EAGLE BANCORP INC
Form 10-K
March 15, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ý **Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the fiscal year ended December 31, 2009

o **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the transition period from to
Commission file number: 0-25923

Eagle Bancorp, Inc.

(Exact Name of Registrant as Specified in its Charter)

Maryland	**52-2061461**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
7815 Woodmont Avenue, Bethesda, Maryland	**20814**
(Address of Principal Executive Offices)	(Zip Code)

Registrant's Telephone Number, including area code: **(301) 986-1800**

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

Title of class	**Name of each exchange on which registered**
Common Stock, $0.01 par value	The NASDAQ Capital Market

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Section 405 of the Securities Act. Yes o No ý

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No ý

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 ý No o

Indicate by checkmark whether the registrant has submitted electronically and posted on its corporate Website, 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 ý No o

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

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

Large accelerated filer o Accelerated filer ý Non-accelerated filer o Smaller reporting company o

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

The aggregate market value of the outstanding Common Stock held by nonaffiliates as of June 30, 2009 was approximately $86.8 million.

As of March 4, 2010, the number of outstanding shares of the Common Stock, $0.01 par value, of Eagle Bancorp, Inc. was 19,631,164.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's definitive Proxy Statement for the Annual Meeting of Shareholders to be held on May 20, 2010 are incorporated by reference in part III hereof.

Form 10-K Cross Reference Sheet

The following shows the location in this Annual Report on Form 10-K or the Company's Proxy Statement for the Annual Meeting of Stockholders to be held on May 20, 2010, of the information required to be disclosed by the United States Securities and Exchange Commission Form 10-K. References to pages only are to pages in this report.

PART I	**Item 1.**	**Business.** See "Business" at Pages 90 through 95.
	Item 1A.	**Risk Factors.** See "Risk Factors" at Pages 96 through 104.
	Item 1B.	**Unresolved Staff Comments.** None
	Item 2.	**Properties.** See "Properties" at Pages 112 through 114.
	Item 3.	**Legal Proceedings.** From time to time the Company is a participant in various legal proceedings incidental to its business. In the opinion of management, the liabilities (if any) resulting from such legal proceedings will not have a material effect on the financial position of the Company.
	Item 4.	**Submission of Matters to a Vote of Security Holders.** No matter was submitted to a vote of the security holders of the Company during the fourth quarter of 2009.
PART II	**Item 5.**	**Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.** See "Market for Common Stock and Dividends" at Pages 43 though 45.
	Item 6.	**Selected Financial Data.** See "Six Year Summary of Financial Information" at Page 3.
	Item 7.	**Management's Discussion and Analysis of Financial Condition and Results of Operation.** See "Management's Discussion and Analysis of Financial Condition and Results of Operation" at Pages 4 through 42.
	Item 7A.	**Quantitative and Qualitative Disclosures about Market Risk.** See "Interest Rate Risk Management Asset/Liability Management and Quantitative and Qualitative Disclosures About Market Risk" at Pages 35 through 39.
	Item 8.	**Financial Statements and Supplementary Data.** See Consolidated Financial Statements and Notes thereto at Pages 50 through 89.
	Item 9.	**Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.** None.
	Item 9A.	**Controls and Procedures.** See "Disclosure Controls and Procedures" at Page 46 and "Management Report on Internal Control Over Financial Reporting" at Page 47.
	Item 9B.	**Other Information.** None.
PART III	**Item 10.**	**Directors, Executive Officers and Corporate Governance.** The information required by this Item is incorporated by reference to the material appearing under the captions "Election of Directors" and "Compliance with Section 16(a) of the Securities Exchange Act of 1934" in the Proxy Statement. The Company has adopted a code of ethics that applies to its Chief Executive Officer and Chief Financial Officer. A copy of the code of ethics will be provided to any person, without charge, upon written request directed to Jane Cornett, Corporate Secretary, Eagle Bancorp, Inc., 7815 Woodmont Avenue, Bethesda, Maryland 20814. There have been no material changes in the procedures previously disclosed by which shareholders may recommend nominees to the Company's Board of Directors.
	Item 11.	**Executive Compensation.** The information required by this Item is incorporated by reference to the material appearing under the captions "Election of Directors Director's Compensation" and "Executive Compensation" in the Proxy Statement.
	Item 12.	**Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.** See "Market for Common Stock and Dividends Securities Authorized for Issuance Under Equity Compensation Plans" at page 43. The remainder of the information required by this Item is incorporated by reference to the material appearing under the caption "Voting Securities and Principal Shareholders" in the Proxy Statement.
	Item 13.	**Certain Relationships and Related Transactions and Director Independence.** The information required by this Item is incorporated by reference to the material appearing under the captions "Election of Directors" and "Certain Relationships and Related Transactions"

in the Proxy Statement.

	Item 14.	**Principal Accountant Fees and Services.** The information required by this Item is incorporated by reference to the material appearing under the caption "Ratification of Appointment of Independent Registered Public Accounting Firm Fees Paid to Independent Accounting Firm" in the Proxy Statement.
PART IV	**Item 15.**	**Exhibits, Financial Statement Schedules.** See "Exhibits and Financial Statements" at Page 115.

Six Year Summary of Selected Financial Data

The following table shows selected historical consolidated financial data for Eagle Bancorp, Inc. (the "Company"). It should be read in conjunction with the Company's audited Consolidated Financial Statements appearing elsewhere in this report.

(dollars in thousands except per share data)	**Year ended December 31,** 2009	2008	2007	2006	2005	2004
Balance Sheet Period End						
Securities	$ 245,644	$ 169,079	$ 87,117	$ 91,140	$ 68,050	$ 64,098
Loans held for sale	1,550	2,718	2,177	2,157	2,924	2,208
Loans	1,399,311	1,265,640	716,677	625,773	549,212	415,509
Allowance for credit losses	20,619	18,403	8,037	7,373	5,985	4,240
Intangible assets, net	4,379	2,533	236	255	168	
Total assets	1,805,504	1,496,827	846,400	773,451	672,252	553,453
Deposits	1,460,274	1,129,380	630,936	628,515	568,893	462,287
Borrowings	150,090	215,952	128,408	68,064	32,139	30,316
Subordinated debt	9,300	12,150				
Total liabilities	1,617,183	1,354,456	765,234	700,535	607,288	494,919
Preferred stockholders' equity	22,612	36,312				
Common stockholders' equity	165,709	106,059	81,166	72,916	64,964	58,534
Total stockholders' equity	188,321	142,371	81,166	72,916	64,964	58,534
Tangible common equity	161,330	102,568	80,930	72,661	64,796	58,534
Statement of Operations						
Interest income	$ 84,338	$ 65,657	$ 57,077	$ 50,318	$ 36,726	$ 24,195
Interest expense	24,809	23,676	23,729	17,880	8,008	4,328
Provision for credit losses	7,669	3,979	1,643	1,745	1,843	675
Noninterest income	7,297	4,366	5,186	3,846	3,998	3,753
Noninterest expense	42,773	30,817	24,921	21,824	18,960	14,952
Income before taxes	16,384	11,551	11,970	12,715	11,913	7,993
Income tax expense	5,965	4,123	4,269	4,690	4,369	2,906
Net income	10,419	7,428	7,701	8,025	7,544	5,087
Preferred dividends	2,307	177				
Net income available to common shareholders	8,112	7,251	7,701	8,025	7,544	5,087
Per Common Share Data(1)						
Net income, basic	$ 0.55	$ 0.63	$ 0.73	$ 0.77	$ 0.74	$ 0.51
Net income, diluted	0.55	0.62	0.71	0.74	0.70	0.48
Dividends declared		0.11	0.22	0.21	0.20	
Book value	8.48	8.19	7.59	6.99	6.32	5.80
Tangible book value	8.26	7.92	7.57	6.97	6.31	5.80
Common shares outstanding	19,534,226	12,714,355	10,693,447	10,425,870	10,274,394	10,078,712
Weighted average common shares outstanding	14,643,294	11,556,569	10,531,236	10,373,080	10,177,948	10,062,368
Ratios						
Net interest margin	3.85%	4.05%	4.37%	4.81%	4.99%	4.35%
Efficiency ratio(2)	64.01%	66.49%	66.54%	60.15%	57.95%	63.30%
Return on average assets	0.65%	0.69%	0.96%	1.13%	1.24%	1.04%
Return on average common equity	6.60%	8.05%	10.03%	11.63%	12.25%	9.16%
Total capital (to risk weighted assets)	13.57%	11.93%	11.21%	11.91%	12.05%	13.45%
Tier 1 capital (to risk weighted assets)	11.82%	9.78%	10.20%	10.82%	11.04%	12.52%
Tier 1 capital (to average assets)	10.29%	9.22%	9.46%	9.67%	9.94%	11.98%
Asset Quality						
Nonperforming assets and loans 90+ past due	$ 27,131	$ 26,366	$ 5,324	$ 2,013	$ 491	$ 156
Nonperforming assets and loans 90+ past due to total assets	1.50%	1.76%	0.63%	0.26%	0.07%	0.03%
Allowance for credit losses to loans	1.47%	1.45%	1.12%	1.18%	1.09%	1.02%
Allowance for credit losses to nonperforming assets	76.00%	69.80%	150.96%	366.27%	1218.94%	2717.95%
Net charge-offs	$ 5,454	$ 1,123	$ 979	$ 357	$ 98	$ 115
Net charge-offs to average loans	0.42%	0.12%	0.15%	0.06%	0.02%	0.03%

(1) Presented giving retroactive effect to the 10% stock dividend paid on the common stock on October 1, 2008 and the stock splits in the form of 30% dividend on the common stock paid on July 5, 2006 and February 28, 2005. In July 2008, the Company discontinued the payment of its quarterly cash

dividend.

(2) Computed by dividing noninterest expense by the sum of net interest income and noninterest income.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion provides information about the results of operations, financial condition, liquidity, and capital resources of Eagle Bancorp, Inc. (the "Company"). The Company's primary subsidiaries are EagleBank (the "Bank") and Eagle Commercial Ventures ("ECV"). This discussion and analysis should be read in conjunction with the audited Consolidated Financial Statements and Notes thereto, appearing elsewhere in this report.

Caution About Forward Looking Statements. This report contains forward looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. These forward looking statements represent plans, estimates, objectives, goals, guidelines, expectations, intentions, projections and statements of our beliefs concerning future events, business plans, objectives, expected operating results and the assumptions upon which those statements are based. Forward looking statements include without limitation, any statement that may predict, forecast, indicate or imply future results, performance or achievements, and are typically identified with words such as "may," "could," "should," "will," "would," "believe," "anticipate," "estimate," "expect," "intend," "plan," or words or phases of similar meaning. These forward looking statements are based largely on our expectations and are subject to a number of known and unknown risks and uncertainties that are subject to change based on factors which are, in many instances, beyond our control. Actual results, performance or achievements could differ materially from those contemplated, expressed, or implied by the forward looking statements.

The following factors, among others, could cause our financial performance to differ materially from that expressed in such forward looking statements:

The strength of the United States economy in general and the strength of the local economies in which we conduct operations;

Geopolitical conditions, including acts or threats of terrorism, actions taken by the United States or other governments in response to acts or threats of terrorism and/or military conflicts, which could impact business and economic conditions in the United States and abroad;

The effects of, and changes in, trade, monetary and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System (the "Federal Reserve Board;" inflation, interest rate, market and monetary fluctuations;

The timely development of competitive new products and services and the acceptance of these products and services by new and existing customers;

The willingness of users to substitute competitors' products and services for our products and services;

The impact of changes in financial services policies, laws and regulations, including laws, regulations and policies concerning taxes, banking, securities and insurance, and the application thereof by regulatory bodies;

The effect of changes in accounting policies and practices, as may be adopted from time-to-time by bank regulatory agencies, the Securities and Exchange Commission (the "SEC"), the Public Company Accounting Oversight Board, the Financial Accounting Standards Board or other accounting standards setters;

Technological changes;

The effect of acquisitions we may make, including, without limitation, the failure to achieve the expected revenue growth and/or expense savings from such acquisitions;

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The growth and profitability of non-interest or fee income being less than expected;

Changes in the level of our non-performing assets and charge-offs;

Changes in consumer spending and savings habits; and

Unanticipated regulatory or judicial proceedings.

If one or more of the factors affecting our forward looking information and statements proves incorrect, then our actual results, performance or achievements could differ materially from those expressed in, or implied by, forward looking information and statements contained in this report. You should not to place undue reliance on our forward looking information and statements. We will not update the forward looking statements to reflect actual results or changes in the factors affecting the forward looking statements.

GENERAL

The Company is a growth oriented, one-bank holding company headquartered in Bethesda, Maryland. The Company provides general commercial and consumer banking services through the Bank, its wholly owned banking subsidiary, a Maryland chartered bank which is a member of the Federal Reserve System. The Company was organized in October 1997, to be the holding company for the Bank. The Bank was organized as an independent, community oriented, full service banking alternative to the super regional financial institutions, which dominate the primary market area. The Company's philosophy is to provide superior, personalized service to its customers. The Company focuses on relationship banking, providing each customer with a number of services, becoming familiar with and addressing customer needs in a proactive, personalized fashion. The Bank currently has a total of fourteen offices which is comprised of eight offices serving Montgomery County, Maryland, five offices in the District of Columbia and one office in Fairfax County, Virginia. Our eighth office in Montgomery County, located in Potomac, Maryland, opened in the fourth quarter of 2009.

The Company offers a broad range of commercial banking services to its business and professional clients as well as full service consumer banking services to individuals living and/or working primarily in the service area. The Company emphasizes providing commercial banking services to sole proprietors, small and medium-sized businesses, partnerships, corporations, non-profit organizations and associations, and investors living and working in and near the primary service area. A full range of retail banking services are offered to accommodate the individual needs of both corporate customers as well as the community the Company serves. These services include the usual deposit functions of commercial banks, including business and personal checking accounts, "NOW" accounts and money market and savings accounts, business, construction, and commercial loans, residential mortgages and consumer loans and cash management services. The Company has developed significant expertise and commitment as an SBA lender, and has been designated a Preferred Lender by the Small Business Administration ("SBA").

Throughout 2009, the financial services industry continued to encounter significant volatility and stress following severe contraction in worldwide economic activity, credit defaults and asset value declines in the fourth quarter of 2008 and first quarter of 2009. Generally weak economic conditions persisted in the U.S. economy and regionally in the twelve months ended December 31, 2009, with unemployment levels increasing, real estate values declining, personal income levels remaining flat, and average interest rates declining sharply. In this difficult operating environment, the Company was able to produce positive earnings in each quarter of 2009. The Company's primary market, the Washington, D.C. metropolitan area, has been relatively less impacted by the severe recessionary climate than other parts of the country, due in part to the significant economic impact of the federal government. The Company did not make subprime residential mortgage loans to retail customers, and did not invest in private label mortgage backed securities, securities backed by subprime or Alt A mortgages, or the preferred stock of Freddie Mac and Fannie Mae, factors which have negatively impacted many banking companies. Notably, the

Company was successful in raising a significant amount of additional common equity in the third quarter of 2009 to fund additional growth, at a time when many community banks did not have access to capital markets. The new capital allowed the Company to redeem $15 million of the preferred stock which had been sold to the United States Department of the Treasury (the "Treasury") under the Troubled Asset Relief Program Capital Purchase Program (the "Capital Purchase Program") in December 2008.

While the slowdown in the economy was less severe in the Company's marketplace than many other areas of the country, declines in housing construction and real estate values, and the related impact on contractors and other small and medium sized businesses' activity, has impacted the Company's customers and business. However, the Company has continued had the resources to continue to meet the credit needs of its community. The Company believes its strategies during these difficult economic times are providing substantial new relationships and future growth opportunities.

CRITICAL ACCOUNTING POLICIES

The Company's Consolidated Financial Statements are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and follow general practices within the banking industry. Application of these principles requires management in certain circumstances to make estimates, assumptions, and judgments that affect the amounts reported in the financial statements and accompanying notes. These estimates, assumptions and judgments are based on information available as of the date of the Consolidated Financial Statements; accordingly, as this information changes, the Consolidated Financial Statements could reflect different estimates, assumptions, and judgments. Certain policies inherently have a greater reliance on the use of estimates, assumptions and judgments and as such have a greater possibility of producing results that could be materially different than originally reported.

Estimates, assumptions, and judgments are necessary when assets and liabilities are required to be recorded at fair value, when a decline in the value of an asset warrants an impairment write-down or a valuation reserve to be established, or when an asset or liability needs to be recorded contingent upon a future event. Carrying assets and liabilities at fair value inherently results in more financial statement volatility.

The fair values and the information used to record valuation adjustments for investment securities available for sale are based either on quoted market prices or are provided by other third-party sources, when available. The Company's investment portfolio is categorized as available for sale with unrealized gains and losses net of tax being a component of stockholders' equity and comprehensive income. Refer to the fair value disclosures at page 19 and Note 19 to the Consolidated Financial Statements at page 81 for further discussion of the carrying value of the investment portfolio and certain loans.

The allowance for credit losses is an estimate of the losses that may be sustained in our loan portfolio. The allowance is based on two principles of accounting: (a) ASC Topic 450, *"Contingencies,"* which requires that losses be accrued when they are probable of occurring and are estimable and (b) ASC Topic 310, *"Receivables,"* which requires that losses be accrued when it is probable that the Company will not collect all principal and interest payments according to the contractual terms of the loan. The loss, if any, can be determined by the difference between the loan balance and the value of collateral, the present value of expected future cash flows, or values observable in the secondary markets.

Three components comprise our allowance for credit losses: a specific allowance, a formula allowance and a nonspecific or environmental factors allowance. Each component is determined based on estimates that can and do change when actual events occur.

The specific allowance allocates a reserve to identified impaired loans. Loans identified in the risk rating evaluation as substandard, doubtful and loss (classified loans), are segregated from non-classified loans. Classified loans are assigned specific reserves based on an impairment analysis. Under ASC Topic

310, *"Receivables,"* a loan for which reserves are individually allocated may show deficiencies in the borrower's overall financial condition, payment record, support available from financial guarantors and the fair market value of collateral. When a loan is identified as impaired, a specific reserve is established based on the Company's assessment of the loss that may be associated with the individual loan.

The formula allowance is used to estimate the loss on internally risk rated loans, exclusive of those identified as requiring specific reserves. The portfolio of unimpaired loans is stratified by loan type and risk assessment. Allowance factors relate to the type of loan and level of the internal risk rating, with loans exhibiting higher risk and loss experience receiving a higher allowance factor.

The environmental allowance is used to estimate the loss associated with pools of non-classified loans. These unclassified loans are also stratified by loan type, and environmental allowance factors are assigned by management based upon a number of conditions, including delinquencies, loss history, changes in lending policy and procedures, changes in business and economic conditions, changes in the nature and volume of the portfolio, management expertise, concentrations within the portfolio, quality of internal and external loan review systems, competition, and legal and regulatory requirements.

The allowance captures losses inherent in the portfolio which have not yet been recognized. Allowance factors and the overall size of the allowance may change from period to period based upon management's assessment of the above described factors, the relative weights given to each factor, and portfolio composition.

Management has significant discretion in making the judgments inherent in the determination of the provision and allowance for credit losses, including, in connection with the valuation of collateral, a borrower's prospects of repayment, and in establishing allowance factors on the formula allowance and environmental allowance components of the allowance. The establishment of allowance factors involves a continuing evaluation, based on management's ongoing assessment of the global factors discussed above and their impact on the portfolio. The allowance factors may change from period to period, resulting in an increase or decrease in the amount of the provision or allowance, based upon the same volume and classification of loans. Changes in allowance factors can have a direct impact on the amount of the provision, and a related after tax effect on net income. Errors in management's perception and assessment of the global factors and their impact on the portfolio could result in the allowance not being adequate to cover losses in the portfolio, and may result in additional provisions or charge-offs. Alternatively, errors in management's perception and assessment of the global factors and their impact on the portfolio could result in the allowance being in excess of amounts necessary to cover losses in the portfolio, and may result in lower provisions in the future. For additional information regarding the allowance for credit losses, refer to the discussion under the caption "Allowance for Credit Losses" at page 23.

The Company follows the provisions of ASC Topic 718*"Compensation,"* which requires the expense recognition for the fair value of share based compensation awards, such as stock options, restricted stock units, and performance based shares. This standard allows management to establish modeling assumptions as to expected stock price volatility, option terms, forfeiture rates and dividend rates which directly impact estimated fair value. The accounting standard also allows for the use of alternative option pricing models which may impact fair value as determined. The Company's practice is to utilize reasonable and supportable assumptions which are reviewed with the appropriate Board Committee.

In accounting for the acquisition of Fidelity & Trust Financial Corporation ("Fidelity") and its subsidiary Fidelity & Trust Bank ("F&T Bank"), the Company followed the provisions of ASC Topic 805 *"Business Combinations*," which mandates the use of the purchase method of accounting and ASC Topic 310-30, *"Loans and Debt Securities Acquired with Deteriorated Credit Quality*." Accordingly, the tangible assets and liabilities and identifiable intangibles acquired were recorded at their respective fair values on the date of acquisition, with any impaired loans acquired being recorded at fair value outside the allowance for loan losses. The valuation of the loan and time deposit portfolios acquired were made by independent analysis for the difference between the instruments' stated interest rates and the instruments' current origination interest rate, with premiums and discounts being amortized to interest income and interest expense to achieve an effective market interest rate. An identified intangible asset related to core deposits was recorded based on independent valuation. Deferred tax assets were recorded for the future value of a net operating loss and for the tax effect of temporary timing differences between the accounting and tax basis of assets and liabilities. The Company recorded an unidentified intangible (goodwill) for the excess of the purchase price of the acquisition (including direct acquisition costs) over the fair value of net tangible and identifiable intangible assets acquired. See "Allowance for Credit Losses" at page 23, "Nonperforming Assets" at page 25, "Intangible Assets" at page 27, and Note 4 "Loans and Allowance for Credit Losses;" to the Consolidated Financial Statements, for further information on the acquisition of Fidelity.

RESULTS OF OPERATIONS

Overview

The Company reported net income of $10.4 million for the year ended December 31, 2009, a 40% increase from net income of $7.4 million for the year ended December 31, 2008, as compared to $7.7 million for the year ended December 31, 2007. Net income available to common stockholders, which is after accrual of preferred stock dividends, was $8.1 million for year ended December 31, 2009, a 12% increase from net income available to common stockholders of $7.3 million for the year ended December 31, 2008.

The increase in net income for the twelve months ended December 31, 2009 can be attributed primarily to an increase in net interest income of 42% as compared to the same period in 2008. Net interest income growth was due substantially to growth in average earning assets of 49% in 2009.

Earnings per basic common share were $0.55 for the year ended December 31, 2009, as compared to $0.63 for 2008 and $0.73 for 2007. Earnings per diluted common share were $0.55 for the year ended December 31, 2009, as compared to $0.62 for 2008 and $0.71 for 2007. Per common share amounts and the number of shares have been adjusted to give effect to the 10% stock dividend paid on October 1, 2008. The decline in net income per common share for 2009 in part reflects the significant increase in the number of shares outstanding as a result of the Company's successful offering of common stock completed in September 2009.

For the three months ended December 31, 2009, the Company reported net income of $3.0 million as compared to $1.7 million for the same period in 2008. Earnings per basic and diluted common shares were $0.12 for the three months ended December 31, 2009 and for the same period in 2008, respectively.

The Company had a return on average assets of 0.65% and a return on average common equity of 6.60% for the year of 2009, as compared to returns on average assets and average equity of 0.69% and 8.05%, respectively, for the year of 2008 and 0.96% and 10.03%, respectively, for the year of 2007.

The Company's earnings are largely dependent on net interest income, which represented 89% of total revenue in 2009 and 91% in 2008. For the twelve months ended December 31, 2009, the net interest margin, which measures the difference between interest income and interest expense (i.e. net interest income) as a percentage of earning assets declined from 4.05% for the twelve months ended December 31, 2008 to 3.85% for the twelve months ended December 31, 2009. This decline was due primarily to a reduced benefit of noninterest funding sources from 63 basis points in 2008 to 48 basis points for 2009, as average interest rates were lower in 2009 than in 2008. Average interest bearing liabilities funding average earning assets decreased to 77% as compared to 78% for the year of 2008. Additionally, while the average rate on earning assets for the twelve month period ended December 31, 2009, as compared to 2008 decreased by 87 basis points from 6.33% to 5.46%, the cost of interest bearing liabilities decreased by 82 basis points from 2.91% to 2.09%, resulting in a net interest spread of 3.37% for the twelve months ended December 31, 2009, as compared to 3.42% for the same period in 2008, a slight decline of 5 basis points.

For the twelve months ended December 31, 2009, average noninterest sources funding earning assets were $355 million as compared to $225 million for the same period in 2008.

For the three months ended December 31, 2009 and 2008, average interest bearing liabilities were 75% and 79%, respectively, of average earning assets. Additionally, while the average rate on earning assets for the three months ended December 31, 2009 has declined by 61 basis points from 5.91% to 5.30%, as compared to 2008, the cost of interest bearing liabilities has decreased by 92 basis points from 2.73% to 2.81%, resulting in a increase in the net interest spread of 31 basis points from 3.18% for the quarter ended December 31, 2008 to 3.49% for the three months ended December 31, 2009. The net interest margin increased 22 basis points from 3.74% for the three months ended December 31, 2008 to 3.96% for the three months ended December 31, 2009. The higher margin in the fourth quarter of 2009 was due primarily to lower funding costs resulting from a decline in money market rates and a higher mix of noninterest bearing deposits. Noninterest sources funding earning assets declined from 56 basis points for the three months ended December 31, 2008 to 47 basis points for the three months ended December 31, 2009. As with the twelve month period comparisons, this decline was due to the lower level of interest rates in 2009 as compared to 2008.

The Company believes it has effectively managed its net interest margin and net interest income over the past twelve months as market interest rates have declined. This factor has been significant to overall earnings performance over the past twelve months as net interest income represents the most significant component of the Company's revenues.

Due to favorable core deposit growth over the past twelve months, the need to meet loan funding objectives has not required the expanded use of alternative funding sources, such as Federal Home Loan Bank ("FHLB") advances, correspondent bank lines of credit and brokered time deposits, the balances of which have declined since December 31, 2008. The major component of the growth in core deposits has been growth in a special money market account originally promoted through advertisements, but which is now promoted primarily through direct sales effort by the business development staff.

In terms of the average balance sheet composition or mix, loans, which generally have higher yields than securities and other earning assets, decreased from 88% of average earning assets in 2008 to 85% of average earning assets for 2009, as balance sheet liquidity evidenced by an increased level of average federal funds sold and other short term investments increased in 2009. Investment securities accounted for 12% and 11% of average earning assets for 2009 and 2008, respectively. Federal funds sold averaged 3% and 1% of average earning assets for 2009 and 2008, respectively. The higher average level of investments and federal funds sold in 2009 (i.e. higher average liquidity) contributed to the decline in the net interest margin in 2009 as compared to 2008.

For the three months ended December 31, 2009, average loans were 81% of average earning assets as compared to 87% for the same period in 2008. Loan growth amounted to $82.2 million in the fourth quarter, as compared to $128.3 million of deposit growth. The loan growth is attributable to both seasonality and to third quarter end loan commitments whose fundings carried into the fourth quarter of 2009. The significant increase in deposits in the fourth quarter is primarily attributable to strong sales force efforts and some seasonal inflows. Average investment securities for the three months ended December 31, 2009 amounted to 13% of average earning assets, an increase of 1% from an average of 12% for the same period in 2008. Average federal funds sold averaged 6% of average earning assets for the three months ended December 31, 2009 as compared to 1% for the same period in 2008, the increase due to higher average deposit growth as compared to average loan growth.

The provision for credit losses was $7.7 million for the year ended December 31, 2009 as compared to $4.0 million in 2008. The higher provisioning in 2009 as compared to 2008 is attributable to higher net charge-offs in 2009, $134 million in loan growth, risk migration within the portfolio due to a weaker economy and to increased reserves for problem loans. For the full year 2009, the Company recorded net charge-offs of $5.5 million, as compared to $1.1 million for the same period in 2008. The ratio of net charge-offs to average loans was 0.42% for 2009 and 0.12% for 2008. The amount of net charge-offs in 2009 was attributable to charge-offs in the unguaranteed portion of SBA loans ($496 thousand), commercial and industrial loans ($3.2 million), consumer loans ($568 thousand), mortgage loans ($552 thousand), commercial real estate investment property loans ($488 thousand) and owner occupied commercial real estate loans ($175 thousand).

At December 31, 2009, the allowance for credit losses was $20.6 million or 1.47% of total loans, as compared to $18.4 million or 1.45% of total loans at December 31, 2008. The higher allowance percentage in 2009, as compared to 2008, is primarily attributable to higher levels of classified loans and related reserve allocations.

The provision for credit losses was $2.5 million for the three months ended December 31, 2009 as compared to $1.5 million for the same period in 2008, the increase being primarily attributable to both higher levels of net credit losses and substantial loan growth in the fourth quarter of 2009. For the fourth quarter of 2009, the Company recorded net charge-offs of $1.8 million, as compared to $166 thousand net charge-offs for the fourth quarter of 2008. The charge-offs in the fourth quarter of 2009 were attributable to charge-offs in the unguaranteed portion of SBA loans ($194 thousand), commercial and industrial loans ($1.0 million), consumer loans ($188 thousand), mortgage loans ($161 thousand), commercial real estate investment property loans ($115 thousand), and owner occupied commercial real estate loans ($137 thousand).

Total noninterest income was $7.3 million for the year 2009 as compared to $4.4 million for 2008, an increase of 67%. This increase was due primarily to higher service charges on deposit accounts of $839 thousand resulting primarily from increased number of deposit accounts, gains realized on the sale of residential and SBA loans of $628 thousand, and gains realized on the investment securities portfolio of $1.5 million. Investment gains realized in the second quarter of 2009 were the result of asset/liability management decisions to reduce call risk in the portfolio of U.S. Agency securities, to reduce potential extension risk in longer term U.S. Agency mortgage backed securities and to better position the investment portfolio for potentially higher interest rates over future years. Increased gains from mortgage banking activities in 2009 reflect higher levels of mortgage refinancing given lower market interest rates.

Total noninterest income for the three months ended December 31, 2009 increased slightly to $1.28 million from $1.26 million for the three months ended December 31, 2008, a 1% increase. This slight increase was due to higher gains realized on the sale of residential and SBA loans and securities of $138 thousand offset by a decrease of $123 thousand in service charges and other income, primarily from lower levels of overdraft charges.

Total noninterest expenses increased from $30.8 million for 2008 to $42.8 million for 2009, an increase of 39%. The primary reason for this increase was the Fidelity acquisition (completed August 31, 2008) and staff additions which increased the size of the organization, and other related personnel and benefit costs of $4.2 million, increased occupancy costs of $1.9 million, related in part to one new office and increased data processing costs of $734 thousand. In addition, higher costs were incurred for legal, accounting and professional fees of $1.7 million and Federal Deposit Insurance Corporation ("FDIC") deposit insurance premiums of $2.1 million, which includes the special FDIC assessment of approximately $723 thousand recorded in the second quarter of 2009 and reflects higher base premium rates and increased levels of insured deposits. Other expenses increased $1.3 million primarily due to $304 thousand in OREO expenses, other losses of $299 thousand resulting from the write-off of ATM/Overdrafts fees, director fees of $169 thousand and $123 thousand of intangible amortization. The efficiency ratio, which measures the level of non-interest expense to total revenue (defined as the sum of net interest income and noninterest income) was 64.01% for the year of 2009 as compared to 66.49% for 2008. While the Company continues to make strategic investments in infrastructure, attention to post-merger integration was emphasized in 2009, resulting in more efficient operations.

Total noninterest expenses were $10.6 million for the three months ended December 31, 2009, as compared to $10.5 million for the three months ended December 31, 2008, a 1% increase. Higher costs were incurred for salaries and benefits of $142 thousand, data processing of $106 thousand, legal, accounting and professional fees of $292 thousand, and FDIC insurance of $35 thousand. The higher costs were offset by a reduction in other expenses of $95 thousand and in marketing and advertising of $343 thousand resulting from the second year of sponsorship costs for the EagleBank Bowl being accrued over the twelve months of 2009, compared to 2008 where the costs were expensed primarily in the fourth quarter. The efficiency ratio was 59.02% for the fourth quarter of 2009, as compared to 72.54% for the fourth quarter of 2008, as the Company has enhanced its productivity since the acquisition.

Net Interest Income and Net Interest Margin

Net interest income is the difference between interest income on earning assets and the cost of funds supporting those assets. Earning assets are composed primarily of loans and investment securities. The cost of funds represents interest expense on deposits, customer repurchase agreements and other borrowings, which comprise federal funds purchased and other borrowings. Noninterest bearing deposits and capital are other components representing funding sources. Changes in the volume and mix of assets and funding sources, along with the changes in yields earned and rates paid, determine changes in net interest income. Net interest income in 2009 was $59.5 million compared to $42.0 million in 2008 and $33.3 million in 2007. For the three months ended December 31, 2009, net interest income was $16.7 million as compared to $13.2 million and $8.8 million for the same period in 2008 and 2007, respectively.

The tables below labeled "Average Balances, Interest Yields and Rates and Net Interest Margin" present the average balances and rates of the various categories of the Company's assets and liabilities for the years and three months ended December 31, 2009, 2008 and 2007. Included in the tables are measurements of interest rate spread and margin. Interest spread is the difference (expressed as a percentage) between the interest rate earned on earning assets less the interest expense on interest bearing liabilities. While net interest spread provides a quick comparison of earnings rates versus cost of funds, management believes that margin provides a better measurement of performance. Margin includes the effect of noninterest bearing sources in its calculation and is net interest income expressed as a percentage of average earning assets.

Average Balances, Interest Yields and Rates, and Net Interest Margin

	Year Ended December 31,								
	2009			2008			2007		
(dollars in thousands)	Average Balance	Interest	Average Yield/Rate	Average Balance	Interest	Average Yield/Rate	Average Balance	Interest	Average Yield/Rate
ASSETS:									
Interest earning assets:									
Interest bearing deposits with other banks and other short-term investments	$ 3,928	$ 94	2.39%	$ 3,750	$ 98	2.61%	$ 4,565	$ 293	6.42%
Loans(1)(2)(3)	1,312,537	77,004	5.87%	911,329	59,901	6.57%	659,204	51,931	7.88%
Investment securities available for sale(3)	182,073	7,138	3.92%	111,398	5,459	4.90%	85,177	4,177	4.90%
Federal funds sold	46,412	102	0.22%	11,255	199	1.77%	13,682	676	4.94%
Total interest earning assets	1,544,950	84,338	5.46%	1,037,732	65,657	6.33%	762,628	57,077	7.48%
Noninterest earning assets	70,012			50,050			45,217		
Less: allowance for credit losses	19,344			11,581			7,408		
Total noninterest earning assets	50,668			38,469			37,809		
TOTAL ASSETS	$ 1,595,618			$ 1,076,201			$ 800,437		
LIABILITIES AND STOCKHOLDERS' EQUITY									
Interest bearing liabilities:									
Interest bearing transaction	$ 52,083	$ 161	0.31%	$ 48,094	$ 306	0.64%	$ 51,465	$ 306	0.59%
Savings and money market	401,912	6,144	1.53%	225,126	4,212	1.87%	177,312	6,044	3.41%
Time deposits	566,686	14,651	2.59%	402,232	15,025	3.74%	270,480	13,461	4.98%
Total interest bearing deposits	1,020,681	20,956	2.05%	675,452	19,543	2.89%	499,257	19,811	3.97%
Customer repurchase agreements and federal funds purchased	93,363	957	1.03%	68,696	1,406	2.05%	44,992	1,886	4.19%
Other short-term borrowings	30,562	611	1.97%	15,577	546	3.51%	11,093	611	5.51%
Long-term borrowings	45,322	2,285	5.04%	53,750	2,181	4.06%	29,033	1,421	4.89%
Total interest bearing liabilities	1,189,928	24,809	2.09%	813,475	23,676	2.91%	584,375	23,729	4.06%
Noninterest bearing liabilities:									
Noninterest bearing demand	236,340			164,116			135,075		
Other liabilities	8,702			5,718			4,227		
Total noninterest bearing liabilities	245,042			169,834			139,302		
Stockholders' equity	160,648			92,892			76,760		
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 1,595,618			$ 1,076,201			$ 800,437		
Net interest income		$ 59,529			$ 41,981			$ 33,348	
Net interest spread			3.37%			3.42%			3.42%
Net interest margin			3.85%			4.05%			4.37%

(1) Includes loans held for sale.

(2) Loans placed on nonaccrual status are included in average balances. Net loan fees and late charges included in interest income on loans totaled $2.1 million, $1.6 million and $1 million for 2009, 2008 and 2007, respectively.

(3) Interest and fees on loans and investment securities available for sale exclude tax equivalent adjustments.

Average Balances, Interest Yields and Rates, and Net Interest Margin

	Three Months Ended December 31,								
	2009			2008			2007		
(dollars in thousands)	Average Balance	Interest	Average Yield/Rate	Average Balance	Interest	Average Yield/Rate	Average Balance	Interest	Average Yield/Rate
ASSETS:									
Interest earning assets:									
Interest bearing deposits with other banks and other short-term investments	$ 7,470	$ 39	2.07%	$ 6,648	$ 24	1.44%	$ 4,675	$ 112	9.50%
Loans(1)(2)(3)	1,352,076	20,576	6.04%	1,218,067	18,804	6.14%	687,032	13,299	7.68%
Investment securities available for sale(3)	224,225	1,747	3.09%	166,803	2,040	4.87%	102,643	1,218	4.71%
Federal funds sold	93,802	51	0.22%	14,903	36	0.96%	21,839	250	4.54%
Total interest earning assets	1,677,573	22,413	5.30%	1,406,421	20,904	5.91%	816,189	14,879	7.23%
Noninterest earning assets	74,569			62,433			43,556		
Less: allowance for credit losses	19,974			17,559			7,503		
Total noninterest earning assets	54,595			44,874			36,053		
TOTAL ASSETS	$ 1,732,168			$ 1,451,295			$ 852,242		
LIABILITIES AND STOCKHOLDERS' EQUITY									
Interest bearing liabilities:									
Interest bearing transaction	$ 55,434	$ 44	0.31%	$ 51,536	$ 53	0.41%	$ 47,809	$ 92	0.76%
Savings and money market	527,300	1,845	1.39%	282,534	1,232	1.73%	196,283	1,490	3.01%
Time deposits	524,860	2,975	2.25%	605,022	5,128	3.37%	274,035	3,341	4.84%
Total interest bearing deposits	1,107,594	4,864	1.74%	939,092	6,413	2.72%	518,127	4,923	3.77%
Customer repurchase agreements and federal funds purchased	82,106	184	0.89%	99,071	388	1.56%	55,698	511	3.64%
Other short-term borrowings	23,696	184	3.08%	16,717	124	2.95%	21,752	302	5.51%
Long-term borrowings	35,604	453	5.05%	62,166	755	4.84%	30,249	300	3.93%
Total interest bearing liabilities	1,249,000	5,685	1.81%	1,117,046	7,680	2.73%	625,826	6,036	3.83%
Noninterest bearing liabilities:									
Noninterest bearing demand	273,711			213,284			141,229		
Other liabilities	7,453			7,719			5,130		
Total noninterest bearing liabilities	281,164			221,003			146,359		
Stockholders' equity	202,004			113,245			80,057		
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 1,732,168			$ 1,451,294			$ 852,242		
Net interest income		$ 16,728			$ 13,224			$ 8,843	
Net interest spread			3.49%			3.18%			3.40%
Net interest margin			3.96%			3.74%			4.30%

(1) Includes loans held for sale.

(2) Loans placed on nonaccrual status are included in average balances. Net loan fees and late charges included in interest income on loans totaled $752 thousand, $514 thousand and $263 thousand for the three months ended December 31, 2009, 2008 and 2007, respectively.

(3) Interest and fees on loans and investment securities available for sale exclude tax equivalent adjustments.

The rate/volume table below presents the composition of the change in net interest income for the periods indicated, as allocated between the change in net interest income due to changes in the volume of average earning assets and interest bearing liabilities, and the changes in net interest income due to changes in interest rates. As the table shows, the increase in net interest income in 2009 as compared to 2008 was a function of a significant increase in the volume of earning assets, partially offset by a decrease in the net interest margin on earning assets, due to the lower value of noninterest funding sources in 2009 as compared to 2008. For 2008 over 2007, the change is due to growth in the volume of earning assets offset by a decrease in the net interest margin on earning assets.

Rate/Volume Analysis of Net Interest Income

	2009 compared with 2008			2008 compared with 2007		
(dollars in thousands)	Change Due to Volume	Change Due to Rate	Total Increase (Decrease)	Change Due to Volume	Change Due to Rate	Total Increase (Decrease)
Interest earned on:						
Loans	$ 26,371	$ (9,268)	$ 17,103	$ 19,862	$ (11,892)	$ 7,970
Investment securities	3,463	(1,784)	1,679	1,286	(4)	1,282
Interest bearing bank deposits	5	(9)	(4)	(52)	(143)	(195)
Federal funds sold	622	(719)	(97)	(120)	(357)	(477)
Total interest income	30,461	(11,780)	18,681	20,976	(12,396)	8,580
Interest paid on:						
Interest bearing transaction	25	(170)	(145)	(20)	20	
Savings and money market	3,308	(1,376)	1,932	1,630	(3,462)	(1,832)
Time deposits	6,143	(6,517)	(374)	6,557	(4,993)	1,564
Customer repurchase agreements	505	(954)	(449)	994	(1,474)	(480)
Other borrowings	183	(14)	169	1,457	(762)	695
Total interest expense	10,164	(9,031)	1,133	10,617	(10,670)	(53)
Net interest income	$ 20,297	$ (2,749)	$ 17,548	$ 10,359	$ (1,726)	$ 8,633

Provision for Credit Losses

The provision for credit losses represents the amount of expense charged to current earnings to fund the allowance for credit losses. The amount of the allowance for credit losses is based on many factors which reflect management's assessment of the risk in the loan portfolio. Those factors include economic conditions and trends, the value and adequacy of collateral, volume and mix of the portfolio, performance of the portfolio, and internal loan processes of the Company and Bank.

Management has developed a comprehensive analytical process to monitor the adequacy of the allowance for credit losses. This process and guidelines were developed utilizing among other factors, the guidance from federal banking regulatory agencies. The results of this process, in combination with conclusions of the Bank's outside loan review consultant, support management's assessment as to the adequacy of the allowance at the balance sheet date. Please refer to the discussion under the caption "Critical Accounting Policies" for an overview of the methodology management employs on a quarterly basis to assess the adequacy of the allowance and the provisions charged to expense. Also, refer to the table in the section titled "Allowance for Credit Losses" at page 23, which reflects the comparative charge-offs and recoveries.

During the year of 2009, the allowance for credit losses increased $2.2 million reflecting $7.7 million in provision for credit losses and $5.5 million in net charge-offs during the period. The provision for credit losses of $7.7 million for 2009 compared to a provision for credit losses of $4.0 million for the same period in 2008. For 2009, net charge-offs amounted to $5.5 million as compared to $1.1 million for 2008. The higher provisioning in 2009 as compared to 2008 is attributable to higher net charge-offs in 2009, $134 million in loan growth, risk migration within the portfolio due to a weaker economy and to increased reserves for problem loans.

During the three months ended December 31, 2009, the allowance for credit losses increased $690 thousand reflecting $2.5 million in provision for credit losses and $1.8 million in net charge-offs during the period. The provision for credit losses was $2.5 million for the three months ended December 31, 2009 as compared to $1.4 million for the three months ended December 31, 2008. For the fourth quarter of 2009, net charge-offs amounted to $1.8 million as compared to $166 thousand of net charge-offs for the same period in 2008. The higher provision for the fourth quarter of 2009 is primarily attributable to loan growth in the fourth quarter of 2009, migration within the portfolio to higher risk assessments, and increases in specific reserves for problem loans.

As part of its comprehensive loan review process, the Bank's Board of Directors and Loan Committee or Company's Credit Review Committees carefully evaluate loans which are past-due 30 days or more. The Committees make a thorough assessment of the conditions and circumstances surrounding each delinquent loan. The Bank's loan policy requires that loans be placed on nonaccrual if they are ninety days past-due, unless they are well secured and in the process of collection. Additionally, Credit Administration specifically analyzes the status of development and construction projects, sales activities and utilization of interest reserves in order to carefully and prudently assesses potential increased levels of risk requiring additional reserves.

The maintenance of a high quality loan portfolio, with an adequate allowance for possible credit losses, will continue to be a primary management objective for the Company.

Noninterest Income

Total noninterest income includes service charges on deposits, gain on sale of loans, gain on sale of investments, income from bank owned life insurance ("BOLI") and other income.

Total noninterest income for the 2009 was $7.3 million compared to $4.4 million for 2008, an increase of 67%. The increase was attributed primarily to $1.5 million of income in 2009 from the gain on sale of investment securities. Other factors were higher service charges on deposit accounts of $839 thousand ($2.9 million in 2009 versus $2.1 million in 2008), and gains realized on the sale of residential and SBA loans of $628 thousand ($1.1 million in 2009 versus $426 thousand in 2008).

Total noninterest income for the fourth quarter of 2009 and 2008 was $1.3 million. Increases in gains realized on the sale of residential and SBA loans of $85 thousand and gain on sale of investment securities of $53 thousand were offset by decreases in service charges on deposit accounts of $51 thousand, due substantially to lower overdraft fees and decrease in other income of $72 thousand, primarily a result of lower loan prepayment fees.

For the year ended December 31, 2009, service charges on deposit accounts increased to $2.9 million from $2.1 million, an increase of 41% over 2008. The increase in service charges was primarily related to fee increases due in part to the impact of lower interest rates on customer earnings credits and to new relationships. For the three months ended December 31, 2009, service charges on deposit accounts decreased from $767 thousand to $716 thousand compared to the same period in 2008, a decrease of 7%. This decrease was due to a lower amount of overdraft fees.

Gain on sale of loans consists of SBA and residential mortgage loans. For the year ended December 31, 2009, gain on sale of loans increased from $426 thousand to $1.1 million compared to the same period in 2008 or 147%. For the three months ended December 31, 2009, gain on sale of loans increased from $19 thousand to $104 thousand compared to the same period in 2008. The higher amount of gains is due substantially to lower interest rates in 2009 which provided more attractive borrower refinancing opportunities.

The Company is an originator of SBA loans and its current practice is to sell the insured portion of those loans at a premium. Income from this source was $372 thousand for the year ended December 31, 2009 compared to $212 thousand for the year ended December 31, 2008. For the three months ended December 31, 2009, gains on the sale of SBA loans amounted to $75 thousand as compared to no sales for the same period in 2008. Activity in SBA loan sales to secondary markets can vary widely from quarter to quarter. Beginning in 2010, the Company's earnings from the sale of the guaranteed portion of SBA loans originated may be negatively impacted by a new accounting standard, ASC Topic 860, "*Transfers and Servicing,"* which will require that the recognition of profit on the sale of loans will be deferred until all re-purchase recourse provisions are met, which is typically a period of 90-120 days.

The Company originates residential mortgage loans on a pre-sold basis, servicing released. Sales of these mortgage loans yielded gains of $682 thousand for the year of 2009 compared to $214 thousand in the same period in 2008. For the three months ended December 31, 2009, gains on the sale of residential mortgage loans were $29 thousand as compared to $26 thousand for the same three months of 2008. The Company continues its efforts to originate and sell residential mortgages on a servicing released basis. Loans sold are subject to repurchase in circumstances where documentation is deficient or the underlying loan becomes delinquent within a specified period following sale and loan funding. The Bank considers these potential recourse provisions to be a minimal risk. The Bank does not originate so called "sub-prime" loans and has no exposure to this market segment. Higher refinancing activity resulting from a decline in residential mortgage rates in 2009 as compared to 2008 was the primary reason for the increase in income. In 2010, the Company's earnings from residential mortgage loan origination and sale will be negatively impacted by new accounting guidance, ASC Topic 860, "*Transfers and Servicing,"* which will require that the recognition of profit on the sale of loans will be deferred until all re-purchase recourse provisions are met, which is a period of 90-120 days.

Other income totaled $1.3 million for the year ended 2009 as compared to $1.4 million for the same period in 2008, a decrease of 5%. The major components of income in this category consist of ATM fees, SBA service fees, noninterest loan fees and other noninterest fee income. ATM fees increased from $352 thousand for the year ended 2008 to $430 thousand for the year ended 2009, a 22% increase. SBA service fees increased from $163 thousand for the year ended 2008 to $184 thousand for the year ended 2009, a 13% increase. Noninterest loan fees decreased to $461 thousand for the year ended 2009 from $622 thousand for the same period in 2008, a 26% decrease, primarily due to lower levels of prepayment fees. Other noninterest fee income was $246 thousand for the year 2009 compared to $277 thousand for the same period in 2008. Other income totaled $340 thousand for the three months ended December 31, 2009 as compared to $412 thousand for the same period in 2008, a decrease of 17%.

Net investment gains amounted to $1.5 million and $1 thousand for the year and quarter ended December 31, 2009, respectively, as compared to net investment gains of $2 thousand and a loss of $52 thousand for the year and quarter ended December 31, 2008, respectively. The increase in gains for the year of 2009 was the result of asset/liability management decisions to reduce call risk in the portfolio of U.S. Agency securities, to reduce potential extension risk in longer term U.S. Agency mortgage backed securities, and to better position the investment portfolio for potentially higher interest rates over future years.

Noninterest Expense

Total noninterest expense consists of salaries and employee benefits, premises and equipment expenses, marketing and advertising, data processing, legal, accounting and professional fees, FDIC insurance and other expenses.

Total noninterest expenses were $42.8 million for 2009, as compared to $30.8 million for 2008, a 39% increase, which primarily reflects the larger organization subsequent to the Fidelity acquisition. For the three months ended December 31, 2009, total noninterest expenses were $10.6 million for the fourth quarter of 2009, as compared to $10.5 million for 2008, a 1% increase.

Salaries and employee benefits were $20.9 million for the year ended 2009, as compared to $16.7 million for 2008, a 25% increase. For the three months ended December 31, 2009, salaries and employee benefits amounted to $5.4 million versus $5.3 million for the same period in 2008, a 3% increase. These increases were due to staff additions and related personnel costs, primarily resulting from the Fidelity acquisition, merit increases, incentive based compensation and increased benefit costs. The higher salaries and employee benefits in 2009 as compared to 2008, were the result of have the additional staff for the full year compared to four months in 2008. At December 31, 2009 and 2008, the Company's staff numbered 235, as compared to 175 at December 31, 2007.

Premises and equipment expenses amounted to $7.3 million for the year ended December 31, 2009 as compared to $5.4 million for the same period in 2008. This increase of 35% was due primarily to new banking offices acquired in the Fidelity acquisition. Additionally, ongoing operating expense increases associated with the Company's facilities, all of which are leased, and increased equipment costs contributed to the overall increase in expense. For the year ended December 31, 2009, the Company recognized $366 thousand of sublease revenue as compared to $293 thousand for the same period in 2008. The sublease revenue is a direct offset of premises and equipment expenses. For the three months ended December 31, 2009, premises and equipment expenses amounted to $1.8 million versus $1.9 million for the same period in 2008. For the three months ended December 31, 2009, the Company recognized $97 thousand in sublease revenue compared to $75 thousand for the three months ended December 31, 2008.

Marketing and advertising costs remained the same at $1.1 million for the years ended December 31, 2009 and 2008. For the three months ended December 31, 2009, advertising expenses amounted to $313 thousand versus $656 thousand for the same period in 2008, a decrease of 52%. The primary reason for the decrease was the accrual of sponsorship costs for the 2009 EagleBank Bowl over full year, while the expenses for the inaugural event were expensed primarily in the fourth quarter of 2008.

Data processing costs were $2.4 million for 2009, as compared to $1.6 million in 2008, an increase of 45%. For the three months ended December 31, 2009, data processing costs amounted to $576 thousand compared to $470 thousand for the same period in 2008, an increase of 23%. Increases for the year and quarter were due to the addition of new banking offices and an increase in the volume of data processing activity following the Fidelity acquisition and organic account growth.

Legal, accounting and professional fees were $2.7 million for the year ended 2009, as compared to $1.1 million for 2008, a 159% increase. This increase was primarily due to collection costs related to higher levels of problem assets and professional fees for consulting services. For the three months ended December 31, 2009, legal, accounting and professional fees amounted to $690 thousand compared to $398 thousand for the same period in 2008, a 73% increase. The same factors responsible for the year over year increase were responsible for the increase in the fourth quarter.

FDIC insurance premiums were $2.7 million for the year ended 2009, as compared to $642 thousand in 2008, an increase of 328%. The primary reasons for the increase were an increase in the base FDIC premium rates charged on deposits, a special FDIC assessment of approximately $723 thousand recorded in the second quarter of 2009, and higher deposit balances, resulting both from the Fidelity acquisition and organic growth. For the three months ended December 31, 2009, FDIC insurance premiums amounted to $278 thousand as compared to $243 thousand for the same period in 2008, a 14% increase. This increase was due to an increase in the base FDIC premium rates charged on deposits and to higher deposit balances.

Other expenses increased to $5.6 million in the year ended 2009 from $4.3 million for the year ended December 31, 2008, or an increase of 31%. For the three months ended December 31, 2009, other expenses amounted to $1.5 million compared to $1.6 million for the same period in 2008, a decrease of 6%. The major components of cost in this category include insurance expenses, broker fees, record management and storage costs, communication expenses, director fees, OREO expenses, other losses and stockholder and NASDAQ related expenses. For the year ended December 31, 2009, as compared to the same period in 2008, the significant increases in this category were primarily OREO expenses, director fees, other losses and amortization of the core deposit intangible recorded in the acquisition of Fidelity.

Income Tax Expense

The Company recorded income tax expense of $6.0 million in 2009 compared to $4.1 million in 2008 and $4.3 million in 2007, resulting in an effective tax rate of 36.4%, 35.7% and 35.7%, respectively. The higher effective tax rate for 2009 relates to a higher marginal tax rate on increases in income.

BALANCE SHEET ANALYSIS

Overview

At December 31, 2009, the Company's total assets were $1.8 billion, loans were $1.4 billion, deposits were $1.5 billion, other borrowings, including customer repurchase agreements, were $150.1 million and stockholders' equity was $188.3 million. As compared to December 31, 2008, assets grew in 2009 by $308.7 million (21%), loans by $133.7 million (11%), deposits by $330.9 million (29%), borrowings decreased by $65.9 million (30%) and stockholders' equity increased by $46.0 million (32%).

A substantial portion of the growth in deposits during 2009 is due to a successful money market campaign, commenced in the second quarter of 2009 which resulted in stronger deposit growth than loan growth in the second half of the year, and a resulting higher liquidity position in federal funds sold.

On September 21, 2009, the Company completed an underwritten public offering of 6,731,640 shares its common stock, at $8.20 per share, including 878,040 shares subject to the underwriter's over-allotment option. As a result of the capital raise, the number of shares of common stock subject to the warrants issued to the Treasury in December 2008 was reduced by 50% to 385,434.

Investment Securities Available for Sale ("AFS") and Short-Term Investments

The tables below and Note 3 to the Consolidated Financial Statements provide additional information regarding the Company's investment securities categorized as "available for sale" ("AFS"). The Company classifies all its investment securities as AFS. This classification requires that investment securities be recorded at their fair value with any difference between the fair value and amortized cost (the purchase price adjusted by any discount accretion or premium amortization) reported as a component of stockholders' equity (accumulated other comprehensive income), net of deferred income taxes. At December 31, 2009, the Company had a net unrealized gain in AFS securities of $3.9 million as compared to a net unrealized gain in AFS securities of $3.9 million at December 31, 2008. The deferred income tax liability/benefit at December 31, 2009 and 2008 of these unrealized gains and losses was $1.6 million and $1.6 million, respectively.

The AFS portfolio is comprised of U.S. Government agency securities (32% of AFS securities) with an average duration of 2.2 years, seasoned mortgage backed securities that are 100% agency issued (53% of AFS securities) which have an average expected lives of 2.7 years with contractual maturities of the underlying mortgages of up to thirty years, municipal bonds ($33.3 million or 14% of AFS securities) and equity investments which comprise less than 1% of AFS securities. The equity investment includes common stock of three community banking companies which have an estimated fair value of $359 thousand and two tax lien certificates which have an estimated fair value of $40 thousand. Ninety nine percent (99%) of the investment securities which are debt instruments are rated AAA or AA. The remaining one percent (1%) of the investment securities which are debt instruments is municipal bonds which have a rating of A. All ratings represent high investment grade issues.

At December 31, 2009, the investment portfolio amounted to $235.2 million as compared to a balance of $159.5 million at December 31, 2008, an increase of 47%. The growth in the portfolio was due in large part to investing a significant portion of the deposit growth in excess of loan growth that occurred in the twelve months ended December 31, 2009. The investment portfolio is managed to achieve goals related to income, liquidity, interest rate risk management and to provide collateral for customer repurchase agreements and other borrowing relationships.

The following table provides information regarding the composition of the Company's investment securities portfolio at the dates indicated. Amounts are reported at estimated fair value. The change in composition of the portfolio at December 31, 2009 as compared to 2008 was due principally to Asset Liability Committee decisions to increase the mix of municipal bonds, which was believed to represent good value and safety, and to increase holdings of structured mortgaged backed securities issued by U.S. Government agencies or government sponsored enterprises which are believed to well position the company in an increasing interest rate environment, which is anticipated over the next few years.

	December 31,					
	2009		2008		2007	
(dollars in thousands)	Balance	Percent of Total	Balance	Percent of Total	Balance	Percent of Total
U. S. Government agency securities	$ 76,107	32.4%	$ 74,029	46.4%	$ 51,295	62.4%
Mortgage backed securities	125,396	53.3%	79,770	50.0%	29,303	35.6%
Municipal bonds	33,325	14.2%	4,708	3.0%	351	0.4%
Other equity investments	399	0.1%	973	0.6%	1,298	1.6%
	$ 235,227	100%	$ 159,480	100%	$ 82,247	100%

The increase in the investment portfolio in 2008, and the increased percentage of the portfolio consisting of mortgage backed securities, was due primarily to the acquisition of Fidelity.

The following table provides information, on an amortized cost basis, regarding the contractual maturity and weighted average yield of the investment portfolio at December 31, 2009. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Yields on tax exempt securities have not been calculated on a tax equivalent basis.

At December 31, 2009, there were no issuers, other than the U.S. Government and its agencies, whose securities owned by the Company had a book or fair value exceeding 10% of the Company's stockholders' equity.

	One Year or Less		After One Year Through Five Years		After Five Years Through Ten Years		After Ten Years		Total	
(dollars in thousands)	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield
U. S. Government agency securities	$ 8,095	4.49%	$ 67,885	2.50%	$		$		$ 75,980	3.04%
Mortgage backed securities	3,069	4.19%	2,910	4.17%	19,934	4.94%	96,163	5.10%	122,076	5.03%
Muncipal bonds					3,023	4.47%	29,822	4.12%	32,845	4.15%
Other equity investments									436	4.79%
	$ 11,164	4.41%	$ 70,795	2.57%	$ 22,957	4.88%	$ 125,985	4.87%	$ 231,337	4.25%

The Company also has a portfolio of short-term investments utilized for asset liability management needs which consists from time-to-time of discount notes, money market investments, and other bank certificates of deposit This portfolio amounted to $7.5 million at December 31, 2009 as compared to $2.5 million at December 31, 2008.

Federal funds sold amounted to $88.2 million at December 31, 2009 as compared to $191 thousand at December 31, 2008. These funds represent excess daily liquidity which is invested on an unsecured basis with well capitalized banks, in amounts generally limited both in the aggregate and to any one bank.

Loan Portfolio

In its lending activities, the Company seeks to develop sound relationships with clients whose businesses and individual banking needs will grow with the Bank. There has been a significant effort to grow the loan portfolio and to be responsive to the lending needs in the markets served, while maintaining sound asset quality.

Loan growth over the past year has been favorable, with loans outstanding reaching $1.4 billion at December 31, 2009, an increase of $133.7 million or 11% as compared to $1.3 billion at December 31, 2008, and were $716.7 million at December 31, 2007, an increase of $549.0 million or 77% in 2008 over 2007.

The Company had loan growth of $134 million during 2009, with $82 million being recorded in the fourth quarter of 2009. Approximately 62% of the Company's loan growth was recorded in the fourth quarter of 2009. The loan growth was predominantly in the commercial real estate segment. As conduits and Commercial Mortgage-Backed Securities ("CMBS") credit sources dried up in late 2008 and through 2009, capital for real estate transactions became scarce. Many banks retracted their lending appetites as well, further contracting the supply of credit. The Company was able to capitalize on the demand/supply imbalance for credit with new loan fundings. Construction loans declined as projects came to completion and were paid off by permanent financing or sale. Demand for new construction loans declined sharply decreasing loan growth in that category during the year. Commercial and industrial loan growth was flat through the first half of the year, but picked up strongly during the second half of 2009. Consumer loan balances, a relatively minor focus of the Company's lending efforts, were essentially unchanged as consumers retrenched in the recessionary environment.

The Bank is primarily commercial oriented and as can be seen in the chart below, has a large proportion of its loan portfolio related to real estate with 69% consisting of commercial real estate, residential mortgage real estate and commercial construction and residential loans. Real estate also serves as collateral for loans made for other purposes, resulting in 75% of loans being secured by real estate.

The following table shows the trends in the composition of the loan portfolio over the past five years.

	Year Ended December 31,									
	2009		2008		2007		2006		2005	
(dollars in thousands)	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
Commercial	$ 346,692	25%	$ 334,999	27%	$ 149,332	21%	$ 132,981	21%	$ 118,928	22%
Owner occupied commercial	196,433	14%	184,059	15%	127,079	18%	95,782	15%	79,697	15%
Investment commercial real estate	499,501	36%	365,010	28%	265,678	37%	253,262	41%	204,970	37%
Real estate mortgage residential	9,236	1%	9,757	1%	2,160		1,523		1,130	
Construction commercial and residential(1)	252,695	18%	283,020	22%	110,115	15%	86,524	14%	90,035	16%
Home equity	87,283	6%	80,295	6%	57,515	8%	50,572	8%	50,776	9%
Other consumer	7,471		8,500	1%	4,798	1%	5,129	1%	3,676	1%
Total loans	1,399,311	100%	1,265,640	100%	716,677	100%	625,773	100%	549,212	100%
Less: Allowance for credit losses	(20,619)		(18,403)		(8,037)		(7,373)		(5,985)	
Net loans	$ 1,378,692		$ 1,247,237		$ 708,640		$ 618,400		$ 543,227	

(1) Includes loans for land acquisition and development.

As discussed under the captions "Business" and "Risk Factors," the Company has directly made higher risk loans that entail additional risks as compared to loans made following normal underwriting practices. These higher risk loan transactions, representing financing subordinated to loans made by the Bank, and occasionally referred to in this report as "subordinated financings" are currently made through the Company's subsidiary, ECV. This activity is limited as to individual transaction amount and total exposure amounts based on capital levels and is carefully monitored. Transactions are structured to provide ECV with returns commensurate to the risk through the requirement of additional interest following payoff of all loans, which additional interest is recorded as a component of non-interest income:

For the years ended December 31, 2009 and 2008, the Company recorded no noninterest income and for 2007 recorded $1.3 million of noninterest income from one subordinated financing transaction.

At December 31, 2009, ECV has a $1.6 million higher risk loan transaction relating to a real estate project which is currently in a construction/sales phase. The loan is expected to be outstanding throughout mid 2011, with marketing and sales continuing until that time. Due to delays in scheduled sales activity, the borrower has posted additional interest reserves to keep the loan current through January 2011.

Although the Company carefully underwrites each higher risk loan transaction and expects these transactions to provide additional revenues, there can be no assurance that any higher risk loan transaction, or the related loans made by the Bank, will prove profitable for the Company and Bank, that the Company will be able to receive any additional interest payments in respect of these loans, that any additional interest payments will be significant, or that the Company and Bank will not incur losses in respect of these transactions.

As noted above, a significant portion of the loan portfolio consists of commercial, construction and commercial real estate loans, primarily made in the Washington, D.C. metropolitan area and secured by real estate or other collateral in that market. Although these loans are made to a diversified pool of

unrelated borrowers across numerous businesses, adverse developments in the Washington D.C. metropolitan real estate market could have an adverse impact on this portfolio of loans and the Company's income and financial position. While our basic market area is the Washington, D.C. metropolitan area, in which 97% of our commercial real estate exposure exists, the Bank has made loans outside that market area where the nature and quality of such loans was consistent with the Bank's lending policies. At present, the Company believes that commercial real estate values are stable in the specific sub-markets of the Washington, D.C. metropolitan market in which the Company has its most significant real estate exposure.

The federal banking regulators have issued guidance for those institutions which are deemed to have concentrations in commercial real estate lending. Pursuant to the supervisory criteria contained in the guidance for identifying institutions with a potential commercial real estate concentration risk, institutions which have (1) total reported loans for construction, land development, and other land which represent in total 100% or more of an institutions total risk-based capital; or (2) total commercial real estate loans representing 300% or more of the institutions total risk-based capital and the institution's commercial real estate loan portfolio has increased 50% or more during the prior 36 months are identified as having potential commercial real estate concentration risk. Institutions which are deemed to have concentrations in commercial real estate lending are expected to employ heightened levels of risk management with respect to their commercial real estate portfolios, and may be required to hold higher levels of capital. The Company, like many community banks, has a concentration in commercial real estate loans. Management has extensive experience in commercial real estate lending, and has implemented and continues to maintain heightened portfolio monitoring and reporting, and strong underwriting criteria with respect to its commercial real estate portfolio. The Company is well capitalized. Nevertheless, the Company could be required to maintain higher levels of capital as a result of our commercial real estate concentration, which could require us to obtain additional capital, and may adversely affect shareholder returns.

At December 31, 2009, the Company had no other concentrations of loans in any one industry exceeding 10% of its total loan portfolio. An industry for this purpose is defined as a group of businesses that are engaged in similar activities and have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

Loan Maturity

The following table sets forth the time to contractual maturity of the loan portfolio as of December 31, 2009.

		Due In			
(dollars in thousands)	**Total**	**One Year or Less**	**Over One to Five Years**	**Over Five to Ten Years**	**Over Ten Years**
Commercial	$ 346,692	$ 131,609	$ 157,383	$ 34,205	$ 23,495
Owner occupied commercial	196,433	12,281	50,944	116,890	16,318
Investment commercial real estate	499,501	65,868	245,005	179,122	9,506
Real estate mortgage residential	9,236	65	397	1,137	7,637
Construction commercial and residential	252,695	147,811	85,691	16,195	2,998
Home equity	87,283	618	3,748	10,747	72,170
Other consumer	7,471	3,773	2,279	110	1,309
Total loans	$ 1,399,311	$ 362,025	$ 545,447	$ 358,406	$ 133,433
Loans with:					
Predetermined fixed interest rate	$ 470,209	$ 57,228	$ 321,963	$ 71,889	$ 19,129
Floating interest rate	929,102	304,798	223,487	286,514	114,303
Total loans	$ 1,399,311	$ 362,026	$ 545,450	$ 358,403	$ 133,432

Loans are shown in the period based on final contractual maturity. Demand loans, having no contractual maturity and overdrafts, are reported as due in one year or less.

Allowance for Credit Losses

The provision for credit losses represents the amount of expense charged to current earnings to fund the allowance for credit losses. The amount of the allowance for credit losses is based on many factors which reflect management's assessment of the risk in the loan portfolio. Those factors include economic conditions and trends, the value and adequacy of collateral, volume and mix of the portfolio, performance of the portfolio, and internal loan processes of the Company and Bank.

Management has developed a comprehensive analytical process to monitor the adequacy of the allowance for credit losses. This process and guidelines were developed utilizing, among other factors, the guidance from federal banking regulatory agencies. The results of this process, in combination with conclusions of the Bank's outside loan review consultant, support management's assessment as to the adequacy of the allowance at the balance sheet date. During 2009, a provision for credit losses was made in the amount of $7.7 million and net charge-offs amounted to $5.5 million. A full discussion of the accounting for allowance for credit losses is contained in Note 1 to the Consolidated Financial Statements and activity in the allowance for credit losses is contained in Note 4 to the Consolidated Financial Statements. Also, please refer to the discussion under the caption, "Critical Accounting Policies" within Management's Discussion and Analysis of Financial Condition and Results of Operation for further discussion of the methodology which management employs to maintain an adequate allowance for credit losses, as well as the discussion under the caption "Provision for Credit Losses."

The allowance for credit losses represented 1.47% of total loans at December 31, 2009 as compared to 1.45% at December 31, 2008. This increase in the ratio of the allowance for credit losses was due substantially to increased reserves for problem loans. At December 31, 2009, the allowance represented 94% of nonperforming loans as compared to 72% at December 31, 2008. The increase in the coverage ratio was due substantially to loan growth during 2009 as new credits exhibit lower levels of potential credit risk.

As part of its comprehensive loan review process, the Bank's Board of Directors, Director's Loan Committee and Credit Review Committee. Carefully evaluate loans which are past-due 30 days or more. The Committees make a thorough assessment of the conditions and circumstances surrounding each delinquent loan. The Bank's loan policy requires that loans be placed on nonaccrual if they are ninety days past-due, unless they are well secured and in the process of collection. Additionally, Credit Administration specifically analyzes the status of development and construction projects, sales activities and utilization of interest reserves in order to carefully and prudently assesses potential increased levels of risk which may require additional reserves.

At December 31, 2009, the Company had $22.0 million of loans classified as nonperforming, and $20.9 million of potential problem loans, as compared to $25.5 million of nonperforming loans and $3.6 million of potential problem loans at December 31, 2008. Please refer to Note 1 to the Consolidated Financial Statements under the caption "Loans" for a discussion of the Company's policy regarding impairment of loans. Please refer to "Nonperforming Assets" at page 25 for a discussion of problem and potential problem assets.

As the loan portfolio and allowance for credit losses review process continues to evolve, there may be changes to elements of the allowance and this may have an effect on the overall level of the allowance maintained. Historically, the Bank has enjoyed a high quality loan portfolio with relatively low levels of net charge-offs and low delinquency rates. In 2009, the Company witnessed an increased level of net charge-offs due to a weaker economy, but believes its level of net charge-offs and problem assets were below those of its peer banking companies. The maintenance of a high quality portfolio will continue to be a high priority for both management and the Board of Directors.

Management, being aware of the significant loan growth experienced by the Company, is intent on maintaining a strong credit review function and risk rating process. The Company has an experienced Credit Administration function, which provides independent analysis of credit requests and the management of problem credits. The area was further enhanced as part of the Fidelity acquisition. The Credit Department has developed and implemented analytical procedures for evaluating credit requests, has refined the Company's risk rating system, and has adopted enhanced monitoring of the loan portfolio (in particular the construction loan portfolio) and the adequacy of the allowance for credit losses. The loan portfolio analysis process is ongoing and proactive in order to maintain a portfolio of quality credits and to quickly identify any weaknesses before they become more severe.

The following table sets forth activity in the allowance for credit losses for the past five years.

	Year Ended December 31,				
(dollars in thousands)	**2009**	**2008**	**2007**	**2006**	**2005**
Balance at beginning of year	$ 18,403	$ 8,037	$ 7,373	$ 5,985	$ 4,240
Charge-offs:					
Commercial(1)	3,944	481	1,005	369	122
Real estate commercial(2)	488	29			
Real estate mortgage residential	553				
Construction commercial and residential(2)	177	497			
Home equity	427	124		15	
Other consumer	191	86	26	5	17
Total charge-offs	5,780	1,217	1,031	389	139
Recoveries:					
Commercial(1)	274	44	37	27	41
Real estate commercial(2)					
Real estate mortgage residential	2				
Construction commercial and residential(2)	2	50			
Home equity					
Other consumer	49		15	5	
Total recoveries	327	94	52	32	41
Net charge-offs	5,453	1,123	979	357	98
Additions charged to operations	7,669	3,979	1,643	1,745	1,843
Acquired allowance Fidelity		7,510			
Balance at end of year	$ 20,619	$ 18,403	$ 8,037	$ 7,373	$ 5,985
Ratio of allowance for credit losses to total loans outstanding at year end	1.47%	1.45%	1.12%	1.18%	1.09%
Ratio of net charge-offs during the year to average loans outstanding during the year	0.42%	0.12%	0.15%	0.06%	0.02%

(1) Includes SBA loans.

(2) Includes loans for land acquisition and development.

The following table presents the allocation of the allowance for credit losses by loan category and the percent of loans each category bears to total loans. The allocation of the allowance at December 31, 2009 includes specific reserves of $2.7 million against impaired loans of $22.0 million as compared to specific reserves of $1.5 million against impaired loans of $25.5 million at December 31, 2008. The allocation of the allowance to each category is not necessarily indicative of future losses or charge-offs and does not restrict

the usage of the allowance for any specific loan or category. The larger allowance at December 31, 2008, as compared to December 31, 2007, reflects in large part the $7.5 million allowance acquired in the Fidelity acquisition.

	Year Ended December 31,									
	2009		2008		2007		2006		2005	
(dollars in thousands)	Amount	%(1)	Amount	%(1)	Amount	%(1)	Amount	%(1)	Amount	%(1)
Commercial	$ 9,871	25%	$ 8,923	27%	$ 3,300	21%	$ 3,379	21%	$ 2,594	22%
Real estate commercial(2)	6,495	50%	4,849	43%	3,053	55%	2,800	56%	2,395	52%
Real estate mortgage residential	28	1%	58	1%	21		40		48	
Construction commercial and residential(2)	3,680	18%	3,972	22%	1,314	15%	854	14%	602	16%
Home equity	382	6%	394	6%	233	8%	176	8%	176	9%
Other consumer	163		207	1%	116	1%	124	1%	84	1%
Unallocated									86	
Total loans	$ 20,619	100%	$ 18,403	100%	$ 8,037	100%	$ 7,373	100%	$ 5,985	100%

(1) Represents the percent of loans in each category to total loans.

(2) Includes loans for land acquisition and development.

Nonperforming Assets

As shown in the table below, the Company's level of nonperforming assets, which are comprised of loans delinquent 90 days or more, nonaccrual loans, restructured loans and other real estate owned, totaled $27.1 million, at December 31, 2009, representing 1.50% of total assets. While the total amount of non-performing assets at December 31, 2009 was slightly higher than at December 31, 2008, the ratio of non-performing assets to total assets and non-performing loans to total loans were both lower at December 31, 2009 as compared to December 31, 2008. The Company has been highly proactive in addressing existing and potential problem loans resulting from a weaker economy, which has resulted in an improved level of nonperforming assets as a percentage of total assets at December 31, 2009 as compared to December 31, 2008. Management remains attentive to early signs of deterioration in borrowers' financial conditions and to taking the appropriate action to mitigate risk. Furthermore, the Company is diligent in placing loans on nonaccrual status and believes, based on its loan portfolio risk analysis, that its allowance for loan losses at 1.47% of total loans at December 31, 2009 is adequate to absorb potential credit losses in the loan portfolio at that date.

Included in nonperforming assets at December 31, 2009 is Other Real Estate Owned ("OREO") of $5.1 million, consisting of twelve foreclosed properties. The Company had four OREO properties with a net carrying value of $909 thousand at December 31, 2008. During the year of 2009, the Company sold six foreclosed properties with a net carrying value of $1.6 million, realizing a net gain of $164 thousand.

Total nonperforming loans amounted to $22.0 million at December 31, 2009 (1.57% of total loans), compared to $25.5 million at December 31, 2008 (2.01% of total loans). The decline in the ratio is due to both a decrease in nonperforming loans of $3.4 million year over year and to a larger loan portfolio at December 31, 2009.

The following table shows the amounts and relevant ratios of nonperforming assets at December 31 for the past five years:

(dollars in thousands)	2009	2008	2007	2006	2005
Nonaccrual Loans:					
Commercial	$ 4,364	$ 3,506	$ 1,174	$ 1,976	$ 362
Real estate commercial	2,426	4,167	641		
Construction commercial and residential	15,192	17,588	3,386		
Home equity	42	196	123		
Other consumer					129
Accrual loans past due 90 days:					
Commercial				37	
Real estate commercial					
Other consumer					
Restructured loans					
Total nonperforming loans(1)	22,024	25,457	5,324	2,013	491
Other real estate owned	5,106	909			
Total nonperforming assets	$ 27,130	$ 26,366	$ 5,324	$ 2,013	$ 491
Coverage ratio, allowance for credit losses to total nonperforming loans	93.62%	72.29%	150.96%	366.27%	1218.94%
Ratio of nonperforming loans to total loans	1.57%	2.01%	0.74%	0.32%	0.09%
Ratio of nonperforming assets to total assets	1.50%	1.76%	0.63%	0.26%	0.07%

(1) Gross interest income that would have been recorded in 2009 if nonaccrual loans and leases shown above had been current and in accordance with their original terms was $1.4 million, while interest actually recorded on such loans was $1.4 million, while interest actually recorded on such loans was $546 thousand. See Note 1 to the Consolidated Financial Statements for a description of the Company's policy for placing loans on nonaccrual status.

Significant variation in the amount of nonperforming loans may occur from period to period because the amount of nonperforming loans depends largely on the condition of a relatively small number of individual credits and borrowers relative to the total loan portfolio.

The Company had no troubled debt restructured loans at either December 31, 2009 or 2008. Impaired loans consisted of $22.0 million of nonaccrual loans at December 31, 2009, with $2.7 million of specific reserves, compared to $25.5 million of impaired loans at December 31, 2008 with $1.5 million of specific reserves.

At December 31, 2009, there were $20.9 million of performing loans considered potential problem loans, defined as loans which are not included in the 90 day past due, nonaccrual or restructured categories, but for which known information about possible credit problems causes management to be uncertain as to the ability of the borrowers to comply with the present loan repayment terms which may in the future result in disclosure in the past due, nonaccrual or restructured loan categories. This amount compares to $3.6 million at December 31, 2008.

Other Earning Assets

Residential mortgage loans held for sale amounted to $1.6 million at December 31, 2009 compared to $2.7 million at December 31, 2008. Origination and sale of these loans on a servicing released basis is emphasized by the Company in order to enhance noninterest income, which emphasis is expected to continue in 2010. The Bank did not engage in the origination of subprime or "exotic" mortgage loans. See "Business" at page 90 for a description of the Bank's mortgage lending and brokerage activities.

Bank owned life insurance is utilized by the Company in accordance with income tax regulations as part of the Company's financing of its benefit programs. At December 31, 2009 this asset amounted to $12.9 million as compared to $12.4 million at December 31, 2008, which reflected an increase in cash surrender values, and not new investments.

Intangible Assets

The Company recognizes a servicing asset for the computed value of servicing fees on the sale of the guaranteed portion of SBA loans, which is in excess of a normal servicing fee. Assumptions related to loan term and amortization is made to arrive at the initial recorded value, which is included in intangible assets, net, on the Consolidated Balance Sheets.

For 2009, excess servicing fees of $62 thousand were recorded, and $88 thousand was amortized as a reduction of actual service fees collected, which is a component of other income. At December 31, 2009, the balance of excess servicing fees was $159 thousand. For 2008, excess servicing fees of $54 thousand were recorded, of which $105 thousand was amortized as a reduction of actual service fees collected, which is a component of other income. At December 31, 2008, the balance of excess servicing fees was $185 thousand.

In connection with the Fidelity acquisition, the Company made an allocation of the purchase price to a core deposit intangible which was determined by independent evaluation and is included in intangible assets, net, on the Consolidated Balance Sheets. The initial amount recorded was $2.3 million, which is being amortized over its economic life of 6.44 years as a component of other noninterest expense. The amounts amortized in 2009 and 2008 were $186 thousand $62 thousand, respectively. The unamortized assets at December 31, 2009 and 2008 were $2.1 million and $2.2 million, respectively.

The Company recorded an initial amount of unidentified intangible (goodwill) incident to the acquisition of Fidelity of approximately $360 thousand. Based on allowable adjustments through August 31, 2009, the unidentified intangible (goodwill) amounted to approximately $2.2 million. The increase in goodwill year over year was the result of purchase accounting adjustments during the first year after the acquisition for write downs of assets that were overvalued at the date of the acquisition. The Company's testing of potential goodwill impairment (which is required annually) at December 31, 2009, resulted in no impairment being recorded.

Deposits and Other Borrowings

The principal sources of funds for the Bank are core deposits, consisting of demand deposits, NOW accounts, money market accounts, savings accounts and certificates of deposits from the local market areas surrounding the Bank's offices. The deposit base includes transaction accounts, time and savings accounts and accounts which customers use for cash management and which provide the Bank with a source of fee income and cross-marketing opportunities, as well as an attractive source of lower cost funds. To meet funding needs during periods of high loan demand and seasonal variations in core deposits, the Bank utilizes alternative funding sources such as secured borrowings from the Federal Home Loan Bank of Atlanta ("FHLB"); federal funds purchased lines of credit from correspondent banks and brokered deposits from a regional brokerage firm, a national brokered funds network and from the Promontory Interfinancial Network, LLC network.

For the twelve months ended December 31, 2009, noninterest bearing deposits increased $84.4 million as compared to December 31, 2008 to $308.0 million or 21% of total deposits, while interest bearing deposits increased by $246.5 million during the same period, primarily attributable to a marketing campaign begun in the second quarter of 2009 for money market accounts. Money market accounts and savings accounts collectively amounted to $582.9 million at December 31, 2009 or 40% of total deposits, as compared to $271.8 million, or 24% of total deposits, at December 31, 2008, a 114% increase.

For the year ended December 31, 2009, total deposits increased $331 million, from $1.13 billion to $1.46 billion, or 29%, due largely to focus sales efforts in 2009 to attract more core deposit customers, and also to the emphasis on requiring loan customers to place deposits with the Bank. Approximately 35% of the Bank's deposits at December 31, 2009 ($509.7 million) were time deposits, which are generally the most expensive form of deposit because of their fixed rate and term, as compared to 51% at December 31, 2008 ($579.2 million). This decrease in the time deposit category at December 31, 2009 as compared to December 31, 2008 was due in part to migration of funds in response to higher rate money market account promotions.

The following table sets forth the maturities of time deposits with balances of $100,000 or more, which represent 20% of total deposits as of December 31, 2009, compared to 22% at December 31, 2008. See Note 7 to the Consolidated Financial Statements for additional information regarding the maturities of time deposits and the Average Balances Table at page 12 above for the average rates paid on interest-bearing deposits. Time deposits of $100 thousand or more can be more volatile and more expensive than time deposits of less than $100 thousand. However, because the Bank focuses on relationship banking, and its marketplace demographics are favorable, its historical experience has been that large time deposits have not been more volatile or significantly more expensive than smaller denomination certificates.

	December 31,		
(dollars in thousands)	**2009**	**2008**	**2007**
Three months or less	$ 89,318	$ 109,283	$ 52,570
More than three months through six months	74,189	23,448	56,540
More than six months through twelve months	74,152	91,832	61,117
Over twelve months	58,540	24,953	3,359
Total	$ 296,199	$ 249,516	$ 173,586

From time to time, when appropriate in order to fund strong loan demand, the Bank accepts brokered time deposits, generally in denominations of less than $100 thousand, from a regional brokerage firm, and other national brokerage networks, including the Promontory Interfinancial Network, LLC for one-way purchased transactions. Additionally, the Bank participates in the Certificates of Deposit Account Registry Service ("CDARS"), which provides for reciprocal ("two-way") transactions among banks facilitated by the Promontory Interfinancial Network, LLC for the purpose of maximizing FDIC insurance. These reciprocal CDARS funds are classified as brokered deposits. At December 31, 2009, total time deposits included $106.7 million of brokered deposits, which represented 7% of total deposits. The CDARS component represented $38.8 million or 3% of total deposits. These sources are believed to represent a reliable and cost efficient alternative funding source for the Company. At December 31, 2008, total time deposits included $192.7 million of brokered deposits, which represented 17% of total deposits. The CDARS component represented $81.1 million, or 7% of total deposits. The lower level of wholesale funding during 2009 is attributable to favorable growth in core deposits.

At December 31, 2009, the Company had approximately $308 million in noninterest bearing demand deposits, representing 21% of total deposits. This compared to approximately $223.6 million of these deposits at December 31, 2008 or 20% of total deposits. These deposits are primarily business checking accounts on which the payment of interest is prohibited by regulations of the Federal Reserve. Proposed legislation has been introduced in past Congresses which would permit banks to pay interest on checking and demand deposit accounts established by businesses. If legislation effectively permitting the payment of interest on business demand deposits is enacted, of which there can be no assurance, it is likely that we may be required to pay interest on some portion of our noninterest bearing deposits in order to compete with other banks. Payment of interest on these deposits could have a significant negative impact on our net interest income and net interest margin, net income, and the return on assets and equity.

As an enhancement to the basic noninterest bearing demand deposit account, the Company offers a sweep account, or "customer repurchase agreement," allowing qualifying businesses to earn interest on short-term excess funds which are not suited for either a certificate of deposit or a money market account. The balances in these accounts were $90.8 million at December 31, 2009 compared to $93.9 million at December 31, 2008, the decrease being attributed primarily to clients' reduced safety concerns over condition of the financial markets at December 31, 2009 as compared to the end of 2008, when financial markets were experiencing a period of heightened stress. Customer repurchase agreements are not deposits and are not insured by the FDIC, but are collateralized by U.S. government agency securities or U.S. government agency mortgage backed securities. These accounts are particularly suitable to businesses with significant fluctuation in the levels of cash flows. Attorney and title company escrow accounts are an example of accounts which can benefit from this product, as are customers who may require collateral for deposits in excess of FDIC insurance limits but do not qualify for other pledging arrangements. This program requires the Company to maintain sufficient investment securities for pledging purposes to accommodate the fluctuations in balances which may occur in these customer repurchase agreement accounts.

At December 31, 2009 the Company had no outstanding balances under its federal funds lines of credit provided by correspondent banks, as compared to $5.0 million outstanding at December 31, 2008. This decrease was due to the Company having an ample supply of core deposits to meet loan funding needs throughout 2009. At December 31, 2009, the Bank had $50 million of borrowings outstanding under its credit facility from the FHLB, as compared to $105 million at December 31, 2008. This decrease in borrowed funding was due to larger amounts of core deposits, primarily money market accounts, attributable in part to special rate promotions over the March-September 2009 period. Outstanding FHLB advances are secured by collateral consisting of a blanket lien on qualifying loans in the Bank's commercial mortgage and home equity loan portfolios.

On August 11, 2008, the Company entered into a Loan Agreement and related Stock Security Agreement and Promissory Note (the "credit facility") with United Bank, pursuant to which the Company may borrow, on a revolving basis, up to $20 million for working capital purposes, to finance capital contributions to the Bank and ECV. The terms of this facility were modified in July 2009. The credit facility is secured by a first lien on all of the stock of the Bank, and bears interest at a floating rate equal to the Wall Street Journal Prime Rate minus 0.25% with a floor interest rate of 4.75%. Interest is payable on a monthly basis. The term of the credit facility expires on June 25, 2010. At any time, provided no event of default exists, the Company may term out repayment of the outstanding principal balance of the credit facility over a five year term. At December 31, 2009 and 2008, there were no amounts outstanding under this credit facility.

On August 28, 2008, the Company accepted subscriptions for and sold an aggregate of $12.15 million of subordinated notes (the "Notes"), on a private placement basis. This offering, which was funded by several Directors of the Company, was utilized to provide additional Tier 2 regulatory capital in the wake of the acquisition of Fidelity, absent availability of other capital sources during 2008. The capital treatment of the Notes will be phased out during the last 5 years of the Notes' term, at a rate of 20% of the original principal amount per year commencing in October 2009. The Notes bear interest, payable on the first day of each month, commencing in October 2008, at a fixed rate of 10% per year. The Notes have a term of approximately six years, and have a maturity of September 30, 2014. On September 17, 2009, the Company redeemed an aggregate of $2.85 million of the Notes from certain directors of the Company. At December 31, 2009, $9.3 million of the Notes remaining outstanding, and are included in long-term borrowings on the Consolidated Balance Sheets.

Please refer to Note 8 to the Consolidated Financial Statements for additional information regarding the Company's short and long-term borrowings.

COMPARISON OF 2008 VERSUS 2007

The results of operation of the Company include the results of operation of Fidelity, acquired on August 31, 2008, for the period September 1, 2008 through December 31, 2008 only.

The Company reported net income of $7.4 million for the year ended December 31, 2008, a 4% decrease from net income of $7.7 million for the year ended December 31, 2007, as compared to $8.0 million for the year ended December 31, 2006.

The decrease in net income for the twelve months ended December 31, 2008 can be attributed substantially to an increase in the provision for credit losses of 142% and a 24% increase in noninterest expense while interest income increased by only 15% as compared to the same period in 2007. Net interest income showed an increase of 26% on growth in average earning assets of 36%. For the twelve months ended December 31, 2008, the Company experienced a 32 basis point decline in its net interest margin from 4.37% in 2007 to 4.05% in 2008. This change was primarily due to a lesser value for noninterest funding sources (0.63% as compared to 0.95%) as interest rates declined significantly during 2008. Additionally, a portion of the decline was due to lower margins on the assets and liabilities acquired in the Fidelity acquisition.

Earnings per basic common share were $0.63 for the year ended December 31, 2008, as compared to $0.73 for 2007. Earnings per diluted common share were $0.62 for the year ended December 31, 2008, as compared to $0.71 for 2007. Per common share amounts and the number of shares have been adjusted to give effect to the 10% stock dividend paid on October 1, 2008.

The Company had a return on average assets of 0.69% and a return on average common equity of 8.05% for the year of 2008, as compared to returns on average assets and average equity of 0.96% and 10.03%, respectively, for the year of 2007.

For the twelve months ended December 31, 2008, average interest bearing liabilities funding average earning assets increased to 78% as compared to 77% for the year of 2007. Additionally, while the average rate on earning assets for the twelve month period ended December 31, 2008, as compared to 2007, decreased by 115 basis points from 7.48% to 6.33%, the cost of interest bearing liabilities also decreased by 115 basis points from 4.06% to 2.91%, resulting in a net interest spread of 3.42% for both the twelve months ended December 31, 2008 and 2007. The 32 basis point decline in the net interest margin from 4.37% for the twelve months ended December 31, 2007 to 4.05% for the twelve months ended December 31, 2008 reflects the effects of a steep decline in market interest rates that reduced the benefit of noninterest funding sources from 95 basis points in 2007 to 63 basis points for 2008. For the twelve months ended December 31, 2008, average noninterest sources funding earning assets were $225 million as compared to $179 million for the same period in 2007.

Due to the need to meet loan funding objectives in excess of deposit growth during 2008, the Bank has relied to a larger extent on alternative funding sources, such as FHLB advances and brokered time deposits, which sources provided favorable funding costs.

Loans, which generally have higher yields than securities and other earning assets, increased to 88% of average earning assets in 2008 from 86% of average earning assets for 2007. Investment securities accounted for 11% of average earning assets for both 2008 and 2007. Federal funds sold averaged 1% and 2% of average earning assets for 2008 and 2007, respectively.

The provision for credit losses was $4.0 million for the year ended December 31, 2008 as compared to $1.6 million in 2007. The higher provision for the year ended December 31, 2008, as compared to 2007, is attributable to substantially higher levels of loan growth, migration of loans to higher risk assessments within the portfolio and increases in reserve allocations on classified loans. For the full year 2008, the Company recorded net charge-offs of $1.1 million, as compared to $979 thousand for the same period in 2007. The ratio of net charge-offs to average loans was 0.12% for 2008 and 0.15% for 2007. The increase in the amount of net charge-offs in 2008 over 2007 was attributable to charge-offs in commercial construction and land development loans ($446 thousand versus $0), the unguaranteed portion of SBA loans ($337 thousand versus $0 thousand), non-real estate commercial business loans ($100 thousand versus $968 thousand), consumer loans ($210 thousand versus $11 thousand), and commercial real estate investment property loans ($29 thousand versus $0).

At December 31, 2008, the allowance for credit losses was $18.4 million (including the assumed balance of the Fidelity allowance for credit losses of $7.5 million), or 1.45% of total loans, as compared to $8.0 million or 1.12% of total loans at December 31, 2007. The primary factor in the increase of the balance of the allowance was the acquisition of Fidelity and the assumption of its allowance related to unimpaired loans. The increase in the allowance as a percentage of total loans reflects a higher risk profile of the loans acquired from Fidelity, as well as a change in the mix of loans as a result of the acquisition of Fidelity.

Total noninterest income was $4.4 million for 2008 as compared to $5.2 million for 2007, a decrease of 16%. These amounts include net investment gains of $2 thousand for the year of 2008 and $6 thousand in 2007. The decrease was attributable primarily to $1.3 million of income in 2007 from the settlement of a subordinated financing transaction. Excluding this transaction, noninterest income increased 10%, which includes the impact of the Fidelity acquisition. Other factors were higher service charges on deposit accounts of $919 thousand ($2.4 million in 2008 versus $1.5 million in 2007), partially offset by lower volume of SBA and residential mortgage loan sales activity ($426 thousand in 2008 versus $1.0 million in 2007). Income from subordinated financing activities can fluctuate greatly between periods, as it is based on the progress of a limited number of development projects.

Total noninterest expenses were $30.8 million for 2008, as compared to $24.9 million for 2007, a 24% increase, which reflects the larger organization subsequent to the Fidelity acquisition. The other primary reasons for this increase were merit increases, higher personnel costs, increased broker fees, higher internet and license agreement fees, increased legal, accounting and professional fees, including loan collection costs, and acquisition related expenses. In addition, higher costs were incurred for marketing, sponsorship, and professional services associated with the inaugural EagleBank Bowl. The efficiency ratio was 66.49% for the year of 2008 as compared to 64.67% for 2007.

The Company recorded income tax expense of $4.1 million in 2008 compared to $4.3 million in 2007 resulting in an effective tax rate of 35.7%, and 35.7%, respectively.

At December 31, 2008, the Company's total assets were $1.5 billion, loans were $1.3 billion, deposits were $1.1 billion, other borrowings, including customer repurchase agreements were $216.0 million and stockholders' equity was $142.4 million. As compared to December 31, 2007, assets grew in 2008 by $651.2 million (77%), loans by $549.0 million (77%), deposits by $498.4 million (79%), borrowings by $87.5 million (68%) and stockholders' equity by $61.2 million (75%).

A substantial portion of the growth in all balance sheet categories in 2008 resulted from the Fidelity acquisition. A significant portion of the growth in stockholders' equity was due to the issuance of $38.235 million of preferred stock pursuant to the Capital Purchase Program. For additional information regarding the Company's participation in the Capital Purchase Program, please refer to page 40 and Note 9 to the Consolidated Financial Statements.

The Company paid a cash dividend of $0.0545 per common share for each of the first and second quarters of 2008 and $0.0545 per common share for each quarter of 2007. In July 2008, the Company, in an action to conserve capital, discontinued the payment of its quarterly cash dividend. On October 1, 2008, the Company issued a 10% stock dividend on the common stock.

At December 31, 2008, the investment portfolio amounted to $169.1 million as compared to a balance of $87.1 million at December 31, 2007, an increase of 94%, most of the growth being associated with the Fidelity acquisition consummated as of August 31, 2008. The investment portfolio is managed to achieve goals related to income, liquidity, interest rate risk management and providing collateral for customer repurchase agreements and other borrowing relationships. The Company's short-term investment portfolio amounted to $2.5 million at December 31, 2008 as compared to $4.5 million at December 31, 2007.

Federal funds sold amounted to $191 thousand at December 31, 2008 as compared to $244 thousand at December 31, 2007. These funds represent excess daily liquidity which is invested on an unsecured basis with well capitalized banks, in amounts generally limited both in the aggregate and to any one bank.

Loan growth over the year 2008 was favorable, with loans outstanding reaching $1.3 billion at December 31, 2008, an increase of $549.0 million or 77% as compared to $716.7 million at December 31, 2007.

The Company had strong loan growth throughout the year 2008. In August, $360 million of loans were added as a result of the acquisition of Fidelity. Approximately 50% of the Company's organic growth was recorded in the fourth quarter of 2008. The fourth quarter experienced growth in investment real estate lending which is attributable to various factors, including the Company having the opportunity to lend on local income producing commercial real estate projects which were typically financed in the CMBS market, and which was not functioning during most of 2008. The commercial portfolio growth is also attributable to various factors including increasing SBA guaranteed loans made for business acquisition; recording new commercial term loans to assist local business in various financing needs including equipment financing and providing ESOP financing so that the employees of a local company could acquire their company. New commercial lines of credit booked grew providing local businesses working capital; and new owner occupied commercial real estate loans grew allowing business owners to purchase and/or refinance the real estate in which their company operates.

The allowance for credit losses represented 1.45% of total loans at December 31, 2008 as compared to 1.12% at December 31, 2007. This increase in the ratio of the allowance for credit losses was due substantially to the acquisition of Fidelity whose allowance for credit losses was approximately $7.5 million or 2.10% of Fidelity loans outstanding at August 31, 2008.

At December 31, 2008, the Company had $25.5 million of loans classified as nonperforming, and $3.6 million of potential problem loans, as compared to $5.3 million of nonperforming loans and $1.9 million of potential problem loans at December 31, 2007. The percentage of nonperforming assets to total assets was 1.76% at December 31, 2008 compared to 0.63% at December 31, 2007. Included in nonperforming assets at December 31, 2008 is other real estate owned ("OREO") of $909 thousand and $0 at December 31, 2007, respectively. Excluding OREO from nonperforming assets, total nonperforming loans amounted to $25.5 million at December 31, 2008 (2.01% of total loans) as compared to $5.3 million (0.74% of total loans) at December 31, 2007. The increase in nonperforming loans at December 31, 2008 as compared to December 31, 2007 relates primarily to nonperforming loans acquired from Fidelity of $10.7 million and to two commercial loan relationships (approximately $4.4 million) which include commercial real estate loans secured by residential properties which have experienced cost overruns and/or delays in the development and construction processes.

Residential mortgage loans held for sale amounted to $2.7 million at December 31, 2008 compared to $2.2 million at December 31, 2007.

Bank owned life insurance is utilized by the Company in accordance with tax regulations as part of the Company's financing of its benefit programs. At December 31, 2008 this asset amounted to $12.4 million as compared to $12.0 million at December 31, 2007, which reflected an increase in cash surrender values, and not new investments.

For the year ended December 31, 2008, total deposits increased $498.4 million, from $630.9 million to $1.1 billion or 79%. Approximately 51% of the Bank's deposits at December 31, 2008 ($579.2 million) are made up of time deposits, which are generally the most expensive form of deposit because of their fixed rate and term, as compared to 41% at December 31, 2007 ($257.3 million). This increase in the time deposit category at December 31, 2008 as compared to December 31, 2007 was due to both the acquisition of Fidelity, which had a higher proportion of its deposits in time deposits, and to customer preferences toward higher interest FDIC insured products in the fourth quarter of 2008 as economic conditions worsened. Average time deposits amounted to $402.2 million in 2008 (48% of average total deposits), compared to $270.5 million in 2007 (43% of average total deposits), an increase of $131.7 million or 49%.

At December 31, 2008, the Company had approximately $223.6 million in noninterest bearing demand deposits, representing 20% of total deposits. This compared to approximately $142.5 million of these deposits at December 31, 2007 or 23% of total deposits.

As an enhancement to the basic noninterest bearing demand deposit account, the Company offers a sweep account, or "customer repurchase agreement," allowing qualifying businesses to earn interest on short-term excess funds which are not suited for either a certificate of deposit or a money market account. The balances in these accounts were $93.9 million at December 31, 2008 compared to $52.9 million at December 31, 2007, the increase being attributed primarily to the acquisition of Fidelity. Customer repurchase agreements are not deposits and are not insured by the FDIC, but are collateralized by U.S. government agency securities.

At December 31, 2008 the Company had $5.0 million outstanding balances under its federal funds lines of credit provided by correspondent banks, as compared to $23.5 million outstanding at December 31, 2007. This decrease was due to changes in the funding mix to the less expensive funding provided by the FHLB. At December 31, 2008, the Bank had $105 million borrowings outstanding under its credit facility from the FHLB, as compared to $52 million at December 31, 2007. Outstanding advances are secured by collateral consisting of a blanket lien on qualifying loans in the Bank's commercial mortgage loan portfolio.

CONTRACTUAL OBLIGATIONS

The Company has various financial obligations, including contractual obligations and commitments that may require future cash payments. Except for its loan commitments, as shown in Note 15 to the Consolidated Financial Statements Financial Instruments with Off-Balance Sheet Risk, the following table shows details on these fixed and determinable obligations as of December 31, 2009 in the time period indicated.

(dollars in thousands)	Within One Year	One to Three Years	Three to Five Years	Over Five Years	Total
Deposits without a stated maturity(1)	$ 950,533	$	$	$	$ 950,533
Time deposits(1)	358,962	106,019	44,760		509,741
Borrowed funds(2)	100,790	10,000	30,000	9,300	150,090
Operating lease obligations	3,942	6,674	5,804	5,655	22,075
Outside data processing(3)	1,090	2,229	287		3,606
Total	$ 1,415,317	$ 124,922	$ 80,851	$ 14,955	$ 1,636,045

(1) Excludes accrued interest payable at December 31, 2009.

(2) Borrowed funds include customer repurchase agreements, federal funds purchased and other short-term and long-term borrowings.

(3) The Bank has outstanding obligations under its current core data processing contract that expires in May 2013 and one other vendor arrangement that relates to data communications and data software that expires in December 2012.

OFF-BALANCE SHEET ARRANGEMENTS

The Company is party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit and standby letters of credit. They involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheets. The contract or notional amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments. See Note 15 to the Consolidated Financial Statements for a summary list of loan commitments at December 31, 2009 and 2008.

Loan commitments represent agreements to lend to a customer as long as there is no violation of any condition established in the contract and which have been accepted in writing by the borrower. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained is based on management's credit evaluation of the borrower. Collateral obtained varies, and may include certificates of deposit, accounts receivable, inventory, property and equipment, residential and commercial real estate.

Standby letters of credit are conditional commitments issued by the Company which guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Collateral held varies as specified above and is required in instances which the Company deems necessary. At December 31, 2009, approximately 98% of the dollar amount of standby letters of credit was collateralized.

With the exception of these off-balance sheet arrangements, the Company has no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on the Company's financial condition, changes in financial condition, revenues or expenses, results of operations, capital expenditures or capital resources, that is material to investors.

LIQUIDITY MANAGEMENT

Liquidity is a measure of the Company's and Bank's ability to meet loan demand and to satisfy depositor withdrawal requirements in an orderly manner. The Bank's primary sources of liquidity consist of cash and cash balances due from correspondent banks, loan repayments, federal funds sold and other short-term investments, maturities and sales of investment securities and income from operations. The Bank's investment portfolio of debt securities is held 100% in an available-for-sale status and has a substantial unrealized gain position, which allows for flexibility, subject to holdings held as collateral for customer repurchase agreements; to generate cash from sales as needed to meet ongoing loan demand. These sources of liquidity are considered primary and are supplemented by the ability of the Company and Bank to borrow funds, which are termed secondary sources and which are substantial. The Company's secondary sources of liquidity include a $20 million line of credit with a regional bank, secured by the stock of the Bank, against which there were no amounts outstanding at December 31, 2009. Additionally, the Bank can purchase up to $70.0 million in federal funds on an unsecured basis from its correspondents, against which there were no amounts outstanding at December 31, 2009 and can borrow unsecured funds under one-way CDARS brokered deposits in the amount of $82.0 million, against which there was $448 thousand outstanding at December 31, 2009. At December 31, 2009, the Bank was also eligible to make advances from the FHLB up to $112.4 million based on collateral at the FHLB, of which it had

$50 million of advances outstanding at December 31, 2009. Also, the Bank may enter into repurchase agreements as well as obtain additional borrowing capabilities from the FHLB provided adequate collateral exists to secure these lending relationships. In the fourth quarter of 2009, the Bank finalized a back-up borrowing facility through the Discount Window at the Federal Reserve Bank of Richmond ("Federal Reserve"). This facility, which amounts to approximately $163 million, is collateralized with specific loan assets identified to the Federal Reserve. It is anticipated, except for periodic testing, that this facility would be utilized for contingency funding only.

The loss of deposits, through disintermediation, is one of the greater risks to liquidity. Disintermediation occurs most commonly when rates rise and depositors withdraw deposits seeking higher rates in alternative savings and investment sources than the Bank may offer. The Bank was founded under a philosophy of relationship banking and, therefore, believes that it has less of an exposure to disintermediation and resultant liquidity concerns than do many banks. There is, however, a risk that some deposits would be lost if rates were to increase and the Bank elected not to remain competitive with its deposit rates. Under those conditions, the Bank believes that it is well positioned to use other sources of funds such as FHLB borrowings, brokered deposits and correspondent bank lines of credit to offset a decline in core deposits in the short run and may also utilize the Federal Reserve's Discount Window facility. Over the long-term, an adjustment in assets and change in business emphasis could compensate for a potential loss of deposits. The Bank also maintains a marketable investment portfolio to provide flexibility in the event of significant liquidity needs. The Bank's Asset Liability Committee has adopted policy guidelines which emphasize the importance of core deposits and their continued growth. In the year ended December 31, 2009, the Bank was able to substantially increase its core deposits through both new relationships and increases to accounts of existing relationships.

At December 31, 2009, under the Bank's liquidity formula, it had $463.8 million of primary and secondary liquidity sources, which was deemed adequate to meet current and projected funding needs.

INTEREST RATE RISK MANAGEMENT

Asset/Liability Management and Quantitative and Qualitative Disclosures about Market Risk

A fundamental risk in banking is exposure to market risk, or interest rate risk, since a bank's net income is largely dependent on net interest income. The Bank's Asset Liability Committee ("ALCO") of the Board of Directors formulates and monitors the management of interest rate risk through policies and guidelines established by it and the full Board of Directors and through review of detailed analysis reports quarterly. In its consideration of risk limits, the ALCO considers the impact on earnings and capital, the level and direction of interest rates, liquidity, local economic conditions, outside threats and other factors. Banking is generally a business of managing the maturity and re-pricing mismatch inherent in its asset and liability cash flows and to provide net interest income growth consistent with the Company's profit objectives. During the year ended December 31, 2009, the Company was able to both increase substantially its net interest income and manage its overall interest rate risk position.

The Company, through its ALCO, monitors the interest rate environment in which it operates and adjusts the rates and maturities of its assets and liabilities to remain competitive and to achieve its overall financial objectives subject to established risk limits. In the current and expected future interest rate environment, the Company has been restructuring its investment portfolio to mitigate call risk should rates remain at current levels and to mitigate extension risk should rates increase. Additionally, the Company has been acquiring longer-term fixed rate liabilities given the very low interest rate environment, in an effort to secure attractive funding rates over the next three to four years. Also, and very importantly, the growth of core deposits, which enhance franchise value and provide a stable funding source, has been a major objective which has been met by the Company during 2009, adding liquidity and enhanced asset sensitivity to the year-end 2009 balance sheet. The re-pricing duration of the deposit portfolio increased to 30 months at December 31, 2009 from 22 months at December 31, 2008, as the mix of deposits shifted from time deposits with relatively short duration to money market and demand accounts with longer durations.

In the current very low interest rate environment, the Company has continued its emphasis on funding loans in its marketplace, and has been able to achieve favorable loan pricing, including interest rate floors on many loan originations. These factors have resulted in less pressure on loan yields over the past twelve months as average interest rates have declined, thereby enhancing the Company's net interest margin. Also, approximately 66% of total loans at December 31, 2009 (70% at December 31, 2008) have either variable interest rates, indexed primarily to the Wall Street Journal prime interest rate or are adjustable rate indexed primarily to the five year U.S. Treasury interest rate, with 34% of the loan portfolio at December 31, 2009 (30% at December 31, 2008) being fixed rate. Subject to interest rate floor rates, these variable and adjustable rate loans provide additional income opportunities should interest rates rise from current levels. The re-pricing duration of the loan portfolio remained low at 12 months at both December 31, 2009 and 2008.

Within the investment portfolio, during 2009, the Company has increased the mix of longer duration tax exempt municipal bonds and has added collateralized mortgage obligations which provide more structured cash flows and limited extension risk. We decreased the mix of U.S. Agency bonds exhibiting call risk and 30 year mortgaged backed securities. Also, the overall size of the portfolio has increased as average deposit growth exceeded average loan growth during 2009, in addition to the need to add to the portfolio to provide adequate collateral for potential growth in customer repurchase agreements. Both call risk and extension risk were reduced somewhat in the portfolio in the second quarter of 2009. Proceeds from the sale of callable agencies and longer-term mortgage backed securities were reinvested in a combination of high quality tax exempt municipal securities and seasoned 15 and 20 year and structured mortgage backed issues. The results of these actions were to increase the duration of the investment portfolio from 18 months at December 31, 2008 to 40 months at December 31, 2009, while the gross unrealized gain was approximately $3.9 million at both December 31, 2008 and 2009 with $1.5 million of net investment gain being realized in income for the year ended December 31, 2009.

There can be no assurance that the Company will be able to successfully achieve its optimal asset liability mix, as a result of competitive pressures, customer preferences and the inability to perfectly forecast future interest rates and movements.

One of the tools used by the Company to manage its interest rate risk is a static GAP analysis presented below. The Company also uses an earnings simulation model (simulation analysis) on a quarterly basis to monitor its interest rate sensitivity and risk and to model its balance sheet cash flows and its income statement effects in different interest rate scenarios. The model utilizes current balance sheet data and attributes and is adjusted for assumptions as to investment maturities (calls), loan prepayments, interest rates, the level of noninterest income and noninterest expense. The data is then subjected to a "shock test" which assumes a simultaneous change in interest rates up 100 and 200 basis points or down 100 and 200 basis points, along the entire yield curve, but not below zero. The results are analyzed as to the impact on net interest income, and net income over the next twelve and twenty-four month periods and to the market value of equity impact.

For the analysis presented below, at December 31, 2009, the Bank's assumption for the re-pricing of interest bearing transaction, savings and money market deposit accounts reflects a 70 basis point change in interest rates for each 100 basis point change in market interest rates in both a decreasing and increasing interest rate shock scenario with a floor of 10 basis points. This assumption was updated as of December 31, 2009, as compared to a 50 basis point change previously employed. With the prospect of increasing interest rates, the Company desires to be conservative in this assumption.

As quantified in the table below, the Company's analysis at December 31, 2009 shows a moderate effect on net interest income (over the next 12 months) as well as to the economic value of equity when interest rates are shocked both down 100 and 200 basis points and up 100 and 200 basis points due to the significant level of variable rate and repriceable assets and liabilities. The re-pricing duration of the investment portfolio at December 31, 2009 is 3.4 years, the loan portfolio 1.0 years, the interest bearing deposit portfolio 2.24 years and the borrowed funds portfolio 1.25 years.

The following table reflects the result of simulation analysis on the December 31, 2009 asset and liabilities balances:

Change in interest rates (basis points)	**Percentage change in net interest income**	**Percentage change in net income**	**Percentage change in market value of portfolio equity**
+200	+2.1%	+6.7%	-0.1%
+100	+0.6%	+2.0%	+0.9%
0			
-100	+2.6%	+8.2%	-4.6%
-200	+8.3%	+26.5%	-9.6%

The results of simulation are within the policy limits adopted by the Company. For net interest income, the Company has adopted a policy limit of negative 10% for a 100 basis point change and negative 12% for a 200 basis point change. For the market value of equity, the Company has adopted a policy limit of negative 12% for a 100 basis point change and negative 15% for a 200 basis point change. Any potential negative effects in both net interest income and the economic value of equity in both a higher and lower interest rate shock scenario at December 31, 2009 is not material.

During 2009, the Company increased its asset sensitivity in anticipation of higher interest rates. This change is manifested in a positive impact on both net interest income, net income and the market value in portfolio equity in the chart above at December 31, 2009 as compared to the position at December 31, 2008, disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2008.

Generally speaking, the loss of market value of portfolio equity in a lower interest rate environment is due to lower values of core deposits more than offsetting the gains in loan and investment values; while the loss of market value of portfolio equity in a higher interest rate environment is due to lower values of fixed rate loans and investments more than offsetting the higher value of core deposits, neither effect as mentioned above is considered material or unmanageable.

Certain shortcomings are inherent in the method of analysis presented in the foregoing table. For example, although certain assets and liabilities may have similar maturities or repricing periods, they may react in different degrees to changes in market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market rates. Additionally, certain assets, such as adjustable-rate mortgage loans, have features that limit changes in interest rates on a short-term basis and over the life of the loan. Further, in the event of a change in interest rates, prepayment and early withdrawal levels could deviate significantly from those assumed in calculating the tables. Finally, the ability of many borrowers to service their debt may decrease in the event of a significant interest rate increase.

During the year 2009, average market interest rates declined as compared to 2008 and the yield curve steepened as average short-term rates declined more than average long-term rates. The average two year U.S. Treasury rate declined by about 105 basis points and the average ten year U.S. Treasury rate declined by about 40 basis points. In that environment, the Company was able to increase its net interest spread and margin in 2009 as compared to the fourth quarter of 2008. The Company believes that the change in the net interest spread in 2009 as compared to 2008 has been consistent with its risk analysis at December 31, 2008.

GAP Analysis

Banks and other financial institutions earnings are significantly dependent upon net interest income, which is the difference between interest earned on earning assets and interest expense on interest bearing liabilities. This revenue represented 89% of the Company's revenue for the year ended December 31, 2009, as compared to 91% of the Company's revenue for the year ended December 31, 2008 and 87% of the Company's revenue for the year ended December 31, 2007.

In falling interest rate environments, net interest income is maximized with longer term, higher yielding assets being funded by lower yielding short-term funds, or what is referred to as a negative mismatch or GAP. Conversely, in a rising interest rate environment, net interest income is maximized with shorter term, higher yielding assets being funded by longer-term liabilities or what is referred to as a positive mismatch or GAP.

Based on the current economic environment, and anticipating higher interest rates over the next few years management, in the second quarter of 2009, restructured the composition of its investment portfolio by selling U.S. Agency securities to mitigate call risk, by selling 30 year mortgage backed securities to mitigate extension risk and by purchasing seasoned 15 and 20 year mortgage backed securities and structured mortgage backed products to provide enhanced cash flows by increasing the portion of the investment portfolio that was amortizing. Additionally, the Company has increased the proportion of its tax exempt securities in the 10 15 year maturity range to provide attractive fully tax equivalent yields in a barbell approach to investing. These actions have had the effect of increasing the duration of the investment portfolio. On the liability side of the balance sheet, management has acquired longer maturities in its brokered deposit portfolio and its FHLB advances and has attracted large amounts of core money market accounts (which have longer durations) in an effort to build more client relationships. As noted above, the Company's net interest spread and margin for the twelve months ended December 31, 2009 of 3.37% and 3.85% respectively were both improved from the net interest spread and margin in the fourth quarter of 2008 of 3.18% and 3.74% respectively, evidence that the Company was well positioned at December 31, 2008 for lower interest rates, which did occur in 2009.

The Company's net interest margin decreased during 2009 as compared to 2008 by 20 basis points (from 4.05% to 3.85%) due to higher average liquidity during 2009 as compared to 2008. The higher average liquidity is reflected in higher average federal funds sold as both the average and year end growth in deposits during 2009 exceeded loan growth.

The GAP position, which is a measure of the difference in maturity and re-pricing volume between assets and liabilities, is a means of monitoring the sensitivity of a financial institution to changes in interest rates. The chart below provides an indication of the sensitivity of the Company to changes in interest rates. A negative GAP indicates the degree to which the volume of repriceable liabilities exceeds repriceable assets in given time periods.

At December 31, 2009, the Company had a positive GAP position of approximately 15.8% of total assets out to three months and a positive cumulative GAP position of 11.5% out to 12 months; as compared to a positive GAP position of approximately 13% of total assets out to three months and a positive cumulative GAP position of 1.5% out to 12 months at December 31, 2008, and a positive GAP position of 11.8% out to three months and a positive cumulative GAP position of 4.6% out to 12 months at September 30, 2009. The change in the GAP position at December 31, 2009 as compared to December 31, 2008 relates primarily to higher amounts of liquidity and short-term investments, to the acquisition of large amounts of money market and demand deposits which have longer lives (duration) and to the extension of the term for brokered deposits and FHLB advances. The current position is within guideline limits established by the Asset Liability Committee.

While management believes that this overall position creates a reasonable balance in managing its interest rate risk and maximizing its net interest margin within plan objectives, there can be no assurance as to actual results. Management has carefully considered its strategy to maximize interest income by reviewing interest rate levels, economic indicators and call features within its investment portfolio, as well as interest rate floors within its loan portfolio. These factors have been discussed with the ALCO and management believes that current strategies are appropriate to current economic and interest rate trends.

If interest rates increase, the Company's net interest income and net interest margin are expected to increase due to an excess of rate sensitive assets over liabilities at December 31, 2009, that reprice within a 12 month period.

If interest rates decline, the Company's net interest income and margin are also expected to increase as the floors on the loan portfolio provide added value and variable rate deposits are reduced.

Because competitive market behavior does not necessarily track the trend of interest rates but at times moves ahead of financial market influences, the change in the cost of liabilities may be different than anticipated by the GAP model. If this were to occur, the effects of a declining interest rate environment may not be in accordance with management's expectations.

GAP Analysis
December 31, 2009
(dollars in thousands)

	0 3 months	4 12 months	13 36 months	37 60 months	Over 60 months	Total Rate Sensitive	Non-sensitive	Total Assets
Repriceable in:								
RATE SENSITIVE ASSETS:								
Investments securities	$ 21,624	$ 46,613	$ 85,130	$ 32,893	$ 48,967	$ 235,227		
Loans (1)(2)	764,952	115,732	273,566	218,650	27,961	1,400,861		
Fed funds and other short-term investments	88,248					88,248		
Other earning assets		12,912				12,912		
Total	$ 874,824	$ 175,257	$ 358,696	$ 251,543	$ 76,928	$ 1,737,248	$ 68,256	$ 1,805,504
RATE SENSITIVE LIABILITIES:								
Noninterest bearing demand	$ 9,073	$ 27,219	$ 72,585	$ 72,585	$ 126,497	$ 307,959		
Interest bearing transaction	59,720					59,720		
Savings and money market	286,840		118,405	118,405	59,204	582,854		
Time deposits	133,906	225,056	106,019	44,760		509,741		
Customer repurchase agreements and fed funds purchased	90,790					90,790		
Other borrowings	10,000		10,000	30,000	9,300	59,300		
Total	$ 590,329	$ 252,275	$ 307,009	$ 265,750	$ 195,001	$ 1,610,364	$ 6,819	$ 1,617,183
GAP	$ 284,495	$ (77,018)	$ 51,687	$ (14,207)	$ (118,073)	$ 126,884		
Cumulative GAP	$ 284,495	$ 207,477	$ 259,164	$ 244,957	$ 126,884			
Cumulative gap as percent of total assets	15.76%	11.49%	14.35%	13.57%	7.03%			

(1) Includes loans held for sale.

(2) Non-accrual loans are included in the over 60 months category.

Over the next twelve months, as reflected in the GAP table above, the Company has an excess of rate sensitive assets over rate sensitive liabilities of 11.5% out to 12 months. During 2009, the Company has recognized the probability of higher interest rates and has repositioned both its investment portfolio and its borrowed funds to better position the Company for that probability, while not exposing the Company to negative effects should interest rates either stay fairly stable or decline.

Although NOW and MMA accounts are subject to immediate repricing, the Bank's GAP model has incorporated a repricing schedule to account for a lag in rate changes based on our experience, as measured by the amount of those deposit rate changes relative to the amount of rate change in assets.

CAPITAL RESOURCES AND ADEQUACY

The assessment of capital adequacy depends on a number of factors such as asset quality and mix, liquidity, earnings performance, changing competitive conditions and economic forces, regulatory measures and policy, as well as the overall level of growth and complexity of the balance sheet. The adequacy of the Company's current and future capital needs is monitored by management on an ongoing basis. Management seeks to maintain a capital structure that will assure an adequate level of capital to support anticipated asset growth and to absorb potential losses.

The federal banking regulators have issued guidance for those institutions which are deemed to have concentrations in commercial real estate lending. Pursuant to the supervisory criteria contained in the guidance for identifying institutions with a potential commercial real estate concentration risk, institutions which have (1) total reported loans for construction, land development, and other land acquisitions which represent in total 100% or more of an institution's total risk-based capital; or (2) total commercial real estate loans representing 300% or more of the institution's total risk-based capital and the institution's commercial real estate loan portfolio has increased 50% or more during the prior 36 months are identified as having potential commercial real estate concentration risk. Institutions which are deemed to have concentrations in commercial real estate lending are expected to employ heightened levels of risk management with respect to their commercial real estate portfolios, and may be required to hold higher levels of capital. The Company, like many community banks, has a concentration in commercial real estate loans. Management has extensive experience in commercial real estate lending, and has implemented and continues to maintain heightened risk management procedures, and strong underwriting criteria with respect to its commercial real estate portfolio. Nevertheless, we may be required to maintain higher levels of capital as a result of our commercial real estate concentration, which could require us to obtain additional capital, and may adversely affect shareholder returns.

On August 28, 2008 the Company accepted subscriptions for and sold an aggregate of $12.15 million of subordinated notes (the "Notes"), on a private placement basis, to seven parties, all of whom were directors of the Company or the Bank. The Notes, which qualify as Tier 2 capital for regulatory purposes, to the extent permitted, were issued in connection with an effort to meet regulatory requirements for the consummation of the acquisition of Fidelity, completed as of August 31, 2008. The qualifying capital treatment of the Notes are phased out during the last 5 years of the Notes' term (commencing in October 2009), at a rate of 20% of the original principal amount per year. The Notes bear interest, payable on the first day of each month, commencing in October 2008, at a fixed rate of 10.0% per year. The Notes have a term of approximately six years, and have a maturity of September 30, 2014.

In connection with the common stock qualifying capital raise in September 2009 referred to below, $2.85 million of the Notes were redeemed, leaving an outstanding balance of Notes of $9.3 million at December 31, 2009. These Notes are included in long-term borrowings on the balance sheet.

On December 5, 2008, the Company entered into and consummated an agreement with the Treasury, pursuant to which the Company issued 38,235 shares of its Fixed Rate Cumulative Perpetual Preferred Stock, Series A, $1,000 liquidation amount per share (the "Series A Preferred Stock"), for a total purchase price of $38,235,000. The Series A Preferred Stock pays cumulative dividends at a rate of 5% per year for the first five years and thereafter at a rate of 9% per year. The Series A Preferred Stock is non-voting, except in limited circumstances. Prior to the third anniversary of issuance, unless the Company has redeemed all of the Series A Preferred Stock or the Treasury has transferred all of the Series A Preferred Stock to a third party, the consent of the Treasury will be required for the Company to increase its common stock dividend or repurchase its common stock or other equity or capital securities, other than in connection with benefit plans consistent with past practice and certain other circumstances specified in the Purchase Agreement. In connection with the purchase of the Series A Preferred Stock, the Treasury was issued a warrant (the "Warrant") to purchase 770,867 shares of the Company's common stock at an initial exercise price of $7.44 per share. The Warrant provides for the adjustment of the exercise price and the number of shares of the common stock issuable upon exercise pursuant to customary anti-dilution provisions, such as upon stock splits or distributions of securities or other assets to holders of the common stock, and upon certain issuances of the common stock (or securities exercisable or exchangeable for, or convertible into, common stock) at or below 90% of the market price of the common stock on the trading day prior to the date of the agreement on pricing such securities. The Warrants expires ten years from the date of issuance. The number of shares of common stock issuable pursuant to the Warrant will be reduced by one-half if, on or prior to December 31, 2009, the Company receives aggregate gross cash proceeds of not less than $38,235,000 from "qualified equity offerings" announced after October 13, 2008. The Treasury has agreed not to exercise voting power with respect to any shares of common stock issued upon exercise of the Warrant.

On September 21, 2009, the Company completed an underwritten public offering of 6,731,640 shares of its common stock at an offering price of $8.20 per share, including 878,040 shares subject to the underwriter's over-allotment option. The offering, which constituted a "qualified equity offering" for purposes of the Series A Preferred Stock, generated gross cash proceeds of $55,199,448. As a result of the offering, the Company, in November 2009, received Treasury approval of the reduction of the number of shares of common stock subject to the Warrant. Accordingly, the discount on the preferred stock and the warrants were reduced by $946 thousand in November 2009.

On December 23, 2009, the Company redeemed 15,000 shares of its Fixed Rate Cumulative Perpetual Preferred Stock, Series A, $1,000 liquidation amount per share (the "Series A Preferred Stock") issued to the Treasury on December 5, 2008 (see above) pursuant to the Troubled Asset Relief Program Capital Purchase Program. The aggregate redemption price for the shares was $15,079,166, including accrued but unpaid dividends on the shares. Following the repurchase, 23,235 shares of Series A Preferred Stock ($23,235,000) remain outstanding, held by the Treasury.

At December 31, 2009, the capital position of the Company and its wholly-owned subsidiary, the Bank, continues to exceed regulatory requirements and guidelines. The primary indicators relied on by bank regulators in measuring the capital position are the Tier 1 risk-based capital ratio, Total risk-based capital ratio, and the Leverage ratio. Tier 1 capital consists of common and qualifying preferred stockholders' equity (including without limit the preferred stock issued to the Treasury) less goodwill and other intangibles. Total risk-based capital consists of Tier 1 capital, plus qualifying subordinated debt, and the qualifying portion of the allowance for credit losses, and for the Company to a limited extent, excess amounts of restricted core capital elements. At December 31, 2009 and 2008, respectively, 8.9% and 7.5% of the allowance for credit losses was included in Total risk-based capital. Risk-based capital ratios are calculated with reference to risk-weighted assets, which are prescribed by regulation. The measure of Tier 1 capital to average assets for the prior quarter is often referred to as the Leverage ratio.

The Company's capital ratios were all well in excess of guidelines established by the Federal Reserve and the Bank's capital ratios were in excess of those required to be classified as a "well capitalized" institution under the prompt corrective action provisions of the Federal Deposit Insurance Act. The Company's and Bank's capital ratios at December 31, 2009 and 2008 are shown in Note 17 to the Consolidated Financial Statements.

The ability of the Company to continue to grow is dependent on its earnings and those of the Bank, the ability to obtain additional funds for contribution to the Bank's capital, through additional borrowings, through the sale of additional common stock or preferred stock, or through the issuance of additional qualifying equity equivalents, such as subordinated debt or trust preferred securities. The capital levels required to be maintained by the Company and Bank may be impacted as a result of the Bank's concentrations in commercial real estate loans. See "Risk Factors" at page 96 and "Regulation" at page 106.

IMPACT OF INFLATION AND CHANGING PRICES

The Consolidated Financial Statements and Notes thereto have been prepared in accordance with accounting principles generally accepted in the United States of America, which require the measurement of financial position and operating results in terms of historical dollars without considering the changes in the relative purchasing power of money over time due to inflation. The impact of inflation is reflected in the increased cost of operations. Unlike most industrial companies, nearly all of our assets and liabilities are monetary in nature. As a result, interest rates have a greater impact on our performance than do the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the price of goods or services.

NEW AUTHORITATIVE ACCOUNTING GUIDANCE

Refer to Note 1 to the Consolidated Financial Statements for New Authoritative Accounting Guidance and their expected impact on the Company's Financial Statements at page 54.

MARKET FOR COMMON STOCK AND DIVIDENDS

Market for Common Stock. The Company's common stock is listed for trading on the NASDAQ Capital Market under the symbol "EGBN." Over the twelve month period ended December 31, 2009, the average daily trading volume amounted to approximately 38,400 shares, an increase from approximately 5,600 shares over the twelve month period ended December 31, 2008. No assurance can be given that a highly active trading market will develop or can be maintained. The following table sets forth the high and low sale prices for the common stock during each calendar quarter during the last two fiscal years, and dividends declared during such periods, as adjusted for the 10% stock dividend paid on October 1, 2008. As of March 4, 2010, there were 19,631,164 shares of common stock outstanding, held by approximately 3,500 beneficial shareholders, including approximately 919 shareholders of record.

	2009			2008		
Quarter	**High**	**Low**	**Dividends Declared per Share**	**High**	**Low**	**Dividends Declared per Share**
First	$ 7.10	$ 5.36	$ 0.00	$ 11.97	$ 9.30	$ 0.0545
Second	$ 11.20	$ 6.15	$ 0.00	$ 11.09	$ 7.15	$ 0.0545
Third	$ 10.19	$ 7.70	$ 0.00	$ 10.44	$ 6.37	$ 0.00
Fourth	$ 11.00	$ 8.89	$ 0.00	$ 9.00	$ 5.35	$ 0.00

Dividends. The Company commenced paying a quarterly cash dividend in January 2005. The Company paid a cash dividend of $0.0545 per share for each of the first and second quarters of 2008. In July 2008, the Company, in order to conserve capital, discontinued the payment of the quarterly cash dividend on the common stock. The Company paid a 10% stock dividend paid on the common stock on October 1, 2008.

The resumption of payment of a cash dividend on common stock is prohibited for the first three years that the Series A Preferred Stock is outstanding, unless all of the Series A Preferred Stock is redeemed. Any resumption of cash dividends on the common stock will also depend largely upon the ability of the Bank, the Company's principal operating business, to declare and pay dividends to the Company. Resumption of dividends on the common stock will also depend upon the Bank's earnings, financial condition, and need for funds, as well as governmental policies and regulations applicable to the Company and the Bank.

Regulations of the Federal Reserve Board and Maryland law place limits on the amount of dividends the Bank may pay to the Company without prior approval. Prior regulatory approval is required to pay dividends which exceed the Bank's net profits for the current year plus its retained net profits for the preceding two calendar years, less required transfers to surplus. Under Maryland law, dividends may only be paid out of retained earnings. State and federal bank regulatory agencies also have authority to prohibit a bank from paying dividends if such payment is deemed to be an unsafe or unsound practice, and the Federal Reserve Board has the same authority over bank holding companies. At December 31, 2008, subject to prior approval by the Maryland Commissioner of Financial Regulation, the Bank could pay dividends to the parent to the extent of its earnings so long as it maintained required capital ratios.

The Federal Reserve Board has established guidelines with respect to the maintenance of appropriate levels of capital by registered bank holding companies. Compliance with such standards, as presently in effect, or as they may be amended from time to time, could possibly limit the amount of dividends that the Company may pay in the future. In 1985, the Federal Reserve Board issued a policy statement on the payment of cash dividends by bank holding companies. In the statement, the Federal Reserve Board expressed its view that a holding company experiencing earnings weaknesses should not pay cash dividends exceeding its net income, or which could only be funded in ways that weaken the holding company's financial health, such as by borrowing. As a depository institution, the deposits of which are insured by the FDIC, the Bank may not pay dividends or distribute any of its capital assets while it remains in default on any assessment due the FDIC. The Bank currently is not in default under any of its obligations to the FDIC. Refer to above discussion on conditions precedent to resuming the payment of the cash common stock dividend.

Issuer Repurchase of Common Stock. No shares of the Company's Common Stock were repurchased by or on behalf of the Company during 2009 or 2008.

Internet Access To Company Documents. The Company provides access to its SEC filings through its web site at *www.eaglebankcorp.com* by linking to the SEC's web site. After accessing the web site, the filings are available upon selecting "Investor Relations SEC Filings." Reports available include the annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports as soon as reasonably practicable after the reports are electronically filed or furnished to the SEC.

Securities Authorized for Issuance Under Equity Compensation Plans. The following table sets forth information regarding outstanding options and other rights to purchase or acquire common stock granted under the Company's compensation plans as of December 31, 2009:

Plan category	**Number of securities to be issued upon exercise of outstanding options, warrants and rights**	**Weighted average exercise price of outstanding options, warrants and rights**	**Number of securities remaining available for future issuance under equity compensation plans excluding securities reflected in column (a)**
	(a)	**(b)**	**(c)**
Equity compensation plans approved by security holders(1)	1,282,994	$ 11.46	668,715(2)
Equity compensation plans not approved by security holders	0	0	0
Total	1,282,994	$ 11.46	668,715

(1) Consists of the Company's 2006 Stock Option Plan, 1998 Stock Plan, the 2004 Employee Stock Purchase Plan and the Fidelity Plans. Outstanding options, warrants and rights includes nominal number of shares subject to awards of SARS and shares subject to unvested performance based restricted stock awards. For additional information, see Note 13 to the Consolidated Financial Statements.

(2) Shares include 530,970 available for issuance under the 2006 Stock Option Plan and 137,745 under the Employee Stock Purchase Plan.

Stock Price Performance. The following table compares the cumulative total return on a hypothetical investment of $100 in the Company's common stock on December 31, 2004 through December 31, 2009, with the hypothetical cumulative total return on the NASDAQ Stock Market Index (U.S. Companies) and the NASDAQ Bank Index for the comparable period, including reinvestment of dividends.

Total Return Performance

	Year Ended December 31,					
Index	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
Eagle Bancorp, Inc.	$ 100.00	$ 148.57	$ 147.00	$ 103.89	$ 54.90	$ 99.97
NASDAQ Stock Market Index (U.S. Companies)	$ 100.00	$ 101.37	$ 111.03	$ 121.92	$ 72.49	$ 104.31
NASDAQ Bank Index	$ 100.00	$ 95.67	$ 106.20	$ 82.76	$ 62.96	$ 51.31

DISCLOSURE CONTROLS AND PROCEDURES

The Company's management, under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer, evaluated, as of the last day of the period covered by this report, the effectiveness of the design and operation of the Company's disclosure controls and procedures, as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective.

MANAGEMENT REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Eagle Bancorp, Inc. (the "Company") is responsible for the preparation, integrity and fair presentation of the financial statements included in this Annual Report. The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and reflect management's judgments and estimates concerning the effects of events and transactions that are accounted for or disclosed.

Management is also responsible for establishing and maintaining effective internal control over financial reporting. The Company's internal control over financial reporting includes those policies and procedures that pertain to the Company's ability to record, process, summarize and report reliable financial data. The internal control system contains monitoring mechanisms, and appropriate actions taken to correct identified deficiencies. Management believes that internal controls over financial reporting, which are subject to scrutiny by management and the Company's internal auditors, support the integrity and reliability of the financial statements. Management recognizes that there are inherent limitations in the effectiveness of any internal control system, including the possibility of human error and the circumvention or overriding of internal controls. Accordingly, even effective internal control over financial reporting can provide only reasonable assurance with respect to financial statement preparation. In addition, because of changes in conditions and circumstances, the effectiveness of internal control over financial reporting may vary over time. The Audit Committee of the Board of Directors (the "Committee"), is comprised entirely of outside directors who are independent of management. The Committee is responsible for the appointment and compensation of the independent auditors and makes decisions regarding the appointment or removal of members of the internal audit function. The Committee meets periodically with management, the independent auditors, and the internal auditors to ensure that they are carrying out their responsibilities. The Committee is also responsible for performing an oversight role by reviewing and monitoring the financial, accounting, and auditing procedures of the Company in addition to reviewing the Company's financial reports. The independent auditors and the internal auditors have full and unlimited access to the Audit Committee, with or without the presence of management, to discuss the adequacy of internal control over financial reporting, and any other matters which they believe should be brought to the attention of the Audit Committee.

Management assessed the Company's system of internal control over financial reporting as of December 31, 2009. This assessment was conducted based on the Committee of Sponsoring Organizations ("COSO") of the Treadway Commission "Internal Control Integrated Framework." Based on this assessment, management believes that the Company maintained effective internal control over financial reporting as of December 31, 2009. Management's assessment concluded that there were no material weaknesses within the Company's internal control structure.

There were no changes in the Company's internal control over financial reporting (as defined in Rule 13a-15 under the Securities Act of 1934) during the quarter ended December 31, 2009 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

The 2009 financial statements have been audited by the independent registered public accounting firm of Stegman & Company ("Stegman"). Personnel from Stegman were given unrestricted access to all financial records and related data, including minutes of all meetings of the Board of Directors and committees thereof. Management believes that all representations made to the independent auditors were valid and appropriate. The resulting report from Stegman accompanies the financial statements. Stegman has also issued a report on the effectiveness of internal control over financial reporting. That report has also been made a part of this Annual Report.

/s/ RONALD D. PAUL	/s/ MICHAEL T. FLYNN	/s/ SUSAN G. RIEL	/s/ JAMES H. LANGMEAD
Chairman, President and Chief Executive Officer of the Company and Chief Executive Officer of the Bank	*Executive Vice President and Chief Operating Officer of the Company and Executive Vice President of the Bank*	*Senior Executive Vice President and Chief Operating Officer of the Bank*	*Executive Vice President and Chief Financial Officer of the Company and the Bank*

REPORT OF STEGMAN & COMPANY
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and
Stockholders of Eagle Bancorp, Inc.

We have audited the accompanying consolidated balance sheets of Eagle Bancorp, Inc. (the "Company") as of December 31, 2009 and 2008, and the consolidated statements of operations, changes in stockholders' equity and cash flows for each of the years in the three-year period ended December 31, 2009. We also have audited the Company's internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management's Report on Internal Control over Financial Reporting*. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Eagle Bancorp, Inc. as of December 31, 2009 and 2008, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2009 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, Eagle Bancorp, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

/s/ Stegman and Company

Baltimore, Maryland
March 12, 2010

EAGLE BANCORP, INC.

Consolidated Balance Sheets

(dollars in thousands, except per share data)

	December 31, 2009	December 31, 2008
Assets		
Cash and due from banks	$ 21,955	$ 27,157
Federal funds sold	88,248	191
Interest bearing deposits with banks and other short-term investments	7,484	2,489
Investment securities available for sale, at fair value	235,227	159,480
Federal Reserve and Federal Home Loan Bank stock	10,417	9,599
Loans held for sale	1,550	2,718
Loans	1,399,311	1,265,640
Less allowance for credit losses	(20,619)	(18,403)
Loans, net	1,378,692	1,247,237
Premises and equipment, net	9,253	9,666
Deferred income taxes	12,455	11,106
Bank owned life insurance	12,912	12,450
Intangible assets, net	4,379	2,533
Other real estate owned	5,106	909
Other assets	17,826	11,292
Total Assets	$ 1,805,504	$ 1,496,827
Liabilities and Stockholders' Equity Liabilities		
Deposits:		
Noninterest bearing demand	$ 307,959	$ 223,580
Interest bearing transaction	59,720	54,801
Savings and money market	582,854	271,791
Time, $100,000 or more	296,199	249,516
Other time	213,542	329,692
Total deposits	1,460,274	1,129,380
Customer repurchase agreements and federal funds purchased	90,790	98,802
Other short-term borrowings	10,000	55,000
Long-term borrowings	49,300	62,150
Other liabilities	6,819	9,124
Total liabilities	1,617,183	1,354,456
Stockholders' Equity		
Preferred stock, par value $.01 per share, shares authorized 1,000,000, Series A, $1,000 per share liquidation preference, shares issued and outstanding 23,235 and 38,235, respectively, discount of $570 and $1,892, respectively, net	22,612	36,312
Common stock, par value $.01per share; shares authorized 50,000,000, shares issued and outstanding 19,534,226 and 12,714,355, respectively	195	127
Warrants	946	1,892
Additional paid in capital	129,211	76,822
Retained earnings	33,024	24,866
Accumulated other comprehensive income	2,333	2,352

Total stockholders' equity		188,321		142,371
Total Liabilities and Stockholders' Equity	$	1,805,504	$	1,496,827

See notes to consolidated financial statements.

EAGLE BANCORP, INC.

Consolidated Statements of Operations

Years Ended December 31,

(dollars in thousands, except per share data)

	2009	2008	2007
Interest Income			
Interest and fees on loans	$ 77,004	$ 59,901	$ 51,931
Taxable interest and dividends on investment securities	7,138	5,459	4,177
Interest on balances with other banks and short-term investments	94	98	293
Interest on federal funds sold	102	199	676
Total interest income	84,338	65,657	57,077
Interest Expense			
Interest on deposits	20,956	19,543	19,810
Interest on customer repurchase agreements and federal funds purchased	957	1,406	1,887
Interest on short-term borrowings	611	546	611
Interest on long-term borrowings	2,285	2,181	1,421
Total interest expense	24,809	23,676	23,729
Net Interest Income	59,529	41,981	33,348
Provision for Credit Losses	7,669	3,979	1,643
Net Interest Income After Provision For Credit Losses	51,860	38,002	31,705
Noninterest Income			
Service charges on deposits	2,898	2,059	1,249
Gain on sale of loans	1,054	426	1,036
Gain on sale of investment securities	1,538	2	6
Increase in the cash surrender value of bank owned life insurance	463	466	455
Income from subordinated financing			1,252
Other income	1,344	1,413	1,188
Total noninterest income	7,297	4,366	5,186
Noninterest Expense			
Salaries and employee benefits	20,889	16,728	14,167
Premises and equipment expenses	7,343	5,424	4,829
Marketing and advertising	1,099	1,054	552
Data processing	2,356	1,622	1,231