

September 21, 2006**"Ladies & Gentlemen, please fasten your seat belts"**

The banking industry rolls into 3Q06 faced with good news and challenges. On the "good news" side, many banks continue to show good earnings progress and loan growth, despite a recent increase in interest rates. Regarding interest rates, some Wall Street mavens believe the Federal Reserve may be ending its round of rate increases, based on recent economic news. The "challenges" facing the banking industry is the slowdown in the US real estate market and potential new regulations for commercial and industrial lending.

The Federal Deposit Insurance Corp. (FDIC) announced 2Q06 US bank earnings rose 10.9% when compared to profitability during 2Q05. Earnings for the just completed quarter set an all-time record, according to the FDIC, rising 3.2% to \$38.1 million. The average return on assets (ROA) was 1.34%, unchanged from the prior two quarters. These positive results came from strong commercial and consumer loan demand offsetting rising interest rates and a flattening yield curve. The FDIC noted 56.6% of financial institutions reported higher income on a quarter-to-quarter comparison. Total assets during the past 12 months rose approximately \$1 trillion.

The industry's US business lending rose to record levels. Commercial and Industrial (C&I) loans reached a recent high of \$1.157 trillion, according to the Federal Reserve, an increase of 15% from a year ago. This has occurred as banks are offering easier lending terms to compensate for slower home mortgage activity.

Investors have grown concerned over bank earnings given the rising interest rate environment. Rising short term rates, coupled with customer demand for higher deposit rates, have put pressure on many banks operating margins. A growing number of banks have reported declining net interest margins during the past 3 quarters. Other banks have increased net interest margins to due a heavy concentration of variable rate loans.

Wall Street mavens are espousing the idea of the Federal Reserve ending its recent round of interest rate increases as US economic numbers hint at a potential slowing of this country's business cycle. This view is based on the FOMC's pause in interest rate hikes at its last meeting. The minutes of the last meeting indicate the Fed will be putting more emphasis on watching commodity prices and observing the US economy's strength/weakness. Investor hopes this move will be the precursor to either a neutral stance by the Federal Reserve, or the beginning of declining interest rates.

The Fed's August Beige Book report supports the thesis of a slowing economy. In this report, the Fed reported 5 of 12 districts saw a deceleration of economic activity. Manufacturing activity continues to expand with steady labor markets, but there have been scattered worker shortages. Consumer spending increased slowly and there was a softening in loan demand. The Beige Book report also said there was uniform weakness in the residential real estate market.

For important disclosure information regarding the Firm's rating system, valuation methods and potential conflicts of interest, please refer to the back page of this report.

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The furor over potentially allowing Wal-Mart (WMT-\$48.07) to offer banking services continues to grow and a final decision was delayed until after the mid-term Congressional elections in November. Regulators have delayed ruling on WMT's banking application for 6 months, by placing a six-month ban on approving new requests for new deposit insurance. Complicating the issue, Iowa, Maryland, Missouri, and Virginia recently passed laws prohibiting industrial banks (e.g., WMT) from branching into their states. One potential side effect from this move may prohibit out-of-state banks from opening new branches in these states. As the outcome of this issue becomes cloudier, our sense is it will ultimately be decided by lobbying dollars and future court rulings.

Another point of debate surrounding the banking industry is the topic of real estate. Recent reports indicate real estate is slowing on several fronts. New home, and existing home sales have been declining since January. Sales of existing US home sales in July, according to the National Association of Realtors, declined 11.4% to a seasonally adjusted annual rate of 6.33 million. The slowdown was seen in all 4 US regions. As a result, the inventory of unsold homes has increased to 3.2% to 3.856 million units, a new record. The slowdown has been attributed to rising interest rates and escalating home prices. Now the question becomes how will this affect the banking industry. Traditionally, credit quality issues arise during a downturn in the economy for various banks.

Another issue sure to test the waters will be the slowdown in new loan demand going into 2007. Many banks were using new loans as way to combat rising interest rate expense, by pairing higher cost deposits with higher yielding loans. A decline in new loan demand, coupled with steady deposit costs, could cause a decrease in net interest margins, thereby reducing forward earnings.

When we asked various banks in our coverage universe about the threat of a real estate slowdown on earnings we received various responses. The responses ranged from mild concern to an "it won't affect us" answer. For investors sake we hope these rather sanguine answers prove to be correct, given roughly 60%-70% of bank balance sheets are tied to real estate.

Conversations with one of the banks we follow indicated they have recently received pressure from regulators to slow down C & I loan growth despite having a stellar track record in this area. In fact, recent articles in "Barron's" and "The Wall Street Journal" have noted bank regulators are considering tightening the lending standards for construction and commercial real estate. While hoping to avert problems, the new regulations could potentially slow lending in this area and cause a decline in the prime driver of many banks' loan growth.

We recommend investors monitor the bank stocks they own closely during the next few quarters and observe whether net interest margins/earnings are declining, watch loan delinquency, and loan growth trends. Negative trends in these areas are likely to be indications of further trouble to come in the future and should cause investors to consider exiting these bank stocks. Whether a real estate slow-down creates a few speed bumps, or major financial turbulence for the banking industry, all we can say to investors is: "Ladies and gentleman, please fasten your seat belts."

Anderson & Strudwick Community Bank Coverage List							
Company	Symbol	NIM (%)		ROE (%)		ROA (%)	
		2Q06	2Q05	2Q06	2Q05	2Q06	2Q05
Bank of Granite	GRAN	5.34	4.83	12.55	11.17	1.56	1.48
Broadway Financial	BYFC	3.43	3.22	7.50	8.12	0.48	0.43
Center Financial Corp.	CLFC	4.52	4.85	25.09	24.31	1.86	1.83
Mercantile Bankshares	MRBK	4.30	4.45	12.66	13.29	1.74	1.78
First Capital Bank	FCRV	3.43	3.75	11.21	9.80	0.72	0.76
First Community Bancshares	FCBC	4.26	4.49	14.70	13.15	1.47	1.31
First Trust Bank	NCFT	4.25	4.28	13.08	13.35	1.11	1.13
First Regional Bancorp	FRGB	5.90	5.98	31.98	29.40	1.99	1.82
FNB Corp.	FNBP	3.94	3.89	10.65	10.63	1.17	1.14
FNB Financial Corp.	FNBF	3.99	4.08	13.88	11.84	0.94	0.89
Hanmi Financial Group	HAFC	4.80	4.89	14.18	14.44	1.79	1.90
ICB Financial	ICBN	N/A	5.19	N/A	15.32	N/A	1.44
International Bankshares	IBOC	3.03	3.36	17.47	17.34	1.31	1.30
Middleburg Financial Corp.	MBRG	3.95	4.15	15.25	13.42	1.10	1.04
National Mercantile Bancorp	MBLA	N/A	N/A	N/A	N/A	N/A	N/A
Northern States Financial	NSFC	2.71	2.96	5.12	3.26	0.53	0.31
Pacific Mercantile Bank	PMBC	3.49	3.35	8.38	7.21	0.67	0.61
Premier Community Bankshares	PREM	4.42	4.59	13.38	15.83	0.97	1.15
Shore Financial	SHBK	3.57	3.63	11.95	10.97	1.14	1.00
Village Bank & Trust	VBFC	4.82	4.12	6.79	8.54	0.60	0.79
UCBH Holdings	UCBH	3.50	3.74	16.20	19.74	1.25	1.50
Union Bankshares	UBSH	4.51	4.43	13.98	15.80	1.32	1.54
Virginia Commonwelath Fin. Corp.	VFGI	4.34	4.22	14.70	13.76	1.34	1.22
Virginia National Bank	VABK	4.94	4.57	5.73	11.60	0.59	1.06

Company	Symbol	09/05/06 Price	LTM EPS	P/E	Price/Book	Rating
Bank of Granite	GRAN	21.84	1.30	16.80	1.97	Neutral ¹
Broadway Financial	BYFC	10.78	1.02	10.57	1.05	Outperform ¹
Center Financial Corp.	CLFC	24.30	1.61	15.09	3.20	Neutral ¹
Mercantile Bankshares	MRBK	37.04	2.33	15.90	2.02	Neutral
First Capital Bank	FCRV	18.50	0.80	23.13	2.31	Neutral ⁵
First Community Bancshares	FCBC	34.16	2.51	13.61	1.93	Outperform ^{1,3}
First Trust Bank	NCFT	23.35	1.13	20.66	2.43	Neutral ^{1,5}
First Regional Bancorp	FRGB	29.56	2.54	11.64	2.87	Outperform
FNB Corp.	FNBP	34.57	2.50	13.83	1.54	Neutral ¹
FNB Financial Corp.	FNBF	14.30	0.17	84.12	1.46	Outperform
Hanmi Financial Group	HAFC	19.53	1.22	16.01	2.12	Neutral ¹
ICB Financial	ICBN	7.40	0.33	22.42	1.72	Outperform ^{1,3,5,6}
International Bankshares	IBOC	28.73	1.99	14.44	2.31	Neutral
Middleburg Financial Corp.	MBRG	32.21	2.09	15.41	2.24	Neutral ¹
National Mercantile Bancorp	MBLA	12.35	N/A	N/A	1.79	Outperform ¹
Northern States Financial	NSFC	19.48	0.45	43.29	1.18	Outperform ¹
Pacific Mercantile Bank	PMBC	16.52	0.62	26.65	2.10	Outperform ¹
Premier Community Bankshares	PREM	20.50	1.41	14.54	1.90	Neutral ^{1,3,5}
Shore Financial	SHBK	16.83	1.14	14.76	1.71	Neutral ¹
Village Bank & Trust	VBFC	14.25	0.60	23.75	1.46	Outperform ^{1,5}
UCBH Holdings	UCBH	18.01	1.03	17.49	2.66	Neutral
Union Bankshares	UBSH	43.26	2.90	14.92	2.05	Outperform ¹
Virginia Commonwelath Fin. Corp.	VFGI	29.16	1.78	16.38	2.21	Neutral ¹
Virginia National Bank	VABK	38.00	1.20	31.67	2.77	Neutral
Average				21.61	2.04	

¹ Anderson & Strudwick is a market maker

² Anderson & Strudwick expects to receive compensation in the next 3 months

³ Anderson & Strudwick has received compensation for investment banking services during the past 12 months

⁴ Anderson & Strudwick has managed, or co-managed, a public offering for the company during the past 12 months

⁵ Anderson & Strudwick, or one of its affiliates, beneficially owns more than 1% of outstanding common stock

⁶ Larry Fentriss, of Anderson & Strudwick, is on the Board of Directors and owns 4.03% of outstanding shares

Selected Banks and Thrifts in Virginia, North Carolina, Maryland, West Virginia and Washington, DC

Company Name	Ticker	State	9/5/2006 Price	Assets (thousands)	2004 EPS	2005 EPS	LTM EPS	Q2 '06 EPS (\$)	Total Shares Out	Market Value (mil)	Book Value/Share	Price to Book (%)	ROAA (%)	ROAE (%)	Net Interest Margin (%)	Effic. Ratio (%)	NPA Assets (%)	Div. Rate (\$/Yr)	Current Dividend Yield
Banks between \$500 million and \$1.5 billion in assets																			
◆ Union Bankshares Corporation	UBSH	VA	43.26	2,077,522	2.11	2.81	2.90	0.75	8,837,234	382.3	21.14	204.6	1.32	13.98	4.51	60.56	0.54	0.9600	2.22
◆ First Bancorp	FBNC	NC	20.86	1,992,709	1.40	1.12	1.15	0.33	14,279,847	298.2	11.20	186.3	1.02	11.80	4.21	58.56	0.30	0.7600	3.64
◆ TowneBank	TOWN	VA	19.50	1,976,201	0.53	0.74	0.78	0.22	23,478,237	458.2	9.38	207.9	1.16	10.19	4.33	67.12	0.04	0.0000	0.00
◆ FNB United Corp.	FNBN	NC	18.00	1,816,493	1.13	1.69	1.72	0.41	11,127,866	200.9	18.37	98.0	1.01	9.06	4.24	63.15	NA	0.6000	3.33
◆ Virginia Commerce Bancorp, Inc.	VGBI	VA	22.18	1,728,666	0.66	0.87	1.01	0.28	21,501,026	476.9	5.82	381.1	1.47	20.59	4.17	44.46	0.03	0.0000	2.00
◆ Virginia Financial Group, Inc.	VFGI	VA	43.74	1,594,249	2.11	2.52	2.68	0.72	7,181,185	314.1	19.81	220.8	1.34	14.70	4.34	57.75	0.16	0.9200	0.10
◆ Cardinal Financial Corporation	CFNL	VA	11.15	1,584,588	0.19	0.44	0.44	0.10	24,394,361	272.0	6.13	181.9	0.66	6.33	3.10	75.32	0.04	0.0400	0.36
◆ FNB Corporation	FNBP	VA	34.57	1,527,249	1.95	2.39	2.50	0.59	7,339,446	254.1	22.51	153.6	1.17	10.65	3.94	56.21	0.40	0.8400	2.43
◆ First Mariner Bancorp	FMAR	MD	19.00	1,396,632	0.96	1.20	1.29	0.33	6,286,084	119.4	11.92	159.4	0.64	11.94	4.02	81.29	0.29	0.0000	0.00
◆ Southern Community Financial Corp.	SCMF	NC	9.73	1,353,004	0.45	0.42	0.23	-0.08	17,615,355	171.4	7.61	127.9	-0.42	-4.22	3.26	75.65	0.17	0.1400	1.44
◆ First United Corporation	FUNC	MD	21.55	1,306,010	1.25	1.99	2.15	0.50	6,129,412	132.1	15.34	140.5	0.94	12.99	3.66	62.70	0.21	0.7600	3.53
◆ Summit Financial Group, Inc.	SMMF	WV	18.75	1,179,648	1.49	1.56	1.57	0.37	7,135,120	133.8	10.73	174.7	0.91	13.53	3.31	71.18	0.14	0.3200	1.71
◆ Bank of Granite Corporation	GRAN	NC	21.84	1,176,472	0.94	1.14	1.30	0.35	12,810,076	279.9	11.09	196.9	1.56	12.55	5.34	48.06	0.72	0.5600	2.56
◆ Gateway Financial Holdings, Inc.	GBTS	NC	14.41	1,062,241	0.34	0.46	0.36	0.08	10,817,519	155.9	9.45	152.5	0.94	3.36	3.93	79.99	0.01	0.2000	1.39
◆ FNB Financial Services Corporation	FNFB	NC	14.30	1,027,827	0.97	0.11	0.17	0.33	7,048,976	100.8	9.81	145.8	0.94	13.88	3.99	61.90	1.57	0.4800	3.36
◆ LSB Bankshares, Inc.	LXBK	NC	17.10	986,270	0.97	1.12	0.96	0.18	8,507,355	144.6	10.71	159.7	0.63	6.63	4.81	71.12	0.74	0.6800	3.98
◆ Severn Bancorp, Inc.	SVBI	MD	18.95	904,706	1.42	1.59	1.76	0.45	9,149,950	173.4	8.72	217.3	1.84	20.97	4.61	35.85	0.22	0.2400	1.27
◆ First South Bancorp, Inc.	FSBK	NC	32.61	898,581	1.19	1.41	1.63	0.43	9,770,995	318.7	7.44	438.3	1.93	24.25	5.15	42.65	0.34	0.6800	2.09
◆ Shore Bancshares, Inc.	SHBI	MD	28.99	887,585	1.23	1.55	1.63	0.45	8,367,974	242.8	12.69	228.5	1.75	14.57	5.00	52.29	0.09	0.6000	2.07
◆ National Bankshares, Inc.	NKSH	VA	22.32	843,407	1.73	1.76	1.78	0.46	6,999,284	156.2	13.29	168.0	1.55	14.32	4.19	48.96	0.05	0.7200	3.23
◆ Cooperative Bankshares, Inc.	COOP	NC	19.71	827,664	0.71	0.84	0.94	0.27	6,504,000	128.2	8.22	239.8	0.90	13.52	3.72	55.97	0.07	0.2000	1.01
◆ American National Bankshares Inc.	AMNB	VA	23.40	810,568	1.42	1.81	1.83	0.48	6,162,490	144.1	14.90	157.1	1.48	13.38	4.24	50.07	0.58	0.8800	3.76
◆ BCSB Bancorp, Inc. (MHC)	BCSB	MD	12.17	809,296	0.15	0.10	-1.20	-1.18	5,913,427	72.0	5.39	225.9	-3.39	-78.76	1.89	NM	0.03	0.5000	4.11
◆ Old Point Financial Corporation	OPOF	VA	27.00	797,020	2.10	1.78	1.69	0.45	3,991,305	110.9	17.94	154.9	0.93	10.10	3.45	67.93	0.05	0.7200	2.59
◆ Eastern Virginia Bankshares, Inc.	EVBS	VA	21.85	793,979	1.48	1.37	1.40	0.37	4,915,200	103.4	12.62	166.4	0.92	11.51	4.42	69.08	0.05	0.6400	3.05
◆ Peoples Bancorp of North Carolina, Inc.	PEBK	NC	27.42	783,692	1.15	1.64	2.15	0.68	3,788,284	104.0	15.00	182.8	1.39	18.47	4.71	55.89	0.49	0.4400	1.60
◆ Middleburg Financial Corporation	MBRG	VA	32.21	771,024	1.81	1.84	2.09	0.54	3,809,053	144.5	14.36	224.3	1.10	15.25	3.95	63.16	0.03	0.7600	2.36
◆ Eagle Bancorp, Inc.	EGBN	MD	18.99	757,407	0.53	0.77	0.84	0.20	9,423,172	179.0	7.27	261.2	1.13	11.70	4.81	59.43	0.42	0.2400	1.26
◆ Premier Community Bankshares, Inc.	PREM	VA	13.50	756,131	1.26	1.41	1.41	0.35	4,9771,804	116.0	10.79	190.0	0.97	13.38	4.42	66.11	0.02	0.2500	1.22
◆ Citizens South Banking Corporation	CSBC	NC	20.85	716,160	0.38	0.45	0.52	0.17	8,252,508	114.0	10.24	135.3	0.76	6.37	3.40	62.29	0.37	0.3000	2.17
◆ C&F Financial Corporation	CFFI	VA	38.51	715,671	3.00	3.36	3.76	1.14	3,149,646	121.3	20.23	190.4	2.16	23.72	6.89	63.00	0.24	1.1600	3.01
◆ Alliance Bankshares Corporation	ABVA	VA	16.32	664,582	0.50	0.70	0.82	0.24	5,532,977	90.3	8.92	183.0	0.91	11.27	3.85	65.21	0.03	0.0000	0.00
◆ BNC Bancorp	BNCN	NC	18.39	664,306	0.82	0.97	1.05	0.29	4,391,388	80.8	7.62	241.2	0.84	15.75	3.85	60.42	NA	0.1600	0.87
◆ Highlands Bankshares, Inc.	HBKA	VA	16.50	619,139	0.87	0.94	0.96	0.24	5,227,000	86.2	8.12	203.1	0.85	12.20	3.23	67.10	NA	0.1500	0.91
◆ ECB Bancorp, Inc.	ECBE	NC	32.84	579,137	1.60	2.37	2.29	0.49	2,902,242	95.3	20.45	160.6	0.99	9.49	4.14	64.85	0.09	0.6800	2.07
◆ Four Oaks Fincorp, Inc.	FOFN	NC	29.00	564,790	1.02	1.22	1.43	0.34	4,426,255	128.4	10.08	287.7	1.13	13.76	4.42	58.86	0.17	0.3200	1.10
◆ Tri-County Financial Corporation	TGFC	MD	35.50	564,580	2.07	2.16	2.09	0.56	1,761,499	62.7	20.05	177.1	0.76	12.00	3.24	65.80	0.17	0.5500	1.55
◆ Valley Financial Corporation	VYFC	VA	12.50	539,250	0.70	0.80	0.89	0.25	4,108,493	51.4	7.73	161.8	0.80	12.76	3.09	63.99	0.92	0.1400	1.12
◆ Premier Financial Bancorp, Inc.	PFBF	WV	14.33	536,368	1.28	0.84	1.19	0.38	5,233,730	75.0	10.83	132.3	1.49	14.26	4.17	65.41	1.37	0.2000	1.40
◆ First National Corporation	FXNC	VA	27.90	510,632	1.44	1.84	2.06	0.50	2,922,860	81.6	10.61	263.0	1.18	19.15	3.83	59.79	0.05	0.4800	1.72
Banks between \$499 million and \$250 million in assets																			
◆ Fauquier Bankshares, Inc.	FBSS	VA	23.50	495,278	1.41	1.60	1.63	0.36	3,475,085	81.7	10.67	220.2	1.06	13.84	4.40	67.47	0.16	0.7600	3.23
◆ Millennium Bankshares Corporation	MBVA	VA	8.95	485,611	0.27	0.18	0.24	0.09	8,908,166	79.7	5.30	168.9	0.74	7.01	2.92	65.70	0.25	0.0800	0.89
◆ Crescent Financial Corporation	CRFN	NC	13.25	470,763	0.47	0.61	0.68	0.17	5,798,240	76.8	7.41	178.8	0.88	9.30	3.94	64.10	0.06	0.0000	0.00
◆ Washington Savings Bank, F.S.B.	WSB	MD	9.15	470,101	1.11	0.98	0.71	0.11	7,422,594	67.9	7.92	115.5	0.76	6.24	3.58	70.64	NA	0.0000	0.00
◆ American Community Bancshares, Inc.	ACBA	NC	460,772	460,772	0.50	0.66	0.65	0.13	6,921,554	78.3	7.60	148.8	0.81	7.15	4.53	60.88	NA	0.2000	1.77
◆ Community Financial Corporation	CFCC	VA	23.70	435,313	1.63	1.76	1.91	0.46	2,123,716	50.3	16.70	141.9	0.95	11.46	3.51	64.25	0.05	0.5200	2.19
◆ Hampton Roads Bankshares, Inc.	HMPR	VA	11.35	424,277	0.50	0.66	0.71	0.19	8,289,048	115.5	6.01	188.9	1.51	12.65	5.40	60.10	0.40	0.4000	3.52
◆ North State Bancorp	NSBC	NC	18.75	423,166	0.31	0.53	0.61	0.16	4,341,536	82.8	5.32	352.1	0.78	13.35	3.94	64.02	0.00	0.0000	0.00
◆ Central Virginia Bankshares, Inc.	CVBK	VA	26.00	408,968	1.82	2.01	2.19	0.64	2,405,624	62.6	13.48	192.9	1.53	17.17	4.25	67.64	0.19	0.7200	2.77
◆ MidCarolina Financial Corporation	MCFI	NC	16.75	407,872	0.53	0.61	0.73	0.22	3,460,914	58.0	5.53	302.7	0.93	15.33	3.41	61.23	0.79	0.0000	0.00
◆ First Century Bankshares, Inc.	FCBS	WV	25.00	404,156	1.53	2.02	2.13	0.58	1,957,708	48.9	18.72	133.5	1.15	12.55	4.51	63.93	0.55	1.0000	4.00
◆ Carolina Bank Holdings, Inc.	CLBH	NC	13.44	389,978	0.59	0.73	0.86	0.24	2,721,384	36.6	8.74	153.8	0.71	11.53	3.40	59.16	0.92	0.0000	0.00
◆ Patrick Henry National Bank	PHNY	VA	11.80	388,920	0.75	0.69	0.73	0.18	2,800,122	33.0	8.70	135.6	0.51	8.09	2.57	76.52	1.48	0.4400	3.73
◆ Calvin B. Taylor Bankshares, Inc.	TYCB	MD	36.85	381,334	1.74	2.13	2.25	0.57	3,186,014	117.4	21.97	167.8	1.97	10.71	4.91	37.74	0.00	0.7000	1.90
◆ Abigail Adams National Bancorp, Inc.	AAAB	DC	13.95	372,089	1.08	0.98	0.84	0.23	3,462,129	48.3	8.19	170.3	0.87	11.13	4.60	69.45	0.29	0.5000	3.58
◆ Peoples National Bank	PNVB	VA	21.00	368,012	1.19	0.88	0.86	0.18	2,375,683	49.4	15.96	131.6	0.45	4.45	2.99	76.52	0.82	0.0000	3.81
◆ F & M Bank Corp.	FMBM	VA	30.00	362,140	1.80	1.99	1.95	0.47	2,394,087	71.9	15.72	190.8	1.26	12.12	4.18	56.54	0.00	0.8000	2.67
◆ Waccamaw Bankshares, Inc.	WBNK	NC	17.25	361,731	0.52	0.64	0.72	0.19	4,593,367	79.8	5.32	324.3	1.02	14.78	4.25	51.82	0.47	0.0000	0.00
◆ First Trust Bank	NCTF	NC	23.35	349,825	0.91	1.06	1.13	0.29	3,022,529	70.6	9.59	243.4	1.11	13.08	4.25	48.41	0.00	0.0000	0.00

Company Name	Ticker	State	9/5/2006 Price	Assets (thousands)	2004 EPS	2005 EPS	LTM EPS	Q2 '06 EPS (\$)	Total Shares Out	Market Value (mil)	Book Value/Share	Price to Book (%)	ROAA (%)	ROAE (%)	Interest Margin (%)	Effic. Ratio (%)	NPA Assets (%)	Div. Rate (\$/Yr)	Current Dividend Yield
Carrollton Bancorp	CRRB	MD	17.99	343,028	0.31	0.87	0.83	0.02	2,813,268	50.6	11.83	152.1	0.07	0.68	4.65	98.08	0.12	0.4400	2.45
Highlands Bankshares, Inc.	HBSI	WV	32.00	335,934	2.23	2.65	2.96	0.84	1,436,874	46.0	24.68	129.7	1.43	13.67	5.03	58.26	0.23	0.9200	2.88
Glen Burnie Bancorp	GLBZ	MD	17.10	331,600	1.25	1.13	1.12	0.29	2,474,100	42.3	10.42	164.1	0.86	10.94	3.70	75.87	0.10	0.4800	2.81
Annapolis Bancorp, Inc.	ANNB	MD	9.10	323,831	0.52	0.71	0.73	0.17	4,083,230	37.2	5.32	171.1	0.89	12.85	4.04	66.58	NA	0.0000	0.00
Bay Banks of Virginia, Inc.	BAYK	VA	13.80	305,026	0.93	1.07	1.03	0.22	2,372,126	32.7	11.12	124.1	0.69	8.04	3.91	74.41	0.74	0.6400	4.64
Cecil Bancorp, Inc.	CECB	MD	16.56	293,839	0.92	1.22	1.20	0.34	1,803,298	30.2	12.71	130.3	0.89	11.00	4.15	61.38	0.99	0.1980	1.20
Potomac Bancshares, Inc.	PTBS	WV	16.00	292,590	0.89	1.05	1.12	0.34	3,460,676	55.3	7.64	209.3	1.65	18.20	4.56	55.38	0.04	0.3800	2.38
KS Bancorp, Inc.	KSBI	NC	26.30	283,338	0.91	1.24	1.46	0.44	1,309,501	34.4	12.10	217.3	0.82	14.44	3.54	66.44	NA	0.5200	1.98
Virginia National Bank	VABK	VA	38.00	278,786	0.89	1.36	1.20	0.18	2,147,875	81.7	13.70	277.3	0.59	5.73	4.94	74.47	0.00	0.0000	0.00
BOE Financial Services of Virginia, Inc.	BSXT	VA	30.01	270,632	2.42	2.58	2.60	0.63	1,201,492	36.1	22.47	133.6	1.14	11.39	4.01	65.93	0.02	0.7600	2.53
Shore Financial Corporation	SHBK	VA	16.83	264,573	0.93	1.06	1.14	0.29	2,492,192	41.9	9.87	170.5	1.14	11.95	3.57	61.64	0.24	0.2332	1.39
South Street Financial Corp.	SSFC	NC	8.99	257,887	0.37	0.54	0.54	0.11	2,954,696	26.6	8.73	103.0	0.50	4.96	3.24	73.47	NA	0.4000	4.45
First West Virginia Bancorp, Inc.	FWV	WV	19.30	257,743	1.73	1.48	1.54	0.36	1,528,443	29.5	15.48	124.7	0.84	8.69	4.07	69.36	0.63	0.7600	3.94
M&F Bancorp, Inc.	MFBP	NC	10.00	251,103	0.66	0.45	0.89	0.22	1,685,646	16.9	12.38	80.8	0.61	7.16	4.49	80.28	0.66	0.2000	2.00
Banks between \$249 million and \$100 million in assets																			
First Capital Bank	FCRV	VA	18.50	241,463	0.31	0.70	0.80	0.21	1,796,021	33.2	8.02	230.7	0.72	11.21	3.43	62.67	0.00	0.0000	0.00
Pinnacle Bankshares Corporation	PPBN	VA	20.75	240,012	1.23	1.43	1.55	0.42	1,458,938	30.3	16.30	127.3	1.04	10.55	3.93	66.09	0.12	0.5600	2.70
Citizens Financial Corp.	CIWW	WV	17.25	238,747	0.88	1.10	1.26	0.29	1,845,562	31.7	10.78	160.0	0.90	10.73	4.13	67.17	NA	0.4800	2.78
Bay National Corporation	BAYN	MD	19.20	230,065	0.41	1.37	1.56	0.33	1,930,894	37.1	9.11	210.8	1.21	15.63	5.40	65.42	0.06	0.0000	0.00
Patapsco Bancorp, Inc.	PATD	MD	10.06	228,070	0.77	0.70	0.72	0.22	1,810,000	18.2	9.87	101.9	0.74	9.31	4.13	71.00	NA	0.2500	2.49
Heritage Bankshares, Inc.	HBKS	VA	17.50	209,386	0.96	0.48	NA	0.08	1,861,173	32.6	9.79	178.8	0.26	3.16	NA	96.55	0.10	0.2400	1.37
Harford Bank	HFBK	MD	48.30	198,016	2.35	2.52	2.58	0.61	767,949	37.1	27.90	173.1	0.96	8.92	5.01	68.03	0.06	1.3200	2.73
United Financial Banking Companies, Inc.	UFBC	VA	22.40	193,516	1.05	1.23	1.32	0.31	1,087,182	24.4	14.54	154.1	0.72	9.17	4.66	74.49	0.02	0.0000	0.00
Cardinal Bankshares Corporation	CDBK	VA	20.75	191,122	1.46	1.44	1.55	0.40	1,535,733	31.9	18.11	114.6	1.27	8.75	4.04	60.68	NA	0.5400	2.60
Surrey Bancorp	SRVB	NC	22.00	178,149	1.05	1.26	1.47	0.34	1,483,056	32.9	10.74	204.8	1.36	13.17	4.80	55.05	0.24	0.0000	0.00
Pioneer Bankshares, Inc.	PNBI	VA	22.50	152,318	1.45	1.42	1.61	0.48	1,011,481	22.8	14.38	156.5	1.28	13.45	4.66	66.23	NA	0.5200	2.31
Weststar Financial Services Corporation	WFSC	NC	12.50	147,330	0.38	0.60	0.91	0.26	1,681,290	21.0	6.72	186.0	1.32	16.58	5.08	57.06	0.86	0.0000	0.00
BUCS Financial Corp	BUCS	MD	11.25	143,704	0.70	0.71	0.58	0.12	882,108	9.9	13.04	86.3	0.30	3.63	3.31	84.59	NA	0.0000	0.00
Wake Forest Bancshares, Inc. (MHC)	WAKE	NC	22.50	103,154	0.94	1.13	1.30	0.36	1,152,661	26.0	15.86	141.9	1.62	9.12	4.41	32.52	1.22	0.6800	3.02
Banks less than \$100 million in assets																			
CommercerFirst Bancorp, Inc.	CMFB	MD	14.25	99,881	1.33	0.62	0.68	0.16	1,803,583	25.7	9.96	143.1	1.20	6.78	5.26	60.57	0.89	0.0000	0.00
Mutual Community Savings Bank, Inc., SSB	MTUC	NC	10.50	89,538	0.72	-1.06	-2.00	-0.49	363,719	3.8	18.05	58.2	-0.81	-10.66	3.16	130.50	0.61	0.0000	3.14

Glossary of Symbols and Terms

- ◆ = Anderson & Strudwick is a Market Maker
- √ = Participated as an underwriter in public offering within the last 12 months
- ⊕ = A&S employee/employees serve on the Board of Directors
- ⊗ = Analyst(s) own shares in this security

LTM = Trailing Twelve Months

ROAA = Return on Average Assets

ROAE = Return on Average Equity

DIVIDEND CHANGES

Company	New Dividend Rate per Share	Old Dividend Rate per Share	Frequency
First South Bancorp Inc.	\$ 0.2500	\$ 0.2000	Quarterly
Pioneer Bankshares Inc.	\$ 0.1300	\$ 0.1200	Quarterly
Cardinal Bankshares Corp.	\$ 0.2700	\$ 0.2800	Semiannual
Benchmark Bankshares	\$ 0.2500	\$ 0.2400	Semiannual
Severn Bancorp Inc.	\$ 0.0600	\$ 0.0545	Quarterly
First Charter Corp.	\$ 0.1950	\$ 0.1900	Quarterly
Pinnacle Bankshares Corp.	\$ 0.1400	\$ 0.1300	Quarterly
Central Virginia Bankshares	\$ 0.1800	\$ 0.1714	Quarterly
Commonwealth Bankshares Inc.	\$ 0.0550	\$ 0.0545	Quarterly
Gateway Financial Holdings	\$ 0.0500	\$ 0.0273	Quarterly
FNB Corp.	\$ 0.2100	\$ 0.2000	Quarterly
Community Financial Corp.	\$ 0.1300	\$ 0.1200	Quarterly
Union Bankshares Corp.	\$ 0.2400	\$ 0.2300	Quarterly
Shore Bancshares Inc.	\$ 0.1500	\$ 0.1467	Quarterly
Old Point Financial Corp.	\$ 0.1800	\$ 0.1700	Quarterly

CAPITAL CHANGES

First South Bancorp registered for up to 198,744 shares of common stock valued at \$7.09 million.

Weststar Financial Services Corp. declared a 20% stock dividend in the form of a 6-for-5 common stock split, payable May 2nd.

Village Bank & Trust announced it is canceling the common stock warrants issued in connection with the October 2002 common stock unit offering.

Alliance Bankshares Corp. declared a 3-for-20 stock split in the form of a 15% dividend, payable June 30th.

Cooperative Bankshares Inc. declared a 3-for-2 stock split, payable in a 50% stock dividend.

FNB Corp. registered for an offering of 500,00 shares of common stock valued at \$16.43 million.

Hampton Roads Bankshares Inc. registered for an offering of up to 1 million common shares valued at \$10.9 million.

Monarch Financial Holdings reported that it had acquired all of the outstanding stock of Monarch Bank through a statutory share exchange transaction, effective June 1st.

Community Bankers Acquisition Corp. announced it consummated its previously announced IPO of 7.5 million units at \$8.00 units totaling \$60 million in startup capital.

Hampton Roads Bankshares Inc. registered to offer 670,000 shares of common stock in a rights offering and a public offering of 670,000 shares to its shareholders as of June 2nd.

AmericasBank Corp. registered for up to 479,220 common shares in an offering valued at \$3.4 million through its 2004 stock incentive plan.

Hampton Roads Bankshares Inc. registered to offer up to 1.5 million shares of common stock valued at \$16.8 million. Proceed will be used for general corporate purposes.

Bank of Wilmington Corp. announced its board approved a 5% stock dividend on the outstanding shares.

Mercantile Bankshares Corp. announced its board authorized the repurchase up to 2 million shares of common stock.

MainStreet BankShares Inc. filed a statement to register 276,622 common shares, valued at \$2.56 million.

Peoples Bancorp of North Carolina Inc. completed the issuance of \$20 million of PEBK Capital Trust II floating-rate securities.

Monarch Financial Holdings issued \$10 million of trust-preferred securities.

Middleburg Financial Corp. registered for the sale of 116,552 common shares at a par value of \$2.50 per share. It also priced a public offering of 590,000 shares at \$31.00 per share.

CB Financial Corp. board of directors approved a 5% stock dividend, payable August 31st.

Southern Community Financial Corp. intends to repurchase up to an additional 1 million shares of common stock.

American National Bankshares Inc. issued \$20.6 million of trust-preferred securities.

Access National Corp. agreed to sell 2,135,000 common shares; 135,000 of which are sold by existing shareholders at a public offering price of \$9.38 per share.

Harbor Bankshares Corp. is aiming to reduce the number of shareholders by 58% as it will cash out holders of 100 shares or fewer at \$31.00 per share.

North State Bancorp stated that its board voted to issue a 50% stock split in the form of a 50% stock dividend.

F&M Bank Corp. indicated its board approved the amendment to increase the number of shares of common stock available for repurchase from 50,000 to 100,000..

Shore Financial Corp. announced a 6-for-5 stock split.

Crescent Financial Corp. filed a statement for up to 335,000 shares of common stock in an offering valued at \$4.44 million.

OTHER BANKING NEWS

Bay National Corp. appointed R. Michael Gill to its Board of Directors and named Dick Oppitz and Richard Springer executive vice president.

First South Bancorp Inc. adopted a resolution to reduce the size of its board to seven from eight members. Moreover, Edmund Buckman Jr will retire from the board at the end of his term.

Mercantile Bankshares appointed Jeffrey Durkee as chairman of the private wealth management group.

TransCommunity Financial Corp. announced Dean Agee, Julian Metts Jr., and John Purcell Jr. have resigned from the board.

First Community Bankshares Inc. announced CFO Mark Wendel will be leaving. David Brown V will replace him.

Eagle Financial Services Inc. reported Chairman John Hardesty will resign, effective Dec. 31st. Eagle Financial elected Douglas Rinker to its board.

CommerceFirst Bank announced J. Scott Wimbrow joined its board.

Parkway Bank announced Bruce Kirby has resigned from the board due to health reasons.

Uwharrie Capital Corp. reported Robert Barbee has resigned from its board of directors. Henry Farmer Sr replaces him.

Southern Community Financial Corp. announced Charles Bokesch retired from its board of directors.

First Trust Bank named William Elder senior vice president and senior loan officer, named Rosemary Harrington branch administrator, and promoted Deborah Rouse to assistant vice president.

Carrolton Bancorp announced William Hermann was elected as an independent director of the company on June 1.

Carrolton Bancorp lost \$1.2 million related to a check-kiting scheme.

Community Bankers Acquisition Corp. will be listed in the American Stock Exchange under the ticker symbol BTC.U.

Bank of Richmond NA named Haley Cully, Andrew Kelly, and Angela Coleman branch managers.

Yadkin Valley Bank and Trust Co. announced that its shareholders approved the naming of a bank holding company to Yadkin Valley Financial Corp.

TransCommunity Financial Corp. entered into separate change-in-control agreements with the chief executives of each of its subsidiaries.

TransCommunity Financial Corp. appointed Richard Bozard, Bradley Claeys, Christopher Miller, and David Purcell to its board.

Scottish Bank accepted the resignation of executive vice president and CFO, Stephen Arnall.

FNB United Corp. named Eugene McLaurin II as vice chairman of the board.

Fauquier Bankshares Inc. announced C. Hunton Tiffany stepped down as chairman of the board and is now chairman of the executive committee.

Heritage Bankshares Inc. named John Guthrie CFO.

Central Virginia Bankshares Inc. announced Kemper Baker will replace Charles Binford on its board of directors.

American Community Bankshares announced the retirement of Carlton Tyson from its board.

FNB United Corp. named David Cline, Robert Huntley, H. Ray McKenney, and Carl Yale to its board.

Crescent Financial Corp. named Frank Shell city executive of the Cary, NC branch operations.

Cardinal Financial Corp. named Mark Wendel director of finance and accounting and James O'Donnell senior vice president of its Wilson Bennett Capital Management Inc. unit.

BCSB Bancorp Inc announced it was victimized by a check-kiting scheme by one of its commercial customers; losses will be recognized at the end of the June quarter.

BCSB Bancorp Inc. announced the resignation of president and CEO Gary Loraditch.

First Charter Corp. announced the resignation of Jerry Felts from its board and that it elected Jewell Hoover to its board.

Old Point Financial Corp. elected Dr. William Hunt to the board.

Provident Bankshares Corp. is now included in the new NASDAQ Global Select Market.
Provident Bankshares Corp. elected Dale Peck to its board of directors.
MainStreet Bank named Michele Parker senior vice president.
Potomac Bank of Virginia named Dennis East senior vice president in charge of the development of the Loudon County market.
Bradford Bank named Paul Michaud senior vice president of retail lending.
Sandy Spring Bancorp Inc. announced Frank Brentz III resigned from executive vice president and chief information officer and accepted the senior vice president and information security officer positions at Sandy Spring Bank.
Alliance Bankshares Corp. appointed Brian Haggerty, Robert Belch Jr., and Stephen Kingsley to the executive team of its unit Alliance Bank and announced the retirement of Thomas Danaher from its board.
Middleburg Financial Corp. announced the resignation of Thomas Nails from its board.
BNC Bancorp appointed Ralph Strayhorn III as executive vice president of its unit Bank of North Carolina.
CommerceFirst Bancorp Inc. appointed George Shenk Jr. to its board of directors.
Alliance Bank & Trust Co. accepted the return of Herman Ratchford to its board of directors.
Scottish Bank named Jan Hollar executive vice president and CFO.
Tri-County Financial Corp. appointed Philip Goldstein and Joseph Stone Jr. to its board.
TriStone Community Bank hired Kathy Arledge as senior vice president and CFO.
American Community Bancshares Inc. announced it is exiting the leasing business.
Chevy Chase Bank settled a class-action lawsuit for \$16.1 million in which it was accused of charging credit card interest rates higher than promised.
FNB Corp. named Greg Feldman COO.
CapStone Bank hired Steven Ogburn as CEO, Michael Patterson as chairman, and Rex Scott as COO.
Harvest Bank of Maryland announced the resignation of Chairman John Holaday.
Millennium Bankshares Corp. announced Chairman, President, and CEO Carroll Markley intends to retire March 31, 2007.
Hampton Roads Bankshares Inc. announced Lynn Pierce joined its Bank of Hampton Roads unit as senior vice president and senior loan officer.
New Windsor Bancorp Inc. elected William Jones to the board of its unit New Windsor State Bank.
Citizens Community Bank reported Harold Moore resigned from its board.

OFFICE OPENINGS/SALES/ACQUISITIONS

Bay Net Financial Inc. entered into an agreement to purchase Sterling Financial Corp.
Premier Community Bankshares Inc. completed the acquisition of Albemarle First Bank. .
Bank of the Carolinas' board approved the formation of a bank holding company called Bank of the Carolinas Corp.
Mercantile Bankshares Corp. completed the acquisition of James Monroe Bancorp Inc.
Capstone Bank received permission to open as a start up in Raleigh, NC. It hopes to open August 1, pending approval from the FDIC.
National Bankshares announced it had completed the merger of its two subsidiaries, National Bank of Blacksburg and Bank of Tazewell County.
Cardinal Financial Corp. announced it will be opening its first banking office in Bethesda, Montgomery County, MD. It will be the 24th overall community banking location.
First Citizens Bancshares Inc. will begin construction on a new branch in Danville, VA in July.
First Charter Bancorp announced it has agreed to purchase GBC Bancorp, located in Lawrenceville, GA, for \$102M in cash and stock.
Bank of Virginia announced its plans to open its fourth office in Chester, VA in early May.
Cardinal State Bank plans to build a branch in Hillsborough, NC.
First South Bancorp Inc. opened a full service office in Buxton, NC.
First Charter Corp. agreed to sell two branches to United Community Banks Inc.

First Charter Corp. announced the acquisition of GBC Bancorp; expanding its growth into GA.

TrustAtlantic Financial Corp. agreed to acquire Millennia Community Bank for \$8.1 million.

Mutual Community Savings Bank Inc. will open a new location in Durham, NC on July 1st.

American Bank Holdings Inc. acquired United Federal Mortgage.

Scottish Bank is planning to form a holding company called TSB Financial Corp.

Potomac Bank of Virginia began the development of its first branch in Loudon County, VA.

Southern National Bancorp of VA Inc. agreed to acquire 1st Service Bank in a stock and cash transaction. The deal also states that 1st Service will merge with Sonabank NA.

Bank of Granite is planning to open its first lending office in Statesville, NC in early August.

Frederick Country Bancorp Inc. has two branches that are expected to open in Frederick, MD in September.

New Century Bancorp Inc. completed the acquisition of Progressive State Bank.

BNC Bancorp's shareholders approved the proposed acquisition of SterlingSouth Bank & Trust Co.

Bank of the James Financial Group Inc. formed the BOTJ Investment Group.

Virginia Financial Group Inc. plans to open a branch in Harrisonburg, VA and a new main office facility for its affiliate, Virginia Heartland, in Fredericksburg, VA.

Crescent Financial Corp. received shareholder approval to acquire Port City Capital Bank.

Gateway Financial Holdings Inc. is planning to open 6 additional branches over the next 2-3 years in Wake County, NC.

First Community Bancshares Inc. acquired ground for a location in Richmond, VA and its two acquired locations in Winston-Salem, NC are in the final stages of approval.

Bradford Bancorp Inc. agreed to acquire Valley Bancorp Inc. for \$9.6 million in cash.

Annapolis Bancorp Inc. announced it will open its 7th branch in Annapolis, MD.

Bay Banks of Virginia Inc. announced it will open a new branch in Colonial Beach, VA.

Bank of Oak Ridge plans to open a third office in Greensboro, NC in 2007.

Bank of McKinney opened an office in Prince George County, VA.

River City Bank opened its third branch office in June.

Our research reports, stock monitors and daily market commentary are available at: www.AndersonStrudwick.com

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A&S makes a market in Bank of Granite, Broadway Financial, Center Financial Corp., First Community Bancshares, First Trust Bank, FNB Corp., Hanmi Financial, ICB Financial, Middleburg Financial Corp., National Mercantile Bancorp, Northern States Financial, Pacific Mercantile Bank, Premier Community Bankshares, Shore Financial, Village Bank & Trust, Union Bankshares, and Virginia Commonwealth Financial Corp.

Stock ratings used in this report are defined as follows:

- (1) **Outperform** – The stock's total return including dividends is expected to exceed the industry or market average by at least 10% over the next twelve months.
- (2) **Neutral** – The stock's total return including dividends is expected to be in line with the industry or market average of +/- 10% over the next twelve months.
- (3) **Under perform** – The Stock's total return including dividends is expected to be below the industry or market average by 10% or more over the next twelve months.

The distribution of investment ratings for all companies in our coverage universe are as follows: (1) 54%, (2) 45%, (3) 1%

The distribution of investment ratings used for companies whom we have performed banking services in the last 12 months are: (1) 50%, (2) 50%, (3) 0%

For regulatory purposes, our ratings of Outperform, Neutral and Underperform most closely correspond to Buy, Hold and Sell, respectively.

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