

PUBLIC DISCLOSURE

February 24, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Southern Financial Bank

47377

37 Main Street

Warrenton, Virginia 20186

Federal Reserve Bank of Richmond

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Richmond, Virginia 23261

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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INSTITUTION RATING

INSTITUTION'S CRA RATING: Southern Financial Bank is rated "**SATISFACTORY.**"

The following table indicates the performance level of Southern Financial Bank, with respect to the lending, investment, and service tests.

PERFORMANCE LEVELS	<u>Southern Financial Bank</u>		
	PERFORMANCE TESTS		
	Lending Test*	Investment Test	Service Test
Outstanding			
High Satisfactory			
Low Satisfactory	X	X	X
Needs to Improve			
Substantial Noncompliance			

* The lending test is weighted more heavily than the investment and service tests in determining the overall rating.

Major factors supporting the institution's rating include:

- A high percentage of the institution's small business and Home Mortgage Disclosure Act (HMDA) loans were originated within the bank's assessment areas.
- While the geographic and borrower distribution of loans in the markets reviewed using the examination procedures is varied, the overall performance is considered at least adequate.
- An adequate level of participation in qualified community development investments responsive to community credit needs was noted.
- Delivery systems and branch locations are accessible to all segments of the assessment area reviewed.
- An adequate level of community development services throughout the institution's numerous assessment areas was identified.

INSTITUTION

DESCRIPTION OF INSTITUTION

Southern Financial Bank (SFB) is headquartered in Warrenton, Virginia, and currently operates 26 full-service branches in northern and central Virginia and one in Washington, D. C. The institution is a subsidiary of Southern Financial Bancorp, Incorporated, a single-bank holding company also located in Warrenton. The overall condition of the holding company is considered good and reflective of the condition of the underlying bank. The bank's previous CRA rating was Satisfactory.

Since the prior examination dated March 5, 2001, SFB acquired Metro-County Bank (fall of 2002). Five branch offices were acquired as a result of the merger. SFB has also opened three branch offices during this time period. As of December 31, 2002, the bank had assets of \$975.3 million, of which 57.8% were loans and 23.6% were securities. According to financial data, as of December 31, 2002, the loan portfolio included 13.5% residential real estate secured, 59.9% other real estate (including farmland and nonresidential property), 23.9% commercial, 2.2% consumer, and .5% other. Deposits, as of December 31, 2002, were \$776.5 million.

The bank serves four assessment areas throughout the Commonwealth of Virginia and Washington, D. C. The following tables describe the composition of SFB's assessment areas.

Multistate MSA			
Assessment Area	State	County/City	Geographies Included
Washington, DC-MD-VA-WV	VA	Clarke County	All
	VA	Culpeper County	All
	VA	Fairfax County	All
	VA	Fauquier County	All
	VA	Loudoun County	All
	VA	Prince William County	All
	VA	Spotsylvania County	All
	VA	Stafford County	All
	D.C.	Washington, D. C.	All
	VA	Fairfax City	All
	VA	Fredricksburg City	All
	VA	Manassas City	All
	VA	Manassas Park City	All

Virginia MSAs			
Assessment Area	State	County/ City	Geographies Included
Richmond-Petersburg, VA	VA	Henrico County	All
	VA	Hanover County	All
	VA	Richmond City	All
Charlottesville, VA	VA	Fluvanna County	All
	VA	Greene County	All
	VA	Albemarle County	All
	VA	Charlottesville City	All

Virginia Nonmetropolitan Assessment Area			
Assessment Area	State	County/City	Geographies Included
Winchester NonMSA	VA	Frederick County	All
	VA	Winchester	All

SCOPE OF EXAMINATION

The institution was evaluated using the interagency examination procedures developed by the Federal Financial Institution's Examination Council (FFIEC). According to these procedures, HMDA, small business, and small farm lending activity reported by the institution from January 1, 2001, through December 31, 2002, was reviewed. This includes all loans originated and purchased by SFB during the two-year time period. Qualified investments and services were considered for this same period under the investment and service tests.

An overall institution rating and ratings for the lending, investment, and service tests are assigned to the Washington multistate MSA (as the institution has branches in both the Virginia and Washington, D. C. portions of the MSA) and to the Commonwealth of Virginia. The state ratings are based only on the performance in the assessment area subject to full scope review and exclude the Washington multistate MSA, as it is rated separately. For assessment areas that are reviewed utilizing the limited scope evaluation procedures, a determination was made as to whether performance was consistent with the assigned overall state rating. Because of its relative size, determined by loan activity, proportion of bank deposits, and market population, full scope FFIEC evaluation procedures were applied to the Washington multistate MSA and Richmond MSA assessment areas. The remaining two assessment areas were subject to the limited review process also provided for by the FFIEC.

The institution's rating for each test is based on the ratings assigned to the Washington multistate MSA and the Commonwealth of Virginia and are weighted primarily according to bank activity as measured by relative lending volume, amount of deposits, and number of branches. According to evaluation procedures, the lending test performance accounts for half of the overall rating, while the investment and service tests are equally weighted accounting for 25% each of the overall rating.

When evaluating lending performance for specific loan types, primary consideration is given to the number (and corresponding percentage) of transactions. The institution's overall rating is based on the performance of each loan category and primary consideration is given to the dollar volume each category contributes to the overall activity considered in the evaluation.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

LENDING TEST

An analysis of lending for the review period is discussed in greater detail later in this evaluation for assessment areas receiving a full scope review. Area demographic data, Dun & Bradstreet (D&B) business data, and market aggregate information are used as proxies for demand when evaluating the bank's performance. Aggregated data includes SFB and all other reporting institutions that originated and/or purchased loans of the type considered within the bank's assessment areas. Demographic data are from the 1990 census; D&B business data are current as of 2002; and market HMDA and small business aggregate data are from calendar years 2001 (the 2002 aggregate data is not available).

Lending Activity:

The institution primarily serves its market through lending and offers a variety of credit products. During the eight-quarter period ending December 31, 2002, the quarterly average loan-to-deposit ratio of all banks headquartered in metropolitan areas of Virginia and of similar asset size to SFB ranged from 73.1% to 78.3%. The bank's average quarterly loan-to-deposit ratio for the same period equaled 61% and currently (December 31, 2002) equals 72.7%. No barriers to the bank's ability to lend were noted.

While the bank offers various loan products, it specializes in commercial lending including loan programs offered by the Small Business Administration (SBA). From October 1, 2001, through December 31, 2002, the bank extended 46 SBA loans totaling \$12.1 million. Consumer and residential mortgage loans are typically extended on an accommodation basis for small business customers. The bank's lending activity for small business and HMDA loans is provided in a table in the following section. Lending activity within the bank's assessment area is consistent with its financial capacity and reflects a good level of responsiveness to local credit needs.

Assessment Area Concentration:

The distribution, by number and dollar amounts, of the institution's small business and HMDA lending from January 1, 2001, to December 31, 2002, are represented in the following table.

Lending Inside and Outside the Assessment Areas								
	Inside				Outside			
	#	%	\$('000s)	%	#	%	\$('000s)	%
HMDA Home Purchase	3	75%	\$115	71.4%	1	25%	\$46	28.6%
HMDA Refinance	19	82.6%	\$4,090	69.3%	4	17.4%	\$1,814	30.7%
HMDA Home Improvement	1	100%	\$275	100%	0	0%	\$0	0%
HMDA Multifamily	2	66.7%	\$430	80.2%	1	33.3%	\$1,920	28.6%
Totals HMDA-related	25	80.6%	\$4,910	71.4%	6	19.4%	\$1,966	28.6%
Totals Small Business	224	73.2%	\$58,895	70.9%	82	26.8%	\$24,208	29.1%
TOTALS	249	73.9%	\$63,805	70.9%	88	26.1%	\$26,174	29.1%

As indicated previously, a majority of the number and dollar amounts of loans have been provided to assessment area residents. Overall, the percentage of loans made in the bank's assessment areas is considered responsive to community credit needs.

Geographic and Borrower Distribution:

The analysis of small business and HMDA loans is discussed in greater detail later in the report. Overall, the geographic distribution of loans and lending to businesses of different sizes and to individuals of varying incomes was adequate. The bank's performance was compared to demographic proxies for demand, as well as available aggregate loan data.

Community Development Lending:

During the evaluation period, the bank did not report any community development lending. To the extent that the bank may have originated any loans for community development purposes in the assessment area, such credit extensions have been reported as small business or HMDA loans and cannot also be counted as community development loans.

Overall, the institution's lending activities are adequate and rated low satisfactory under the lending test.

INVESTMENT TEST

The institution's level of responding to community development needs through its investment activities is rated low satisfactory. The institution has two \$1 million commitments to provide funds to Meridian Venture Partners II and Capital City Venures, both Small Business Investment Companies (SBIC). SBICs are privately owned and managed investment firms licensed and regulated by the SBA that make venture capital investments in small businesses. As of the examination date, Meridian Venture Partners II is utilizing \$486,315.67 of its commitment and Capital City Ventures is utilizing \$500,000 of its commitment. Overall, the institution's securities portfolio totaled \$230.6 million, as of December 31, 2002.

SERVICE TEST

The overall rating under the service test is low satisfactory. Delivery systems, including automated teller machines (ATMs) and branch locations, are considered readily accessible, and the hours of operation are convenient to all portions of the assessment areas. The bank has opened two branches in moderate-income tracts and acquired one branch in a low-income tract since the previous examination. SFB participates in limited community development services.

COMPLIANCE WITH ANTIDISCRIMINATION LAWS

No credit practices inconsistent with the substantive provisions of the fair housing and fair lending laws and regulations were identified. Adequate policies, procedures, and training programs have been developed to support nondiscrimination in lending activities.

MULTISTATE METROPOLITAN AREA

CRA RATING FOR WASHINGTON, DC-MD-VA-WV ASSESSMENT AREA: Satisfactory

The lending test is rated: Low Satisfactory

The investment test is rated: Low Satisfactory

The service test is rated: Low Satisfactory

Major factors supporting the rating include:

- Lending activity is consistent with the bank's capacity and helps meet identified credit needs.
- The geographic distribution reflects an adequate penetration of low- and moderate-income geographies throughout the assessment area for small business loans. Due to a relatively small number of HMDA loans, no conclusions could be drawn from the data.
- The distribution by borrower revenue is considered good overall for small businesses. However, due to the relatively small number of HMDA, no conclusions could be drawn from the data.
- The bank maintains a limited but adequate level of qualified investments that specifically benefit this assessment area.
- Delivery systems and branch locations are reasonably accessible to all segments of the assessment area; however, SFB has limited involvement in community development services.

SCOPE OF EXAMINATION

The institution's lending test review includes all reported small business and HMDA loans either originated or purchased during calendar years 2001 and 2002. The bank did not make any farm loans during this time period. Additionally, the institution's efforts to serve its markets through qualified community development investments and services were reviewed for this same period.

DESCRIPTION OF INSTITUTION'S OPERATIONS IN WASHINGTON, DC-MD-VA-WV MSA

The Washington multistate MSA assessment area includes the following cities and counties: Clarke, Culpeper, Washington, D. C., Fairfax City, Fairfax County, Fauquier, Fredericksburg, Loudoun, Manassas, Manassas Park, Prince William, Spotsylvania, and Stafford. According to the 1990 census data, the assessment area has a population of 2,007,911 and a median housing value of \$193,104. The owner-occupancy rate for the area is 55.8%, which is lower than the rates for both the MSA (57.3%) and Virginia (60.9%) but higher than D. C. (34.9%). The 2002 median family income for the MSA is \$91,500. Within the assessment area, 5.2% of families are considered to be living below the poverty level, which is higher than the MSA rate of 4.4% but lower than Virginia (7.7%) and D. C. (13.3%).

The following table provides demographic data for the assessment area by the income level of families, the type and distribution of housing units, and distribution of local businesses.

Southern Financial Bank- DC MSA ASSESSMENT AREA DEMOGRAPHICS								
Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty as a % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low	54	10.3%	36,657	7.4%	10,496	28.6%	92,205	18.6%
Moderate	107	20.3%	93,979	19.0%	7,896	8.4%	87,343	17.7%
Middle	173	32.9%	214,716	43.4%	5,627	2.6%	119,323	24.1%
Upper	126	24.0%	149,045	30.1%	1,742	1.2%	195,526	39.5%
NA	66	12.5%	0	0.0%	0	0.0%	-	-
Total	526	100.0%	494,397	100.0%	25,761	5.2%	494,397	100.0%
Housing Units by Tract	Housing Types by Tract							
	Owner Occupied		Rental		Vacant			
	#	%	#	%	#	%	#	%
Low	71,124	10,567	2.4%	14.9%	50,133	70.5%	10,424	14.7%
Moderate	177,548	70,836	15.9%	39.9%	90,259	50.8%	16,453	9.3%
Middle	332,101	206,276	46.4%	62.1%	106,223	32.0%	19,602	5.9%
Upper	215,323	156,860	35.3%	72.8%	46,361	21.5%	12,102	5.6%
NA	4	0	0.0%	0.0%	0	0.0%	4	100.0%
Total	796,100	444,539	100.0%	55.8%	292,976	36.8%	58,585	7.4%
Total Businesses by Tract	Businesses by Tract and Revenue Size							
	Less than or = \$1 Million		Over \$1 Million		Revenue not Reported			
	#	%	#	%	#	%	#	%
Low	7,369	4.7%	5,719	5.1%	623	5.4%	1,027	3.3%
Moderate	25,120	16.1%	19,145	16.9%	1,834	15.8%	4,141	13.2%
Middle	66,487	42.6%	48,490	42.8%	4,686	40.3%	13,311	42.4%
Upper	53,443	34.2%	37,017	32.7%	3,949	33.9%	12,477	39.8%
NA	3,801	2.4%	2,832	2.5%	545	4.7%	424	1.4%
Total	156,220	100.0%	113,203	100.0%	11,637	100.0%	31,380	100.0%
Percentage of Total Businesses:				72.5%		7.4%		20.1%

Sources: 1990 Census Data, 2002 Dun & Bradstreet business demographic
 NA Tracts are tracts without household or family

This assessment area is located in Northern Virginia and also includes all of Washington, D. C. The local economy is diverse with a mix of wholesale/retail, service, and technology based industries. The area, however, continues to rely heavily on the Federal government, tourism, and the military for employment opportunities. The unemployment rates as of December 2002 for all the counties and cities within the assessment area are shown in the following chart.

Counties	%	Cities	%
Clarke	2%	Washington D.C.	6.6%
Culpeper	3.8%	Fairfax	1.7%
Fairfax	2.3%	Fredericksburg	5.1%
Fauquier	2.1%	Manassas	2.8%
Loudoun	3.2%	Manassas Park	2.1%
Prince William	2.9%		
Spotsylvania	2.2%	State	%
Stafford	2.5%	Virginia	3.5%

SFB operates 18 full service branches in the assessment area. As of June 30, 2002, the bank ranked 19th in deposit market share in the Washington MSA. The assessment area accounted for 86.1% of total SFB deposits. During the review period, 77.9% of the number of loans extended for small business and HMDA purposes were in this assessment area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN WASHINGTON MULTISTATE MSA

LENDING TEST

Overall, the Washington multistate MSA lending test is rated low satisfactory. Lending activity is considered adequate when comparing SFB's loan volume with that of the institutions reporting loan activity within the assessment area. When considering the number and location of the institution's branches in this relatively large geographical assessment area, the geographic and borrower distributions of small business loans are considered adequate. In particular, with only one branch location in the Washington, D. C. portion of the bank's assessment area, the SFB's ability to serve the entire area is limited. Due to the small number of HMDA loans made by the bank, the usefulness of these percentages is limited. There were no small farm loans reported within this assessment area.

Lending Activity:

Bank lending activity within this assessment area (77.9%) is generally consistent with the percentage of branch offices (66.7%) and deposits (86.1%) in the assessment area.

Geographic Distribution:

The following table presents data about the bank's lending. Discussion of the bank's performance follows.

Distribution of Small Business Loans by Income Level of Geography

	Low-Income	Moderate-Income	Middle-Income	Upper-Income	Total
Total Number of Loans	2	22	114	45	183
Percentage of Total Loans	1.1%	12%	62.3%	24.6%	100%
Total Amount of Loans (000's)	\$400	\$4,658	\$27,157	\$12,936	\$45,151
Percentage of Total Amount	.9%	10.3%	60.1%	28.7%	100%

D&B data indicates that 4.7% and 16.1% of all area businesses are located in low- and moderate-income census tracts, respectively. Of all lenders reporting small business lending in the assessment area for 2001, 4% of loans were to businesses located in low-income tracts and 14.9% were to businesses in moderate-income tracts. The bank's penetration of low- and moderate-income areas (1.1% and 12%, respectively) reflects an adequate distribution of small business loans.

Distribution of HMDA Loans by Income Level of Geography

Within the assessment area, SFB extended 11 HMDA loans. Of these loans, two (18.2%) were in moderate-income tracts, seven (63.6%) were in middle-income tracts, and two (18.2%) were in upper-income tracts. According to aggregate HMDA data, in instances where borrower income was known, 1.5% of all borrowers were low-income and 12.2% of aggregate borrowers were moderate-income.

Distribution by Borrower Income and Revenue Size of the Business:

The table that follows presents data about the bank's lending to businesses of different sizes. An explanation about lending to borrowers of different income levels is also presented. Discussion of the bank's performance follows.

Distribution of Lending by Loan Amount and Size of Business

	\$0 - \$100,000		>\$100,000 to \$250,000		>\$250,000		Total	
Revenues ≤ \$1 Million	32	17.5%	22	12	31	16.9%	85	46.4%
Revenues > \$1 Million	19	10.4%	20	10.9%	14	7.7%	53	29%
Revenues Not Reported	16	8.7%	16	8.7%	13	7.1%	45	24.6%
Totals	67	36.6%	58	31.7%	58	31.7%	183	100%

According to aggregate small business data, of all loans (originated and purchased) in 2001, 41.1% were to businesses with annual revenues of \$1 million or less. The remaining loans were extended to businesses having revenues in excess of \$1 million per year or revenue data was not reported. D&B data indicates that 72.5% of all local businesses have revenues that do not exceed \$1 million per year. During the evaluation period, 46.4% of SFB's small business loans were to businesses with annual revenues of \$1 million or less. This level of lending is considered adequate.

Distribution of HMDA Loans by Income Level of Borrower

SFB originated 11 HMDA loans to borrowers in this assessment area. Of these loans, one (9.1%) was to a low-income borrower, one (9.1%) was to a moderate-income borrower, and nine were to upper-income borrowers. The market's aggregate data shows that 9.2% and 22% of area families are low- and moderate-income, respectively.

Community Development Loans:

To the extent that the bank may have originated any loans for community development purposes in the assessment area, such credit extensions have been reported as small business or HMDA loans and cannot also be counted as community development loans.

INVESTMENT TEST

As previously mentioned, the institution has two investments in area SBICs for \$1 million per company. SBICs are privately owned and managed investment firms licensed and regulated by the SBA that make venture capital investments in small businesses. SFB has an adequate level of qualified investments for this assessment area.

SERVICE TEST

Within the Washington multistate MSA, SFB's performance under the service test is low satisfactory. Systems for delivering retail-banking services are readily accessible to all portions of the assessment area, including low- and moderate-income areas.

Retail Services:

Delivery systems are accessible to all portions of the assessment area. ATMs are available and, through a network, provide customers with 24-hour nationwide access. Bank-by-mail and bank-by-computer services are also offered by the institution. In addition, the institution provides customers with 24-hour telephone access to their accounts through an automated system.

The institution has 18 offices within this assessment area, of which three (16.7%) are located in moderate-income census tracts. The distribution of branches is adequate when considering that 17.7% of the assessment area's families reside in moderate-income areas. There are no branches in low-income tracts and 18.6% of the assessment area's families reside in these tracts. Branch locations and business hours are considered convenient and meet the needs of the assessment area.

Community Development Services:

A bank officer actively participates in the Fauquier Banker's Community Coalition. The coalition's purpose is to facilitate community development services within the county, including affordable housing and microenterprise development.

SFB and its employees provide an adequate level of community development service endeavors.

STATE

CRA RATING FOR THE COMMONWEALTH OF VIRGINIA: Needs to Improve

The lending test is rated: Low Satisfactory

The investment test is rated: Needs to Improve

The service test is rated: Low Satisfactory

Major factors supporting the rating include:

- Lending activity is consistent with the bank's capacity and helps meet identified credit needs.
- The geographic distribution reflects an adequate penetration of low- and moderate-income geographies throughout the assessment area for small business loans. Due to a relatively small number of HMDA loans, no conclusions could be drawn from the data.
- The distribution by borrower revenue is considered adequate for small businesses. However, due to the relatively small number of HMDA, no conclusions could be drawn from the data.
- The bank does not have any qualified investments within these assessment areas.
- Delivery systems and branch locations are reasonably accessible to all segments of the assessment area.

SCOPE OF EXAMINATION

The institution's lending test review includes all reported small business and HMDA loans either originated or purchased during calendar years 2001 and 2002. The bank did not make any farm loans during this time period. Additionally, the institution's efforts to serve its markets through qualified community development investments and services were reviewed for this same period.

When excluding activity in the Washington multistate MSA, the combined Virginia assessment areas accounted for 22.1%, 33.3%, and 13.9% of the institution's overall lending, branches, and deposit volume, respectively. Performance in the Commonwealth of Virginia was evaluated by reviewing the Richmond MSA using the full scope interagency examination procedures. For the remaining assessment areas subject to limited review procedures, a determination was made as to whether performance was consistent with the assigned state rating.

DESCRIPTION OF INSTITUTION'S OPERATIONS IN VIRGINIA

The institution operates nine branches throughout the statewide area. One (11.1%) office is located in a low-income geography and two (22.2%) are located in moderate-income areas.

Based on 1990 census data, the Virginia assessment areas served by the bank have a total population of 683,020, including 176,161 families. A majority of the families are middle- and upper-income (61.8%), while low- and moderate-income families each comprise 20.2% and 18% of the total, respectively. Within these assessment areas, the owner-occupancy rate is 55.3% and 8.1% of families live below the poverty level. The 2002 median family incomes for the Richmond and Charlottesville MSAs are \$65,900 and \$63,600, respectively. The median family income for nonmetropolitan areas in Virginia is \$43,000.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN VIRGINIA

LENDING TEST

Overall, the statewide lending test is rated low satisfactory. Lending activity is considered adequate when comparing SFB's loan volume with that of the other institutions reporting loan activity within the assessment area. The geographic and borrower distributions are considered adequate.

Lending Activity:

Overall, lending activity for small business loans is considered adequate and consistent with the bank's capacity.

Geographic and Borrower Distribution:

SFB's distribution of lending to businesses with revenues less than \$1 million is considered adequate.

Community Development Loans:

To the extent that the bank may have originated any loans for community development purposes in the assessment areas, such credit extensions have been reported as small business or HMDA loans and cannot also be counted as community development loans.

INVESTMENT TEST

The institution's level of responding to community development needs through its investment activities is rated needs to improve. The institution does not hold any investments that directly or indirectly benefit these assessment areas.

SERVICE TEST

The overall rating under the service test is low satisfactory. Delivery systems, including ATMs and branch locations, are considered reasonably accessible, and the hours of operation are convenient to all portions of the assessment areas. The bank has acquired one branch in a low-income tract and opened two branches in moderate-income tracts since the previous evaluation.

METROPOLITAN AREAS

(For metropolitan areas with some or all assessment areas reviewed using the examination procedures)

DESCRIPTION OF INSTITUTION'S OPERATIONS IN RICHMOND, VA MSA

The Richmond MSA assessment area includes all of Hanover and Henrico Counties and the City of Richmond. According to the 1990 census data, the assessment area has a population of 484,243 and a median housing value of \$89,517. The owner-occupancy rate for the area is 54.3%, which is less than both the MSA (60.7%) and the state (60.9%). The 2002 median family income for the MSA is \$65,900. Within the assessment area, 8.9% of families are considered to be living below the poverty level, which is slightly higher than the MSA rate (7.4%) and the state (7.7%).

The following table provides demographic data for the assessment area by the income level of families, the type and distribution of housing units, and distribution of local businesses.

Southern Financial Bank - Richmond MSA								
ASSESSMENT AREA DEMOGRAPHICS								
Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty as a % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low	15	10.0%	10,391	8.3%	4,390	42.2%	27,498	21.9%
Moderate	39	26.0%	31,416	25.0%	4,204	13.4%	23,379	18.6%
Middle	53	35.3%	50,590	40.3%	2,023	4.0%	30,236	24.1%
Upper	29	19.3%	33,208	26.4%	512	1.5%	44,492	35.4%
NA	14	9.3%	0	0.0%	0	0.0%	-	-
Total	150	100.0%	125,605	100.0%	11,129	8.9%	125,605	100.0%
	Housing Units by Tract	Housing Types by Tract						
		Owner Occupied			Rental		Vacant	
		#	%	%	#	%	#	%
Low	17,868	5,348	4.6%	29.9%	10,532	58.9%	1,988	11.1%
Moderate	58,143	22,691	19.7%	39.0%	29,960	51.5%	5,492	9.4%
Middle	85,730	50,776	44.1%	59.2%	30,044	35.0%	4,910	5.7%
Upper	50,666	36,440	31.6%	71.9%	11,312	22.3%	2,914	5.8%
NA	0	0	0.0%	0.0%	0	0.0%	0	0.0%
Total	212,407	115,255	100.0%	54.3%	81,848	38.5%	15,304	7.2%
	Total Businesses by Tract	Businesses by Tract and Revenue Size						
		Less than or = \$1 Million			Over \$1 Million		Revenue not Reported	
		#	%	#	%	#	%	#
Low	2,941	8.5%	1,896	8.0%	232	9.1%	813	10.0%
Moderate	7,367	21.4%	5,272	22.2%	592	23.3%	1,503	18.5%
Middle	13,864	40.2%	9,901	41.6%	1,054	41.4%	2,909	35.7%
Upper	9,724	28.2%	6,316	26.5%	595	23.4%	2,813	34.6%
NA	588	1.7%	414	1.7%	72	2.8%	102	1.3%
Total	34,484	100.0%	23,799	100.0%	2,545	100.0%	8,140	100.0%
Percentage of Total Businesses:				69.0%		7.4%		23.6%

Sources: 1990 Census Data. 2002 Dun & Bradstreet business demographic
 NA Tracts are tracts without household or family

The Richmond MSA includes the state capital of Virginia. Accordingly, the state is a major employer. Other major employers in the area include Capital One Financial Corporation, Dominion Resources, Circuit City, and Columbia/HCA Healthcare. As of December 2002 the unemployment rates for Hanover and Henrico Counties and the City of Richmond were 2.3%, 3.1%, and 5.7%, respectively. The jobless rate for Virginia during the same time period was 3.5%.

The bank operates five full-service branches within this market area. As of June 2002, SFB ranked 13th in deposit market share having .5% of the assessment area's available FDIC insured deposits (credit union deposits are not included).

A recent community contact was reviewed to assist in evaluating the bank's CRA performance. The contact stated that area financial institutions appear to be meeting the credit needs of the community.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN RICHMOND, VIRGINIA MSA

LENDING TEST

Overall, the Richmond MSA lending test is rated low satisfactory. Lending activity is considered adequate when comparing SFB's loan volume with that of the institutions reporting loan activity within the assessment area. The geographic and borrower distributions of small business loans are considered adequate. Due to the small number of HMDA loans made by the bank, the usefulness of these percentages is limited. There were no small farm loans reported within this assessment area.

Lending Activity:

Bank lending activity within this assessment area (14.9%) is generally consistent with the percentage of branch offices (18.5%) and deposits (11.3%) in the assessment area.

The following table presents data about the bank's lending. Discussion of the bank's performance follows.

Distribution of Small Business Loans by Income Level of Geography

	Low-Income	Moderate-Income	Middle-Income	Upper-Income	Total
Total Number of Loans	0	8	9	8	25
Percentage of Total Loans	0%	32%	36%	32%	100%
Total Amount of Loans (000's)	\$0	\$2,792	\$3,257	\$2,688	\$8,737
Percentage of Total Amount	0%	32%	37.3%	30.7%	100%

D&B data indicate that of all area businesses, 8.5% and 21.4% are located in low- and moderate-income areas, respectively. Of all lenders reporting small business lending in the assessment area for 2001, 6.6% of loans were to businesses located in low-income tracts and 19.2% were to businesses in moderate-income tracts. The bank's penetration of low- and moderate-income areas (0% and 32%, respectively) reflects an adequate distribution of small business loans.

Distribution of HMDA Loans by Income Level of Geography

Within the assessment area, SFB made 12 HMDA loans. Of these loans, three were in low-income tracts (25%), seven (58.4%) were in moderate-income tracts, one (8.3%) was in a middle-income tract, and one (8.3%) was in an upper-income tract. According to aggregate HMDA data, in instances where borrower income was known, 2.6% of all borrowers were low-income and 14.1% of aggregate borrowers were moderate-income.

Distribution by Borrower Income and Revenue Size of the Business:

The table that follows presents data about the bank's lending to businesses of different sizes. An explanation about lending to borrowers of different income levels is also presented. Discussion of the bank's performance follows.

Distribution of Lending by Loan Amount and Size of Business

	\$0 - \$100,000		>\$100,000 to \$250,000		>\$250,000		Total	
Revenues ≤ \$1 Million	2	8%	4	16%	2	8%	8	32%
Revenues > \$1 Million	2	8%	2	8%	7	28%	11	44%
Revenues Not Reported	1	4%	3	12%	2	8%	6	24%
Totals	5	20%	9	36%	11	44%	25	100%

According to aggregate small business data, of all loans (originated and purchased) in 2001, 40.9% were to businesses with annual revenues of \$1 million or less. The remaining loans were extended to businesses having revenues in excess of \$1 million per year or revenue data was not reported. D&B data indicate that 69% of all local businesses have revenues that do not exceed \$1 million per year. During the evaluation period, 32% of SFB's small business loans were to businesses with annual revenues of \$1 million or less. This level of lending is considered adequate.

Distribution of HMDA Loans by Income Level of Borrower

SFB originated 12 HMDA loans to borrowers within this assessment area. Of the 12 HMDA loans, nine did not contain income data. Of the three loans where income was collected, two (66.7%) were to moderate-income borrowers and one (33.3%) was to an upper-income borrower. The market's aggregate data shows that 11% and 23.9% of area families are low- and moderate-income, respectively.

Community Development Lending:

To the extent that the bank may have originated any loans for community development purposes in the assessment area, such credit extensions have been reported as small business or HMDA loans and cannot also be counted as community development loans.

INVESTMENT TEST

The institution does not hold any investments within this assessment area.

SERVICE TEST

Within the Richmond MSA assessment area, SFB's performance under the service test is considered adequate. Systems for delivering retail-banking services are reasonably accessible to all portions of the assessment area, including low- and moderate-income areas.

Retail Services:

Delivery systems are accessible to all portions of the assessment area. ATMs are available and, through a network, provide customers with 24-hour nationwide access. Bank-by-mail and bank-by-computer services are also offered by the institution. In addition, the institution provides customers with 24-hour telephone access to their accounts through an automated system.

The institution has five offices within this assessment area, one (20%) of which is located in a low-income area and compares favorably to the percentage of families residing in such areas (8.3%). While there are no branches in moderate-income tracts, 25% of the assessment area's families reside in these tracts. Branch locations and business hours are considered convenient and meet the needs of the assessment area. All five of these branches were acquired when SFB purchased Metro-County Bank.

Community Development Services:

SFB has not participated in any community development services within the assessment area.

METROPOLITAN AREAS

(For each metropolitan area where no assessment areas were reviewed using the examination procedures)

DESCRIPTION OF INSTITUTION'S OPERATIONS IN METROPOLITAN AREAS OF VIRGINIA

SFB's assessment area in the Charlottesville MSA was reviewed using the limited review examination procedures. Information detailing the composition of the assessment areas is included in the **DESCRIPTION OF INSTITUTION** section of this report. Information about loan volume and branches are included in **APPENDIX D** of this report.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN METROPOLITAN AREAS OF VIRGINIA

The following table indicates for each test whether performance in an assessment area was generally below, consistent with, or exceeded performance within the Commonwealth of Virginia overall. In the case where the performance was considered below, the overall performance for the assessment area is adequate. Facts and data reviewed, including performance and demographic information, can be found in **APPENDIX D** of this report. Conclusions regarding performance, which did not impact the overall Virginia State rating, are as follows:

Assessment Area	Lending Test	Investment Test	Service Test
Charlottesville MSA	Consistent	Consistent	Consistent

NONMETROPOLITAN AREAS

(For each metropolitan area where no assessment areas were reviewed using the examination procedures)

DESCRIPTION OF INSTITUTION'S OPERATIONS IN NONMETROPOLITAN AREAS OF VIRGINIA

SFB's assessment area in the Winchester NonMSA was reviewed using the limited review examination procedures. Information detailing the composition of the assessment areas is included in the **DESCRIPTION OF INSTITUTION** section of this report. Information about loan volume, branches, and deposits is included in **APPENDIX D** of this report.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN METROPOLITAN AREAS OF VIRGINIA

The following table indicates for each test whether performance in an assessment area was generally below, consistent with, or exceeded performance within the Commonwealth of Virginia overall. In the case where the performance was considered below, the overall performance for the assessment area is adequate. Facts and data reviewed, including performance and demographic information, can be found in **APPENDIX D** of this report. Conclusions regarding performance, which did not impact the overall Virginia State rating, are as follows:

Assessment Area	Lending Test	Investment Test	Service Test
Winchester NonMSA	Consistent	Consistent	Consistent

Bank Name: Southern Financial Bank
City/State: Warrenton, Virginia

CRA Evaluation
Date of Evaluation: February 24, 2003

CRA APPENDIX A

SCOPE OF EXAMINATION

LIST OF ASSESSMENT AREAS AND TYPE OF EXAMINATION			
ASSESSMENT AREA	TYPE OF EXAMINATION	BRANCHES VISITED	OTHER INFORMATION
Washington Multistate MSA	Full Scope	37 E. Main Street Warrenton, VA	
Richmond MSA	Full Scope	3124 W. Broad Street Richmond, VA	
Charlottesville MSA	Limited Scope	None	
Winchester NonMSA	Limited Scope	None	

CRA APPENDIX B

Summary of State and Multistate MSA Ratings

State or Multistate Metropolitan Area Name	Lending Test Rating	Investment Test Rating	Service Test Rating	Overall Rating
Washington Multistate MSA	Low Satisfactory	Low Satisfactory	Low Satisfactory	Satisfactory
Commonwealth of Virginia	Low Satisfactory	Needs to Improve	Low Satisfactory	Needs to Improve

CRA APPENDIX C

GLOSSARY

Aggregate lending: The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

Block numbering area ("BNA"): A statistical subdivision of a county for grouping and numbering blocks in non-metropolitan counties where local census statistical area committees have not established census tracts. A BNA does not cross county lines.

Census tract: A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. Census tracts usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

Community development: Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less; or, activities that revitalize or stabilize low- or moderate-income geographies.

Consumer loan(s): A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include nonrelatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into "male householder" (a family with a male householder and no wife present) or "female householder" (a family with a female householder and no husband present).

Full review: Performance under the lending, investment and service tests is analyzed considering performance context, quantitative factors (for example, geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (for example, innovativeness, complexity and responsiveness).

Geography: A census tract or a block numbering area delineated by the U. S. Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act ("HMDA"): The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include data such as race, gender and income of applications, amount of loan requested, and disposition of the application (for example, approved, denied, and withdrawn).

Home mortgage loans: Includes home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multifamily (five or more families) dwelling loans, loans for the purchase of manufactured homes and refinancings of home improvement and home purchase loans.

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

Limited review: Performance under the lending, investment and service tests is analyzed using only quantitative factors (for example, geographic distribution, borrower distribution, total number and dollar amount of investments, and branch distribution).

Low-income: Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent, in the case of a geography.

Market share: The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

Metropolitan area ("MA"): Any primary metropolitan statistical area ("PMSA"), metropolitan statistical area ("MSA"), or consolidated metropolitan statistical area ("CMSA"), as defined by the Office of Management and Budget, with a population of 250 thousand or more, and any other area designated as such by the appropriate federal financial supervisory agency.

Middle-income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography

Moderate-income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

Multifamily: Refers to a residential structure that contains five or more units.

Other products: Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

Owner-occupied units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

Qualified investment: A qualified investment is defined as any lawful investment, deposit, membership share or grant that has as its primary purpose community development.

Rated area: A rated area is a state or multistate metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multistate metropolitan area, the institution will receive a rating for the multistate metropolitan area.

Small loan(s) to business(es): A loan included in "loans to small businesses" as defined in the Consolidated Report of Condition and Income ("Call Report") and the Thrift Financial Reporting ("TFR") instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans. However, thrift institutions may also exercise the option to report loans secured by nonfarm residential real estate as "small business loans" if the loans are reported on the TFR as non-mortgage, commercial loans.

Small loan(s) to farm(s): A loan included in "loans to small farms" as defined in the instructions for preparation of the Call Report. These loans have original amounts of \$500 thousand or less and are either secured by farmland, or are classified as loans to finance agricultural production and other loans to farmers.

Upper-income: Individual income that is more than 120 percent of the area median income, or a median family income that is more than 120 percent, in the case of a geography.

CRA APPENDIX D

LIMITED REVIEW TABLES

Charlottesville MSA

Summary of Assessment Area Demographics			
Number of Families	31,953	Poverty Rate (Families)	6.7%
% of Businesses with Revenues ≤ \$1 million	71.6%	Geographies in Assessment Area/Low-and Moderate-Income Geographies	1/7
		% Low-Income	% Moderate-Income
Area Families by Income Level		19.1%	18.1%
Families by Geography		1.4%	14.5%
Families < Poverty Level as % of Families by Geography		32.6%	14.7%
Businesses by Geography		2.3%	22.2%
Owner-Occupied Housing Units by Geography		0.8%	10.9%

Performance Test Data for Charlottesville MSA

LENDING TEST

There were no small farm or HMDA loans reported in this assessment area.

Loan Originations/Purchases										
	In Low-Income Geographies		In Moderate-Income Geographies		To Low-Income Borrowers		To Moderate-Income Borrowers		To Businesses with Revenues < \$1 Million	
	#	%	#	%	#	%	#	%	#	%
HMDA	0	0%	0	0%	0	0%	0	0%		
Small Business	0	0%	5	31.3%					7	43.8%
2001 Aggregate Loan Originations/Purchases										
HMDA		0.5%		7%		9.3%		20.9%		
Small Business		1.6%		15.5%						52.2%

SFB did not extended any community development loans within this assessment area.

INVESTMENT TEST

The institution has not provided any investments within this assessment area.

SERVICE TEST

The bank operates two branches within this assessment area and both are located in moderate-income areas. Both of these offices have been opened since the previous evaluation. Banking services offered in this assessment area are substantially the same as the services available to other communities the bank serves.

Winchester NonMSA

Summary of Assessment Area Demographics			
Number of Families	18,603	Poverty Rate (Families)	5.4%
% of Businesses with Revenues ≤ \$1 million	73.8%	Geographies in Assessment Area/Low-and Moderate-Income Geographies	0/0
		% Low-Income	% Moderate-Income
Area Families by Income Level		10.9%	14.1%
Families by Geography		N/A	N/A
Families < Poverty Level as % of Families by Geography		N/A	N/A
Businesses by Geography		N/A	N/A
Owner-Occupied Housing Units by Geography		N/A	N/A

Performance Test Data for Winchester NonMSA

LENDING TEST

There were no small farm or HMDA loans reported in this assessment area.

Loan Originations/Purchases										
	In Low-Income Geographies		In Moderate-Income Geographies		To Low-Income Borrowers		To Moderate-Income Borrowers		To Businesses with Revenues < \$1 Million	
	#	%	#	%	#	%	#	%	#	%
HMDA	0	0%	0	0%	0	0%	0	0%		
Small Business	0	0%	0	0%					2	100%
2001 Aggregate Loan Originations/Purchases										
HMDA		0%		0%		3.4%		11.5%		
Small Business		0%		0%						33.3%

SFB did not extended any community development loans within this assessment area.

INVESTMENT TEST

The institution has not provided any investments within this assessment area.

SERVICE TEST

The bank operates two branches within this assessment area. No offices have been opened or closed since the previous evaluation. Banking services offered in this assessment area are substantially the same as the services available to other communities the bank serves.

The bank and its employees support various organizations providing community development services including but not limited to Winchester Incubation Regional Enterprise and the Winchester Old Town Development Board.