted average period of 1.25 years.

NOTE 2 – STOCK-BASED COMPENSATION PLANS (continued)

A summary of stock option activity under the Plan for the nine months ended September 30, 2015 and 2014 is presented as follows:

	Nine Months Ended September 30, 2015	
Expected life of options granted, in years	4.31	
Risk-free interest rate	1.06	%
Expected volatility of stock	30	%
Annual expected dividend yield	3	%
Fair Value of Granted Options	$ 344,039	
Non-Vested Options	298,443	

	Number of Options	Weighted Avg. Exercise Price	Weighted Avg. Remaining Contractual Term, in years	Aggregate Intrinsic Value
Outstanding at beginning of year	316,423	$ 14.02	3.20	$ 917,215
Granted	121,934	17.96	4.31	-
Exercised	(6,541)	10.62	1.59	$ 53,679
Lapsed or Canceled	(4,050)	$ 16.40	2.76	$ -
Outstanding at September 30, 2015	427,766	$ 15.17	2.99	$ 2,223,049
Exercisable at September 30, 2015	129,323	$ 13.03	2.14	$ 949,542

	Nine Months Ended September 30, 2014	
Expected life of options granted, in years	4.33	
Risk-free interest rate	0.69	%
Expected volatility of stock	36	%

Annual expected dividend yield		3	%
Fair value of granted options	$	305,143	
Non-vested options		273,101	

	Number of Options	Weighted Avg. Exercise Price	Weighted Avg. Remaining Contractual Term, in years	Aggregate Intrinsic Value
Outstanding at beginning of year	281,380	$ 11.77	3.20	$ 951,526
Granted	123,000	15.96	4.33	-
Exercised	(55,382)	8.03	0.77	$ 407,183
Lapsed or canceled	(11,325)	$ 13.25	3.03	$ -
Outstanding at September 30, 2014	337,673	$ 13.86	3.41	$ 799,612
Exercisable at September 30, 2014	64,572	$ 11.74	2.73	$ 290,248

NOTE 3 – SECURITIES

The following table provides the amortized cost and fair value for the categories of available-for-sale securities and held-to-maturity securities at September 30, 2015 and December 31, 2014. Held-to-maturity securities are carried at amortized cost, which reflects historical cost, adjusted for amortization of premiums and accretion of discounts. Available-for-sale securities are carried at estimated fair value with net unrealized gains or losses reported on an after tax basis as a component of accumulated other comprehensive income in shareholders' equity. The estimated fair value of available-for-sale securities is impacted by interest rates, credit spreads, market volatility, and liquidity.

NOTE 3 – SECURITIES (continued)

	September 30, 2015			
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized (Losses)**	**Estimated Fair Value**
		(In Thousands)		
Available-for-sale:				
U.S. Government agencies	$18,998	$11	$ (57)	$ 18,952
Mortgage backed securities	83,704	672	(188)	84,188
Corporate bonds	9,051	51	(10)	9,092
Asset backed securities	16,378	18	(189)	16,207
Municipals	2,313	31	-	2,344
Municipals - nontaxable	9,308	77	(19)	9,366
CRA Mutual fund	1,500	-	(77)	1,423
	$141,252	$860	$ (540)	$ 141,572
Held-to-maturity:				
U.S. Government agencies	$9,986	$143	$ -	$ 10,129
Municipals	2,618	70	(7)	2,681
Municipals - nontaxable	1,689	-	(12)	1,677
	$14,293	$213	$ (19)	$ 14,487

	December 31, 2014			
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized (Losses)**	**Estimated Fair Value**
		(In Thousands)		
Available-for-sale:				
U.S. Government agencies	$18,998	$-	$ (473)	$ 18,525
Mortgage backed securities	70,001	136	(439)	69,698
Corporate bonds	13,304	95	(27)	13,372
Asset backed securities	18,072	83	(172)	17,983
Municipals - nontaxable	4,042	24	(1)	4,065
CRA Mutual fund	1,500	-	(63)	1,437
	$125,917	$338	$ (1,175)	$ 125,080
Held-to-maturity:				
U.S. Government agencies	$9,985	$46	$ (25)	$ 10,006
Municipals	2,627	41	-	2,668
Municipals - nontaxable	1,697	10	(3)	1,704
	$14,309	$97	$ (28)	$ 14,378

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NOTE 3 – SECURITIES (continued)

The amortized cost and estimated fair value of securities available-for-sale and held-to-maturity as of September 30, 2015 and December 31, 2014 by contractual maturity are shown below. Actual maturities may differ from contractual maturities because some of the securities may be called or prepaid without any penalties.

	September 30, 2015		December 31, 2014	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	(In Thousands)			
Available-for-sale:				
US Government agencies:				
Due after one through five years	$4,000	$4,008	$-	$-
Due after five through ten years	14,998	14,944	18,998	18,525
Mortgage backed securities:				
Due after one through five years	9,837	9,950	-	-
Due after five through ten years	39,745	40,087	6,533	6,481
Due after ten through fifteen years	18,387	18,337	39,311	39,115
Due after fifteen years	15,735	15,814	24,157	24,102
Corporate bonds:				
Due in one year or less	-	-	1,998	2,023
Due after one through five years	9,051	9,092	11,306	11,349
Asset backed securities:				
Due after one through five years	1,976	1,971	-	-
Due after five through ten years	3,107	3,012	6,134	6,199
Due after fifteen years	11,295	11,224	11,938	11,784
Municipals:				
Due after ten through fifteen years	1,143	1,166	-	-
Due after fifteen years	1,170	1,178	-	-
Municipals - nontaxable:				
Due after five through ten years	2,148	2,182	404	413
Due after ten through fifteen years	4,895	4,938	1,366	1,381
Due after fifteen years	2,265	2,246	2,272	2,271
CRA Mutual fund	1,500	1,423	1,500	1,437
Total	$141,252	$141,572	$125,917	$125,080
Held-to-maturity:				
US Government agencies:				
Due after one through five years	$5,000	$5,106	$5,000	$5,046
Due after ten through fifteen years	4,986	5,023	4,985	4,960
Municipals:				

Due after five through ten years	1,487	1,520	428	444
Due after ten through fifteen years	1,131	1,161	1,638	1,666
Due after fifteen years	-	-	561	558
Municipals - nontaxable:				
Due after ten through fifteen years	1,407	1,397	1,414	1,421
Due after fifteen years	282	280	283	283
Total	$14,293	$14,487	$14,309	$14,378

The estimated fair value of securities pledged to secure public funds, securities sold under agreements to repurchase, credit lines with the Federal Reserve Bank ("FRB"), and debtor-in-possession accounts amounted to $136.1 million at September 30, 2015 and $102.6 million at December 31, 2014.

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NOTE 3 – SECURITIES (continued)

Securities available-for-sale and held-to-maturity that have an unrealized loss position at September 30, 2015 and December 31, 2014 are as follows:

September 30, 2015	Securities in a loss Position for less than 12 Months		Securities in a loss Position for 12 Months or Longer		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
	(In Thousands)					
Investment securities available-for-sale:						
Mortgage backed securities	$5,719	$ (12)	$ 12,788	$ (176)	$18,507	$ (188)
U.S. Government agencies	9,941	(57)	-	-	9,941	(57)
Municipals - nontaxable	2,246	(19)	-	-	2,246	(19)
Corporate bonds	4,361	(10)	-	-	4,361	(10)
Asset backed securities	8,929	(146)	2,778	(43)	11,707	(189)
CRA Mutual fund	-	-	1,423	(77)	1,423	(77)
Total	$31,196	$ (244)	$ 16,989	$ (296)	$48,185	$ (540)
Investment securities held-to-maturity:						
Municipals Taxable	$551	$ (7)	$ -	$ -	$551	$ (7)
Municipals - nontaxable	1,677	(12)	-	-	1,677	(12)
Total	$2,228	$ (19)	$ -	$ -	$2,228	$ (19)

December 31, 2014	Securities in a loss Position for less than 12 Months		Securities in a loss Position for 12 Months or Longer		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
	(In Thousands)					
Investment securities available-for-sale:						
Mortgage backed securities	$19,252	$ (74)	$ 17,141	$ (365)	$36,393	$ (439)
U.S. Government agencies	-	-	18,525	(473)	18,525	(473)
Municipals - nontaxable	2,271	(1)	-	-	2,271	(1)
Corporate bonds	4,480	(27)	-	-	4,480	(27)
Asset backed securities	6,289	(71)	2,995	(101)	9,284	(172)

CRA Mutual fund	-	-	1,437	(63)	1,437	(63)
Total	$32,292	$ (173)	$ 40,098	$ (1,002)	$72,390	$ (1,175)
Investment securities held-to-maturity:						
U.S. Government agencies	$-	$ -	$ 4,960	$ (25)	$4,960	$ (25)
Municipals - nontaxable	842	(3)	-	-	842	(3)
Total	$842	$ (3)	$ 4,960	$ (25)	$5,802	$ (28)

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

NOTE 3 – SECURITIES (continued)

U.S. Government agencies

The Corporation's unrealized losses on U.S. Government Agency obligations were caused by interest rate fluctuations. At September 30, 2015, two available-for-sale securities had unrealized losses of $57 thousand. The severity and duration of these unrealized losses will fluctuate with interest rates in the economy. As the securities are obligations of government agencies, it is the Corporation's intent to hold these securities until a market price recovery or maturity, and it is more likely than not that the Corporation will not be required to sell the securities before their anticipated recovery, the Corporation does not consider these investments other than temporarily impaired.

Mortgage backed securities

The Corporation's unrealized losses on mortgage backed securities were caused by interest rate fluctuations. At September 30, 2015, six securities had unrealized losses of $188 thousand. As these securities are Ginnie Mae and government sponsored entity securities backed by the United States Government, the Corporation's intent to hold these securities until a market price recovery or maturity, and the determination that it is more likely than not that the Corporation will not be required to sell these securities before their anticipated recoveries, the Corporation does not consider these investments other than temporarily impaired.

Asset backed securities

The Corporation's unrealized losses on its asset backed securities were caused by interest rate fluctuations. At September 30, 2015, thirteen securities had unrealized losses of $189 thousand. Based on the credit quality of the issuers, the Corporation's intent to hold these securities until a market price recovery, and the determination that it is more likely than not that the Corporation will not be required to sell the securities before their anticipated recovery, the Corporation does not consider these investments other than temporarily impaired.

Mutual fund

The Corporation's unrealized loss on its mutual fund investment was caused by interest rate fluctuations. At September 30, 2015, this one security had an unrealized loss of $77 thousand. Based on the credit quality of the issuer, the Corporation's intent to hold this security until a market price recovery, and the determination that it is more likely than not that the Corporation will not be required to sell this security before its anticipated recovery, the Corporation does not consider this investment other than temporarily impaired.

Corporate bonds

The Corporation's unrealized loss on a corporate obligation was caused by interest rate fluctuations. At September 30, 2015, one security had an unrealized loss of $10 thousand. Based on the credit quality of the issuer, the Corporation's intent to hold this security until a market price recovery or maturity, and the determination that it is more likely than not that the Corporation will not be required to sell the security before its anticipated recovery, the Corporation does not consider this investment other than temporarily impaired.

Municipal

The Corporation's unrealized losses on its municipal investments were caused by interest rate fluctuations. At September 30, 2015, three held-to-maturity securities had unrealized losses of $19 thousand while one available-for-sale municipal investments had unrealized losses of $19 thousand. Based on the credit quality of the issuers, the Corporation's intent to hold these securities until a market price recovery, and the determination that it is more likely than not that the Corporation will not be required to sell these securities before their anticipated recovery, the Corporation does not consider these investments other than temporarily impaired.

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NOTE 3 – SECURITIES (continued)

Restricted Stock

The Corporation's restricted stock consists of Federal Home Loan Bank of Atlanta ("FHLB") stock and FRB stock. The amortized costs of the restricted stock as of September 30, 2015 and December 31, 2014 are as follows:

	September 30, 2015	December 31, 2014
	(In Thousands)	
Restricted Stock:		
FRB stock	$ 999	$ 999
FHLB stock	3,072	7,962
	$ 4,071	$ 8,961

Securities Sold Under Agreements to Repurchase (Repurchase Agreements)

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

The right of setoff for a repurchase agreement resembles a secured borrowing, whereby the collateral would be used to settle the fair value of the repurchase agreement should the Corporation be in default (e.g., fails to make an interest payment to the counterparty). The collateral is held by a third-party financial institution in the Corporation's custodial account. The Corporation has the right to sell or repledge the investment securities. The risks and rewards associated with the investment securities pledged as collateral (e.g. a decline or rise in the fair value of the investments) remains with the Corporation. As of September 30, 2015 and December 31, 2014, the obligations outstanding under these repurchase agreements totaled $19.7 million and $25.6 million, respectively, and were comprised of overnight sweep accounts. The fair value of the securities pledged in connection with these repurchase agreements at September 30, 2015 was $24.6 million in total and consisted of $6.7 million in municipal securities, $5.0 in mortgage-backed securities, $6.3 million in corporate bonds, and $6.6 million in asset-backed securities. The fair value of the securities pledged in connection with these repurchase agreements at December 31, 2014 was $26.1 million in total and consisted of $16.4 million in mortgage backed securities, $4.5 million in corporate bonds, and $5.2 million in asset-backed securities.

NOTE 4 – LOANS AND THE ALLOWANCE FOR LOAN LOSSES

The following table presents the composition of the loans held for investment portfolio at September 30, 2015 and December 31, 2014:

	Composition of Loan Portfolio					
	September 30, 2015			December 31, 2014		
	Amount	**Percentage of Total**		Amount	**Percentage of Total**	
	(Dollars In Thousands)					
Commercial real estate-owner occupied	$223,801	26.36	%	$199,442	25.68	%
Commercial real estate-non owner occupied	137,081	16.15		125,442	16.15	
Residential real estate	196,580	23.15		194,213	25.01	
Commercial	225,147	26.52		210,278	27.08	
Real estate construction	57,664	6.79		41,080	5.29	
Consumer	8,764	1.03		6,148	0.79	
Total loans	$849,037	100.00	%	$776,603	100.00	%
Less allowance for loan losses	13,474			13,399		
	$835,563			$763,204		

Unearned income and net deferred loan fees and costs totaled $1.9 million and $1.6 million at September 30, 2015 and December 31, 2014, respectively. Loans pledged to secure borrowings at the FHLB totaled $250.1 million and $215.8 million at September 30, 2015 and December 31, 2014, respectively.

Allowance for Loan Losses

The allowance for loan losses totaled $13.5 million at September 30, 2015 compared to $13.4 million at year end December 31, 2014. The allowance for loan losses was equivalent to 1.59% and 1.73% of total loans held for investment at September 30, 2015 and December 31, 2014, respectively. Adequacy of the allowance is assessed and the allowance is increased by provisions for loan losses charged to expense no less than quarterly. Charge-offs are taken when a loan is identified as uncollectible.

The methodology by which we systematically determine the amount of our allowance is set forth by the Board of Directors in our Loan Policy and implemented by management. The results of the analysis are documented, reviewed, and approved by the Board of Directors no less than quarterly.

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

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

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

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

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

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

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

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

Three months ended September 30, 2015	Allowance for Loan Losses **Commercial real estate - owner occupied** (In Thousands)	**Commercial real estate - non-owner occupied**	**Residential real estate**	Commercial	**Real estate construction**	Consumer	Total
Allowance for credit losses:							
Beginning Balance	$3,358	$ 1,859	$ 3,174	$ 4,333	$ 665	$ 120	$13,509
Charge-offs	-	-	-	(72)	-	-	(72)
Recoveries	-	-	12	25	-	-	37
Provisions	(90)	(42)	(236)	245	123	-	-
Ending Balance	$3,268	$ 1,817	$ 2,950	$ 4,531	$ 788	$ 120	$13,474

Nine months ended September 30, 2015	**Commercial real estate - owner occupied** (In Thousands)	**Commercial real estate - non-owner occupied**	**Residential real estate**	Commercial	**Real estate construction**	Consumer	Total
Allowance for credit losses:							
Beginning Balance	$3,229	$ 1,894	$ 3,308	$ 4,284	$ 596	$ 88	$13,399
Charge-offs	-	-	-	(186)	-		(186)
Recoveries	-	-	50	61	-	-	111
Provisions	39	(77)	(408)	372	192	32	150
Ending Balance	$3,268	$ 1,817	$ 2,950	$ 4,531	$ 788	$ 120	$13,474

Three months ended September 30, 2014	Allowance for Loan Losses **Commercial real estate -**	**Commercial real estate - non-owner**	**Residential real estate**	Commercial	**Real estate construction**	Consumer	Total

	owner occupied	occupied					
	(In Thousands)						
Allowance for credit losses:							
Beginning Balance	$3,163	$ 1,896	$ 3,090	$ 4,299	$ 670	$ 93	$13,211
Charge-offs	-	-	-	(6)	-	-	(6)
Recoveries	-	-	18	21	-	-	39
Provisions	391	207	383	(913)	(97)	29	-
Ending Balance	$3,554	$ 2,103	$ 3,491	$ 3,401	$ 573	$ 122	$13,244
Nine months ended September 30, 2014							
Allowance for credit losses:							
Beginning Balance	$3,763	$ 1,734	$ 3,320	$ 3,484	$ 743	$ 92	$13,136
Charge-offs	-	-	(21)	(22)	-	-	(43)
Recoveries	-	-	79	72	-	-	151
Provisions	(209)	369	113	(133)	(170)	30	-
Ending Balance	$3,554	$ 2,103	$ 3,491	$ 3,401	$ 573	$ 122	$13,244

Recorded Investment in Loans

September 30, 2015	**Commercial real estate - owner occupied**	**Commercial real estate - non-owner occupied**	**Residential real estate**	Commercial	**Real estate construction**	Consumer	Total
	(In Thousands)						
Allowance							
Ending balance:	$3,268	$ 1,817	$2,950	$4,531	$ 788	$ 120	$13,474
Ending balance: individually evaluated for impairment	$-	$ -	$-		$ -	$ -	$-
Ending balance: collectively evaluated for impairment	$3,268	$ 1,817	$2,950	$4,531	$ 788	$ 120	$13,474
Ending balance: loans acquired with deteriorated credit quality	$-	$ -	$-	$-	$ -	$ -	$-
Loans							
Ending balance	$223,801	$ 137,081	$196,580	$225,147	$ 57,664	$ 8,764	$849,037
Ending balance: individually evaluated for impairment	$351	$ 5,653	$348	$1,476	$ 1,096	$ -	$8,924
Ending balance: collectively evaluated for impairment	$223,450	$ 131,428	$196,232	$223,671	$ 56,568	$ 8,764	$840,113
Ending balance: loans acquired with deteriorated credit quality	$-	$ -	$-	$-	$ -	$ -	$-

December 31, 2014	**Commercial real estate -**	**Commercial real estate -**	**Residential real estate**	Commercial	**Real estate construction**	Consumer	Total

	owner occupied	**non-owner occupied**					
	(In Thousands)						
Allowance							
Ending balance:	$3,229	$ 1,894	$3,308	$4,284	$ 596	$ 88	$13,399
Ending balance: individually evaluated for impairment	$-	$ -	$-	$115	$ -	$ -	$115
Ending balance: collectively evaluated for impairment	$3,229	$ 1,894	$3,308	$4,169	$ 596	$ 88	$13,284
Ending balance: loans acquired with deteriorated credit quality	$-	$ -	$-	$-	$ -	$ -	$-
Loans							
Ending balance:	$199,442	$ 125,442	$194,213	$210,278	$ 41,080	$ 6,148	$776,603
Ending balance: individually evaluated for impairment	$356	$ -	$320	$1,515	$ -	$ -	$2,191
Ending balance: collectively evaluated for impairment	$199,086	$ 125,442	$193,893	$208,763	$ 41,080	$ 6,148	$774,412
Ending balance: loans acquired with deteriorated credit quality	$-	$ -	$-	$-	$ -	$ -	$-

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

Identifying and Classifying Portfolio Risks by Risk Rating

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

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

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

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

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

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

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

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

The Bank did not have any loans classified as loss at September 30, 2015 or December 31, 2014. It is the Bank's policy to charge-off any loan once the risk rating is classified as loss.

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

The profile of the loan portfolio, as indicated by risk rating, as of September 30, 2015 and December 31, 2014 is shown below.

	September 30, 2015						
Credit Risk Profile by Risk Rating	Pass	Special Mention	Substandard	Doubtful	Loss	Unearned Income	Total Loans
	(In Thousands)						
Commercial real estate - owner occupied	$ 220,456	$ 351	$ 3,495	$ -	$ -	$ (501)	$ 223,801
Commercial real estate - non-owner occupied	129,968	775	6,661	-	-	(323)	137,081
Residential real estate	196,607	-	163	-	-	(190)	196,580
Commercial	202,811	6,629	15,994	-	-	(287)	225,147
Real estate construction	57,160	-	1,096	-	-	(591)	57,664
Consumer	8,762	-	-	-	-	2	8,764
Total	$ 815,763	$ 7,755	$ 27,409	$ -	$ -	$ (1,890)	$ 849,037

	December 31, 2014						
Credit Risk Profile by Risk Rating	Pass	Special Mention	Substandard	Doubtful	Loss	Unearned Income	Total Loans
	(In Thousands)						
Commercial real estate - owner occupied	$ 194,007	$ 2,115	$ 3,767	$ -	$ -	$ (447)	$ 199,442
Commercial real estate - non-owner occupied	111,301	2,627	11,751	-	-	(237)	125,442
Residential real estate	191,512	2,100	936	-	-	(335)	194,213
Commercial	194,585	10,519	5,540	-	-	(366)	210,278
Real estate construction	41,253	-	-	-	-	(173)	41,080
Consumer	6,148	-	-	-	-		6,148
Total	$ 738,806	$ 17,361	$ 21,994	$ -	$ -	$ (1,558)	$ 776,603

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

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

	For the Period Ended, September 30, 2015		
Credit Risk Profile Based on Payment Activity	Performing	Non-Performing	Total Loans
Commercial real estate - owner occupied	$ 223,801	$ -	$ 223,801
Commercial real estate - non-owner occupied	131,428	5,653	137,081
Residential real estate	196,417	163	196,580
Commercial	224,347	800	225,147
Real estate construction	57,664	-	57,664
Consumer	8,764	-	8,764
Total	$ 842,421	$ 6,616	$ 849,037

	For the Period Ended, December 31, 2014		
Credit Risk Profile Based on Payment Activity	Performing	Non-Performing	Total Loans
Commercial real estate - owner occupied	$ 199,442	$ -	$ 199,442
Commercial real estate - non-owner occupied	125,442	-	125,442
Residential real estate	194,084	129	194,213
Commercial	208,785	1,493	210,278
Real estate construction	41,080	-	41,080
Consumer	6,148	-	6,148
Total	$ 774,981	$ 1,622	$ 776,603

Loans are considered past due if a contractual payment is not made by the calendar day after the payment is due. However, for reporting purposes loans past due 1 to 29 days are excluded from loans past due and are included in the total for current loans in the table below. The delinquency status of the loans in the portfolio is shown below as of September 30, 2015 and December 31, 2014. Loans that were on non-accrual status are not included in any past due amounts.

	Age Analysis of Past Due Loans						
	September 30, 2015						
	30-59 Days Past Due	**60-89 Days Past Due**	**Greater than 90 Days**	**Total Past Due**	**Non-accrual Loans**	**Current Loans**	**Total Loans**
	(In Thousands)						
Commercial real estate - owner occupied	$-	$ -	$ 115	$ 115	$ -	$223,686	$223,801
Commercial real estate - non-owner occupied	-	-	1,007	1,007	5,653	130,421	137,081
Residential real estate	297	-		297	163	196,120	196,580

Commercial	-	-	-	-	800	224,347	225,147
Real estate construction	-	-	-	-	-	57,664	57,664
Consumer	-	-	-	-	-	8,764	8,764
Total	$297	$ -	$ 1,122	$ 1,419	$ 6,616	$841,002	$849,037

	December 31, 2014						
	30-59 Days Past Due	**60-89 Days Past Due**	**Greater than 90 Days**	**Total Past Due**	**Non-accrual Loans**	**Current Loans**	**Total Loans**
	(In Thousands)						
Commercial real estate - owner occupied	$-	$ -	$ -	$ -	$ -	$199,442	$199,442
Commercial real estate - non-owner occupied	-	-	-	-	-	125,442	125,442
Residential real estate	-	217	-	217	129	193,867	194,213
Commercial	-	-	-	-	1,493	208,785	210,278
Real estate construction	-	-	-	-	-	41,080	41,080
Consumer	-	-	-	-	-	6,148	6,148
Total	$-	$ 217	$ -	$ 217	$ 1,622	$774,764	$776,603

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

Troubled Debt Restructurings

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

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

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

No loans were modified in connection with a troubled debt restructuring during the nine month period ended September 30, 2015 and September 30, 2014.

Impaired Loans

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

As the ultimate collectability of the total principal of an impaired loan is in doubt, the loan is placed on nonaccrual status with all payment applied to principal under the cost-recovery method. As such, the Bank did not recognize any interest income on its impaired loans for the three and nine month periods ended September 30, 2015 and 2014.

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

The table below shows the results of management's analysis of impaired loans as of September 30, 2015 and December 31, 2014.

	Impaired Loans					
	September 30, 2015			December 31, 2014		
	Recorded investment	**Unpaid principal balance**	**Related allowance**	**Recorded investment**	**Unpaid principal balance**	**Related allowance**
	(In Thousands)					
With no specific related allowance recorded:						
Commercial real estate - owner occupied	$351	$ 351	$ -	$356	$ 356	$ -
Commercial real estate - non-owner occupied	5,653	5,847	-	-	-	-
Residential real estate	348	390	-	320	362	-
Commercial	1,476	2,988	-	1,401	1,913	-
Real estate construction	1,096	1,096	-	-	-	-
Consumer	-	-	-	-	-	-
With a specific related allowance recorded:						
Commercial real estate - owner occupied	$-	$ -	$ -			
Commercial real estate - non-owner occupied	-	-	-	-	-	-
Residential real estate	-	-	-			
Commercial	-		-	114	120	115
Real estate construction	-	-	-	-	-	-
Consumer	-	-	-	-	-	-
Total:						
Commercial real estate - owner occupied	$351	$ 351	$ -	$356	$ 356	
Commercial real estate - non-owner occupied	5,653	5,847	-	-	-	-
Residential real estate	348	390	-	320	362	
Commercial	1,476	2,988	-	1,515	2,033	115
Real estate construction	1,096	1,096	-	-	-	-
Consumer	-	-	-	-	-	-
	$8,924	$ 10,672	$ -	$2,191	$ 2,751	$ 115

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

	Three Months Ended		Nine Months Ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
	Average Recorded Investment	**Average Recorded Investment**	**Average Recorded Investment**	**Average Recorded Investment**
	(In Thousands)			
Commercial real estate - owner occupied	$ 352	$ 359	$ 354	$ 360
Commercial real estate - non-owner occupied	5,737	-	3,955	-
Residential real estate	391	364	377	368
Commercial	2,564	2,033	2,601	1,979
Real estate construction	1,102	-	1,118	-
Consumer	-	-	-	-
	$ 10,146	$ 2,756	$ 8,405	$ 2,707

NOTE 5 – SEGMENT REPORTING

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

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NOTE 5 – SEGMENT REPORTING (continued)

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

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

The following table presents segment information as of and for the three months ended September 30, 2015 and 2014:

September 30, 2015	Commercial Banking	Mortgage Banking	Wealth Management	Other	Eliminations	Consolidated Totals
	(In Thousands)					
Revenues:						
Interest income	$ 10,909	$ 417	$ -	$ 3	$ (173)	$ 11,156
Gain on sale of loans	-	5,834	-	-	-	5,834
Other revenues	809	(954)	701	337	(315)	578
Total revenues	11,718	5,297	701	340	(488)	17,568
Expenses:						
Interest expense	1,063	98	-	71	(173)	1,059
Salaries and employee benefits	3,533	2,706	464	-	-	6,703
Other expenses	1,894	1,294	273	630	(315)	3,776
Total operating expenses	6,490	4,098	737	701	(488)	11,538
Income (loss) before income taxes	$ 5,228	$ 1,199	$ (36)	$ (361)	$ -	$ 6,030
Total assets	$ 1,081,026	$ 38,246	$ 1,228	$ 16,386	$ (18,657)	$ 1,118,229

September 30, 2014	Commercial Banking	Mortgage Banking	Wealth Management	Other	Eliminations	Consolidated Totals
	(In Thousands)					
Revenues:						
Interest income	$ 9,702	$ 410	$ -	$ 3	$ (200)	$ 9,915
Gain on sale of loans	-	4,799	-	-	-	4,799

Other revenues	753	(873)	536	299	(301)	414
Total revenues	10,455	4,336	536	302	(501)	15,128
Expenses:						
Interest expense	829	123	6	73	(200)	831
Salaries and employee benefits	3,002	2,443	415	-	-	5,860
Other expenses	1,558	(1,962)	223	1,305	(301)	823
Total operating expenses	5,389	604	644	1,378	(501)	7,514
Income (loss) before income taxes	$ 5,066	$ 3,732	$ (108)	$ (1,076)	$ -	$ 7,614
Total assets	$ 971,294	$ 44,179	$ 1,671	$ 15,225	$ (17,276)	$ 1,015,093

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NOTE 5 – SEGMENT REPORTING (continued)

The following table presents segment information as of and for the nine months ended September 30, 2015 and 2014:

September 30, 2015	Commercial Banking	Mortgage Banking	Wealth Management	Other	Eliminations	Consolidated Totals
	(In Thousands)					
Revenues:						
Interest income	$31,522	$1,343	$ -	$10	$(656)	$32,219
Gain on sale of loans	-	15,110	-	-	-	15,110
Other revenues	2,260	392	1,925	1,043	(932)	4,688
Total revenues	33,782	16,845	1,925	1,053	(1,588)	52,017
Expenses:						
Interest expense	2,884	434	-	211	(656)	2,873
Salaries and employee benefits	10,028	8,914	1,477	-	-	20,419
Other expenses	5,578	3,903	740	1,821	(932)	11,110
Total operating expenses	18,490	13,251	2,217	2,032	(1,588)	34,402
Income (loss) before income taxes	$15,292	$3,594	$(292)	$(979)	$ -	$17,615
Total assets	$1,081,026	$38,246	$1,228	$16,386	$(18,657)	$1,118,229

September 30, 2014	Commercial Banking	Mortgage Banking	Wealth Management	Other	Eliminations	Consolidated Totals
	(In Thousands)					
Revenues:						
Interest income	$27,891	$909	$ -	$9	$(447)	$28,362
Gain on sale of loans	-	10,314	-	-	-	10,314
Other revenues	1,855	9	1,584	917	(894)	3,471
Total revenues	29,746	11,232	1,584	926	(1,341)	42,147
Expenses:						
Interest expense	2,467	179	16	259	(447)	2,474
Salaries and employee benefits	8,737	6,827	1,135	-	-	16,699
Other expenses	4,591	(92)	697	2,557	(894)	6,859
Total operating expenses	15,795	6,914	1,848	2,816	(1,341)	26,032
Income (loss) before income taxes	$13,951	$4,318	$(264)	$(1,890)	$ -	$16,115
Total assets	$971,294	$44,179	$1,671	$15,225	$(17,276)	$1,015,093

NOTE 6 – EARNINGS PER SHARE

The following table shows the calculation of both basic and diluted earnings per share ("EPS") for the three and nine months ended September 30, 2015 and 2014, respectively. The numerator of both the basic and diluted EPS is equivalent to net income. The weighted average number of shares outstanding used as the denominator for diluted EPS is increased over the denominator used for basic EPS by the effect of potentially dilutive common stock options utilizing the treasury stock method.

	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014
	(In Thousands, Except for Share and Per Share Data)	
BASIC EARNINGS PER SHARE:		
Net income	$ 3,944	$ 4,932
Weighted average shares outstanding	10,519,954	10,440,986
Basic earnings per share	$ 0.37	$ 0.47
DILUTED EARNINGS PER SHARE:		
Net income	$ 3,944	$ 4,932
Weighted average shares outstanding	10,519,954	10,440,986
Dilutive stock options	73,461	35,064
Weighted average diluted shares outstanding	10,593,415	10,476,050
Diluted earnings per share	$ 0.37	$ 0.47

	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
	(In Thousands, Except for Share and Per Share Data)	
BASIC EARNINGS PER SHARE:		
Net income	$ 11,501	$ 10,410
Weighted average shares outstanding	10,504,086	10,414,384
Basic earnings per share	$ 1.09	$ 0.99
DILUTED EARNINGS PER SHARE:		
Net income	$ 11,501	$ 10,410
Weighted average shares outstanding	10,504,086	10,414,384
Dilutive stock options	63,087	44,899

Weighted average diluted shares outstanding	10,567,173	10,459,283
Diluted earnings per share	$ 1.09	$ 0.99

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NOTE 7 – COMMITMENTS AND CONTINGENT LIABILITIES

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

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

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

At September 30, 2015 and December 31, 2014, the Mortgage Division had open forward contracts with a notional value of $51.0 million and $45.3 million, respectively. At September 30, 2015 and December 31, 2014, the Mortgage Division did not have any open mandatory delivery contracts. The open forward delivery contracts are composed of forward sales of MBS. The fair value of these open forward contracts was ($373) thousand and ($349) thousand at September 30, 2015 and December 31, 2014, respectively.

Interest rate lock commitments totaled $47.1 million and $23.5 million at September 30, 2015 and December 31, 2014, respectively, and included $15.6 million and $5.3 million that were made on a best efforts basis at September

30, 2015 and December 31, 2014, respectively. Fair values of these best efforts commitments were $130 thousand and $39 thousand at September 30, 2015 and December 31, 2014, respectively. The remaining hedged interest rate lock commitments totaling $31.5 million and $18.2 million at September 30, 2015 and December 31, 2014 had a fair value of $478 thousand and $200 thousand, respectively.

Included in other noninterest income for the nine months ended September 30, 2015 and September 30, 2014 was a net gain of $245 thousand and a net gain of $397 thousand, respectively, relating to derivative instruments. The amount included in other noninterest income for the nine months ended September 30, 2015 and September 30, 2014 pertaining to its hedging activities was a net realized loss of $873 thousand and a net realized loss of $1.6 million, respectively.

NOTE 8 – RECENT ACCOUNTING PRONOUNCEMENTS

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

NOTE 8 – RECENT ACCOUNTING PRONOUNCEMENTS (continued)

In June 2014, the FASB issued ASU 2014-11, “Transfers and Servicing (Topic 860)” which changes the accounting for repurchase financing arrangements. It also requires additional disclosures about repurchase agreements and other similar transactions. Under this ASU, transactions would all be accounted for as secured borrowings as the guidance eliminates sale accounting for repurchase-to-maturity transactions. The amendments in the ASU require new disclosures for transactions that are economically similar to repurchase agreements in which the transferor retains substantially all of the exposure to the economic return on the transferred financial assets throughout the transaction term as well as expanded disclosures on the nature of pledged collateral in repurchase agreements. The provisions of ASU 2014-11 are effective for annual periods beginning after December 15, 2014. The adoption of this guidance did not have a material effect on the Corporation’s financial condition or results of operations.

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

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

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

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

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

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

NOTE 9 - FAIR VALUE

Fair value pursuant to FASB ASC 820-10, Fair Value Measurements and Disclosures, is the exchange price, in an orderly transaction that is not a forced liquidation or distressed sale, between market participants to sell an asset or transfer a liability in the market in which the reporting entity would transact for the asset or liability, that is, the principal or most advantageous market for the asset or liability. The transaction to sell the asset or transfer the liability is a hypothetical transaction at the measurement date, considered from the perspective of a market participant that holds the asset or liability. FASB ASC 820-10 provides a consistent definition of fair value which focuses on exit price and prioritizes, within a measurement of fair value, the use of market-based inputs over entity specific inputs. In addition, FASB ASC 820-10 provides a framework for measuring fair value and establishes a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. Transfers between levels of the fair value hierarchy are recognized on the actual dates of the event or circumstances that caused the transfer, which generally coincides with the Corporation's monthly and/or quarterly valuation process.

The standard describes three levels of inputs that may be used to measure fair values:

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

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

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

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

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

Substantially all assumptions used by the independent pricing service are observable in the marketplace, can be derived from

observable data, or are supported by observable levels at which transactions are executed in the marketplace (Level 2).

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

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

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

NOTE 9 - FAIR VALUE (continued)

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

Assets and liabilities measured at fair value under FASB ASC 820-10 on a recurring and non-recurring basis, including financial assets and liabilities for which the Corporation has elected the fair value option as of September 30, 2015 and December 31, 2014, are summarized below:

Description	Fair Value Measurement at September 30, 2015 Using **Carrying Value** (In Thousands)	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Financial Assets-Recurring				
Available-for-sale investment securities				
U.S. Government agencies	$18,952	$ -	$ 18,952	$ -
Mortgage backed securities	84,188	-	84,188	-
Corporate bonds	9,092	-	9,092	-
Asset backed securities	16,207	-	16,207	-
Municipals	2,344	-	2,344	-
Municipals - nontaxable	9,366	-	9,366	-
CRA Mutual fund	1,423	-	1,423	-
Total available-for-sale investment securities	141,572	-	141,572	-
Residential loans held for sale	35,904	-	35,904	-
Derivative assets	773	-	-	773
Total Financial Assets-Recurring	$178,249	$ -	$ 177,476	$ 773
Financial Liabilities-Recurring				
Derivative liabilities	$539	$ -	$ -	$ 539
Total Financial Liabilities-Recurring	$539	$ -	$ -	$ 539
Financial Assets-Non-Recurring				
Impaired loans [(1)]	$8,924	$ -	$ -	$ 8,924
Total Financial Assets-Non-Recurring	$8,924	$ -	$ -	$ 8,924

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

NOTE 9 - FAIR VALUE (continued)

Description	Fair Value Measurement at December 31, 2014 Using Carrying Value (In Thousands)	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Financial Assets-Recurring				
Available-for-sale investment securities				
US Government agency	$18,525	$ -	$ 18,525	$ -
Mortgage backed	69,698	-	69,698	-
Corporate bonds	13,372	-	13,372	-
Asset Backed Securities	17,983	-	17,983	-
Municipals - nontaxable	4,065	-	4,065	-
CRA Mutual fund	1,437	-	1,437	-
Total available-for-sale investment securities	125,080	-	125,080	-
Residential loans held for sale	45,026	-	45,026	-
Derivative assets	330	-	-	330
Total Financial Assets-Recurring	$170,436	$ -	$ 170,106	$ 330
Financial Liabilities-Recurring				
Derivative liabilities	$440	$ -	$ -	$ 440
Total Financial Liabilities-Recurring	$440	$ -	$ -	$ 440
Financial Assets-Non-Recurring				
Impaired loans (1)	$2,191	$ -	$ -	$ 2,191
Total Financial Assets-Non-Recurring	$2,191	$ -	$ -	$ 2,191

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

It is the Corporation’s policy to recognize transfers between levels as of the actual date of the event or change in circumstances that caused the transfer. There were no transfers between Level 1 and Level 2 during the nine month periods ended September 30, 2015 and 2014.

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

	Three Months Ended September 30,	
	2015	2014
	(In Thousands)	
Balance, beginning of period	$ 648	$ 7
Realized and unrealized gains (losses) included in earnings	(414)	196
Unrealized gains (losses) included in other comprehensive income	-	-
Purchases, settlements, paydowns, and maturities	-	-
Transfer into Level 3	-	-
Balance, end of period	$ 234	$ 203

	Nine Months Ended September 30,	
	2015	2014
	(In Thousands)	
Balance, beginning of period	$ (110)	$ 95
Realized and unrealized gains (losses) included in earnings	344	108
Unrealized gains (losses) included in other comprehensive income	-	-
Purchases, settlements, paydowns, and maturities	-	-
Transfer into Level 3	-	-
Balance, end of period	$ 234	$ 203

NOTE 9 - FAIR VALUE (Continued)

The following tables presents qualitative information about level 3 fair value measurements for financial instruments measured at fair value at September 30, 2015 and December 31, 2014:

Description	September 30, 2015 Fair Value Estimate (In Thousands)	Valuation Techniques	Unobservable Input	Range (Weighted Average)
Financial Assets - Recurring				
Derivative assets	$773	Market pricing (3)	Estimated pullthrough	75% - 90% (84.1%)
Derivative liabilities	$539	Market pricing (3)	Estimated pullthrough	75% - 90% (84.1%)
Financial Assets - Non-recurring				
Impaired loans - Real estate secured	$7,448	Appraisal of collateral (1)	Liquidation expenses (2)	0% - 20% (11%)
Impaired loans - Non-real estate secured	$1,476	Cash flow basis	Liquidation expenses (2)	0% - 10% (0%)

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

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

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

Description	December 31, 2014 Fair Value Estimate (In Thousands)	Valuation Techniques	Unobservable Input	Range (Weighted Average)
Financial Assets - Recurring				
Derivative assets	$330	Market pricing (3)	Estimated pullthrough	75% - 90% (84.5%)
Derivative liabilities	$440	Market pricing (3)	Estimated pullthrough	75% - 90% (84.5%)
Financial Assets - Non-recurring				

Impaired loans - Real estate secured	$676	Appraisal of collateral (1)	Liquidation expenses (2)	0% - 20% (8%)
Impaired loans - Non-real estate secured	$1,515	Cash flow basis	Liquidation expenses (2)	0% - 10% (0%)

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

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

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

NOTE 9 - FAIR VALUE (Continued)

Financial instruments recorded using FASB ASC 825-10

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

The following table reflects the differences between the fair value carrying amount of residential mortgage loans held for sale at September 30, 2015, measured at fair value under FASB ASC 825-10, and the aggregate unpaid principal amount the Corporation is contractually entitled to receive at maturity.

(In Thousands)	**Aggregate Fair Value**	Difference	**Contractual Principal**
Residential mortgage loans held for sale	$ 35,904	$ 1,493	$ 34,411

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

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

Cash and Short-Term Investments

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

Restricted Stock

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

Loans, Net of Allowance

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

Accrued Interest

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

Deposits and Borrowings

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

NOTE 9 - FAIR VALUE (Continued)

Off-Balance-Sheet Financial Instruments

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

At September 30, 2015 and December 31, 2014, the majority of off-balance-sheet items are variable rate instruments or convert to variable rate instruments if drawn upon. Therefore, the fair value of these items is largely based on fees, which are nominal and immaterial.

The carrying amounts and estimated fair values of financial instruments at September 30, 2015 and December 31, 2014 were as follows:

	September 30, 2015		December 31, 2014	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(In Thousands)			
Financial assets:				
Cash and short-term investments	$44,866	$44,866	$56,029	$56,029
Securities available-for-sale	141,572	141,572	125,080	125,080
Securities held-to-maturity	14,293	14,487	14,309	14,378
Restricted stock	4,071	4,071	8,961	8,961
Loans, net of allowance	871,467	882,086	808,230	837,937
Derivatives	773	773	330	330
Total financial assets	$1,077,042	$1,087,855	$1,012,939	$1,042,715
Financial liabilities:				
Deposits	$931,435	$931,559	$755,443	$753,675
Short-term borrowings	59,699	59,600	185,635	185,396
Long-term borrowings	10,000	9,983	-	-
Derivatives	539	539	440	440

Total financial liabilities	$1,001,673	$1,001,681	$941,518	$939,511

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

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

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee by the customer. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Corporation evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral, if any, deemed necessary by the Corporation upon extension of credit is based on management's credit evaluation of the counterparty. Collateral normally consists of real property, liquid assets or business assets. The Corporation had $61.5 million and $16.8 million in outstanding commitments at September 30, 2015 and December 31, 2014, respectively.

The Corporation's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual notional amount of those instruments. The Corporation uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments. The Corporation had $298.2 million and $249.4 million in unfunded lines of credit whose contract amounts represent credit risk at September 30, 2015 and December 31, 2014, respectively.

Standby letters of credit are conditional commitments issued by the Corporation to guarantee the performance of a customer to a third party. Those letters of credit are primarily issued to support public and private borrowing arrangements. Essentially all letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Corporation generally holds collateral supporting those commitments if deemed necessary. The Corporation had standby letters of credit outstanding in the amount of $4.8 million and $4.2 million at September 30, 2015 and December 31, 2014, respectively.

The Bank maintains a reserve for potential off-balance sheet credit losses that is included in other liabilities on the balance sheet. At September 30, 2015 and December 31, 2014 the balance in this reserve totaled $750 thousand and $641 thousand, respectively.

The Mortgage Division of the Bank makes representations and warranties that loans sold to investors meet its program's guidelines and that the information provided by the borrowers is accurate and complete. In the event of a default on a loan sold, the investor may make a claim for losses due to document deficiencies, program compliance, early payment default, and fraud or borrower misrepresentations. The Mortgage Division maintains a reserve in other liabilities for potential losses on mortgage loans sold. Management performs a quarterly analysis to determine the adequacy of the reserve. During the third quarter 2014, the analysis along with current industry events such as court rulings upholding states' statutes on time limitations on put back of mortgage loans, modifications to the government sponsored entities' payment performance standards, continued decline in foreclosure and loss upon liquidation statistics in our markets, and a reduction in the amount of loans originated prior to the mortgage industry financial crisis, led management to determine a reserve release of $3.25 million was appropriate. The $3.25 million reserve release is included in other expenses on the Consolidated Statements of Income. At September 30, 2015 and December 31, 2014, the balance in this reserve totaled $1.2 million.

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

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

	Allowance for Losses on Mortgage Loans Sold		
	Nine Months ended September 30,		Year ended
	2015	2014	December 31, 2014
	(In Thousands)		
Allowance for losses on mortgage loans sold -beginning of period	$ 1,198	$ 4,645	$ 4,645
Provision released from operating expense	-	(3,250)	(3,250)
Recoveries	-	-	5
Charge-offs	(19)	(202)	(202)
Allowance for losses on mortgage loans sold - end of period	$ 1,179	$ 1,193	$ 1,198

NOTE 11 – BANK-OWNED LIFE INSURANCE POLICIES

The Corporation had $15.7 million and $15.3 million in bank-owned life insurance (“BOLI”) at September 30, 2015 and December 31, 2014, respectively. The Corporation recognized interest income, which is included in other noninterest income, of $345 thousand and $217 for the nine months ended September 30, 2015 and September 30, 2014, respectively.

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

The following discussion and analysis should be read in conjunction with Access National Corporation’s (“Corporation”, “we”, “us”) consolidated financial statements, and notes thereto, included in the Corporation’s Annual Report on Form 10-K for the fiscal year ended December 31, 2014. Operating results for the three and nine months ended September 30, 2015 are not necessarily indicative of the results for the year ending December 31, 2015 or any future period.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

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

Form 10-K for the fiscal year ended December 31, 2014.

CRITICAL ACCOUNTING POLICIES

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

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Allowance for Loan Losses

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

Other Than Temporary Impairment of Securities

Securities in the Corporation's securities portfolio are classified as either available-for-sale or held-to-maturity. At September 30, 2015, there were no non-agency mortgage backed securities or trust preferred securities in the portfolio. The estimated fair value of the portfolio fluctuates due to changes in market interest rates and other factors. Changes in estimated fair value are recorded in shareholders' equity as a component of other comprehensive income. Securities are monitored to determine whether a decline in their value is other than temporary. Management evaluates the securities portfolio on a quarterly basis to determine the collectability of amounts due per the contractual terms of each security. A decline in the fair value of an investment below its amortized cost attributable to factors that indicate the decline will not be recovered over the anticipated holding period of the investment will cause the security to be considered other than temporarily impaired. Other than temporary impairments result in reducing the security's carrying value by the amount of the estimated credit loss. The credit component of the other than temporary impairment loss is realized through the statement of income and the remainder of the loss remains in other comprehensive income. At September 30, 2015, there were no securities with other than temporary impairment.

Income Taxes

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

Fair Value

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

FINANCIAL CONDITION

Executive Summary

At September 30, 2015, the Corporation's assets totaled $1.1 billion and grew $65 million when compared to December 31, 2014. The increase in assets was primarily due to a growth in loans held for investment of $72.4 million and $16.5 million of growth in investment securities which was partially offset by a decrease of $12.4 million in interest-bearing balances and a decrease in loans held for sale of $9.1 million . The first three quarters of 2015 reflected growth in all categories of loans held for investment from December 31, 2014. The $72.4 million increase in loans held for investment as compared to December 31, 2014 is primarily attributable to a $24.4 million or 12.2% growth in commercial real estate – owner occupied loans, a $16.6 million or 40.4% increase in real estate construction loans, a $14.9 million or 7.1% increase in commercial loans, and a $11.6 million or 9.3% increase in commercial real estate – non-owner occupied. Overall, the portfolio of loans held for investment grew at an annualized rate of 12.4%. At September 30, 2015, loans secured by real estate collateral comprised 72.5% of our total loan portfolio, with loans secured by commercial real estate contributing 42.5% of our total loan portfolio, loans secured by residential real estate contributing 23.2% and real estate construction loans contributing 6.8%. Loans held for sale totaled $35.9 million at September 30, 2015, compared to $45.0 million at December 31, 2014. Loans held for sale fluctuates with the volume of loans originated during any given month and the length of time the loans are held prior to selling them in the secondary market. Deposits totaled $931.4 million at September 30, 2015, compared to $755.4 million at December 31, 2014, an increase of $176.0 million. Noninterest-bearing deposits increased $81.4 million from $252.9 million at December 31, 2014 to $334.2 million at September 30, 2015. Savings and interest-bearing deposits increased $44.3 million from $233.8 million at December 31, 2014 to $278.1 million at September 30, 2015. Non-wholesale time deposits increased from $107.5 million at December 31, 2014 to $134.5 million at September 30, 2015, an increase of $27.0 million, while wholesale funding time deposits saw a net increase of $23.3 million, from $161.5 million at December 31, 2014 to $184.8 million at September 30, 2015.

Net income for the third quarter of 2015 totaled $3.9 million compared to $4.9 million for the same period in 2014. Earnings per diluted share were $0.37 for the third quarter of 2015, compared to $0.47 per diluted share in the same period of 2014. Third quarter 2015 pretax earnings decreased $1.6 million or 20.8% when compared to third quarter 2014 pretax earnings. The decrease was due to a non-recurring release of $3.25 million in mortgage reserves in the third quarter of 2014 which when coupled with a write-down on land held in Access Real Estate of $707 thousand during that same quarter in 2014 increased pretax income by $2.5 million. The banking segment had an increase in pre-tax earnings when compared to the third quarter 2014 of $162 thousand, driven by an increase in net interest income over third quarter 2014 of $973 thousand which was offset by an increase in salaries and employee benefits of $530 thousand as well as an increase in other expenses of $309 thousand. The mortgage segment had an increase in gains on the sale of loans of $1.0 million that resulted from an increase in loan originations of $4.6 million as well as an increase in the secondary margins on mortgage loans held for sale. This increase partially offset the aforementioned reduction in pretax earnings due to the mortgage reserve release recorded in the third quarter of 2014.

Net income for the nine months ended September 30, 2015 totaled $11.5 million compared to $10.4 million for the same period in 2014. Earnings per diluted share were $1.09 for the first nine months of 2015, compared to $0.99 per diluted share in the same period of 2014. For the nine month period ended September 30, 2015, the banking segment saw an increase in pretax income of $1.3 million when compared to the nine months ended September 30, 2014 due to an increase in net interest income of $3.3 million and an increase in non-interest income of $406 thousand which was partially offset by an increase in salaries and employee benefits of $1.3 million and an increase in other non-interest expense of $783 thousand. When comparing the nine month period ended September 30, 2015 to the same period in 2014, the mortgage segment saw pretax earnings decrease $724 thousand. While the mortgage segment had an increase in gains on the sale of loans of $4.8 million when comparing the nine months ended September 2015 to the same period in 2014 due to an increase in loan originations of $84.6 million as well as an increase in the secondary margins on mortgage loans held for sale, the increase was offset by a $2.1 million increase in salaries and employee benefits due mainly to the increase in mortgage production as well as the aforementioned reduction in pretax earnings of $3.25 million due to the mortgage reserve release recorded in the third quarter of 2014.

Non-performing assets (“NPAs”) totaled $6.6 million, or 0.59%, of total assets at September 30, 2015, down from $7.4 million, or 0.64% of total assets as of June 30, 2015. The Bank did not have other real estate owned at September 30, 2015 while Access Real Estate, LLC had other real estate owned with a carrying value of $500 thousand. The allowance for loan loss was $13.5 million and $13.4 million at September 30, 2015 and December 31, 2014, respectively, and represented 1.59% and 1.73% of total loans held for investment at September 30, 2015 and December 31, 2014, respectively.

The unemployment rate for Fairfax County, Virginia was at 3.3% as of September 2015 and still well below the 4.3% unemployment rate for the state of Virginia at the end of September 2015 and 5.1% for the nation at the end of September 2015. Information reviewed at the Federal Open Market Committee’s (FOMC) September 2015 meeting suggested economic growth has continued to expand moderately during the third quarter after having changed little during the first quarter of 2015. Labor market indicators showed further improvement and a lower unemployment rate suggesting that underutilization of labor resources continues to diminish. The FOMC reaffirmed its view that the current target rate for the federal funds rate remains appropriate. The historically low interest rate environment continues to negatively impact yields of variable loans and the securities portfolio. The Corporation’s net interest margin for the three months ended September 30, 2015 decreased to 3.70% from the three months ended September 30, 2014 percentage of 3.78%. While there is no certainty to the magnitude of any impact, the continued extended period of low short-term interest rates, as presently forecasted by the Federal Reserve, will continue to have an adverse effect on the net interest margin.

Strong job growth in the Northern Virginia market contributed to the local commercial real estate markets which continued to see positive overall net absorption during the third quarter of 2015, and while we continue to see price appreciation in the local residential real estate market, there is no guarantee that these positive trends will continue. Recent global economic and financial developments have also impacted economic activity. As such, we remain cautious and have generally retained more cautious loan underwriting criteria established during the financial crisis period of 2007 – 2009. In spite of these challenges, we are proactive in seeking new client relationships driven by our target market profile: business-to-business and business-to-government companies with annual revenue of $1 million to $100 million and the various banking services needed by the business and the professionals associated with the businesses. The Corporation is optimistic with a strong capital base and being positioned for continued growth.

Securities

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

At September 30, 2015 the fair value of the securities portfolio totaled $156.1 million, compared to $139.5 million at December 31, 2014. Included in the fair value totals are held-to-maturity securities with an amortized cost of $14.3 million (fair value of $14.5 million) and $14.3 million (fair value of $14.4 million) at September 30, 2015 and December 31, 2014, respectively. Securities classified as available-for-sale are accounted for at fair market value with unrealized gains and losses recorded directly to a separate component of shareholders' equity, net of associated tax effect while held-to-maturity securities are carried at amortized cost. Investment securities are used to provide liquidity, to generate income, and to temporarily supplement loan growth as needed.

Restricted Stock

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

Loans

The loan portfolio constitutes the largest component of earning assets and is comprised of commercial real estate – owner occupied, commercial real estate – non-owner occupied, residential real estate, commercial, real estate construction, and consumer loans. All lending activities of the Bank and its subsidiaries are subject to the regulations and supervision of the Comptroller. The loan portfolio does not have any pay option adjustable rate mortgages, loans with teaser rates or subprime loans or any other loans considered “high risk loans”. Loans totaled $849.0 million at September 30, 2015 compared to $776.6 million at December 31, 2014, an increase of $72.4 million or 9.3%. Comprising the growth, commercial real estate – owner occupied loans increased $24.4 million, real estate construction loans increased $16.6 million, commercial loans increased $14.9 million, commercial real estate – non-owner occupied increased $11.6 million, consumer loans increased $2.6 million and residential real estate loans increased $2.4 million. The overall increase in loans reflects results from our marketing outreach as well as continued improvement in loan demand by local businesses. Please see Note 4 to the consolidated financial statements for a table that summarizes the composition of the Corporation’s loan portfolio. The following is a summary of the loan portfolio at September 30, 2015.

Commercial Real Estate Loans – Owner Occupied: This category of loans represented the second largest segment of the loan portfolio and was comprised of owner occupied loans secured by the commercial property, totaling $223.8 million, representing 26.36% of the loan portfolio at September 30, 2015. Commercial real estate loans are secured by the subject property and underwritten to policy standards. Policy standards approved by the Board of Directors from time to time set forth, among other considerations, loan-to-value limits, cash flow coverage ratios, and the general creditworthiness of the obligors.

Commercial Real Estate Loans – Non-Owner Occupied: This category of loans represented the fourth largest segment of the loan portfolio and was comprised of loans secured by income producing commercial property, totaling $137.1 million and representing 16.15% of the loan portfolio at September 30, 2015. Commercial real estate loans are secured by the subject property and underwritten to policy standards as listed above.

Residential Real Estate Loans: This category represented the third largest segment of the loan portfolio and included loans secured by first or second mortgages on one to four family residential properties. This segment totaled $196.6 million and comprised 23.15% of the loan portfolio as of September 30, 2015. Of this amount, the following sub-categories existed as a percentage of the whole residential real estate loan portfolio as of September 30, 2015: home equity lines of credit, 20.8%; first trust mortgage loans, 70.6%; and junior trust loans, 8.6%.

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

<u>Commercial Loans:</u> Commercial Loans represented the largest segment of the loan portfolio, totaling $225.1 million and representing 26.52% of the loan portfolio as of September 30, 2015. These loans are made to businesses or individuals within our target market for business purposes. Typically the loan proceeds are used to support working capital and the acquisition of fixed assets of an operating business. We underwrite these loans based upon our assessment of the obligor(s)' ability to generate operating cash flows in the future necessary to repay the loan. To address the risks associated with the uncertainties of future cash flows, these loans are generally well secured by assets owned by the business or its principal shareholders/owners and the principal shareholders/owners are typically required to guarantee the loan.

Real Estate Construction Loans: Real estate construction loans, also known as construction and land development loans represented the fifth largest segment of the loan portfolio and totaled $57.7 million and represented 6.79% of the loan portfolio as of September 30, 2015. These loans generally fall into one of three categories: first, loans to individuals that are ultimately used to acquire property and construct an owner occupied residence; second, loans to builders for the purpose of acquiring property and constructing homes for sale to consumers; and third, loans to developers for the purpose of acquiring land that is developed into finished lots for the ultimate construction of residential or commercial buildings. Loans of these types are generally secured by the subject property within limits established by the Board of Directors based upon an assessment of market conditions and updated from time to time. The loans typically carry recourse to principal owners. In addition to the repayment risk associated with loans to individuals and businesses, loans in this category carry construction completion risk. To address this additional risk, loans of this type are subject to additional administration procedures designed to verify and ensure progress of the project in accordance with allocated funding, project specifications and time frames.

Consumer Loans: Consumer loans, which were the smallest segment of the loan portfolio, totaled $8.8 million and represented 1.03% of the loan portfolio as of September 30, 2015. Most loans in this category are well secured with assets other than real estate, such as marketable securities or automobiles. Very few consumer loans are unsecured. As a matter of operation, management discourages unsecured lending. Loans in this category are underwritten to standards within a traditional consumer framework that is periodically reviewed and updated by management and the Board of Directors and takes into consideration repayment capacity, collateral value, savings pattern, credit history, and stability.

Loans Held for Sale ("LHFS")

LHFS are residential mortgage loans originated by the Mortgage Division of the Bank to consumers and underwritten in accordance with standards set forth by an institutional investor to whom we expect to sell the loans for a profit. Loan proceeds are used for the purchase or refinance of the property securing the loan. Loans are sold with the servicing released to the investor. At September 30, 2015, LHFS at fair value totaled $35.9 million compared to $45.0 million at December 31, 2014.

The LHFS loans are closed by the Mortgage Division and held on average fifteen to thirty days pending their sale to government sponsored entities as well as mortgage banking subsidiaries of large financial institutions. During the third quarter of 2015 we originated $120.0 million of loans processed in this manner, compared to $115.3 million for the third quarter of 2014. Loans are sold without recourse and subject to industry standard representations and warranties that may require the repurchase by the Bank of loans previously sold. The repurchase risks associated with this activity center around early payment defaults and borrower fraud.

Allowance for Loan Losses

The allowance for loan losses totaled $13.5 million at September 30, 2015 compared to $13.4 million at December 31, 2014. The allowance for loan losses was equivalent to 1.59% and 1.73% of total loans held for investment at September 30, 2015 and December 31, 2014, respectively. Adequacy of the allowance is assessed and increased by provisions for loan losses charged to expense no less than quarterly. Charge-offs are taken when a loan is identified as uncollectible. For additional information about the allowance for loan losses, please see Note 4 to the consolidated financial statements.

Non-performing Assets

At September 30, 2015 and December 31, 2014, the Bank had non-performing assets totaling $6.6 million and $1.6 million, respectively. This increase in NPAs since December 31, 2014 was mainly due to the addition of one $6 million loan to non-accrual status during the first quarter of 2015 but declined from $7.4 million as of June 30, 2015. Non-performing assets consist of non-accrual loans. All non-performing loans are carried at the expected liquidation value of the underlying collateral.

The following table is a summary of our non-performing assets at September 30, 2015 and December 31, 2014.

	September 30, 2015		December 31, 2014	
	(Dollars In Thousands)			
Non-accrual loans :				
Commercial real estate - non-owner occupied	$ 5,653		$ -	
Residential real estate	163		129	
Commercial	800		1,493	
Total non-accrual loans	$ 6,616		$ 1,622	
Other real estate owned ("OREO")	-		-	
Total non-performing assets	$ 6,616		$ 1,622	
Restructured loans included above in non-accrual loans	$ -		$ 698	
Ratio of non-performing assets to:				
Total loans plus OREO	0.78	%	0.21	%
Total Assets	0.59	%	0.15	%
Accruing Past due loans:				
90 or more days past due	$ 1,122		$ -	

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

At September 30, 2015 and December 31, 2014, the Bank had no loans past due 90 days or more and still accruing interest.

Deposits

Deposits are the primary sources of funding loan growth. At September 30, 2015, deposits totaled $931.4 million compared to $755.4 million on December 31, 2014, an increase of $176.0 million or 23.30%. Noninterest-bearing deposits increased $81.4 million or 32.19% from $252.9 million at December 31, 2014 to $334.2 million at September

30, 2015. Savings and interest-bearing deposits increased $44.3 million or 18.95% from $233.8 million at December 31, 2014 to $278.1 million at September 30, 2015. Non-wholesale time deposits increased from $107.5 million at December 31, 2014 to $134.5 million at September 30, 2015, an increase of $27.0 million or 25.12%, while wholesale funding time deposits saw a net increase of $23.3 million or 14.43%, from $161.5 million at December 31, 2014 to $184.8 million at September 30, 2015.

Shareholders' Equity

Shareholders' equity totaled $107.6 million at September 30, 2015 compared to $98.9 million at December 31, 2014. The increase in shareholders' equity is due mainly to retained earnings net of dividends paid. Banking regulators have defined minimum regulatory capital ratios that the Corporation and the Bank are required to maintain. These risk based capital guidelines take into consideration risk factors, as defined by the banking regulators, associated with various categories of assets, both on and off the balance sheet. Both the Corporation and Bank are classified as well capitalized, which is the highest rating. Beginning January 1, 2015, the Corporation calculates its regulatory capital under the Basel III Final Rules which modified the definition of "well capitalized" and implemented changes in the risk weights of assets. The following table outlines the regulatory components of the Corporation's capital and risk based capital ratios under these new rules.

	September 30, 2015	December 31, 2014
	(In Thousands)	
Tier 1 Capital:		
Common stock	$8,785	$ 8,742
Capital surplus	19,588	18,538
Retained earnings	79,048	72,168
Less: Net unrealized loss on available for sale equity securities	(50)	(41)
Less: Disallowed goodwill and intangibles net of associated deferred tax liabilities	(1,500)	(1,694)
Total Tier 1 capital	105,871	97,713
Allowance for loan losses	11,715	10,980
Total risk based capital	$117,586	$ 108,693
Risk weighted assets	$934,674	$ 875,862
Quarterly average assets	$1,129,190	$ 1,007,628

			Regulatory Minimum
Risk-Based Capital Ratios:			
Common equity tier 1 capital ratio	11.33%	NA	4.50 %
Tier 1 capital ratio	11.33%	11.16%	6.00 %
Total capital ratio	12.58%	12.41%	8.00 %
Leverage Capital Ratios:			
Tier 1 leverage ratio	9.38 %	9.70 %	4.00 %

RESULTS OF OPERATIONS

Summary

Net income for the third quarter of 2015 totaled $3.9 million compared to $4.9 million for the same period in 2014. Earnings per diluted share were $0.37 for the third quarter of 2015, compared to $0.47 per diluted share in the same period of 2014. Third quarter 2015 pretax earnings decreased $1.6 million or 20.8% when compared to third quarter 2014 pretax earnings. The decrease was due to a non-recurring release of $3.25 million in mortgage reserves in the third quarter of 2014 which when coupled with a write-down on land held in Access Real Estate of $707 thousand during that same quarter in 2014 increased pretax income by $2.5 million. The banking segment had an increase in pre-tax earnings when compared to the third quarter 2014 of $162 thousand, driven by an increase in net interest income over third quarter 2014 of $973 thousand which was offset by an increase in salaries and employee benefits of $530 thousand as well as an increase in other expenses of $309 thousand. The mortgage segment had an increase in gains on the sale of loans of $1.0 million that resulted from an increase in loan originations of $4.6 million as well as an increase in the secondary margins on mortgage loans held for sale. This increase partially offset the aforementioned reduction in pretax earnings due to the mortgage reserve release recorded in the third quarter of 2014.

Net income for the nine months ended September 30, 2015 totaled $11.5 million compared to $10.4 million for the same period in 2014. Earnings per diluted share were $1.09 for the first nine months of 2015, compared to $0.99 per diluted share in the same period of 2014. For the nine month period ended September 30, 2015, the banking segment saw an increase in pretax income of $1.3 million when compared to the nine months ended September 30, 2014 due to an increase in net interest income of $3.3 million and an increase in non-interest income of $406 thousand which was partially offset by an increase in salaries and employee benefits of $1.3 million and an increase in other non-interest expense of $783 thousand. When comparing the nine month period ended September 30, 2015 to the same period in 2014, the mortgage segment saw pretax earnings decrease $724 thousand. While the mortgage segment had an increase in gains on the sale of loans of $4.8 million when comparing the nine months ended September 2015 to the same period in 2014 due to an increase in loan originations of $84.6 million as well as an increase in the secondary margins on mortgage loans held for sale, the increase was offset by a $2.1 million increase in salaries and employee benefits due mainly to the increase in mortgage production as well as the aforementioned reduction in pretax earnings of $3.25 million due to the mortgage reserve release recorded in the third quarter of 2014.

Net Interest Income

Net interest income, the principal source of earnings, is the amount of income generated by earning assets (primarily loans and investment securities) less the interest expense incurred on interest-bearing liabilities (primarily deposits) used to fund earning assets. Net interest income before the provision for loan losses totaled $10.1 million for the three months ended September 30, 2015 compared to $9.1 million for the same period in 2014. The annualized yield on earning assets was 4.08% for the quarter ended September 30, 2015 when compared to 4.13% for the quarter ended September 30, 2014. The cost of interest-bearing deposits and borrowings increased to 0.61% for the quarter ended September 30, 2015 compared to the quarter ended September 30, 2014 at 0.52%. Net interest margin was 3.70% for the quarter ended September 30, 2015 compared to 3.78% for the same period in 2014.

Net interest income before the provision for loan losses totaled $29.3 million for the first nine months of 2015 compared to $25.9 million for the same period in 2014. The annualized yield on earning assets for the first nine months of 2015 was 4.06% compared to 4.15% for the same period in 2014. The cost of interest-bearing deposits and borrowings for the first nine months of 2015 was 0.56% compared to 0.54% for the same period in 2014. Net interest margin was 3.69% for the first nine months of 2015 compared to 3.78% for the same period in 2014.

Volume and Rate Analysis

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

	Three Months Ended September 30, 2015 compared to 2014 Change Due To:		
	Increase / (Decrease)	Volume	Rate
	(In Thousands)		
Interest Earning Assets:			
Investments	$ 113	$ 96	$ 17
Loans held for sale	7	(3)	10
Loans	1,114	1,258	(144)
Interest-bearing deposits	7	4	3
Total increase (decrease) in interest income	1,241	1,355	(114)
Interest-Bearing Liabilities:			
Interest-bearing demand deposits	(6)	(5)	(1)

Money market deposit accounts	16	14	2
Savings accounts	16	15	1
Time deposits	207	183	24
Total interest-bearing deposits	233	207	26
FHLB Short-term borrowings	(37)	(35)	(2)
Securities sold under agreements to repurchase	-	1	(1)
FHLB Long-term borrowings	32	32	-
Total increase (decrease) in interest expense	228	205	23
Increase (decrease) in net interest income	$ 1,013	$ 1,150	$ (137)

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	Nine Months Ended September 30, 2015 compared to 2014		
	Change Due To:		
	Increase / (Decrease)	Volume	Rate
	(In Thousands)		
Interest Earning Assets:			
Investments	$ 621	$ 421	$ 200
Loans held for sale	434	496	(62)
Loans	2,779	3,320	(541)
Interest-bearing deposits	23	17	6
Total increase (decrease) in interest income	3,857	4,254	(397)
Interest-Bearing Liabilities:			
Interest-bearing demand deposits	1	1	-
Money market deposit accounts	10	9	1
Savings accounts	28	25	3
Time deposits	279	348	(69)
Total interest-bearing deposits	318	383	(65)
FHLB Short-term borrowings	17	18	(1)
Securities sold under agreements to repurchase	-	1	(1)
FHLB Long-term borrowings	64	64	-
Total increase (decrease) in interest expense	399	466	(67)
Increase (decrease) in net interest income	$ 3,458	$ 3,788	$ (330)

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

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

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

Three Months Ended

	September 30, 2015			**September 30, 2014**		
(Dollars In Thousands)	**Average Balance**	**Income / Expense**	**Yield / Rate**	**Average Balance**	**Income / Expense**	**Yield / Rate**
Assets:						
Interest-earning assets:						
Securities	$159,450	$868	2.18 %	$142,013	$755	2.13 %
Loans held for sale	40,465	417	4.12 %	40,780	410	4.02 %
Loans(1)	833,341	9,837	4.72 %	726,985	8,723	4.80 %
Interest-bearing balances and federal funds sold	59,216	34	0.23 %	51,134	27	0.21 %
Total interest-earning assets	**1,092,472**	**11,156**	4.08 %	**960,912**	**9,915**	4.13 %
Noninterest-earning assets:						
Cash and due from banks	10,765			9,499		
Premises, land and equipment	6,893			8,232		
Other assets	32,470			31,664		
Less: allowance for loan losses	(13,526)			(13,227)		
Total noninterest-earning assets	**36,602**			**36,168**		
Total Assets	**$1,129,074**			**$997,080**		
Liabilities and Shareholders' Equity:						
Interest-bearing deposits:						
Interest-bearing demand deposits	$112,776	$63	0.22 %	$121,737	$69	0.23 %
Money market deposit accounts	141,821	74	0.21 %	115,144	58	0.20 %
Savings accounts	14,845	20	0.54 %	3,824	4	0.42 %
Time deposits	331,412	833	1.01 %	259,262	626	0.97 %
Total interest-bearing deposits	**600,854**	**990**	0.66 %	**499,967**	**757**	0.61 %
Borrowings:						
FHLB short-term borrowings	58,207	32	0.22 %	121,141	69	0.23 %
Securities sold under agreements to repurchase and federal funds purchased	21,928	5	0.09 %	19,955	5	0.10 %
FHLB long-term borrowings	10,000	32	1.28 %	-	-	0.00 %

Total borrowings	**90,135**	**69**	0.31 %	**141,096**	**74**	0.21 %
Total interest-bearing deposits and borrowings	**690,989**	**1,059**	0.61 %	**641,063**	**831**	0.52 %
Noninterest-bearing liabilities:						
Demand deposits	324,763			247,814		
Other liabilities	8,753			11,341		
Total liabilities	**1,024,505**			**900,218**		
Shareholders' Equity	104,569			96,862		
Total Liabilities and Shareholders' Equity	**$1,129,074**			**$997,080**		
Interest Spread(2)			3.47 %			3.61 %
Net Interest Margin(3)		$ 10,097	3.70 %		$ 9,084	3.78 %

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

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

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

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

Nine Months Ended

	September 30, 2015			September 30, 2014		
(Dollars In Thousands)	Average Balance	Income / Expense	Yield / Rate	Average Balance	Income / Expense	Yield / Rate
Assets:						
Interest-earning assets:						
Securities	$149,831	$2,465	2.19 %	$123,301	$1,844	1.99 %
Loans held for sale	45,903	1,343	3.90 %	29,077	909	4.17 %
Loans(1)	810,096	28,316	4.66 %	715,454	25,537	4.76 %
Interest-bearing balances and federal funds sold	53,402	95	0.24 %	44,190	72	0.22 %
Total interest-earning assets	**1,059,232**	**32,219**	4.06 %	**912,022**	**28,362**	4.15 %
Noninterest-earning assets:						
Cash and due from banks	10,642			8,784		
Premises, land and equipment	6,921			8,331		
Other assets	32,731			24,994		
Less: allowance for loan losses	(13,438)			(13,197)		
Total noninterest-earning assets	**36,856**			**28,912**		
Total Assets	**$1,096,088**			**$940,934**		
Liabilities and Shareholders' Equity:						
Interest-bearing deposits:						
Interest-bearing demand deposits	$114,885	$190	0.22 %	$112,443	$189	0.22 %
Money market deposit accounts	121,478	183	0.20 %	114,876	173	0.20 %
Savings accounts	10,956	37	0.45 %	3,352	9	0.36 %
Time deposits	298,383	2,180	0.97 %	249,928	1,901	1.01 %
Total interest-bearing deposits	**545,702**	**2,590**	0.63 %	**480,599**	**2,272**	0.63 %
Borrowings:						
FHLB short-term borrowings	113,469	203	0.24 %	104,707	186	0.24 %
Securities sold under agreements to repurchase and federal funds purchased	22,373	16	0.10 %	21,125	16	0.10 %
FHLB long-term borrowings	6,886	64	1.24 %	-	-	0.00 %
Total borrowings	**142,728**	**283**	0.26 %	**125,832**	**202**	0.21 %
Total interest-bearing deposits and borrowings	**688,430**	**2,873**	0.56 %	**606,431**	**2,474**	0.54 %
Noninterest-bearing liabilities:						
Demand deposits	296,490			229,478		
Other liabilities	8,526			10,257		
Total liabilities	**993,446**			**846,166**		
Shareholders' Equity	102,642			94,768		
Total Liabilities and Shareholders' Equity	**$1,096,088**			**$940,934**		
Interest Spread(2)			3.50 %			3.60 %

Net Interest Margin[3]	$ 29,346	3.69 %	$ 25,888	3.78 %

[1] Loans placed on nonaccrual status are included in loan balances.

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

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

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Noninterest Income

Noninterest income consists of revenue generated from financial services and activities other than lending and investing. The mortgage segment provides the most significant contributions to noninterest income. Total noninterest income was $6.4 million for the third quarter of 2015 compared to $5.2 million for the same period in 2014. Gains on the sale of loans originated by the Banks's mortgage segment are the largest component of noninterest income. Gains on the sale of loans totaled $5.8 million for the three month period ended September 30, 2015, compared to $4.8 million for the same period of 2014. Gains on the sale of loans fluctuate with the volume of mortgage loans originated. During the three months ended September 30, 2015, the Bank's mortgage segment originated $120.0 million in mortgage and brokered loans, up from $115.3 million for the same period in 2014.

Noninterest income was $19.8 million for the first nine months of 2015 compared to $13.8 million for the same period in 2014. Gains on the sale of loans totaled $15.1 million for the nine month period ended September 30, 2015, compared to $10.3 million for the same period of 2014. During the nine months ended September 30, 2015, the Bank's mortgage segment originated $379.8 million in mortgage and brokered loans, up from $295.2 million for the same period in 2014. For the nine months ended September 30, 2015, other income reflected an increase of $1.1 million over the nine months ended September 30, 2014 due mainly to the hedging activity and fair value marks on the pipeline and warehouse loans.

Noninterest Expense

Noninterest expense totaled $10.5 million for the three months ended September 30, 2015, compared to $6.7 million for the same period in 2014, an increase of $3.8 million. Salaries and employee benefits totaled $6.7 million for the three months ended September 30, 2015, compared to $5.9 million for the same period last year due largely to the salary costs associated with the increase in mortgage production volume. Other operating expenses totaled $3.0 million for the three months ended September 30, 2015, compared to $108 thousand for the same period in 2014 due to a one-time nonrecurring item of a $3.25 million release in the mortgage segment's loan loss reserve in September 2014.

Noninterest expense totaled $31.4 million for the nine months ended September 30, 2014, compared to $23.6 million for the same period in 2014, an increase of $7.8 million. Salaries and employee benefits totaled $20.4 million for the nine months ended September 30, 2015, compared to $16.7 million for the same period last year due largely to the salary costs associated with the increase in mortgage production volume. Other operating expenses totaled $8.7 million for the nine months ended September 30, 2015, compared to $4.8 million for the same period in 2014 due mainly to a one-time nonrecurring item of a $3.25 million release in the mortgage segment's loan loss reserve in September 2014.

The table below provides the composition of other operating expenses.

	Nine Months Ended September 30,	
	2015	2014
	(In Thousands)	
Management fees	$ 951	$ 576
Data processing	661	501
Business and franchise tax	654	609
Advertising and promotional	547	581
FDIC insurance	463	330
Accounting and auditing	459	459
Investor fees	455	325
Consulting fees	356	350
Director fees	333	381
Legal fees	312	156
Stock option	256	177
Telephone	252	240
Regulatory examinations	188	157
Publication and subscription	177	203
Office supplies-stationary print	174	257
Credit report	166	157
Disaster recovery	147	184
Acquisition costs	146	129
SBA guarantee fee	125	141
Education and training	124	57
Travel	114	96
FRB and bank analysis charges	109	92
Common stock	82	70
Verification fees	81	66
D&O liability insurance	78	95
Business development and meals	76	108
Dues and memberships	73	73
Postage	68	73
Early payoff	63	28
Appraisal fee	46	35
Courier	45	77
Donations	44	11
Automotive	35	37
Conventions and meetings	28	44
Impairment of long-lived asset	-	707
Release of provision on mortgage loans sold	-	(3,250)
Other	825	445
	$ 8,713	$ 4,777

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Liquidity Management

Liquidity is the ability of the Corporation to meet current and future cash flow requirements. The liquidity of a financial institution reflects its ability to convert assets into cash or cash equivalents without significant loss and to raise additional funds by increasing liabilities. Liquidity management involves maintaining the Corporation's ability to meet the daily cash flow requirements of both depositors and borrowers. Management monitors liquidity through a regular review of asset and liability maturities, funding sources, and loan and deposit forecasts. Asset and liability management functions not only serve to assure adequate liquidity in order to meet the needs of the Corporation's customers, but also to maintain an appropriate balance between interest sensitive assets and interest sensitive liabilities so that the Corporation can earn an appropriate return for its shareholders.

The asset portion of the balance sheet provides liquidity primarily through loan principal repayments and maturities of investment securities. Other short-term investments such as federal funds sold and interest-bearing deposits with other banks provide an additional source of liquidity funding. At September 30, 2015, overnight interest-bearing balances totaled $33.8 million and unpledged available-for-sale investment securities totaled approximately $18.6 million.

The Bank proactively manages a portfolio of short-term time deposits issued to local municipalities and wholesale depositors in order to fund loans held for sale and short-term investments. As of September 30, 2015, the portfolio of CDARS and wholesale time deposits totaled $200.3 million compared to $177.0 million at December 31, 2014, respectively.

The liability portion of the balance sheet provides liquidity through various interest-bearing and noninterest-bearing deposit accounts, federal funds purchased, securities sold under agreement to repurchase and other short-term borrowings. At September 30, 2015, the Bank had a line of credit with the FHLB totaling $349.7 million and had outstanding $40 million in short term loans at a fixed rates of 0.22% and $10 million in long term loans at a fixed rate of 1.22% leaving $299.7 million available on the line. In addition to the line of credit at the FHLB, the Bank issues repurchase agreements. As of September 30, 2015, outstanding repurchase agreements totaled $19.7 million. The interest rates on these instruments are variable and subject to change daily. The Bank also maintains federal funds lines of credit with its correspondent banks and, at September 30, 2015, these lines totaled $60.4 million and were available as an additional funding source.

The following table presents the composition of borrowings at September 30, 2015 and December 31, 2014 as well as the average balances for the nine months ended September 30, 2015 and the twelve months ended December 31, 2014.

Borrowed Funds Distribution

	September 30, 2015	December 31, 2014
	(Dollars In Thousands)	
Borrowings:		
At Period End		
FHLB short-term borrowings	$ 40,000	$ 160,000
Securities sold under agreements to repurchase	19,699	25,635
FHLB long-term borrowings	10,000	-
Total at period end	$ 69,699	$ 185,635

	September 30, 2015	December 31, 2014
	(Dollars In Thousands)	
Borrowings:		
Average Balances		
FHLB short-term borrowings	$ 113,469	$ 115,471
Securities sold under agreements to repurchase	22,154	21,071
FHLB long-term borrowings	6,886	-
Federal funds purchased	219	58
Total average balance	$ 142,728	$ 136,600
Average rate paid on all borrowed funds	0.26 %	0.21 %

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

Contractual Obligations

There have been no material changes outside the ordinary course of business to the contractual obligations disclosed in the

Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Interest Rate Sensitivity Management

The Corporation uses a simulation model to analyze, manage and formulate operating strategies that address net interest income sensitivity to movements in interest rates. The simulation model projects net interest income based on various interest rate scenarios over a twelve month period. The model is based on the actual maturity and re-pricing characteristics of rate sensitive assets and liabilities. The model incorporates certain assumptions which management believes to be reasonable regarding the impact of changing interest rates and the prepayment assumption of certain assets and liabilities. The table below reflects the outcome of these analyses at September 30, 2015 and December 31, 2014, assuming budgeted growth in the balance sheet. According to the model run for the nine month period ended September 30, 2015, and projecting forward over a twelve month period, an immediate 100 basis point increase in interest rates would result in an increase in net interest income of 4.20%. Modeling for an immediate 100 basis point decrease in interest rates has been suspended due to the current rate environment. While management carefully monitors the exposure to changes in interest rates and takes actions as warranted to mitigate any adverse impact, there can be no assurance about the actual effect of interest rate changes on net interest income.

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

Increase in Federal Funds Target Rate		Hypothetical Percentage Change in Earnings September 30, 2015		Hypothetical Percentage Change in Earnings December 31, 2014	
3.00	%	13.30	%	11.50	%
2.00	%	8.80	%	7.80	%
1.00	%	4.20	%	3.80	%

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

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

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

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control over Financial Reporting

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

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

There have been no material changes in the risk factors faced by the Corporation from those disclosed in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2014.

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

The following table details the Corporation's purchases of its common stock during the third quarter of 2015 pursuant to a Share Repurchase Program announced on March 20, 2007. On June 22, 2010 the number of shares authorized for repurchase under the share repurchase program was increased from 2,500,000 to 3,500,000. The Share Repurchase Program does not have an expiration date.

Issuer Purchases of Equity Securities

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid Per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plan	(d) Maximum Number of Shares that may yet be Purchased Under the Plan
July 1 - July 31, 2015	-	$ -	-	768,781
August 1 -August 31, 2015	-	-	-	768,781
September 1 - September 30, 2015	-	-	-	768,781
	-	$ -	-	768,781

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit No.	Description
3.1	Amended and Restated Articles of Incorporation of Access National Corporation (incorporated by reference to Exhibit 3.1 to Form 8-K filed July 18, 2006 (file number 000-49929))
3.1.1	Articles of Amendment to Amended and Restated Articles of Incorporation of Access National Corporation (incorporated by reference to Exhibit 3.1.1 to Form 10-Q filed August 15, 2011 (file number 000-49929))
3.2	Amended and Restated Bylaws of Access National Corporation (incorporated by reference to Exhibit 3.2 to Form 8-K filed October 24, 2007 (file number 000-49929))
	Certain instruments relating to long-term debt as to which the total amount of securities authorized thereunder does not exceed 10% of Access National Corporation’s total assets have been omitted in accordance with Item 601(b)(4)(iii) of Regulation S-K. The registrant will furnish a copy of any such instrument to the Securities and Exchange Commission upon its request.
31.1*	CEO Certification Pursuant to Rule 13a-14(a)
31.2*	CFO Certification Pursuant to Rule 13a-14(a)
32*	CEO/CFO Certification Pursuant to § 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. § 1350)
101*	The following materials from Access National Corporation’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2015 formatted in XBRL (Extensible Business Reporting Language), filed herewith: (i) Consolidated Balance Sheets (unaudited), (ii) Consolidated Statements of Income (unaudited), (iii) Consolidated Statements of Comprehensive Income (unaudited), (iv) Consolidated Statements of Changes in Shareholders’ Equity (unaudited), (v) Consolidated Statements of Cash Flows (unaudited), and (vi) Notes to Consolidated Financial Statements (unaudited).
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase
101.DEF*	XBRL Taxonomy Extension Definition Linkbase
101.LAB*	XBRL Taxonomy Extension Label Linkbase
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase

* filed herewith

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: November 9, 2015 By: /s/ Michael W. Clarke
Michael W. Clarke
President and Chief Executive Officer
(Principal Executive Officer)

Date: November 9, 2015 By: /s/ Margaret M. Taylor
Margaret M. Taylor
Senior Vice President and Chief Financial Officer
(Principal Financial & Accounting Officer)